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ELV.N - Q2 2022 Elevance Health Inc Earnings Call

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OVERVIEW:

ELV reported 2Q22 operating revenue of $38.5b, GAAP EPS of $6.79 and adjusted EPS of $8.04. Expects full year 2022 adjusted EPS to be greater than $28.70.

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CORPORATE PARTICIPANTS

Felicia Farr Norwood *Elevance Health Inc. - Executive VP & President of Government Business Division*

Gail Koziara Boudreaux *Elevance Health Inc. - President, CEO & Director*

John Edward Gallina *Elevance Health Inc. - Executive VP & CFO*

Morgan Kendrick

Peter David Haytaian *Elevance Health Inc. - Executive VP and President of Diversified Business Group & IngenioRx*

Stephen Vartan Tanal *Elevance Health Inc. - VP of IR*

CONFERENCE CALL PARTICIPANTS

Adam Matan Ron *BofA Securities, Research Division - Research Analyst*

Albert J. William Rice *Crédit Suisse AG, Research Division - Research Analyst*

Benjamin Hendrix *RBC Capital Markets, Research Division - Assistant VP*

Benjamin Whitman Mayo *SVB Securities LLC, Research Division - MD of Equity Research & Senior Research Analyst*

Calvin Alexander Sternick *JPMorgan Chase & Co, Research Division - Analyst*

David Howard Windley *Jefferies LLC, Research Division - MD & Equity Analyst*

Gary Paul Taylor *Cowen and Company, LLC, Research Division - MD of Health Care Facilities and Managed Care*

Joshua Richard Raskin *Nephron Research LLC - Research Analyst*

Justin Lake *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

Lance Arthur Wilkes *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Matthew Richard Borsch *BMO Capital Markets Equity Research - Research Analyst*

Nathan Allen Rich *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Rivka Regina Goldwasser *Morgan Stanley, Research Division - MD*

Robert Sohngen Cottrell *Cleveland Research Company LLC - Research Associate*

Scott J. Fidel *Stephens Inc., Research Division - MD & Analyst*

Stephen C. Baxter *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Steven James Valiquette *Barclays Bank PLC, Research Division - Research Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Anthem's Second Quarter Earnings Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded. I would now like to turn the conference over to the company's management. Please go ahead.

Stephen Vartan Tanal - *Elevance Health Inc. - VP of IR*

Good morning, and welcome to Elevance Health Second Quarter 2022 Earnings Call. This is Steve Tanal, Vice President of Investor Relations. And with us this morning on the earnings call are Gail Boudreaux, President and CEO; John Gallina, our CFO; Peter Haytaian, President of Carelon; Morgan Kendrick, President of our Commercial and Specialty Business Division; and Felicia Norwood, President of our Government Business division.

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Gail will begin the call with a brief discussion of the quarter and recent progress against our strategic initiatives. John will then discuss our financial results and outlook in greater detail. After our prepared remarks, the team will be available for Q&A.

During the call, we will reference certain non-GAAP measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are available on our website, elevancehealth.com. We will also be making some forward-looking statements on this call. Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of Elevance Health. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to carefully review the risk factors discussed in today's press release and in our quarterly filings with the SEC.

I will now turn the call over to Gail.

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Thanks, Steve, and good morning, everyone. Today, we're pleased to share that Elevance Health delivered another strong quarter. In the second quarter, GAAP earnings per share was $6.79, and we grew adjusted earnings per share over 14% to $8.04. Based on our results in the first half of the year and the momentum in our business, we've increased our full year adjusted earnings guidance to greater than $28.70 per share, representing growth of at least 13.9% off of the adjusted baseline we provided at the beginning of the year.

Before we discuss the quarter in more detail, I want to spend a moment on our recent name change and rebranding strategy. We officially changed our holding company name to Elevance Health on June 28, having secured shareholder approval in May and are now trading under the new ticker symbol, ELV. This marks the culmination of a multiyear journey in which we have transformed from a traditional health insurance company to a lifetime trusted health partner, addressing the physical, behavioral and social drivers that we know are critical to achieving optimal health.

Elevance Health captures the fact that we are now much more than a health insurance company and reinforces our commitment to elevating the importance of whole health and advancing health beyond health care for our consumers, their families and communities.

Last month, we also announced the launch of our new health care services brand, Carelon, and the health plan brand, Wellpoint, which joined the company's family of brands that include Anthem Blue Cross and Blue Shield. Our simplified brand architecture will streamline our brand portfolio, reduce complexities and reinforce our evolution as an organization delivering solutions beyond health insurance.

Grounded in our mission and fueled by our bold and ambitious purpose to improve the health of humanity, Elevance Health reflects our position as a health leader.

Strong growth in all of our businesses continued in the second quarter, demonstrating that our employer, consumer and state partners are universally looking for whole health solutions that address underlying drivers of cost while enhancing the consumer experience. Our strategies and investments in these areas are propelling strong organic membership growth, in addition to creating opportunities to scale our services division.

Medical membership grew 6% year-over-year to 47.1 million members, maintaining Elevance Health's position as the largest insurer by U.S. medical membership. Over the past year, we've added more than 2.7 million net new members, including over 1.5 million net new government members and nearly 1.2 million net new commercial members.

In Medicaid, the ongoing suspension of eligibility redeterminations and our industry-leading RFP win rate continues to drive organic growth, which we continue to supplement through programmatic health plan acquisitions consistent with our strategy.

In the second quarter, we closed the acquisition of Integra Managed Care, a Medicaid plan in New York focused on patients in need of long-term support services to help them live in their homes and communities. We're excited to welcome the Integra team to the Elevance Health family. Their commitment to patients with complex and chronic needs is well aligned with our focus on serving the needs of the people who need us most.

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In Medicare Advantage, personalized health solutions are resonating with seniors, notably dual eligible members with complex and chronic needs and our supplemental benefits, which emphasize social drivers of health, supporting members with in-home support, transportation needs, healthy groceries, assisted devices and more, continue to gain traction. We remain on track to produce double-digit organic growth in our individual MA business, led by growth in duals, and are excited about our plans for 2023.

In the employer market, our share gains are being driven by our leading cost-of-care position and innovative solutions focused on consumer experience and engagement. Employers have come to expect more, and we're investing to meet their needs.

Today, we have strong traction in our total health connection's fleet of advocacy solutions that serves 3.9 million members, representing a 33% year-over-year increase. The programs guide members to the next step in care through a simple, intuitive and personalized experience. We leverage real-time data analytics to identify health risks so their advocates can personally connect with members to proactively facilitate preventive and, at times, responsive care.

