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# EDITED TRANSCRIPT

ELV.N - Q2 2023 Elevance Health Inc Earnings Call

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**OVERVIEW:**

Company reported adjusted earnings per share of $9.04, adjusted earnings per share of $32.85, Operating cash flow of $2 billion, operating cash flow of $4.9 billion.



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## PRESENTATION

**Operator**

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

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

Good morning, and welcome to Elevance Health's second 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; 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.



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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 are pleased to share that Elevance Health delivered strong second quarter results driven by solid execution and continued progress towards our strategy of becoming a lifetime trusted health partner focused on the whole health needs of the consumers we are privileged to serve.

Second quarter GAAP earnings per share was $7.79 and adjusted earnings per share was $9.04, reflecting double-digit growth year-over-year. As a result of the strong performance in the first half of the year and momentum across Elevance Health, we are increasing our adjusted earnings per share outlook for the year to be greater than $32.85.

The balance and resilience of our diverse businesses provides confidence in our near-term outlook, while the earnings power of our Health Benefits and Carelon businesses position us to deliver on our long-term growth commitments.

With respect to the second quarter, our Health Benefits business delivered particularly strong results as we continued to optimize our products, pricing and operations. We are successfully executing against the planned margin recovery of our commercial risk and Medicare Advantage businesses back toward pre-pandemic levels, and we are pleased with the performance of our Medicaid business.

With Medicaid eligibility redeterminations now underway, our teams are working tirelessly to promote continuity of coverage for consumers through an omnichannel approach, working closely with our state partners. Our Medicaid and commercial colleagues are collaborating to educate members and communities on the process through in-person and online events, ensuring members know how to renew their Medicaid coverage when eligible, or enroll in other forms of coverage, including our own individual ACA plans.

To date, we have contacted more than 1.5 million of our Medicaid members. Meanwhile, our web-based digital decision support tool is seeing healthy utilization. The tool assesses eligibility for a wide variety of federal and state programs beyond health insurance to support consumers' whole health journey, including the federal Supplemental Nutrition Assistance Program, state-based programs that assist with food insecurity, housing and childcare programs and more with links that can route consumers to websites where they can enroll in these programs.

More than half of the people using our support tool who qualify for commercial, or Medicare coverage are clicking through embedded links to shop for plans and more than 60% of consumers eligible for Medicaid are clicking through to their state site for recertification. This body of work is especially important since many of the people who have lost access to Medicaid so far are losing it for administrative reasons. We expect many of these consumers will reenroll in Medicaid over time.

Transitions of coverage are not typically immediate, but emerging data points suggest consumers losing Medicaid are starting to transition on to ACA exchange plans. It's still early in the process and our expectations for coverage transitions remain unchanged, our deep local roots and diversified product portfolio positions us uniquely well to meet consumers' needs regardless of age or socioeconomic status.



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Carelon continued to advance its strategy of integrating physical, behavioral, social and pharmacy services to deliver whole health affordably with ongoing investments and capabilities focused on serving people across their entire health care journey, connecting them to the care, support and resources they need.

Carelon Services delivered solid organic growth led by the expansion of post-acute care management solutions with our Medicare health plans, while Carelon Behavioral Health extended its leadership position through multiple external business wins with new and existing customers.

New business awards and successful execution in these fast-growing, high-cost areas of trend underscore the value Carelon provides to health plans and the expanding earnings power and attractive growth profile of the Carelon Services business.

Carelon Rx also continued to grow nicely, while investing in key value drivers, specifically specialty pharmacy and advanced home delivery. Revenue grew nearly 20% year-over-year, and we posted solid operating earnings, while absorbing investments in support of our long-term strategy.

The integration of the BioPlus Specialty Pharmacy is now tracking ahead of schedule, and we expect to begin migrating scripts early next year. Additionally, we remain on track to launch advanced home delivery by the end of 2023. Together, these capabilities will create additional shareholder value, while allowing us to deliver even better consumer experiences in specialty and maintenance pharmacy.

Expanding and more deeply integrating value-based care across the care continuum is foundational to our enterprise strategy. We are making significant progress in many key areas, including maternal health, where we have continued to expand our obstetrics practice consultants and quality incentive programs to additional markets given outstanding early results.

