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ELV.N - Q1 2023 Elevance Health Inc Earnings Call

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**OVERVIEW:**

ELV reported 1Q23 operating revenue of $41.9b, GAAP EPS of $8.30 and adjusted EPS of $9.46. Expects 2023 adjusted EPS to be greater than $32.70.

## CORPORATE PARTICIPANTS

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**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 Carelon & CarelonRx*

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

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## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the Elevance Health First 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.

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

Good morning, and welcome to Elevance Health's First Quarter 2023 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; and John Gallina, our CFO; Peter Haytaian, President of Carelon; Morgan Kendrick, President of our Commercial and Specialty Health Benefits division; and Felicia Norwood, President of our Government Health Benefits division.

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.

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

Thanks, Steve, and good morning, everyone. Today, we're pleased to share that Elevance Health is off to a strong start to 2023 as we continue to execute on the strategy we discussed at our investor conference last month to become a lifetime trusted health partner for the consumers we are privileged to serve by focusing on whole health. At our March investor conference, we provided a road map for how we plan to continue to compound adjusted earnings per share by 12% to 15% through 2027 by optimizing our mature businesses, investing in high-growth opportunities and accelerating the growth of our organization through Carelon.

First quarter results demonstrate progress on all fronts. GAAP earnings per share came in at $8.30. Adjusted earnings per share of $9.46, grew approximately 15% year-over-year, and we ended the quarter with 48.1 million medical members, growth of nearly 600,000 in the first quarter spread across Commercial, Medicare and Medicaid. Carelon's momentum also continued with year-over-year revenue and operating gain up 18% and 21%, respectively.

Given the strong start to the year and the momentum in both of our primary businesses, we raised our outlook for adjusted earnings per share to be greater than $32.70 for 2023. Carelon Services continues to expand the scale and scope of services it provides to our own health plans and to external customers. The Carelon post-acute care management expansion with our health plans that we discussed at our investor conference is well underway and will contribute meaningfully to growth in 2023.

We are now working to develop more seamless integration between transitions of care throughout all post-acute solutions, including home health and we'll be looking to extend the post-acute management solution beyond Medicare in the future. Carelon Behavioral Health recently extended its leadership position in crisis management. When it began serving as the 988 Suicide and Crisis Lifeline managing entity to the New Jersey Division of Mental Health and Addiction Services at the beginning of this month. The scope of this work includes coordinating across all 988 centers in New Jersey, dispatching mobile crisis teams that provide emergency support and serving as the central integration partner for the unified technology platform.

Beyond our work in support of 988, we are leveraging our expertise to improve health outcomes for members proactively. Our suicide prevention program uses a predictive analytics model to identify members at risk for suicidal event. And once those members are identified, we intervene through telephonic case management support crisis intervention or access to a peer support specialist. In a recent study, we observed a more than 20% reduction in adolescent and young adult suicidal events for commercial risk-based members engaged in the program relative to control groups, corresponding to a 30% reduction in per member per month behavioral health spending for engaged members post intervention. We have since expanded the program to cover even more of our members.

CarelonRx remains focused on owning the strategic levers that create differentiation to advanced whole health. Since closing the acquisition of BioPlus in February, we have deepened our bench of specialty pharmacy talent and broken ground on the construction of the first of 3 new dispensing facilities. These investments will support the expansion of dispensing capacity ahead of the planned migration of CarelonRx's Specialty Prescription onto the BioPlus platform beginning in 2024.

We have also added BioPlus as an in-network specialty pharmacy for all of our Medicaid and Commercial contracts. Later this year, we will be launching CarelonRx Pharmacy, a modern differentiated home delivery experience, that will be integrated into our Sydney Health app, improving quality, access and consumer experience while creating value for CarelonRx through additional dispensing margin.

In our Health Benefits business, we're pleased to report progress on our key commitments. Commercial risk-based margins continue to recover from pandemic-era lows, and we grew membership once again as the distinctive value we provide to the market continues to resonate. As you heard at our investor conference, our momentum reflects our steadfast focus on 3 things customers value across all segments: affordability, experience and simplicity.

Nearly all of our key experience metrics are at their highest point in years, including Net Promoter Score, customer satisfaction, customer effort and inquiry resolution. Meanwhile, retention rates across our national accounts business have tracked to historic highs in the past 2 selling seasons, yet another indication that our product innovation, digital investments and overall value proposition are resonating.

In alignment with our strategic focus on delivering exceptional consumer experiences, we continue to lead the market in advocacy. Our next-generation advocacy solution, total health connection entered the market this year, serving over 600,000 consumers, building on the success of our Total Health, Total You personalized engagement and clinical advocacy solution, which continues to gain momentum. And in the first quarter, enjoyed a 12 percentage point improvement in its NPS score to 82%.

Between these 2 innovative and integrated offerings, we now serve nearly 5 million advocacy members. We're also pleased with the performance of our individual business, which is poised for another year of strong growth through geographic expansion and strategic product positioning. We've grown membership 19% year-to-date compared with 5% growth for the market across our geographic footprint. We are well positioned for additional growth when Medicaid beneficiaries begin to transition coverage later this year, whether members of our own Medicaid health plans or with coverage elsewhere.