Our commitment to whole health solutions extends to our care providers, where we continue to advance value-based care and are increasingly looking to integrate health equity and social drivers of health measures into our contracts. The early indicators we are seeing in Commercial, Medicare and Medicaid businesses demonstrate that value-based care delivers higher quality care and greater affordability. In fact, our value-based providers are helping us achieve significantly higher quality scores for impacted plans, including an 8-point improvement in quality compliance measures for Commercial members and value-based arrangements.

In addition, our value-based provider partners are conducting 12% more annual wellness visits with our members on average and delivering lower overall costs for our Commercial, Medicare Advantage and Medicaid members, with 19% lower emergency cases per 1,000 for members and value-based arrangements compared to those not and 50% lower inpatient admissions. With the highest local concentration of membership of any health insurer, we're taking a market-by-market approach to our provider strategy to accelerate value-based care.

Our local market density is unique and a valuable strategic advantage that provides optionality, allowing us to balance partnerships and investments in certain care models and geographies with select ownership through Carelon in markets where we see opportunity. We do not believe a single primary care model will prove superior for all populations and markets over time, and we are committed through a thoughtful approach that considers the structure of care delivery in our local markets and our membership density across lines of business, notably with respect to complex and chronic members.

With our deep roots in our communities, we're continuing to leverage our proprietary Whole Health Index, a dynamic model tracking the health of our communities across local, social and clinical drivers. We're increasingly using the tool to measure our impact on the health of our communities and to identify and better address local, social and physical drivers of health with an emphasis on health equity and members who need us most.

We've leveraged the tool to identify at-risk or equity-challenged member populations across Medicare, dual special needs plans, Medicaid and our commercial exchange-based populations. And we're working with community-based partners to coordinate engagement, outreach and support, bridging physical, behavioral and social services.

In practice, we're reimagining the ecosystem of care delivery for our most vulnerable members with plans to scale learnings for even greater member impact in care coordination over time. We're privileged to be in a position to positively impact our members' lives, especially in light of the challenges faced since the beginning of the pandemic. In addition to helping us achieve our purpose as an organization, to improve the health of humanity, we're confident that our efforts are being recognized through our industry-leading Medicaid RFP track record.

Core to our enterprise-wide focus on whole health, we also continue to accelerate our service and capabilities business through Carelon to connect people to accessible, affordable and integrated care with focus on those with complex needs. The top priority for Carelon today is to work in concert with our health plans to develop offerings that drive differentiated value for the 47 million medical members we serve, including more than 20 million fully insured members and the more than 118 million consumers we support across Elevance Health.

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Partnering with owned and aligned providers, our near-term focus is driving greater affordability and quality outcomes by providing the right care in the right settings, such as enabling care in the home or more effectively managing specialty pharmacy.

As an example, MyNEXUS, with its deep experience in managing home-based care, recently launched a new post-acute care product serving our Medicare Health Plan in Indiana via a capitated risk-sharing arrangement. Enabling providers with better technology and tools, MyNEXUS will help optimize appropriate levels of care post inpatient discharge, delivering a much better patient and provider experience while having a positive impact on our health plans and driving growth for Carelon. Over the next 6 to 12 months, we expect to scale the post-acute care product to all of Elevance Health Medicare markets.

For more than 30 years, we've been recognized as a leader in behavioral health management, an area that is a major driver of health care cost today and a critical component of whole person health. We manage behavioral health benefits inside of Carelon for more than 40 million consumers. And our expertise in this space was reinforced recently when Beacon, a Carelon Company, was awarded a contract to participate in the operation of the new 988 National Suicide Prevention Lifeline. The launch of 988 is a game-changing shift in how mental health services are accessed in our country, and we're proud to be part of this historic milestone.

Guided by our enterprise strategy, we are fueled by a passion for making a positive difference in the world. In fact, environmental, social and governance frameworks are integral to our enterprise strategy. And we understand the connection to long-term business success. Accordingly, we continue to invest in key areas such as health equity, greenhouse gas mitigation and community health as part of our ESG practices.

We're also proud to be an initial signatory to the health care sector climate pledge focused on achieving net-zero greenhouse gas emissions by 2050. We are confident in our organization's ability to adapt and to achieve our pledge, having met our goal of powering all of our operations with 100% renewable electricity earlier this year, 4 years ahead of schedule. We're proud that these efforts have been recognized externally.

Elevance Health was recently named to Points of Light 2022 List of the Civic 50, a national standard for corporate citizenship. Just 100 ranked our organization first among health care providers for just business behavior. And we are the highest rated managed health care company by ISS and Sustainalytics, including a perfect quality score from ISS.

In closing, I'd like to thank our nearly 100,000 associates for the important work they do every day on behalf of the members we are privileged to serve. Our passion to improve lives and communities is unwavering, and we look forward to making a meaningful difference as Elevance Health.

Now I'd like to turn the call over to John for more on our operating results. John?

John Edward Gallina - *Elevance Health Inc. - Executive VP & CFO*

Thank you, Gail, and good morning to everyone on the line. Earlier this morning, we reported second quarter results, including GAAP earnings per share of $6.79 and adjusted earnings per share of $8.04, reflecting growth of more than 14% year-over-year. We were pleased to deliver another quarter of double-digit growth in revenue, operating income and adjusted earnings per share, driven by the disciplined execution of our strategy.

Our results exceeded our expectations. And with momentum in all of our businesses and confidence in our growth trajectory, we have increased our full year earnings per share outlook. We ended the second quarter with 47.1 million members, up 2.7 million or 6.1% year-over-year, including growth of 276,000 members in the second quarter. We grew enrollment year-over-year in each of our benefit businesses with approximately 90% of our membership growth being organic, supplemented by the acquisitions of the Paramount and Integra Health Plans, which added 255,000 members and 43,000 Medicaid members in the first and second quarters of this year, and together strengthened our footprint in 2 attractive existing markets.

Second quarter operating revenue of $38.5 billion increased $5.2 billion or approximately 16% over the prior year quarter with strong growth in each of our businesses. We earned higher premium revenue driven by membership growth in Medicaid, Medicare and Commercial; premium rate increases to cover overall cost trends; the acquisitions of Paramount and Integra; and the timing of the MMM acquisition, which closed at the end

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of the second quarter in the prior year. Our services businesses, Carelon and IngenioRx, produced very strong growth. IngenioRx revenue grew 14% year-over-year, while the other segment revenue, comprised primarily of Carelon, grew operating revenue 31%.

The strong performance in our services businesses is being driven by the disciplined execution of our strategy to work side-by-side with our health plans, the scale services that drive differentiated value for consumers, beginning with the more than 47 million medical members, which includes the more than 20 million that are fully insured, for whom we can more quickly roll out new capabilities.

