



Elevance Health Inc. (ELV)

Updated July 17th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$520	5 Year CAGR Estimate:	11.6%	Market Cap:	\$121 billion
Fair Value Price:	\$558	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	09/10/2024
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.4%	Dividend Payment Date:	09/25/2024
Dividend Yield:	1.3%	5 Year Price Target	\$859	Years Of Dividend Growth:	14
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Elevance Health Inc., formerly known as 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 \$121 billion.

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 July 17th, 2024, Elevance announced second quarter results for the period ending June 30th, 2024. For the quarter, revenue fell 0.3% to \$43.2 billion, but this was \$320 million more than expected. Adjusted earnings-per-share of \$10.12 compared favorably to adjusted earnings-per-share of \$9.04 in the prior year and was \$0.11 ahead of estimates.

Growth was primarily a result of growth in Carelon. Higher premium yields across the company reflected medical cost trends and aided results. These gains were once again offset by a reduction in Medicaid membership. The benefit expense ratio improved 10 basis points to 86.3% for the quarter. The Health Benefits segment generated revenue of \$37.2 billion, which was 2% lower than the prior year. In total, medical membership decreased 2.2 million, or 5%, year-over-year. As with prior quarters, 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 increases in commercial Employer Group fee-based, Affordable Care Act, and BlueCard memberships. Revenue for Carelon grew 10% to \$13.3 billion, mostly due growth in Carelon Services and CarelonRx. The company repurchased 900,000 shares at a weighted average price of \$524.55 during the quarter. As of June 30th, 2024, Elevance had a total of \$3.2 billion, or 2.6% of its market capitalization, remaining on its share repurchase authorization. Elevance reaffirmed prior guidance for 2024 as well, with the company continuing to expect adjusted earnings-per-share of at least \$37.20 for the year, up from \$37.10 previously. This would represent an 12.3% increase for the prior year.

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	\$37.20	\$57.24
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
Shares¹	267	261	264	256	257	253	245	247	241	236	233	225

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 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.

¹ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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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	14.0	15.0
Avg. Yld.	1.6%	1.7%	2.0%	1.5%	1.2%	1.1%	1.2%	1.0%	1.3%	1.2%	1.3%	1.2%

Shares of the company have declined \$8, or 1.5%, since our April 18th, 2024 update. Using company guidance for 2024, Elevance trades with a price-to-earnings ratio of 14.0. 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 1.4% 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%

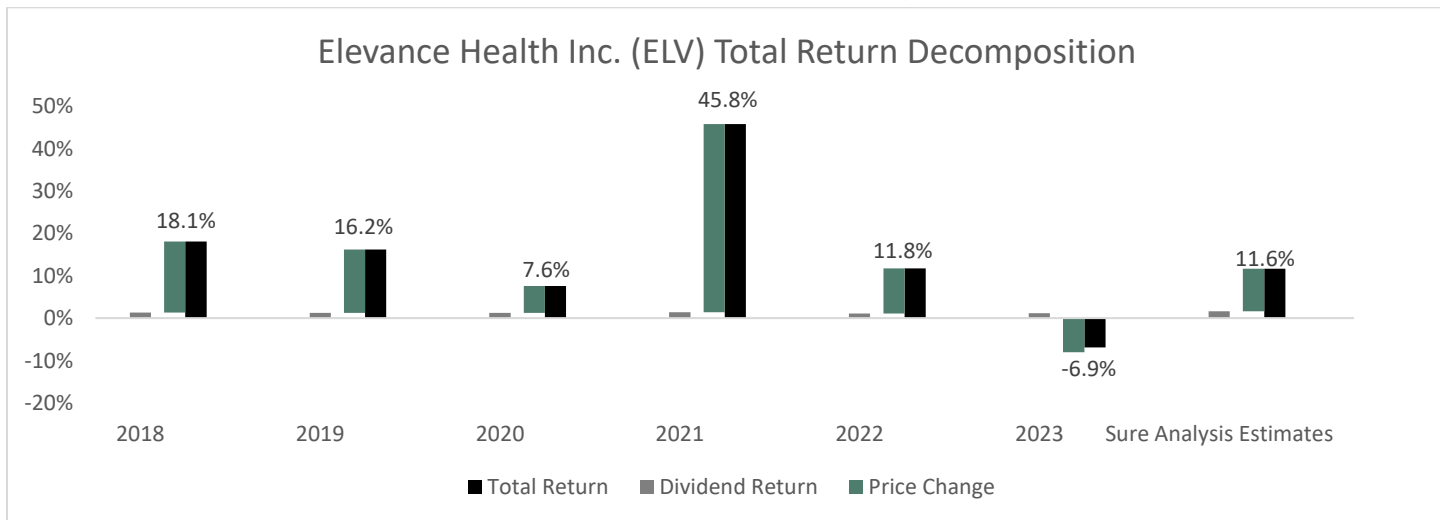
Elevance was not immune to the last recession as earnings-per-share declined from \$5.57 to \$4.95 for the 2007 to 2009 period. However, the company returned to growth the very next year. The company has had just one year where EPS declined from the previous period (2016).

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 11.6% through 2029, up from 11.3% previously. Our projected return stems from a 9% earnings growth rate, a starting yield of 1.3%, and a small tailwind from multiple expansion. The company continues to be impacted by Medicaid's eligibility requirements stemming from the Covid-19 pandemic, but most other areas of the business saw growth. Management also raised reaffirmed its aggressive guidance for 2024. We maintain our 2029 price target of \$859 and continue to rate shares of Elevance as a buy 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.

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