These programs have helped improve timeliness to and adequacy of prenatal care and increased postpartum visit compliance contributing to a reduction in preterm birth of 12% and low birth weight deliveries of 20% in participating Medicaid populations. These programs have driven cost savings per delivery and first year mom and baby costs of 5% to 10%, and we are now offering them in 24 Medicaid and 11 commercial markets across the country.

We are also working with care provider partners to enable acute care in the home, a patient-centered care alternative to traditional care in the hospital that improves cost, quality and patient experiences.

For select patients, acute care at home is safe, improves patient satisfaction and provides high-value care, resulting in approximately a 20% reduction in cost, a 25% decrease in readmissions and a 50% reduction in time spent in bed.

We have partnerships with a number of major health systems in our markets with strong results and have significant interest from other health systems to expand this work.

Connectivity with care provider partners is crucial to supporting our value-based care strategy, and to enabling personalized hybrid and virtual care. We are continuing to expand bidirectional data exchanges between our systems and care providers EMRs. Across 24 markets, we are now connected with over 1,700 hospitals.

In addition to enabling physicians to practice value-based care more effectively, these arrangements have simplified common business practices, resulting in more than 60% fewer requests for clinical information and more than 80% less provider appeals. This has not only enhanced operating efficiency for our clinicians and care provider partners, it has also accelerated care approval processes for consumers.

Automation remains an area of focus and opportunity across Elevance Health and deep data sets like ours are foundational for generative artificial intelligence. Our data is centralized, and cleanse and we are in the process of scaling digital solutions for greater impact and testing the application of new technologies.



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We're harnessing our adaptive artificial intelligence solution to promote identification and access to whole health services during physical health procedures like surgery. Our approach allows us to cast a broad net to perform initial screening for depression and other social drivers of health to ensure we are addressing our members' whole health needs.

Our digital chronic concierge care program is a cloud-based care management platform that connects the patient's entire care management team to triage, monitor and engage with patients through convenient digital channels. Fully digital enrollment, engagement and support alongside key behavioral health components provides members with highly personalized, proactive concierge like experiences, while reducing the overall cost of care for members with chronic conditions.

We're also using large language models to assist our call center agents, improving their efficiency, accuracy and quality. We're excited about these opportunities and the positive impact they will have on consumers, care provider partners and the operating efficiency of Elevance Health.

Guided by our enterprise strategy, we are fueled by a passion for making a positive difference in the world. Accordingly, environmental, social and governance frameworks are embedded in our enterprise strategy. We continue to lead our sector with respect to ESG ratings from 3 of the most prominent corporate governance research, readings and analytics firms, and we were pleased that USA Today recently ranked Elevance Health fifth out of 400 organizations in its inaugural America's Climate Leaders based on core emissions reductions year-over-year and core greenhouse gas reduction.

Before I turn the call over to John, I'd like to thank our more than 100,000 associates for the work that they do every day on behalf of the members, we are privileged to serve, their dedication is what allows us to advance our strategy and deliver strong operating results in service of our bold purpose to improve the health of humanity. Collectively, our passion to improve lives and communities is unwavering.

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 second quarter results, including GAAP earnings per share of $7.79 and adjusted earnings per share of $9.04. We were pleased to deliver another quarter of double-digit growth in revenue, operating income and adjusted earnings per share, driven by the focused execution of our strategy.

Our results exceeded our expectations and the balance and resilience of our diverse set of businesses provides confidence in our outlook. As a result, we have increased our adjusted earnings per share guidance to be greater than $32.85 in 2023, reflecting strong growth consistent with our long-term targeted compound annual growth rate.

We ended the second quarter with 48 million members, up 938,000 year-over-year. During the quarter, medical membership declined by 135,000 members as the majority of our Medicaid states-initiated eligibility redeterminations, while we are still very early in the redetermination process. At this time, we are seeing many Medicaid members losing coverage for administrative reasons.

Many of these consumers will likely reenroll in Medicaid in the near to intermediate term. In fact, many Medicaid beneficiaries who lose coverage for administrative reasons have 30 to 90 days to reenroll depending on the state with coverage retroactive to their termination date.

Meanwhile, we are seeing encouraging early indications that Medicaid beneficiaries losing coverage or transitioning into ACA exchange plans. But transitions of coverage are not always immediate, and our expectation is that commercial membership growth will reaccelerate in the back half of this year and into 2024.