Beyond helping to improve our members' lives and reducing health care costs across the system, the growth of Carelon and IngenioRx are aiding diversification of Elevance Health's businesses and producing cash flow in noninsurance and therefore, nonregulated entities. Revenue eliminated in consolidation, a proxy for business between Carelon and IngenioRx and our own risk-based health plans grew 24% year-over-year in the second quarter and represented 21.8% of the consolidated benefit expense, up from 20.5% a year ago.

The consolidated benefit expense ratio for the second quarter was 87%, an increase of 20 basis points over the second quarter of 2021, driven primarily by the shift in mix of business towards government programs, which carry higher medical loss ratios relative to the Commercial business.

The overall medical cost structure across our insurance businesses remained higher than what we consider to be a normalized level had the pandemic never happened, with Commercial furthest above, Medicare near normal cost levels and Medicaid still somewhat below. However, medical costs in the quarter were slightly favorable to our expectations. We expect the cost structure for health plans to remain somewhat elevated in the back half of the year, which is reflected in our guidance.

Elevance Health's SG&A ratio in the second quarter was 11.1% on a GAAP basis, a decrease of 40 basis points over the prior year quarter. The decrease was driven by expense leverage associated with strong growth in operating revenue, partially offset by higher investments to support our growth. Second quarter operating cash flow was $2.5 billion or 1.5x net income, which includes the impact of higher working capital in relation to certain provider pass-through payments in one of our Medicaid states that we anticipate will be paid in the third quarter of this year.

As a reminder, we also continue to expect to pay $500 million, which is our share of the Blue Cross Blue Shield Association's litigation settlement.

Turning to our balance sheet. We ended the second quarter with a debt-to-capital ratio of 39.7%, in line with our expectations and consistent with our target range. During the quarter, we repurchased approximately 1.3 million shares of common stock for $624 million. Year-to-date, we've been opportunistic with respect to share repurchases during periods of volatility in our stock and have already repurchased 2.5 million shares for $1.2 billion.

Our full year outlook of $1.5 billion is, however, still an appropriate figure for full year modeling purposes. We continue to maintain a prudent posture with respect to reserves. Days and claims payable stood at 47.8 days at the end of the second quarter, an increase of 0.9 days sequentially and a decrease of 0.3 days year-over-year. DCPs would have been 46 days, excluding the timing of certain provider pass-through payments that we will anticipate in the third quarter of this year.

As a reminder, DCPs were elevated by 1.6 days in the second quarter last year due to the timing of acquisitions. Normalizing for timing-related impacts, DCPs are very consistent on a year-over-year basis. Given stronger-than-expected performance year-to-date and the continued momentum in each of our businesses, we are increasing our full year earnings outlook.

We now expect adjusted earnings per share to be greater than $28.70, implying growth of approximately 14% off of the adjusted baseline of $25.20 provided at the beginning of the year.

In closing, we are pleased to have delivered another strong quarter, our first reported as Elevance Health. In my 28 years with the company, this is easily the most prepared and well balanced our enterprise has been as we look into the future. Strong underlying fundamentals, coupled with our balanced and diverse set of businesses, gives me confidence in our ability to deliver another strong year of growth in 2022, regardless of how the macroeconomic environment evolves. The diversification of our enterprise and the resilience that provides is an extremely valuable asset.

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Consider that in 2021, operating revenue of our Commercial and Specialty businesses represented just 25% of our total gross operating revenue, down from nearly 70% in 2008. And for the first time last year, operating earnings in our government business exceeded operating earnings in our commercial business. It is no coincidence that we have produced strong growth for our enterprise in both good and bad times for the broader economy in recent years.

Simply put, we are well prepared to meet the needs of our clients should they evolve in response to a more challenged business environment. Today, the momentum in each of our businesses, driven by the disciplined execution of our strategy, coupled with the diversity of our businesses, positions us uniquely well.

With that, operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) For our first question, we'll go to the line of A.J. Rice from Credit Suisse.

Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

Just maybe drill down a little more on the comments around the commercial business. I know the commercial operating margin dipped year-to-year to 7.6%. And I wondered, it sounds like you're seeing elevated utilization there. Is that something that you just think is temporary? Will that correct itself? And are you moving toward making pricing adjustments for '23 on that? Or is this sort of the run rate to go forward with?

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Thanks for the question, A.J. I think as you think about our commercial business, there's a couple -- like I want to parse out a little bit of what you're seeing in that business, because I think it's important to first look at the entire business. One, we've had strong and consistent growth and feel pretty good -- very good about our business in the last few years. And there's 2 elements. One is obviously the risk-based business and the other fee-based business. I'm going to start with the fee based, and I'll address your question directly on risk base.

In terms of the fee-based business, we're making really good progress on the strategy around margin improvement, and as we've laid out on the 5:1 to 3:1 strategy, and we continue to grow our fee-based business, I think, at an industry-leading rate. And just a couple of, I think, proof points that help show that even inside of the totality of the business, our fee revenue grew 7.9% year-over-year, and then if you just look at it sequentially, 7.3% for the 6 months ending June 30, which shows that acceleration of growth that we've been talking about. And you compare that to our membership, which grew about 3.4% year-over-year. So clearly, there is really good improvement. And I think we're very much on the progression that we described at our Investor Day to improve our revenue for fee-based members.

Turning to the operating margin, more in our risk-based business. As I've shared before, that does remain challenged by COVID, and that really is what we believe to be the most significant issue, and we do think it's transitory. We do expect our margins to recover to the pre-pandemic levels and are taking actions to do that. You saw an improvement overall from first to second quarter. But again, this has to pace through as we do renewals.

The last thing I would say is we also know we've been in this pandemic now for several years. COVID is not going to 0. Ultimately, as we think about our pricing in the commercial market, we're not changing anything about the approach or philosophy that we've used historically. We're always pricing to our forward view of costs.

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If you look at this year, COVID hit at a time high in January and February. So as we look to forward pricing, we're looking around all of our costs and now, I think, have a much better perspective on projection of what those costs should be. And so you'll see ratable improvement over the course.

And maybe I'll ask John to just talk about your question on utilization a little bit. John?

John Edward Gallina - *Elevance Health Inc. - Executive VP & CFO*

Yes. Thank you, A.J. And associated with utilization, in our first quarter call, I think we were very clear that the Omicron surge in January was most significant to the commercial market. And so that obviously has a direct impact on the Commercial margins. And even as we go through the full 6 months and project out for the rest of 2022, we do believe that Commercial will have a cost structure, when you add COVID and non-COVID combined, to be in excess of baseline -- above baseline actually each quarter for the year. Medicare is going to be close to baseline. And Medicaid, we expect to be a bit below baseline. Overall, the entire company above baseline for the rest of the year. So clearly, those cost structures being directed more towards the commercial marketplace have a direct impact on the commercial margins that you're seeing. And as Gail said, we do believe that they're transitory, and that we will price the forward trend for the future.

