



### Company Overview:

Elevance Health, Inc. is the largest health insurance company based on medical membership serving 33.5 million members. The company is an independent licensee of the Blue Cross and Blue Shield Association serving members under this franchise in 14 states. Outside of its BCBS territories, Elevance Health serves much of the country under the UniCare brand. A majority of the company's membership is within the commercial and individual markets; however, Elevance Health is still one of the market share leaders in both Medicare Advantage and Medicaid. Elevance Health was established in 2022 (Formerly "Anthem"), while Anthem was established in 2004 as a result of a merger with WellPoint Health Networks.

### Highlights:

Name	Ticker	Growth	Dividend	D + G
Elevance Health, Inc.	ELV	11.00%	0.97%	11.97%

ELV's membership growth continues to be impressive, having eclipsed UNH in total members in the last 12 months. While ELV did not provide a preliminary guide for next year, they commented at high level about tailwinds and headwinds for next year. Continued margin recovery in the commercial business, strong earnings growth in MA, robust funding environment for the overall industry, and ongoing momentum at Caelon and Ingenio Rx were cited as primary tailwinds for next fiscal year. Potential end of PHE and subsequent redeterminations in 2023 was the sole tailwind cited, though management believes the associated negative impact would potentially be offset by growth in ACA and employer-sponsored membership.

### Bull Case:

- **Caelon Will Provide Growth For the Future** – We believe the services business is key to long-term thesis for the stock. Our thesis is based on the premise that ELV is in the process of building out a services business (we think of this as Optum for the Blues), aiming to rival UNH in impact while not replicating the exact product mix of UNH. ELV has comparable membership to UNH, but mainly has this membership concentrated in its 14 Blue Cross states, which lends itself to even higher local market shares.
- **Sustainable Future Growth** - We believe the early commentary for next year was more of a bright spot as management called out initial expectations for EPS growth in-line with the company's long-term EPS target growth range of 12-15%. Within this early guide, management highlighted a handful of puts and takes with tailwinds including the following: 1) Continued commercial margin recovery in 2023 on the path to achieve 300 bps of margin expansion by 2025, 2) Growth in the individual ACA/employer-sponsored membership groups as ineligible Medicaid members transition coverage once Medicaid redeterminations begin following the expected close of the Public Health Emergency (PHE) at the start of 2023, 3) Continued above-market Medicare Advantage (MA) enrollment growth; and 4) Continued strong momentum in the PBM/care delivery businesses IngenioRx and Caelon.
- **Valuation Expansion** - Elevance has roughly the same number of medical members as UNH, yet generates ~35% of UNH operating income per member, leading to a market cap a quarter of that of UNH. We believe this gap is the opportunity for the stock. ELV valuation is trading at a 31% discount to UNH, which we believe is too large given similar EPS growth outlook. While ELV's multiple is at the high end of its historic range, we believe ELV is moving the company to trade more closely in line with UNH's multiple, although with a slight discount. We assume ELV could trade at a 10% discount to UNH over the long term. Thus, we believe the current 31% discount suggests an attractive entry point.

### Bear Case:

- **Headline Risk → Do Not Feel the "Bern"** – The stock may have the second highest sector-relative sensitivity to the 2020 Presidential election outcome given its high leverage to Medicare Advantage – basically, the stock is affected by the political discussions regarding healthcare reform. If the Democrats took the White House and passed some sort of government healthcare for all policy, UNH would be greatly affected.
- **Legislation Changes** - Legislative risks to enrollment including changes to employer tax deductibility of health benefits.
- **Loss Ratio Volatility** – Medical Loss Ratio ("MLR") can see unexpected medical cost trend acceleration, which could inhibit profitability.

### Overview:

Our investment thesis on ELV has been primarily driven by turnaround efforts (PBM recontracting, and self-insured employer cross-sales efforts), coupled with strong government growth. We have noted above that the future value of ELV's services business opportunity is Caelon. This had driven adj. EPS growth turnaround, from 9% CAGR in 2010-2017, to 21% over the 2017-2021 time period. This strong improvement was driven by 1) faster government growth both in their Medicaid business (#2 market share), but also from building up its MA business; and 2) margin improvement from PBM recontracting and improved self-insured cross-sales. As ELV executes on their growth initiatives, we believe that they will receive a valuation re-rating by the market.



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