Overall, we believe our prior outlook for coverage transitions remains appropriate. We continue to expect by the end of the initial redetermination cycle that 40% to 45% of net new beneficiaries on Medicaid as a result of the suspension of redeterminations during the public health emergency will stay on Medicaid.



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But most importantly, we are well positioned to provide people who lose Medicaid coverage with alternative plan offerings. We believe it is essential that these individuals have access to quality health care coverage, and we are positioned to meet their needs.

With respect to our membership outlook, please note that a new entrant into one of our state Medicaid programs will result in a loss of approximately 140,000 members in that state in the third quarter. This was known as of last year and was factored into our 2023 planning and initial membership guidance.

Second quarter operating revenue of $43.4 billion increased $4.9 billion or approximately 12.7% year-over-year. Growth was driven by premium rate increases to cover overall trend in our health benefits businesses along with higher premium revenue driven by membership growth in Medicaid and Medicare.

Our services business, Carelon, continues to produce strong results with double-digit top line growth in Carelon Rx and Carelon Services as we continue to execute on our strategy of becoming a lifetime trusted health partner.

Execution of our strategy is diversifying our revenue streams, creating greater earnings power and consistency and enabling us to deliver strong growth regardless of the prevailing economic environment.

The consolidated benefit expense ratio for the second quarter was 86.4%, a meaningful improvement year-over-year driven by premium rate adjustments in our commercial risk-based business to better reflect the post-pandemic medical cost structure, offset in part by a charge we took in the second quarter associated with a court ruling in a certain state holding health plans liable for certain COVID cost, retroactive to the beginning of the pandemic. We strongly disagree with this ruling, and it is currently on appeal, but we recorded the potential charge in the meantime.

With respect to our current performance, we, of course, are closely monitoring utilization and trend factors, which remain consistent with our expectations overall and within each line of business. In the context of our upwardly revised guidance for adjusted earnings per share, we are reiterating our initial outlook for our full year consolidated benefit expense ratio.

Elevance Health's adjusted operating expense ratio was 11% in the second quarter, down 10 basis points year-over-year. The decrease was driven by expense leverage associated with strong growth in operating revenue, partially offset by additional operating expenses in support of growth, as we continue to execute our enterprise strategy.

Operating gain for the enterprise grew 12% year-over-year in the second quarter, led by our Health Benefits business, which delivered double-digit top line growth and strong margin improvement. Operating margin for our Health Benefits business expanded by 50 basis points year-over-year, consistent with our full year outlook, despite absorbing the charge I mentioned earlier associated with the adverse court ruling in a certain state.

Carelon delivered a strong quarter as well, with healthy top line growth for Carelon Rx and Carelon Services. Carelon Rx operating earnings include investments in support of our strategy, including scaling our recently acquired Specialty Pharmacy and the build-out of our advanced home delivery business, which is set to launch later this year.

Carelon Rx also benefited from a favorable out-of-period item in the second quarter of 2022, which had the effect of depressing its year-on-year operating earnings growth rate this quarter. Carelon Services had a strong second quarter, led by organic growth in Carelon post-acute management.

Turning to our balance sheet. We ended the second quarter with a debt-to-capital ratio of 39.6%, in line with our expectations and consistent with our target range. During the quarter, we repurchased 1.4 million shares of our common stock at a weighted average share price of $457.34 for approximately $646 million. Year-to-date, we have repurchased 2.7 million shares for $1.3 billion, pacing ahead of our full year outlook of approximately $2 billion. We expect to remain opportunistic given recent weakness in our share price and the attractive valuation levels offered by the market.

We continue to maintain a prudent posture with respect to reserves. Days in Claims Payable stood at 46.5 days at the end of the second quarter, an increase of 0.5 days sequentially and a decrease of 1.3 days year-over-year. As we disclosed in the second quarter of last year, the timing of



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certain provider pass-through payments and corresponding reserves had the effect of increasing Days in Claims Payable by approximately 1.8 days in the prior year quarter.

Excluding that dynamic, Days in Claims Payable would have increased by 0.5 days year-over-year and medical claims payable would have grown by 11.9% compared with growth in premium revenue of 10.6%.

As a reminder, we continue to expect Days in Claims Payable be in the low-40 range long-term and anticipate normalization towards this range in the coming years, as cycle times shortened, and COVID-related uncertainty recedes.