Operator

Next, we'll go to the line of Justin Lake from Wolfe Research.

Justin Lake - *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

If I could just follow up on A.J.'s question first. You have a 2025 margin target, I think, in the Commercial business of 11% out there. Let's say, you do close to 8% this year, do you still take 11% a reasonable target for 2025? And if so, how do you think the pace of kind of getting there is over the next 3 years?

And then my question would just be, can you give us an update on the City of New York contract? Looks like you pulled out of that. Can you give us some background on how that affects numbers?

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Sure. Well, thanks for the question, Justin. Let me address your first question. We have not changed our 2025 perspective in the short run, different impacts that we didn't obviously have at the time we gave that, but we haven't changed anything about our 2025 overall margin perspective across the businesses that we shared. So I just want to be really clear about that.

In terms of your second question, the City of New York contract, a couple of things on that. One, when we originally bid on this contract, it was set to go live in January 1 of this year. But as you know, and we've shared on this call, due to litigation, that go-live date has been delayed several times now. Based on the fact that we've been on in the active litigation, we had asked the City for some certainty around exactly what the benefits would be. And also, quite frankly, Medicare Advantage contracts take a lot of work to put up, and we want to make sure that the members were best served. We've served these members for a long time, and we needed greater certainty.

So we did not feel, based on the inability of what's going on with the litigation as well as being prepared, that we could go forward with the contract. And then notably, the city remains one of our very important customers, and we continue to serve those clients on a fee-based business. So that's where we stand on the city in New York. Thanks very much for the question, though.

Operator

Next, we'll go to the line of Lance Wilkes from Bernstein.

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Lance Arthur Wilkes - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Yes. Could you talk a little bit about the Carelon business. And in particular, I'm interested in as you look at penetration in the fully insured and the self-insured business, what is the current status of kind of product penetration there? And what are the biggest opportunities for you as you drive that forward?

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Thanks for the question, Lance. I'm going to have Pete Haytaian, who leads Carelon, please address that. Pete?

Peter David Haytaian - *Elevance Health Inc. - Executive VP and President of Diversified Business Group & IngenioRx*

Thanks, Lance. Appreciate the question. First of all, we're really pleased with our progress and performance in Carelon so far from a growth and operating perspective as we build up the services business. Overall, Q2 is in line with the improvements we expected. I'm really pleased with the performance improvements across all the verticals. As we've discussed before, Lance, one of our main focal points is really driving more capitation and risk through Carelon. So as it relates to progress, we're really executing on that strategy with strength. So from a cross-selling perspective, we've played that through in Beacon, in AIM and with MyNEXUS. As we talked about with AIM, we just finalized capitating a lot of the services this year starting last year.

We're also executing on our strategy associated with growth, and I'm really excited about the innovation that's occurring. Gail mentioned in her remarks, a really great example is the rollout of a post-acute care offering being MyNEXUS. This is a great example of penetrating our business to a greater degree.

I think you've heard me talk about this before, but one of the things we're trying to do is naturally extend our offerings and penetrate our business to a greater degree. And that's exactly what the post-acute care offering is. We're taking the tools, technology and capabilities of MyNEXUS, and we're utilizing that with a new offering to penetrate the Medicare business in a much more broad way. So I'm really thrilled with the progress. You'll continue to see that. I think the opportunities are vast in terms of further penetration.

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Yes. Thanks, Pete, and thanks for the question, Lance. And I think, as Pete shared, we're excited about this business. It's an important strategic lever for us. But importantly, it's really early innings. And the examples that I shared in my early -- earlier comments to show that we can begin to implement this in certain markets, get experience on it on a risk basis and then roll it out to the rest of our 20 million-plus risk-based members and 47 million total. So lot of opportunity for us, but we also want to make sure we execute this with precision and benefit both our health plans as well as Carelon.

Operator

Next, we'll go to the line of Lisa Gill from JPMorgan.

Calvin Alexander Sternick - *JPMorgan Chase & Co, Research Division - Analyst*

This is Cal Sternick on for Lisa. A quick question on the Medicaid redeterminations. So what are you assuming for timing on when those will resume? And I know you've previously talked about retaining about 1/3 of the members you added during the public health emergency period. Does that still seem like the right target in your view?

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Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

I'm going to ask Felicia, who leads our government business, to please address that. Felicia?

Felicia Farr Norwood - *Elevance Health Inc. - Executive VP & President of Government Business Division*

And thank you for the question. As you know, the PHE was recently extended to October 13. So it follows that we are going to have Medicaid attrition related to redetermination that could begin as early as November. However, I would say, given back-to-school, it's also possible that COVID prevalence could rise around the September, October time frame or that the population might need boosters or other vaccines. So at this point, it's really simply too early to predict, but it's certainly possible that we could have a PHE extension into January of 2023.

If there is another extension into January of 2023, that could lead to Medicaid attrition starting right around the February time frame. So redeterminations would then commence over what would be 14 months, given guidance from CMS that ask states to have up to 14 months to redetermine members and not redetermine more than one night of that membership in a single month.

As we think about where we are, you should keep in mind that we operate obviously in 14 Blue states. And our Medicaid membership -- our total Medicaid membership, I'll say, has grown significantly across that platform. So as we think about where we are today, we are going to continue to work very closely with our commercial colleagues to make sure that we have in place a process for looking very thoughtfully market by market and having a view of the competitive dynamics in those markets and capture as much as we can inside of the Anthem 14 Blue states, where we will be offering ACA plans in nearly every county in 2023.

So as we sit here today, we gave that early numbers, certainly with respect to 35% of that membership staying within Medicaid, another 45% or so going into Commercial plans, about 15% on the exchanges and 5% in uninsured, but the macro environment certainly has changed tremendously.

What we'll say is that we are positioned very well to navigate through the end of this PHE and the return of redeterminations when that happens based on a very balanced portfolio here at Anthem, Elevance Health, I should say. And certainly, we'll continue to work closely with our Commercial colleagues to make sure that our members have access to care, continuity of coverage and can really navigate this landscape when redeterminations begin.

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Thank you, Felicia. I just want to reiterate one point, I think, that's really important that Felicia made, which she and John have said many times, which is the balanced portfolio that we have across Elevance Health. And one of the statistics that I think really brings at home is there's been more than 6 million Medicaid entrants as part of not doing redeterminations in our 14 Blue states. And we have significantly, regardless of the percentage you look at in our commercial business, have coverage now in nearly every county on our individual exchanges.