Medicaid membership growth continued in the first quarter as eligibility redeterminations remained on hold. In alignment with CMS requirements and state guidance on renewal processes, we have begun outreach to members to drive awareness about Medicaid redeterminations. We are taking an omnichannel approach to our work, supported by already set for new campaign, ground game educational activities as well as our innovative digital decision support tool.

Through this mobile-friendly web-based platform, we provide personalized guidance for consumers regarding their coverage options and eligibility for additional state and federal benefits based on answers to just a few quick questions. The support tool goes beyond traditional health care to include access to healthy food, child care and housing credits, alongside guidance on how to enroll.

Most importantly, it will allow us to reach all affected consumers who are in need of assistance to maintain access to care, whether or not they are members of our health plans today. This approach positions Elevance Health distinctly in the market, and our deep local roots provides a strong understanding of the unique needs of our communities, alongside a diversified portfolio of solutions spanning Commercial, Medicaid and Medicare coverage, we are uniquely well positioned to ensure access to quality health care.

Medicare posted strong growth in dual-eligible special needs plan and group members, which more than offset slower growth within individual Medicare Advantage. As we stated at our investor conference last month, Medicare Advantage is a strategically important market for Elevance Health over the long term. And we were pleased to see CMS move to phase in the risk model revision it had proposed in the 2024 advance notice.

This will provide time to help the industry adapt to the changes. Across all of our businesses, the transition to value-based care is a critical imperative and we continue to make progress working closely with care providers in our network including by integrating directly into their workflow processes through their own EMRs. Today, we are actively working with multiple leading EMR providers, including Epic, to establish bidirectional data exchanges with care providers that enable seamless prior authorization processes initiated directly within Care providers EMR workflow.

With this connectivity, our clinical staff can also review patient records and find the information they need to authorize care. In addition to accelerating Care approval processes for consumers, this is resulting in substantially fewer requests for additional clinical information and significantly lower provider appeal rates. Recently, we published our first advancing health together progress report, which summarizes how we are promoting whole health by contracting for outcomes, collaborating for success and connecting for health.

The report outlines our approach to make meaningful, measurable progress towards that goal by partnering closely with care providers to make whole health a reality, one person at a time. We encourage you to view the report, and we expect to provide annual updates on our progress towards achieving our 2027 target of having at least 80% of our consolidated benefit expense in value-based care with at least 40% in downside risk.

While social factors like Whole Health and HealthEquity will remain core to our business, we are also committed to strong governance and sustainability practices, especially those that drive better health outcomes and results in long-term value creation. We continue to receive strong recognition for our efforts and are proud to maintain sector-leading ratings from 3 of the most prominent ESG and corporate governance research, ratings and analytics firms.

To learn more about how our social and environmental impact work supports our enterprise strategy, we encourage you to reference our recently released impact report for 2022. Now I'd like to take a moment to thank our more than 100,000 associates for the important work they do every day on behalf of the members who we are privileged to serve. Our commitment to improving lives and communities is unwavering, and it extends to our own associates. And we were pleased to be recognized for the third consecutive year as one of Fortune's 100 best companies to work for in 2023 and to be chosen by Fortune as one of America's most innovative companies.

We will continue to prioritize culture and talent in pursuit of achieving our vision for Elevance Health. In conclusion, we are pleased to have delivered a strong start to the year, as John will discuss in more detail in a moment. The balance and resilience of our enterprise will be key in 2023. We are confident in our ability to meet our commitments and remain focused on being a lifetime trusted health partner for those we are privileged to serve.

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

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

Thank you, Gail, and good morning to everyone on the line. As Gail mentioned earlier, we reported strong first quarter results, including GAAP earnings per share of $8.30 and adjusted earnings per share of $9.46, representing growth of approximately 15% year-over-year. Our first quarter results reflect the continued execution of our enterprise strategy as we continue to optimize our mature businesses, invest in high-growth opportunities and accelerate the growth of our enterprise through Carelon, all in service of becoming a lifetime trusted health partner.

We ended the first quarter with medical membership of 48.1 million members, an increase of nearly 600,000 in the quarter and over 1.3 million year-over-year. Risk-based membership grew by approximately 1 million members year-over-year, driven by organic growth in Medicaid and Medicare Advantage, dual-eligible special need plan and group members.

In our Commercial business, our individual membership grew by 124,000 lives or 15% year-over-year and by 19% year-to-date, driven by geographic expansion and strategic product positioning that should enable additional growth when coverage shifts related to Medicaid redeterminations begin later this year. Membership momentum in these areas was partially offset by attrition in our Commercial group risk business, which we expected as a result of the pricing actions we took on January 1 renewals to better reflect our post-pandemic cost structure and optimize the business for sustainable economics long term.

Our fee-based business grew by approximately 370,000 lives year-over-year on top of a record selling season in the first quarter of last year, driven by strong retention rates and another solid national account selling season and with growth in BlueCard members. Overall, these results reflect balanced growth and strong momentum in our diverse Health Benefits business, and we believe that our well-balanced portfolio of offerings will serve us well when Medicaid beneficiaries begin to transition coverage in the coming quarters.

