Elevance Health Inc. (ELV)

Updated January 25th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$471	**5 Year CAGR Estimate:**	13.8%	**Market Cap:**	$111 billion
Fair Value Price:	$557	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	03/08/2024[1]
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.4%	**Dividend Payment Date:**	03/22/2024[2]
Dividend Yield:	1.4%	**5 Year Price Target**	$856	**Years Of Dividend Growth:**	14
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Elevance Health Inc., formerly Anthem, Inc., is a healthcare benefits company has more than 47 million members through its plans. The company provides managed plans to a wide variety of markets, including individual, commercial, Medicare and Medicaid. Its two largest customer groups are government (~60% of annual sales) and commercial business (~30% of sales). Elevance has annual sales of $170 billion and a market capitalization of $111 billion. The company was formerly known as Anthem.

On January 24th, 2024, Elevance increased its quarterly dividend 10.1% to $1.63, extending the company's dividend growth streak to 14 consecutive years.

On January 24th, 2024, Elevance reported fourth quarter and full year earnings results for the period ending December 31st, 2023. For the quarter, revenue grew 7.1% to $42.5 billion, which was $300 million more than expected. Adjusted earnings-per-share of $5.62 compared favorably to adjusted earnings-per-share of $5.23 in the prior year and was $0.03 above estimates. For the year, revenue grew 9% to $170.2 billion and adjusted earnings-per-share totaled $33.14, slightly ahead of the company's guidance of $33.00.

Revenue growth was driven primarily by an increase in premium revenue in the Health Benefits segment and pharmacy revenue in CarelonRx. The benefit expense ratio improved 50 basis pints to 89.2% for the quarter and expanded 60 basis points to 87% for the full year. The Health Benefits segment grew 4% to $36.5 billion for the quarter. In total, medical membership decreased 570,000, or 1%, year-over-year. Much of this decline was due to the resumption of eligibility requirements for Medicaid in most states following the lapse of a key Covid-19-era provision regarding coverage for the program. Offsetting this were gains in BlueCard, ACA health plans, and Medicare Advantage. Carelon grew 14% to $12.4 billion, mostly due to higher prescription volumes from more members served. The company repurchased 2.0 million shares at an average price of $465.63 during the quarter and 5.8 million shares at an average price of $463.53 for the full year. As of the end of the quarter, Elevance had a total of $4.2 billion, or 3.8% of its market capitalization, remaining on its share repurchase authorization.

Elevance provided guidance for 2024 as well, with the company expecting adjusted earnings-per-share of at least $37.10, which would represent an 11.9% increase for the prior year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$8.98	$9.38	$9.21	$10.21	$15.89	$19.44	$22.48	$25.98	$29.07	$33.14	***$37.10***	***$57.08***
DPS	$1.75	$2.50	$2.60	$2.70	$3.00	$3.20	$3.80	$4.52	$5.12	$5.92	***$6.52***	***$10.03***
Shares[3]	267	261	264	256	257	253	245	247	241	236	***236***	***230***

Elevance has increased earnings-per-share at a rate of nearly 16% annually over the last decade. The company has achieved this high rate of growth through improvements in business and aggressive share repurchases. Elevance's share

[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] Share count in millions

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count has been reduced by 1.4% per year over the last decade. Even with share repurchases, profits have improved at a double-digit clip annually over this period. We believe an earnings growth rate of 9% is appropriate given the size of the company and the guidance for the year. Share repurchases will also remain part of bottom-line growth.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	12.1	15.7	14.5	18.1	15.7	14.3	12.4	17.8	15.9	14.2	***12.7***	***15.0***
Avg. Yld.	1.6%	1.7%	2.0%	1.5%	1.2%	1.1%	1.4%	1.0%	1.0%	1.3%	***1.4%***	***1.2%***

Shares of the company have increased by $5, or 1.1%, since our October 18th, 2023 update. Using company guidance for 2024, Elevance trades with a price-to-earnings ratio of 12.7. Shares have averaged a price-to-earnings ratio of 13 over the last decade. However, we feel a target valuation of 15 times earnings is appropriate as price-to-earnings ratios were lower in the early portions of the decade due to concerns over how health care plans would perform. Those fears are largely gone now. Multiple expansion could add 3.4% to annual returns over the next five years.