So we've been planning for this. We're preparing for it across our businesses and feel very well prepared to manage that. And again, obviously, CMS has given the guidance to take up to 14 months and not determine more than one night at a month. So again, thank you very much for the question. But overall, we feel that we've got very good coverage.

Operator

Next, we'll go to the line of Matt Borsch from BMO.

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Matthew Richard Borsch - *BMO Capital Markets Equity Research - Research Analyst*

I just wanted to ask about, as you pull these pieces together or have pulled them together for Carelon, how are you thinking about home health? And I mentioned that in the context that, of course, an acquisition of a home health company by one of your largest competitors and also the issues in the home health area with the shortage of nurses and so forth, and how you're grappling with that, frankly, in the current environment?

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Sure, Pete, would you like to address that, please?

Peter David Haytaian - *Elevance Health Inc. - Executive VP and President of Diversified Business Group & IngenioRx*

Yes. No, I appreciate the question, Matt. Home Care is a space we're really interested in. Our focus with Carelon, as we've talked about, is on complex patients. We've talked about being on the right side of health care, giving patients access to services in the most appropriate setting. And certainly, home is a critical component in that regard.

I think when you look at our acquisition of MyNEXUS, which closed last year, and its focused on the home through utilization management tools and capabilities and partnering with a very vast network of providers, we have 9 of the top 10 nationally to drive the most appropriate level of services in the home is a good example.

Another example in terms of how we're penetrating the home today is through Aspire. It's a national leading company in the delivery of palliative care services. So I'd say strategically, in the short term, I mentioned this before, we've been looking actively for natural extension opportunities with regard to the assets we have. And again, a great example of that is the post-acute care launch that we just mentioned.

We also launched most recently, as it relates to the home, the delivery of social determinants of health and star services via those capabilities.

On a longer-term basis, in terms of your question, we really -- we do continue to evaluate further opportunities in terms of direct care that can be provided in the home and delivering that value to all our Elevance Health plans and ensuring patients get the right level of care. And we are very sensitive to your last point about the labor issues. It's been interesting, but a lot of the companies that we've been partnering with have been able to effectively navigate some of the labor issues as it relates to home in terms of our members getting critical care. So that's a good thing right now in the short term.

Operator

Next, we'll go to the line of Nathan Rich from Goldman Sachs.

Nathan Allen Rich - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

I wanted to ask on the commercial selling season for '23, you're obviously coming off a very strong national account selling season for '22. Could you talk about maybe how those conversations have progressed for the upcoming year? And have there been any changes in the nature of those conversations just given the macro backdrop? And has that changed the opportunity to sell in services like pharmacy or stop loss or others?

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Well, thanks for the question. I'll have Morgan Kendrick, who leads our Commercial and Specialty Business to address that. Morgan?

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Morgan Kendrick

Nathan, thank you for the question. Yes, it's -- the business is cyclical. Typically, these cases renew on a 36- or 60-month cycle. So you think about the very large year we had for the 2022 cycle, 2023 is down from that, and that's expected. There were a number of jumbos last year.

What we're seeing notably, which is consistent with last year, is a number of cases going out for single vendor opportunities. That hasn't changed and what we've seen this year, albeit we have seen the dampening in the large jumbo cases in our geographies. But the conversations are consistent. You can certainly imagine, you alluded to the fact that we've got a talent challenge. And employers have shifted this concept to more of a human capital strategy and how they actually think about their benefits differently in attracting, retaining talent. So that's been a big piece of it.

At the end of the day, the conversations are generally focused around 2 things: number one, economics; number two, experience. When we think about the assets that we deliver from a network perspective, nationally, we score very well. Also, when you think about how we think about the experience component, Gail mentioned earlier our total Health Connection suite of services up 33%, with nearly 4 million of our commercial members. That's almost half of our commercial business is using that service. We think that's going to crescendo.

So we feel confident in it. Certainly, it's a smaller sales cycle. We're seeing that across the country. It's not notable to any geography, but we are seeing wins where we're seeing consolidation, and we're having -- we're starting to get the answers for the [1:1s], they're affirmative, and we feel really good. Thanks again for the question.

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

I'm going to have Pete address your pharmacy penetration question. Pete?

Peter David Haytaian - *Elevance Health Inc. - Executive VP and President of Diversified Business Group & IngenioRx*

Yes. No, thanks for that. And working very closely with Morgan, this is a critical issue for us as we've talked about in terms of penetrating the Elevance book of business and our ASO business. And we continue to get really strong feedback from the distribution community regarding a lot of our solutions. Our pricing is coming in line. Many of our offerings, like our specialty cost relief program, our enhanced specialty condition management programs are really gaining legs as well as the way we're bundling offerings.

How this is playing out in the market is a really good results and improvement year-over-year. We've experienced a 300% improvement year-over-year, year-to-date in terms of the total numbers sold. And importantly, I want to emphasize at this point, we're seeing a lot of growth in the middle market and down market, less than 10,000 members. It's a really nice sweet spot for us. It's where Morgan and the commercial business do very, very well. And our margin profile is very strong as well as it really plays through on the integrated value proposition, and that is a big contributor to the 5:1 to 3:1 that we've talked about historically.

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Yes. Thanks, Pete. I think what you heard from both Morgan and Pete is really, we're very pleased that we're winning in the most sophisticated and discerning segment of the market, and that really plays across all of our customers. So thanks very much for the question.

Operator

Next, we'll go to the line of Gary Taylor from Cowen.

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Gary Paul Taylor - *Cowen and Company, LLC, Research Division - MD of Health Care Facilities and Managed Care*

Can you hear me now?

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Yes, we can hear you, Gary.

Gary Paul Taylor - *Cowen and Company, LLC, Research Division - MD of Health Care Facilities and Managed Care*

Okay. Great. Sorry. I just want to come back to Commercial operating income a little bit. obviously, you had growth -- modest growth this quarter. COVID's still impacting it. I think earlier in the year, you had talked about some of the extreme quarterly seasonality in Commercial OI easing a bit this year, which would imply that Commercial OI growth in the second half will continue to look better. Just want to make sure that's still your expectation. And particularly with -- just in the early months of July, we are seeing COVID hospitalizations picking up again. Is it still your expectation that, that Commercial OI growth can improve from what we've seen in the first half?

John Edward Gallina - *Elevance Health Inc. - Executive VP & CFO*

Thank you for the question, Gary. Associated with the seasonality, I'll just clarify for everyone on the line of what we talked about during the first quarter, was that there are many of the services that Carelon offers are being sold to Commercial on a capitated rate basis. And so the seasonality that historically would have been in Commercial associated with those services is now going to be in our Carelon segment. And commercial will have less seasonality.