As we discussed at our investor conference last month, growth in medical membership translates to growth for Carelon, which continues to grow both organically and inorganically through expanding the scale and scope of services it provides to our own and other health plans. Carelon's momentum continued in the first quarter, evident in its top line growth of nearly 18% and margin expansion that allowed operating gain to grow by nearly 21%.

Now before discussing our first quarter results in more detail, I'd like to spend a minute on our adoption of the new GAAP accounting requirements for how insurance companies account for long-term future policy benefit liabilities and deferred acquisition costs. For us, this new accounting requirement impacts our Medicare supplement plans. We adopted the new accounting guidelines for the long duration targeted improvements at the beginning of the year and embedded the new approach in our initial 2023 guidance.

The change does not impact our previously reported cash flow, our current cash position or our business strategy and will not materially impact future operating results. However, the new accounting pronouncement required us to restate prior year results. In the GAAP reconciliation table at the end of our press release, we have shown the isolated impact of the new accounting policies on our first quarter 2022 earnings, which we consider to be immaterial.

First quarter operating revenue of $41.9 billion, increased approximately 11% year-over-year. Growth was driven by higher premium revenue in Medicaid and Medicare, premium rate increases to cover overall cost trends and strong top line growth in CarelonRx and Carelon services. The medical loss ratio for the first quarter was 85.8%, an improvement of 30 basis points year-over-year, driven by premium rate adjustments in our Health Benefits business to more accurately reflect our post-pandemic cost structure.

Our first quarter operating expense ratio came in at 11.5%, flat relative to the first quarter of 2022. Operating gain for the enterprise grew approximately 16% year-over-year in the first quarter as Carelon grew over 20%. And the Health Benefits delivered strong growth in the mid-teens percentage range on double-digit revenue growth and margin recovery of pandemic-era lows as we had expected.

Turning to our balance sheet. We ended the quarter with a debt-to-capital ratio of 40.5%, up from 39.9% at year-end 2022. The increase was due to debt raised during the quarter, a portion of which was used to fund our acquisition of BioPlus, which closed in February and refinanced a debt maturity. During the quarter, we repurchased 1.3 million shares of our common stock at a weighted average price of $476.66 for approximately $622 million.

Days in Claims Payable ended the first quarter at 46 days, a decrease of 1.5 days sequentially and 0.9 days year-over-year. Declines in DCPs were primarily driven by mix. With the Omicron COVID surge in the first quarter of 2022 and COVID claims generally having a longer cycle time than our overall average, DCPs were elevated a year ago. Medical Claims Payable also included nearly $400 million more of provider pass-through payments related to Medicaid in the first quarter of last year compared to the first quarter of this year.

Excluding provider pass-through payments from both periods, our Medical Claims Payable would have grown by 10.1% year-over-year compared with 9.4% growth in premium revenue. As a reminder, we expect our Days in Claims Payable to be in the low 40% range long term. Operating cash flow in the first quarter was $6.5 billion, including the early receipt of a month of premium revenue from CMS. Excluding it, operating cash flow was $3.5 billion or 1.7x net income.

Overall, we are pleased with our first quarter performance and the strong start to the year. Momentum in our Health Benefits and Carelon businesses bolsters our confidence in delivering another year of growth in adjusted earnings per share, consistent with our long-term target compound annual growth rate of 12% to 15%. Given the strong start to the year, the balance and resilience of our enterprise and the momentum we have in each of our business segments, we have raised our full year outlook for adjusted earnings per share to greater than $32.70.

As we look to the rest of 2023, our focus will remain on execution of our strategy and demonstrating that we have the best catchers met in the industry. We will continue to optimize our mature businesses, invest in high-growth opportunities and accelerate the growth of our organization through Carelon.

And with that, operator, please open up the call to questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from Justin Lake with Wolfe Research.

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

I'll use my question on the DCP discussion thing, given it's a pretty important topic going on across the industry right now. So John, you talked about seasonality impacts. You talked about type -- different types of claims driving a little bit lower DCP. And then you said low 40s is where we're going. Now over time, I think everyone in -- every managed care investor looks at DCP and thinks of it as quality of earnings metric, right? When it's going up, it's good and down, it's bad, right?

And typically, you just think that there's more or less reserving going on. I know there's a lot more to it. So maybe you can tell us what's been driving your DCP lower recently beyond what you talked about already? And how are we going to get to the low 40s, meaning, is it going to be for lower reserving? Or is it going to be the kind of mechanical aspects? And over what time period should we expect that to kind of normalize?

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

Thank you, Justin. And I do appreciate you're taking your question or maybe I should say questions on DCP. But yes, our DCP is down by 1.5 days quarter-over-quarter and 0.9 days sequentially. And there's a lot of things that go into that calculation all the way from the number of days and the denominator can change on a quarter-over-quarter basis to various other aspects. I'll just state at the outset that our DCP will not get lower by reducing reserves. We have a very consistent and conservative methodology associated with our actuarial team.