Operating cash flow was approximately $2 billion or 1.1x net income in the second quarter of 2023. Year-to-date, excluding an extra payment received from CMS, our operating cash flow was $4.9 billion or 1.3x net income. Overall, we are pleased with our second quarter and our year-to-date performance.

As we look to the second half of the year, we are excited for the pending acquisition of Blue Cross Blue Shield of Louisiana, the launch of our Carelon Rx pharmacy, a differentiated digital first home delivery model and the continued scaling of BioPlus, as it prepares to serve more Elevance Health members in early 2024.

Given the strong start to the year, the diversity of our assets in the balance and resilience of our enterprise, we have raised our full year outlook for adjusted earnings per share to greater than $32.85, reflecting growth that is consistent with our long-term target compound annual growth rate. We have consistently delivered on our financial commitments and have the conviction that we will continue to do so.

We will remain focused on the execution of our strategy to become a lifetime trusted health partner by serving the whole health needs of the consumers we are privileged to serve. The better job we do serving our members, the better we will do for all of our stakeholders.

With that, operator, we will now open up 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*

I appreciate the good performance on the medical loss ratio line and that you're benefiting from your repricing in the commercial book, which you've been talking about for a while. You didn't really call out anything as deviating from your underlying expectations relative to Medicare Advantage, commercial and Medicaid.

I just wondered if you would maybe flush that out a little more. Are you seeing any trend changes or anything on the horizon? And how did you think about the MA bids in light of anything you saw there on the utilization front?

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

Thank you for the kind words, A.J., and good morning, everyone. And I really do appreciate the question and the opportunity to provide clarity on these issues. We're obviously very pleased with our results for the second quarter, which is really following the delivery of strong results also in the first quarter.



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And related to your question and the issues on trend, I do think part of the confusion out there is trying to understand what is happening versus what is expected, or what was expected. We've noted previously, when you combine COVID, non-COVID cost, the overall cost of the health care system is more expensive than if COVID had never occurred, something we've been talking about and analyzing and stating for a while now.

So given that fact, we had already included the elevated cost structure into our pricing, into our projections and into our guidance. And quite honestly, this is true for all lines of business within the Health Benefit segment. So if you look at the first and second quarter in particular, there really isn't anything all that surprising for all that different from our overall expectations. Costs continue to be higher than compared to a baseline as if COVID never existed.

So we -- obviously, we're very well positioned. And as you know, based on this morning's call, we raised our guidance by $0.15, the $32.85 per share. And those expectations fall solidly within our 12% to 15% compound annual long-term growth rate target. But I think just as importantly, as you heard in my prepared comments, we reaffirmed our original guidance for the full year 2023 benefit expense ratio. So anyway, thanks for the question, A.J. And operator next question, please?

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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 in Carelon, the combination of where you're getting those wins, the types of organizations you're winning with a self-insured employers or other Blues? And then where you are as far as the build-out of the pharmacy capabilities, the advanced home delivery? And how, if at all, that impacts your recontracting -- upcoming recontracting for PBM?

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

Thanks very much Lance for the question. I'm going to have Pete Haytaian address it, but I think you hit a couple of key areas around Carelon, both Services and Rx, where we feel that we're advancing the strategy that we laid out at Investor Day and feel really good about the progress.

So Pete, why don't you talk about both of those areas?

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

Yes. No, thanks, Gail, and thanks, Lance, I really appreciate the question.

And you know this, we've talked a lot about it, but a big part of our strategy is obviously to focus on managing high-cost, high-trend areas, Gail talked about it today in her prepared remarks, and then obviously capitating risk down to -- through Elevance -- with Elevance Health first in mind. And we are -- part of our strategy was to drive that value through Elevance Health first, and then have that translate externally. And we are seeing that play through very, very nicely.

So I'll give you a sense of quickly what's happening internally, and then Lance to your question how that translates externally. Internally, we're working very closely with the P&Ls, and we continue to accelerate a lot of opportunity. We talked about finalizing the post-acute care initiative this year. That's over 1.2 million Medicare members.

We just launched a new durable medical equipment offering as well with our Medicare business, and we're expanding that to commercial. And in our medical benefits management, which is formerly AIM, we've in-sourced a lot of critical services around genetic testing and things like oncology.



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So a lot of energy around that. And then, of course, the behavioral health, physical health opportunity and assuming full risk on that is a tremendous opportunity as well.