So yes, that is still playing out exactly as we talked about 90 days ago, and that will continue to be part of the quarterly cadence for both of those entities over time. And then associated with the overall cost structure. As I had said, I think in A.J.'s question, we are expecting the commercial cost structure for COVID and non-COVID combined to be above baseline again in the third quarter and again in the fourth quarter, which obviously puts pressure on the overall margins. Thank you.

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Thank you. And that, again, as John said, very consistent with the expectations that we've always had.

Operator

Next, we'll go to the line of Scott Fidel from Stephens.

Scott J. Fidel - *Stephens Inc., Research Division - MD & Analyst*

I wanted to ask about just for an update on the marketplace business. And if you can talk about how marketplace margins have been performing year-to-date relative to plan. Then also just some initial insights on how you're thinking about the pricing environment for the exchanges in 2023. Obviously, a lot of different moving pieces to pricing as there always seems to be in this business, but does seem that at least some of the most, let's call it, aggressive actors in the market have started to file for some firming rate increases. So just interested in your perspectives on how pricing is looking for the exchanges next year.

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Sure. Let me ask Morgan Kendrick to comment on that. Please, Morgan?

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Morgan Kendrick

Yes, Scott. Thanks for the question. Generally, your question is around how we think about the '23 pricing, again, we've noted we really like this business. There's a great opportunity. Our margins are performing as expected, quite honestly, for '22. We're just now pricing '23. We're in the middle of that cycle. Your point is spot on, that there's always an actor that's looking to take aggressive share in aggressive pricing points in each geography. We are seeing some firming, but there's always a new actor that wants to come into the mix, so to speak. It is a competitive market, but we continue to look at this as an expanding opportunity.

As Gail alluded to and Felicia alluded to, when we think about the Medicaid redetermination, we are now in north of 95% of the counties in the geographies that we serve. So we feel strongly about it. We're taking prudent normal pricing actions. Nothing's changed in our pricing strategy. We're pricing to the forward view of trend with all of -- in modifying for all of the challenges that are currently facing in the business or in the economies. That said, we expect it to be expanding. We've been notified some expansions in some of our largest geographies. We know that we look good in those geographies. So over the next 60 days through -- 60 to 90 days, we will firm up the position. But right now, we feel quite good about it.

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Yes. And thanks, Morgan. I think sort of summarizing that, we feel good about this business. We've had a pretty consistent strategy. We haven't looked for outsized growth. We want to be in markets where we can be for the long term. And that's why you've seen us year-over-year expand the counties we're in as we continue to see the stability of that marketplace. So again, that business is performing along our expectations, and we expect to be in more counties. We see some opportunities, obviously, as redeterminations come in as a real catchers met for some of that. So thanks for the question.

Operator

Next, we'll go to the line of Steven Valiquette from Barclays.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

I guess mine is really just more of a confirmatory question around some of the comments on the elevated commercial medical cost trends. I think in one part of the Q&A, you mentioned the elevated costs relate to maybe more to the exchange individual membership within Commercial. So I just want to confirm, yes or no, is that the bigger part of what's happening? And I guess just for further clarification, yes or no, is the group risk-based commercial book of business, in particular, seeing elevated medical cost trends above the pre-COVID baseline? Just a little more color around the 2 subsegments within commercial risk.

John Edward Gallina - *Elevance Health Inc. - Executive VP & CFO*

Thank you, Steve, for the question. So just for clarity, we have not provided any commentary associated with the difference between ACA and group. We've talked about commercial in total. So I'm not exactly sure what comment that you were referring to, but it's not anything that was part of this call. And just to reiterate what I've said, we have seen overall cost structures in commercial to be elevated in excess of what a normalized baseline would have been had COVID had never occurred. You can certainly look at the amount of membership that we have in fully insured risk versus ACA. And obviously, risk is the lion's share of the membership -- the group risk. I'm sorry, is the lion's share of the fully insured membership. So obviously, that is the primary driver.

But overall, we do believe that the COVID costs are transitory. They're not going to go to 0, as Gail had said. We are going to proactively price for forward trend. But the impact that we have on our margins currently is a transitory piece of that equation. And so we feel very good about our long-term aspects. Thank you.

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Operator

Next, we'll go to the line of David Windley from Jefferies.

David Howard Windley - *Jefferies LLC, Research Division - MD & Equity Analyst*

I wanted to ask a question on Medicare Advantage. I think you're targeting double-digit growth this year, rolling your way to that. Wondering if that can be -- if that can continue next year, what you're thinking about for the open enrollment and competitive landscape there and with the necessarily healthy rate for 2023. So just views on Medicare Advantage.

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Sure. Felicia, would you like to address that?

Felicia Farr Norwood - *Elevance Health Inc. - Executive VP & President of Government Business Division*

Thank you, David. First and foremost, let me start by saying, we are pleased with how we are performing this year. We started with a very strong AEP, and that certainly has kept us on track to deliver double-digit growth in our individual MA business. You might also want to recall that most of our business continues to come in throughout the course of the year, because we have a very balanced portfolio when we look at our duals growth, and that membership comes in year round.

It's too early to talk about '23 and anything associated with double-digit growth. I will say, we expect to continue to have strong growth. We have what we believe will be very competitive products in the marketplace. Our benefit designs, which are really led with our supplemental benefit offerings as we think about whole health, continue to resonate with consumers. And we continue to be very focused on going deeper in our markets, particularly in our Blue states.

So when we think about how we are positioned today, with very nice competitive benefits, strategically, we've continued on that course as we head into 2023. And I think we're positioned to continue to deliver strong growth.

Long term, our focus and our -- certainly, our perspective on Medicare Advantage remains unchanged. This is a very attractive segment for us, strategically important with us and our Carelon services as well. and we're committed to continuing to deliver strong growth in our business.

Operator

Next, we'll go to the line of Ricky Goldwasser from Morgan Stanley.

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

So one clarifying question. You talked clearly about COVID plus noncore utilization being about above a baseline for the year and second half. What are you seeing for non-COVID utilization on the Commercial business? Is it in line with pre-COVID or below?

And then secondly, can you comment on the sensitivity of commercial membership to potential changes in unemployment? One of your competitors talked about 50 basis points for every 100 basis point change nonemployment. So just kind of like wanted to see if you have any context to give us there? And what are you hearing from your clients about their plans to manage their workforce?