And in terms of coming up with reserves, those reserves are consistent here at March 31 as they were at December 31 and that there is no benefit to the income statement associated with this drop in DCP. So having that behind maybe talk a little bit about some of the mechanics that you asked about. We have a mix in the type of claims is obviously very important. And you look at a year ago, we were in the midst of the Omicron surge with COVID. COVID claims had a longer cycle time than other claims do. That had been the case through the entirety of the pandemic.

And when you have a claim type that takes longer, both for the provider to bill us and for our adjudication process, the cycle time becomes longer, DCP just mathematically becomes a little bit inflated. And so with COVID being so much less in the first quarter of 2023 than it was in 2022 or 2021 for that matter, that cycle time is really very important, and so you see a drop.

On reserves, and I made this comment in the prepared statements, but I think it's really important. On the reserves, we have these retrospective provider pass-through payments that we get from our Medicaid partners, Medicaid states. And the amount of those reserves as of March of '23 are $400 million less than they were at the end of March of '22. And if we pulled out from the calculation from our reserves, these pass-through payments, which passed through by definition, have 0 impact on net income.

Then you would be able to see that our Medical Claims Payable balances have grown 10.1% year-over-year compared to a 9.4% growth in premium, further showing that our reserving methodologies are conservative and our reserves are still very, very strong. So in terms of how long it's going to take to get to the low 40s, be another few years. And there's any number of constructs that could -- will occur. But we are starting to see payment cycles more consistent with pre-pandemic era payment cycles. And as those things are fully baked into the numbers, you should expect DCP to tweak down as a result. So thank you very much for the question and the opportunity to clarify all that.

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

Yes. Thanks, John, and thanks, Justin. And I just want to reiterate what John said because I think it is a really important question. We feel we had a really strong start to this year and that, again, reiterating that DCP [didn't] impact earnings. And as you think about all the factors John talked about really is the mix and the longer tail of COVID claims and entering a more reasonable payment cycle.

So thanks very much for the question and the opportunity to provide a little more perspective there.

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**Operator**

Next, we'll go to the line of A.J. Rice from Credit Suisse.

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

MLR was right in line with expectations on a consolidated basis, at least Street expectations, 30 basis points better year-to-year. Can you comment on any trends you're seeing underlying that with both respect to service categories, areas of care management that are pluses or minuses? And as you look at your MLR guidance for the full year, any changes in your thinking about the rest of the year there?

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

No, thank you for the question, A.J. We're certainly very comfortable with our MLR guidance and really pleased to report a first quarter medical loss ratio of 85.8%. And maybe reiterating what I stated at Investor Day, the overall cost structure and the overall trends are very much aligned with our expectations, consistent with our pricing methodologies and consistent with our thought process. Now those trends are slightly elevated from what cost trends were pre-pandemic level.

But as I said, they're exactly in line with our expectations and exactly aligned with our pricing methodology. So our MLR certainly has improved from the first quarter of '22. And I think you can see that coming through in the Health Benefits segment margins. But we're pretty comfortable with where trend sits right now compared to our expectations.

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**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*

Could you talk a little bit about cross-sales in the quarter, in particular, I was interested in PBM cross sales and into your self-insured block? And then just in general, what your product strategy is with respect to self-insured as you're looking at your bundling in of some of your services businesses there?

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

Yes. Thanks for the question, Lance. I'm going to ask Morgan Kendrick first to talk a little bit about our fee-based business and then probably, Pete, to share what's happening in Carelon because I think you hit on a really important point. One, the improvement of services that we're selling through to Commercial, it's been a strategy for a number of years, and we've made some nice progress, as you've seen just in the percentage of premium going up and the profit per member.

And then obviously, Carelon is a big part of that, not just with the PBM, but Carelon Services. So Morgan, pleased to share.

**Morgan Kendrick**

Lance, thanks for the question. When we think about the fee-based business, we've had a really, really strong run in the past several years. And I think that goes back and speaks to the health and the value that we're driving to the market, especially to the employers who are actually spending their own money. To your point, Carelon is a big, big piece of it. We had a really nice selling cycle this year, in fact, with the pharmacy business.

We didn't see very many jumbos in the medical side. So thus, that was sort of absent from the actual Rx percentage as well for us. But nonetheless, we're seeing more and more attraction to this idea of the whole integrated delivery model of pharmacy medical together and the value that it's delivering. Secondly, you think about the other products that are working with Carelon on, whether it's the Behavioral Health, whether these are sort of the incentive programs around payment integrity and bill review, things of that nature, they are really important to our self-funded customers, that continues to see very strong growth and attraction from the market.

That said, at the end of the day, Pete's team and my team are working together to build for purpose things that create value in the market. And again, I'll anchor back to the 3 things that Gail mentioned in the beginning in her opening remarks. The market is keenly focused on affordability, experience and simplicity. And the more that we can pull together, the better it's going to be for our markets. And I think the connection here between Carelon and the Commercial fee-based business is strategically critical to that, continuing to drive growth.

Pete, I'll turn it to you.

**Peter David Haytaian** - *Elevance Health, Inc. - Executive VP and President of Carelon & CarelonRx*

All right. Thanks, Morgan. And thanks for the question, Lance. I'll start with the pharmacy and then I'll go to the services side of things. But as Morgan said, the integrated offerings that we're selling is really resonating in the marketplace. I think our economics are perceived today as being very strong. And we continue to see momentum, and we talked about this in the 10,000 or below segment where Morgan and the business have a lot of strength on the Commercial side of the business.