And interestingly enough, we are -- where we're having a lot of success internally, that is actually translating in our external pipeline and specifically with the Blues. As we talk about the Blues and they see us having a lot of confidence and good performance internally in Elevance, they're interested in some of those same solutions.

So I would say at the top of the list, when you look at our pipeline and the growth in our pipeline, the Home Solutions through myNEXUS, now called Carelon post-acute care solutions is getting a lot of visibility. The post-acute care offering that we just launched in our Medicare business internally is also driving a lot of excitement in the pipeline. And I would also say that there is a decent amount of interest in some of the innovations around payment integrity. So I think a lot of opportunity, not only still internally, but that will translate as it relates to the Blues.

As it relates to advanced home delivery and the launch of Carelon Rx pharmacy, the second part of your question. Again, really, really excited about this initiative. And as we've talked about overall for our pharmacy strategy, it's to in-source the strategic levers that really matter. And we're doing that both with obviously what we're doing in specialty and in-sourcing this activity, but I wouldn't look at this as only in-sourcing mail. I would look at it more broadly in terms of what we're trying to do to get closer to the member and differentiate in terms of our experience overall with our consumers.

Think of the capabilities that we're deploying. Number one, this is going to be connected to Sydney, our consumer engagement platform. There's going to be a convenient quick scheduling of medications. If you think about access to pharmacists and how critical that is, we're going to have access to a pharmacist 24/7. So that's a big differentiator.

And then importantly, I think a lot of people know that the experience with mail isn't necessarily always smooth. And so we're going to have an easy view of where delivery stands. And Uber-like experience, quite frankly, so you know where your pharmaceuticals stand in terms of their delivery. So a lot in that regard in terms of really differentiating ourselves on experience, and we're excited about that. And as Gail said, we're ready to launch that headed into 2024.

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

Yes. Thank you, Pete. As you can hear from the excitement, I think, from Pete and all the things we're doing at both Carelon Services and Carelon Rx, there's a lot going on to really build our strategy and, I think, execute on it. And I guess I would just punctuate 2 things that, Pete talked about, one, the behavioral health area. We really see ourselves as a leader in the crisis management area as well as we're seeing a lot of internal or external validity of that strategy.

And I think starting to pull through not just in its historic government business, but also on the commercial side, where they're integrating physical and behavioral in particular, which is a core part of our whole health strategy.

And then on the pharmacy side, again, we're really trying to make sure that the value and strategic levers are coming through, and you heard that and what Pete talked about. So thanks for the question, Lance. And next question, please.

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**Operator**

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

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

First, I just wanted to follow up on A.J.'s question. Just see if you can give us a little color. You're saying trend is above normal and you priced for it. We appreciate that color. Just any kind of incremental that you can give us on how much higher and what you've seen 1Q to 2Q might be helpful?



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And then my question is just take that to the margin side, right? Can you tell us how margins are running versus the expectations coming into the year? I know you had expected improvement in Medicare and commercial and obviously some volatility in Medicaid. Can you tell us how those are running in specifically? Anything on Medicare beyond Puerto Rico is as you've discussed in the second quarter would be helpful? Or how that's trending?

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

Yes. Thank you for the question, Justin, and I'm happy to the follow-up. As I said, I'll start out by reiterating, we did raise our EPS guidance and proactively reaffirmed MLR guidance for the year. So I think that actually has a forward view of trend inherent in it.

But having said that, I'm not so sure that we're really seeing anything that much differently than some other folks have been saying. We've been expecting the cost of health care to be elevated compared to the baseline as if COVID never existed. I'm not going to provide a specific point estimate, but only to say that we've seen it, we price for it, and we've included and factored it into our expectations.

And this is the second time this year we've raised guidance and reaffirming the MLR outlook. So I think we're in pretty good position. Associated with the margins, Commercial is doing very well. I'll start out with Health Benefits in total. That's our Health Benefits segment. Margins improved 50 basis points year-over-year and are on track to hit the guidance of greater than -- improvement of 30 to 60 basis points.

I do want to note, in my prepared comments, I had a comment about a court ruling that we disagree with that we took a charge. Without that charge, the margin improvement would have been higher than the high end of the 30 to 60 basis point improvement year-over-year. So Health Benefits margins are going quite well.

The commercial repricing effort. Medicaid is very much in line with expectations. And Medicare Advantage is actually relatively in line with expectations. Aside from the one geography that had been pointed out that really is not all that material or significant to the overall results of Elevance Health, but it's an area that we're focused on, and it will obviously be improvement opportunities for 2024.