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John Edward Gallina - *Elevance Health Inc. - Executive VP & CFO*

Thank you, Ricky, for that multipart question. Let me try to answer the first part of it, and then ask one of my partners here to reply to the other part of your question in terms of cost structure. So we have been really disclosing COVID and non-COVID combined as our total cost and not really specifying or trying to parse out the -- at least publicly, the amount that's COVID and the amount that's non-COVID. And I can tell you that non-COVID, all by itself, is a bit below baseline even in Commercial. And then when you add COVID on top, the total of the 2 exceeds baseline. We have seen still ER utilization being down from pre-pandemic levels. Inpatient is actually down a bit here this year. Outpatient is actually up a little bit compared to pre-COVID levels or pre-pandemic levels. But all in, the cost structure is the cost structure, we have to cover it all, and we certainly will. So hopefully, that gives you the clarity you need.

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Yes. And to the second part of your question, I think I caught most of it, Ricky. But I think there's a few things, one, to your how are employees thinking about their workforce. As I think we shared a little bit earlier in the call Morgan did. We're really seeing kind of employers still expanding their workforce and looking for more benefits and to maintain the strength of their workforce. So we haven't seen any pullback yet in terms of our employer populations across any of the sized segments that we serve. That's not to say that, that couldn't happen. But at this stage, it's -- as you think about the challenges in the economy, they're more inflation-based than employment-based at this stage. And employers are still looking for strong solutions.

One of the things that we're offering, obviously, is affordable products. We've been continuing to enhance our product portfolio. We have a very strong cost position. Again, one of the reasons we win is we go in with a very strong medical cost position across all those segments. So I think from that perspective, we have not seen any noticeable difference.

In terms of our own book of business, if you look at our history, we've got actually -- I really can't comment on the others who've given you some numbers around what they think would happen. But our book of business has been quite resilient. As you remember, we have a very deep -- we support school districts, public service -- public services, et cetera. And so we have a very, I think, different profile across our businesses, and our history has shown that those have had greater stickiness during both up and downtimes in the economy. So overall, I think at this stage, we're still seeing strong interest and strong growth from the commercial sector.

Operator

Next, we'll go to the line of Robert Cottrell from Cleveland Research.

Robert Sohngen Cottrell - *Cleveland Research Company LLC - Research Associate*

Just wanted to follow up on Medicaid. Given that now utilization within the Medicaid business has been running below baseline or below expectations for the past several quarters, is there any risk to states coming back to you and doing rate adjustments given the lower-than-expected utilization?

John Edward Gallina - *Elevance Health Inc. - Executive VP & CFO*

Yes. Thanks, Rob. Very good question. I would say, first and foremost, we are always working with our state partners to ensure that we have actuarially justified rates, rates that really mirror the acuity of the population.

There is one really significant item just to make sure that we're all aware of, and that's we're in an MLR collar or MLR rebate position in many of our Medicaid states currently. So we will be refunding back to the states amounts of the premium that we've been paid here this past year or so. And as we look at what future rate actions or rate filings could do, the first thing that they will do is they will reduce the amount of the MLR rebates before we end up with our final REIT. But at the end of the day, we feel very good about our ability to negotiate actuarially justified rates with our state partners. Thank you.

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Operator

Next, we'll go to the line of Stephen Baxter from Wells Fargo.

Stephen C. Baxter - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

I just wanted to ask about the assumptions you're making on utilization in the back half of the year and what we should think about through the MLR cadence there. So appreciating that you're running above what you view as the baseline, but it does seem like other parts of the system view that they're below baseline, are expecting a ramp of utilization throughout the year. I guess how much of that is in your thinking for the guidance.

John Edward Gallina - *Elevance Health Inc. - Executive VP & CFO*

Steve, I'm not positive I can comment on what other parts of the system you're referring to without a little bit more specificity on that. But I'll just say that we track utilization very closely. We certainly understand the seasonality factors associated with utilization. I think Felicia even mentioned going back to school and things that, that might cause, and we're trying to factor all those variables in. And we actually feel very, very good about the analytics and the informatics we have associated with this information. So we have certainly put our best thinking forward in terms of our -- in terms of the cost trends, the pricing and the guidance that we've provided. So thank you for the question.

Operator

Next, we'll go to the line of Whit Mayo from SVB Leerink.

Benjamin Whitman Mayo - *SVB Securities LLC, Research Division - MD of Equity Research & Senior Research Analyst*

I just wanted to go back to MyNEXUS for a second. Can you share like what percent of your MA membership is in states that you have delegated some services to MyNEXUS today? I'm just trying to think of the opportunity as you scale the partnership. And when you delegate risk, if that's what we want to call it to MyNEXUS, what are they doing with network strategies? Are you tiering, narrowing the network when you optimize the level of care? Is that just reducing the allowable visits? I'm just trying to properly understand exactly what you're doing.

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Sure. Pete, would you like to respond?

Peter David Haytaian - *Elevance Health Inc. - Executive VP and President of Diversified Business Group & IngenioRx*

Yes. Let me start with what you asked about exactly what we're doing on the post-acute care launch because it's something that we're really excited about in terms of the natural extension of the capabilities we have.

Today, when you think about what MyNEXUS does, we have industry-leading tools and capabilities that really allow us to efficiently manage on the UM side. And as we've talked about, partner with our network providers and then effectively manage the level and appropriateness of services in the core product, it's in the home. So when you think about the post-acute care product, just to give you specificity on what we're doing, we're really -- we're leveraging these tools for post-acute care management upon discharge of the patient out of the inpatient setting.

And then through our leading portal, again, the tools and technologies that really differentiate us, post-acute care providers are easily able to make requests for services. It creates a much more effective and efficient experience for the provider. And this enables us to be very clear upfront in terms of the most appropriate levels of post-acute care. So when you think about that in that setting, you think about long-term acute care facilities, you

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think about rehabilitation facilities, you think about skilled nursing facilities. And we're managing the appropriate level of services, and then we're eventually facilitating a discharge hopefully to the home.

And as we've talked about, what Carelon does, as we manage that entire episode of care on a capitated basis, this builds in predictable cost of care for our partners and the health plans in this case, for Felicia, in the Medicare business. And if we're effective at managing that, we are driving an incremental margin for Carelon and then incremental benefit for Elevance.

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Yes. Thanks, Pete. I think that there's 2 points that I wanted to highlight from Pete's subscription. One, a core part of our strategy that we shared about Carelon is moving from a fee basis to a risk basis. And so when we acquired MyNEXUS, we did have a large participation with them and knew them quite well in our Medicare business, but on a fee basis. So this is the next iteration across all of our Carelon services, where we now have, I think, much better insight and can move this to a risk basis. So that was just the beginning and why I see early innings there.

And then the second thing is we see this as a huge opportunity, as you talk about network strategy, pull this through our value-based contracts and our partnerships and relationships. And again, another core part of our strategy where we see this as very synergistic. So thanks for the question.