We've seen RFP activity, quite frankly, be up in '23 year-over-year. And another thing that I'll say is that I'm pleased with is retention is improving overall. So that's a really good thing. We're working closely with Morgan right now on the '24 selling season that has begun. The pipe is building. I would say that we're very interested in niche opportunities, again, where our Commercial business has a lot of strength.

So for example, on the labor side as well as with TPAs. So we see continued a lot of opportunity in sort of either niche opportunities or that 10,000 and below. As it relates to Services, as Morgan said, we're really building off of where we started. And Gail mentioned in her prepared remarks, things like the post-acute care offering, that's a great example of where we started in Medicare, and we're really expanding that now into Commercial and expanding it not only with for post-acute care services, but the things like durable medical equipment as well as social determinants of health.

And then in our medical benefits management business, formerly known as AIM, we are in-sourcing a lot of critical services that we're deploying and cross-selling into Morgan's business, things like genetic testing, oncology. So there's a lot of areas that I think are very important to Morgan on the Commercial business that we're driving through over the next year. So I appreciate that question.

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

Yes. Thank you for the question. I would just offer one additional proof point. We've shared this before, which is the customers who are single sourcing with us that we have many times shared multiple carriers, and we've done 23 of those over the last few years. And I think that's another good example of our ability, not only to consolidate medical but also to sell additional services, and it shows the value that we're bringing to the market. So again, just another quick proof point on ability to cross-sell.

**Operator**

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

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

Having had a little bit more time to work through the 2024 and a rate update and the RADV rule, are there any incremental thoughts you can offer on the rate impact to Anthem's plans specifically and the extent to which the risk rebating and audit could impact physicians' willingness to take risk within the Carelon partnerships?

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

Thanks for the question, Ben. And I guess, first, I'll start and then ask Felicia Norwood to provide some perspective. First and foremost, we were pleased to see that CMS moved to phase in the risk model in the final notice. That will give us time all in the industry and with care providers to adjust. So as you know, we're in the midst of the ['24] bids. So we won't talk a lot about that, but I'll ask Felicia maybe to share a little bit more perspective on everything.

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**Felicia Farr Norwood** - *Elevance Health, Inc. - Executive VP & President of Government Health Benefits*

Ben, and thank you for that question. As Gail said, we're certainly pleased with the phase-in of the risk model changes. This will give us the opportunity to smooth the impact to beneficiaries as well as the providers who serve them. Medicare Advantage for us strategically is a very important business long term, and we will continue to be very focused on trying to make sure that we have a Whole Health approach and HealthEquity around certainly individuals who participate in this program significantly who have low incomes and are certainly very much underrepresented.

As I've said before, the individuals in this program, over 40% have incomes less than $25,000. And when we take a look at our opportunity around drivers of health and supplemental benefits, it's important that we're able to balance all of these things as we take a look at our bids for '24 as well as what we need to do with our provider partners long term.

With that said, we certainly don't believe that we are disproportionately disadvantaged by any of the changes here relative to our competitors. And as we think about our strategy for 2024, we will continue to be very focused on how we grow this very important business for us and equally important, how we continue to deliver value for those that we're privileged to serve.

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**Operator**

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

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**Lisa Christine Gill** - *JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst*

I really wanted to go back to your primary care strategy. Gail, when you made your initial comments around Carelon and Carelon Services, you didn't talk about that. I was just wondering if maybe you could give us an update on the relationship you have with Alidade or other areas that you're thinking about as you continue to build on value-based care and relationships with primary care doctors?

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

Yes. Thank you for the question, Lisa. I think understanding our overall care provider strategy, it's really important that it's, first and foremost, critical to how we think about our Health Benefits business. And again, you said it at the beginning of the comments, it's about driving greater value-based care and importantly, increasing the amount of downside risk that we're going to share with providers.

A couple of weeks ago, we shared with you, as you know, at the investor conference that our goal is to get to 80% of our consolidated health care reimbursement and value-based care by '27 and 40% downside. And again, we're sitting in the mid-60% right now and a little bit varied by business. But again, as you are thinking about our strategy, you mentioned -- and a few others, that's just one piece of it. It's important that we're trying to solve this for all lines of business and across multiple geographies.

And so for us, we want it for Commercial, Medicaid and Medicare. So one size model isn't going to fit all for us. With respect to Carelon, what we're building and investing in our new enablement capabilities and those are going to allow us to accelerate the management and take more whole person risk from a variety of structures, quite frankly, not just through primary care.

And again, I guess I would like to point out what's different about how we're thinking about scaling and leveraging what Carelon has and building across that continuum is that we really see a huge opportunity to enable and integrate specialty for the chronic and complex. That's an area you just heard Felicia talk about the dual population. It's a big population for us, specialized populations in Medicaid. And they're a huge part of benefit expense, and we think that's an area that has been under sourced quite frankly.