Elevance had never been a high yielding name, with the current yield at the low end of the 10-year range. On the plus side, the dividend has a compound annual growth rate in the mid-teens since 2011, showing that Elevance has aggressively raised its dividend since initiation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	19%	27%	28%	26%	19%	16%	17%	17%	18%	18%	***18%***	***18%***

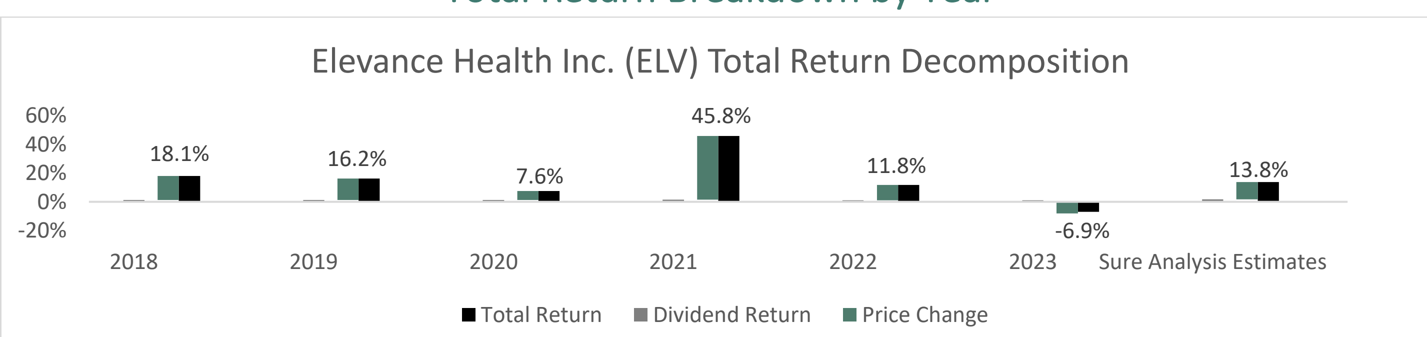
Elevance was not immune to the last recession as earnings-per-share declined from $5.57 to $4.95 for the 2007 to 2009 period. However, the company returned to growth the very next year. The company has had just one year where EPS declined from the previous period (2016).

Elevance has several factors working in its favor. First and foremost, the company has a large membership pool. This allows Elevance to keep premium prices low. The Medicare and Medicaid businesses are reliable as well, though potential future cuts in payments could impair results.

Final Thoughts & Recommendation

Elevance is expected to produce total returns of 13.8% through 2029, up from 11.4% previously. Our projected return stems from a 9% earnings growth rate, a starting yield of 1.4%, and a low single-digit tailwind from multiple expansion. The company's membership declined for the period, but this was overcome with gains elsewhere. Management provided aggressive guidance for 2024. We have raised our 2029 price target $94 to $856 as a result. Elevance continues to receive a buy rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	73874	79157	84863	90040	92105	104213	121867	138639	156595	171340
SG&A Exp.	11748	12535	12559	12650	14020	13364	17450	15914	17686	
D&A Exp.	851	908	912	891	1132	1133	1154	1302	1675	1745
Net Profit	2570	2560	2470	3843	3750	4807	4572	6104	6025	5987
Net Margin	3.5%	3.2%	2.9%	4.3%	4.1%	4.6%	3.8%	4.4%	3.8%	3.5%
Free Cash Flow	2655	3574	2686	3394	2619	4984	9667	7277	7247	6765
Income Tax	1808	2071	2085	121	1318	1178	1666	1830	1750	1724

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	61676	61718	65083	70540	71571	77453	86615	97460	102772	108928
Cash & Equivalents	2152	2114	4075	3609	3934	4937	5741	4880	7387	6526
Accounts Receivable	4826	4603	5861	6185	6743	5014	5279	5681	7083	17865
Goodwill & Int. Ass.	25040	25720	25526	27599	29511	29174	31096	34843	34698	35590
Total Liabilities	37425	38674	39983	44037	43030	45725	53416	61332	66378	69523
Accounts Payable	10513	10889	11908	13016	12413	13040	16852	18488	21203	16111
Long-Term Debt	15044	15865	15727	19932	19211	20085	20035	23031	24114	25120
Shareholder's Equity	24251	23044	25100	26503	28541	31728	33199	36060	36307	39306
LTD/E Ratio	0.62	0.69	0.63	0.75	0.67	0.63	0.60	0.64	0.66	0.64

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.2%	4.1%	3.9%	5.7%	5.3%	6.5%	5.6%	6.6%	6.0%	5.7%
Return on Equity	10.5%	10.8%	10.3%	14.9%	13.6%	16.0%	14.1%	17.6%	16.7%	15.8%
ROIC	6.5%	6.5%	6.2%	8.8%	8.0%	9.7%	8.7%	10.9%	10.1%	9.6%
Shares Out.	267	261	264	256	257	253	245	247	241	236
Revenue/Share	258.39	290.06	316.53	336.22	362.19	400.36	479.23	561.75	644.95	721.74
FCF/Share	9.29	13.10	10.02	12.67	10.30	19.15	38.01	29.49	29.85	28.50

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.