Operator

Next, we'll go to the line of Kevin Fischbeck from Bank of America.

Adam Matan Ron - *BofA Securities, Research Division - Research Analyst*

This is Adam Ron on for Kevin. Going back to the comments about Medicaid, how should we think about maybe the impacts to margins from redeterminations? I could see 2 potential sources of margin compression that are pretty clear, like one is obviously just negative fixed cost leverage from losing membership. But more importantly, and I guess, complicated is the potential that healthy people are more likely to lose coverage first. So there are a risk that there would be a rate mismatch from the state for an extended period of time, it may take time to reevaluate the acuity.

John Edward Gallina - *Elevance Health Inc. - Executive VP & CFO*

Yes. Thank you, Kevin, for the question. And certainly, some of the questions you asked were may be consistent with some of the things we saw in 2019. So let me just maybe reference a little bit what's different now versus then.

So in 2019, we went through a redetermination process. It worked through very quickly. And then the overall acuity of the population was a little bit higher than what the rates that had been set, well, justified. And just FYI, there were retroactive rate increases ultimately, but there was clearly a disconnect for a few quarters there in 2019, where now we have a very well thought-out process that's going to take up to 14 months that won't even begin until after the PHE expires.

The other thing is, as I had mentioned in a different question, we're in an MLR collar position in virtually every Medicaid market. And so the immediate impact to any of the rates will first be to reduce the MLR collar position that we're in. In 2019, we were -- had very, very few MLR collars. But I think the most important element of all this is now part of how the pricing is done, that the -- thanks to some of the great work our teams have done, that the standard rating input now, as part of the Medicaid pricing, includes an acuity change factor. And that was not the case in 2019. That was a one-off conversation, and now it's part of the standard input into the rates for 2022.

So all in, we think we're in a significantly better position today than we were then. 2019 might be informative but it's certainly not a precedent. So we actually feel very good about our future state prospects. Thank you for the question.

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Operator

Next, we'll go to the line of Ben Hendrix from RBC Capital Markets.

Benjamin Hendrix - *RBC Capital Markets, Research Division - Assistant VP*

I just wanted to do a quick follow-up to Dave's question about the competitive backdrop for MA and duals. Clearly, supplemental benefits is a key area of competition as we go forward and this Medicare Advantage becomes more competitive. Just wanted to see if you could go into a little bit more detail about how you're differentiating your supplemental benefits and products for those members. And I think you had mentioned on the first quarter call, everyday extras. And just if you could go into more detail on that and how that's differentiating your offering?

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Sure. Felicia?

Felicia Farr Norwood - *Elevance Health Inc. - Executive VP & President of Government Business Division*

Yes. Ben, thank you for the question. I will say that we were really early leaders in the supplemental benefit areas because of our focus on whole person health. And what everyday extras or what we call essential extras allow us to do is to allow members to really personalize the benefit that best meets their needs.

All of our members are different. And at the end of the day, we think it's important that they are able to have a range of benefit offerings that either allow them to provide transportation, grocery benefits, whatever that need is from an overall whole health perspective. So I think the differentiation for us lies really in the personalization.

So we've developed a range of offerings that allow members to really improve their overall health outcomes, and that gives them the flexibility to be able to decide what works best for them. So ultimately, I think that's the differentiating factor for us from a Medicare Advantage perspective. We've tried to make sure we continue with that stability as we head into 2023 and certainly give members the opportunity to make those personalized decisions that works best for them.

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Thank you, Felicia, and now we'll take our last question.

Operator

For our final question will go to the line of Josh Raskin from Nephron Research.

Joshua Richard Raskin - *Nephron Research LLC - Research Analyst*

So with the rebranding complete, and it's been a little while since the 2021 Investor Day, could you just remind us the overall strategy at Carelon? And I'd be most interested in any areas of interest that have changed over the last 1.5 years or so and why.

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Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Thank you. And I'll have Pete address the Carelon strategy. But I think what you saw certainly in our overall rebranding with Elevance Health is our business has changed. We've been on a journey from just traditional health benefits, which are still important to us and continue to grow. And as John shared and just how our revenue has changed even over the last 5 years, a pretty significant shift. Carelon's a really important part of our move in the services strategy around the complex and chronic but more importantly, that serving our captive membership already of 47 million members. So just maybe, Pete, you can talk a little bit more about how you see Carelon strategy evolving.

Peter David Haytaian - *Elevance Health Inc. - Executive VP and President of Diversified Business Group & IngenioRx*

Thanks, Gail. And Gail just hit it at a high level in terms of our high-level strategies, advancing whole health and connecting people to accessible, affordable and integrated care. And as she said, our focus now is on the Elevance Health plans, 20 million (inaudible) 47 million folks in total. And just to double-click on that, we're really focused on those complex populations. When you think about the spend in those complex populations on a per member per year basis, significantly higher at $12,500, for example, versus a standard average commercial number of $4,500 per member per year. And again, this creates a real wonderful springboard for us to sell externally and penetrate clients externally, especially the Blues.

In addition, we talk a lot about being on the right side of health care, which, again, means providing services in the most affordable, highest-quality setting. So that's something that we're very focused on and ensuring that those are connected to the growing profit pools outside of traditional insurance. So none of that has really changed. As you know, Josh, in terms of what we talked about historically, the verticals that we're focused on are care delivery, behavioral health, advanced analytics and services and then pharmacy.

I'd say what we're very interested moving forward, I wouldn't say it's a change, but that we're very interested is a deeper interest in the home, as we've talked about, certainly, specialty pharmacy, where we're seeing trends accelerate. And we believe the opportunity is really vast to penetrate the Elevance book.

And then finally, I'll close on something that we're very, very focused on and we believe could be a differentiator is how we connect with our digital organization and build a digital platform for health that really connects all these services in a cohesive and coherent way, ultimately for the patient. And that's something that we're actively working on.

Gail Koziara Boudreaux - *Elevance Health Inc. - President, CEO & Director*

Thank you, Pete, and thank you to everyone for joining us and for your questions this morning. In closing, we're really pleased with the ongoing momentum in our business in 2022 to date. And we're confident that the ongoing execution of our strategy positions us to continuing to deliver against the financial targets that we shared with you at our investor conference last year. We'll keep executing with excellence and discipline to bring increasing value to all of our stakeholders.

Thank you for your interest in Elevance Health, and have a great rest of the week.

Operator

Ladies and gentlemen, a recording of this conference will be available for replay after 11 a.m. today through August 20, 2022. You may access the replay system at any time by dialing 866-430-8797 and international participants can dial (203) 369-0943. This concludes our conference for today. Thank you for your participation and for using Verizon conferencing. You may now disconnect.

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