So as we think about it, yes, we are in partnerships. As you mentioned, some of those, they're important. They're helping us grow. But it's only one piece of our broader strategy, which, again, is to drive value-based care in our markets. And so we do see this as a big opportunity to drive both more consistency in our Health Benefits business, but also importantly drive operating gain and earnings inside of Carelon as we increase our capabilities.

So a little bit different than just primary care focused. I think much broader than that and how we're thinking about the overall strategy. Thanks very much for the question.

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**Operator**

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

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

Was interested maybe if you could drill in a little bit more on the post-acute care expansion in terms of where exactly things stand in terms of the scaling of that across the platform after the first quarter and then the timing on how you see that rolling out across the client base across Medicare and Commercial? And to the extent maybe just share some of the latest outcomes around that in terms of the key deliverables that you're driving for your clients on that?

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

Sure. Thanks, Scott, and I'll have Pete Haytaian address your questions. Thank you.

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**Peter David Haytaian** - *Elevance Health, Inc. - Executive VP and President of Carelon & CarelonRx*

Thanks, Scott. As we talked about, and Gail mentioned in the prepared remarks, we're really excited about this product offering. I talked about this at Investor Day, but we started on this journey a year, maybe 13, 14 months ago, we were able to fully implement this and finalize the implementation of this in the Medicare business in the first quarter. And that was with respect to the core post-acute care offering.

And as we talked about, we are now expanding that with respect to durable medical equipment and social drivers of health. That will happen throughout this year. We are also expanding these services in terms of post-acute care into Medicare and Medicaid, and that will flow through this year and into next year. So there's a lot of runway still internally to drive these services.

In terms of your question on key metrics and performance, that also is something that I'm very excited about. I mean, again, what we're trying to really do here is create a differentiated experience for post-acute care providers. So when they are in need of services or approval of services, they're dealing with technology in a portal that's differentiated, and it's a streamlined service so that they can get the approvals they need in the most appropriate fashion.

And as we're looking at the different levels of post-acute care, we're seeing our performance play through and meet our original objectives. And that is that where appropriate, going to the appropriate levels of care and sites of care and then ultimately into the home, where cost and quality is most effective. And so we look across a series of metrics in that regard, and we're very pleased at the progress we're making.

So in terms of the core product and the performance, very good in terms of the expansion opportunity into other lines of business, that will happen over the next year into '24.

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**Operator**

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

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

So just a quick question here on your overall Commercial membership. Aside from the impact from the repricing strategy that you've talked about for a while now on the risk book, I think it's also kind of noteworthy that U.S. unemployment hasn't really increased so far in '23. I guess when thinking about both the commercial risk and the fee-based book, just wanted to get your thoughts on the just seeming lack of negative macroeconomic impact on the Commercial membership year-to-date at this stage? And whether that could create any sort of upside bias on the overall Commercial membership? I know redeterminations are a big factor at around this year, but just curious on the macro view from your perspective.

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

Yes. Thanks for the question, Steve. I'll ask Morgan to provide a little more color. But I guess I would say, if you look at the history of our business, we've had a pretty resilient book of business, both matched a little bit heavily -- more heavily to Government business, but we, quite frankly, diversified that and see nice growth in the Individual, which you mentioned.

From the employer perspective, I would just point to 2 things. One, we continue, as Morgan said, around those 3 areas of experience and value, affordability to really drive, I think, a distinctive offering in the marketplace. So that served us well, certainly in the fee-based business, but also BlueCard. The Blue system overall, our BlueCard numbers are up, and that shows the distinctive value we add in our networks across the entire system.

So I think that's another -- in a recessionary, whatever kind of environment that you might think about, we actually, I think, managed quite well because of distinctive value, and we're continuing to innovate our products. But I'll ask Morgan maybe to add a little bit more color on how we see in the marketplace.

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**Morgan Kendrick**

Steven, one thing to sort of camp on to Gail's comments there. When you think about our business, we're -- as she indicated, we're certainly not very indexed, so to speak, in the hospitality industry, the tech industry. To Gail's point, it's more Government business and when you think about our downmarket business in particular. It's -- I don't like to use the word resilient, but it certainly is to a degree more so than others that have a different focus of the business.

When you think about the recessionary times being negative, of course, it's interesting because the market tends to gravitate to certainty. And I think that's what we're seeing. When we're seeing employers consolidate benefit decisions into single vendor, when employers were having all-time high persistency rates, not only upmarket, but also down market, certainly experienced attrition in the risk-based business downmarket, which was purposeful as we written that book, but feel really good about the progress that we're making and feel really good about the way the assets are being seen and resonating in the market with our customers.

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**Operator**

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

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

I wanted to follow up on A.J.'s question on utilization. Could you talk about how you expect cost trends to develop over the course of the year? And I guess we've seen some data points on increases in procedure volumes. And at the Analyst Day, you had talked about cost pressure from the new GLP-1 drugs. I guess, are you comfortable that if we continue to see higher utilization in areas like these that it would be captured within your MLR guidance for the year?

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

Yes. Thank you, Nathan. Appreciate the question, and I'll start with the end of your question first. We are very confident that the utilization trends that we are seeing are captured on our MLR guidance for the year. So that is not an issue at all as we sit here today. In terms of some of the cost pressures, I said there are cost pressures and there are a lot of areas that are doing better than we had anticipated.

On the GLP-1, that's been talked about quite a bit. We've got a lot of protocols in there. I do want to make sure people are clear that GLP-1 is both weight loss and diabetes. And for weight loss, we do not cover weight loss drugs with the exception of a few states where it's required by state law. So that's not really has ever been part of the conversation and was never part of any of the commentary. I just want to make sure everybody was clear on that.

And then in terms of the diabetes drugs, certainly, we want to make sure that people who have diabetes that need access to those drugs are getting access to them, but to have the appropriate protocol so that they're not utilized for purposes that are other than medical necessity for diabetes-type folks. And on the other side of the equation, we're still seeing very good trends maybe in terms of ER is still below pandemic era or pre-pandemic era levels.

We've got -- COVID is actually a bit less than we had estimated at this point in time. We had a more mild flu season. The timing of when we pay for the vaccine Serum in terms of the boosters has now been pushed out later in the year. There are many, many, many estimates that go into trend. Overall, we are very comfortable with where we sit today.

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**Operator**

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

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

I wanted to go to redetermination with that upon us. You talked about working with the states very closely for several quarters now. At the Investor Day, we were involved in some discussions where there was a little bit more detail offered around states prospectively estimating changes in the risk pool from redetermination and factoring that into rates. And so that seems a little bit more supportive, I guess, of margin prospectively and something we would be -- need to be less concerned about as this evolves and the risk pool changes.

I wondered if you could add some color to that and perhaps talk about what the composite rate looks like, how much higher it is than normal as a result of that type of activity?

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

Thank you, Dave. I'll start out with just addressing the acuity factor is what you were describing, which is now part of a standardized Medicaid rate renewal process associated with what the belief is the acuity of the population will be that is covered, which is different than what existed in 2019. And so we feel very good about that. The acuity shifts are now a standard input into the actuarial rating models.

And as I said, that was not the case in 2019. We -- this has started here already in 2023 in January. We work very closely with our state partners to ensure that we have actuarially justified rates. And since the acuity factors part of that actuarial assessment, we feel very, very good about it. In terms of the exact percentage, that's not something that we're going to talk about here publicly. Each state is different. Each state has its actuaries. We have our actuaries.

We have had very, very good success at having the meeting of the minds with the vast majority of our states in terms of actuarially equivalent rates. So we feel very good about it. But nothing really has changed in terms of our ability to hit our numbers for the rest of the year and where we think really are great catchers met that we have positions us well for Medicaid redeterminations regardless where the members end up going to seek health insurance coverage.

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

Thanks, John. And maybe I'll ask Felicia just to give a little bit of perspective on what's happening with redetermination because the process has started, but it's fairly early in the process. So Felicia?

**Felicia Farr Norwood** - *Elevance Health, Inc. - Executive VP & President of Government Health Benefits*

Yes. Thank you, Gail. And Dave, thank you for the question. As we talked at Investor Day, we've been hard at work at this for some period of time with our state partners, all with the goal of trying to make sure that those individuals who have had access to health care coverage continue to maintain that access, whether or not that's on the Medicaid side or certainly on the Commercial side and an exchange product.

So as we think about where we are today, our teams are engaged in almost weekly meetings with our state partners. We have been advancing a lot of thought leadership around outreach and contact with members, being able to shore up administrative processes around addresses, making sure we're able to reach out to members wherever they are and also being able to have processes that help to provide a seamless transition where possible between our Medicaid business and then what happens on the Commercial side.

We're very fortunate of the collaboration we've had here with Morgan and his team, and I think that positions us well for how we capture members as they move from Medicaid over to a Commercial product. Gail mentioned earlier, our Ready Set Renewal campaign, the mobile initiatives that we've developed, all trying to meet members wherever they are in this process and then have the ability with our state partners to be able to align around the kinds of ways that we can outreach to Medicaid members in ways that we haven't done before.

So we feel fully prepared. We are pleased to see the engagement of beneficiaries as they are reaching out to understand what this process means for them, ultimately with the goal of trying to make sure that we continue coverage for as many of those individuals as we possibly can. At the end of the day, we have strong collaboration with our states at this point. Great visibility in terms of how we are positioned around trying to maintain actuarially sound rates through this process and being able to work closely as we move through redeterminations, albeit early, but very vigilantly and diligent with our state partners as we move through this over the next 12 to 14 months.

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**Operator**

Next, we'll go to the line of Kevin Caliendo from UBS.

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**Kevin Caliendo** - *UBS Investment Bank, Research Division - Equity Research Analyst of Healthcare IT and Distribution*

Really appreciated the answer on the DCPs. And I guess just in the commentary that trend is normal and you're not really seeing anything extraordinary there. I guess my question is why are MLRs not really beating anymore. We're hearing trend is normal. We understand Days in Claims Payable and why they're coming down. It just feels like the risk to MLR right now is greater.

Is there -- is it a pricing issue? Is it a mix issue? Is it just that this is the new normal, and we're sort of back to where trend and pricing are much more similar, and maybe we just got spoiled through the years of COVID?

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

Thank you for that question, Kevin. And I guess the first thing I really do have to say is we feel very good about where MLR came in and where trend came in, and it actually was a bit better than our expectations. So when I look at what we have been projecting as of the beginning of the year, our [85.8%] (corrected by company after the call) is actually positive to those expectations.

In terms of pricing, our goal is always to price to cover forward trend and then to guide that way. We had said that for Commercial that there were some underlying cost structures associated with COVID that we needed to ensure that our pricing reflected not only forward trend, but also that so that our total pricing reflected the overall cost structure. I think we've done a very, very good job now here at the end of the first quarter of really trying to get -- hit that sweet spot of pricing to really retain a nice large cohort of our membership as well as to see the margin expansion.

So we actually feel very, very good about where the results are and do believe that we're a bit better than we had anticipated even 90 days ago.

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**Operator**

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

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**Kevin Mark Fischbeck** - *BofA Securities, Research Division - MD in Equity Research*

Wanted to ask about the exchange presence. Obviously, you're growing that well, expanding into markets. The market always loves growth, but then there becomes a time when growth could be too much growth. So I wanted to get a little more color on kind of how membership or equality data you have around? What that performance looks like so far? And then how you're thinking about the risk profile of the redetermination population back on to the exchanges? Is that something that you think would have a normal margin, a higher margin or lower margin than the exchange business overall?

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

Yes. Thanks for the question, Kevin. I'll start and then ask Morgan to share his perspective. I think one of the things about our presence in the exchange marketplace is that we've been very consistent around sort of where we started. We've always been in that business. Quite frankly, we've never lost money in that business. So we've been very careful about the expansion, and we've done it, I would say, on a very paced way.

So over the last several years, we've added counties as we've understood them, recontracted, make sure the network was specifically curated. I think we've done a nice job of understanding the risk adjustment mechanisms and all of those things. So in total, as we -- this year added more counties, that was a very paced and understood expansion. So we feel very good about it, quite frankly. We feel very good about the performance profile of the members in there because we have a really good handle on who they are and kind of what our expectations are.

And as they come in from Medicaid, obviously, we know the Medicaid profile as well because we're big in those states, too. So I guess my answer would be, look, we aren't someone who just came into the exchanges and one big fell swoop and wanted to make a big hit 1 year. We've had a very paced and measured progression of both our growth as well as our expansion, so feel very good about that. But maybe Morgan, if you want to add a couple of more comments about that.

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**Morgan Kendrick**

Kevin, thanks for the question, and Gail. I don't know there's a whole lot to add. Back to the comment around pace and sustainability of the business, Kevin. We took this very measured approach, certainly, looking at Medicaid redeterminations, we sort of wanted to make sure we were expanding into the areas where we could serve as many members as we could in our 14 geographies. That said, the interesting thing about this cycle, we had a lot of ins and outs in the market with competitors that had come in and then left.

So it left a lot of movement in the market that perhaps ordinarily wouldn't have occurred. So back to Gail's comments, we feel good about where we're positioned. We feel good about the economics behind it and are positioned well for when redetermination begins.

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**Operator**

And for a final question, we'll go to the line of Stephen Baxter from Wells Fargo.

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

I was hoping to get a quick update on how the Government business performed in the first quarter. I think you previously had talked about Medicare Advantage as being a margin tailwind year-over-year for 2023, but I didn't necessarily see that in the release or the prepared remarks as a driver on the MLR line. So I just want to understand that a little bit better.

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

Yes. Thanks, Steve. I appreciate the question. And as you think about the -- some of the tailwinds that we have in 2023, it certainly includes the repricing of Commercial to better reflect the overall cost structure. We're still doing fine in Medicaid. And then as you pointed out, the Medicare Advantage, we now have a higher percent star revenue than we did the year before, and our risk-adjusted scores are getting back to more normalized levels.

So it definitely is one of the tailwinds that we are -- that we do have for 2023. So the fact that it wasn't in the prepared comments, don't read anything into that specifically other than to say that it's really -- it's a very good line of business. It can be a growing line of business for us over the next several years, and we feel very, very good about how well positioned we are. And then with the 3-year phase-in of the rate notice, I think we can certainly manage through that as well. So Medicare Advantage continues to be a very important line of business for us.

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

Yes. And thanks for the question. Thanks, John. And overall, I guess, reiterate we do feel the Government business performed better than expectations. So we feel very good about to be specific to your question.

Now I'd like to close by saying thank you. We're pleased to have delivered a strong start to 2023, and we're confident that the ongoing execution of our strategy positions us to continue delivering against the financial targets that we shared with you at our investor conference last month.

Through a steadfast focus on Whole Health and our diverse and expanding suite of products and solutions, we will continue to meet the needs of consumers, customers and the communities that we serve, advancing our strategy of becoming a lifetime trusted health partner. We'll keep executing with focus 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 11:00 a.m. today through May 19, 2023. You may access the replay system at any time by dialing (866) 361-4942 and international participants can dial (203) 369-0190. This concludes our conference for today. Thank you for your participation and for using Verizon conferencing. You may now disconnect.