So all in, we are very pleased with our performance and very bullish on our expectations for the rest of the year.

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

Yes. Thanks, John, and thanks for the question, Justin. I think it's important. We've been very consistent all year. We haven't changed our view of how we see MLR and feel very comfortable, as John said, in the guidance that we gave and where we're heading on margins. So thanks again for the question and opportunity to comment. Next question, please.

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**Operator**

Next, we'll go to the line of Michael Ha from Morgan Stanley.

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**Hua Ha** - *Morgan Stanley, Research Division - Equity Analyst*

Regarding Medicaid redetermination. I fully appreciate. I understand how it's too early to really extrapolate any current results. But thus far, number one, how is the acuity mix shift tracking relative to your expectations? Number two, how do you view this enrollment so far? Florida looks positive, but the recent Texas data, does that concern you at all? Number three, with the number of states going through midyear rate renewals, are you seeing acuity adjustments in these draft rates, and would that represent upside to your guidance?

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

I'm going to ask Felicia Norwood, who leads our government business to comment on Medicaid?

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

So Michael, good morning. I appreciate the opportunity to talk about redeterminations where our teams have certainly spent quite a bit of time trying to make sure that individuals who are eligible for Medicaid continue to maintain their eligibility.

So it is still very early. And it's important that we don't draw conclusions based on a few months in because the redetermination cycle is going to extend well into 2024. And with that said, I will say what we have seen so far is certainly relative consistent with our expectations, albeit with a great deal of variability as you go from state-to-state.

At the end of the day, however, we still believe that the guidance that we provided is certainly appropriate. As you know, CMS gave states guidelines to really do this over a 14-month period. But at the end of the day, states are taking their own approach. And some of those have certainly front-loaded or accelerated the redetermination process based on members that they believe are no longer eligible.

As we take a look at this today, we do expect that many of these members will return to Medicaid once we continue our outreach and they're able to provide the documentation to the states that they need. So when we look at where we are today, those members could come back over a 30- to 90-day period and we are very much focused on advocacy with our community-based organizations, our care provider partners to federally qualified health centers, all of those entities that impact our members every single day.

With that said, I will say that some of the front loading that occurred has happened in some of the states where we don't have Elevance Health in terms of a Blue state platform. And so we haven't fully seen the appreciation of our catchers met, but we are fully prepared in collaboration with our commercial partners to be able to do that.

In terms of your question with respect to rates, we are always fully engaged with our state partners in terms of the rate setting process. At this point, we have visibility into almost all of our rates for 2023 and many of them for '24. What we are seeing so far is in line with our expectations. States are certainly taking acuity into the rate setting process that we see and certainly, they have the ability to work collaboratively with us if we see things that they don't see.

But our early read on acuity for our kind of levers versus stayers is in line with the expectations that we've seen so far. So at this point, we feel good about where we are from a rate perspective for 2023. The collaboration with our state partners remain strong. Shifts in acuity are now a standard input into the rate setting process. So we've been very much pleased with how that's going with our state partners, and we will continue to work very strongly to make sure that individuals who are truly eligible for Medicaid continue to have access to coverage, and those who aren't that they are able to have coverage through one of our exchange or commercial-based products. So thank you for the question.

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

Yes. So Michael, as you heard from Felicia, there is a lot there, and there's incredible work across our enterprise going into this. But overall, it's aligned very closely with the expectations we set. So thank you for the question.

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**Operator**

Next, we'll go to the line of Josh Raskin from Nephron Research.

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

The margin pressure in Carelon year-over-year as in the press release was attributed to what was a higher medical cost trends and the nonrecurrence of an out-of-pocket -- out-of-period favorable adjustment last year. Could you just explain the higher medical cost and maybe what specific line items that is, if that's behavioral or Rx or something?

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

Yes. Thanks for the question, Josh. It's Pete Haytaian here. First of all, in terms of Carelon overall -- the Carelon Services overall performance from an operating perspective, we're very pleased. Our team saw a nice improvement year-over-year. And just to be clear, as it relates to our margin profile for the year, we're very confident in achieving the 25 to 50 basis points guidance that we gave in terms of margin improvement over the year.

In terms of the variation there, a lot of this has to do with seasonality and as seasonality continues to evolve, we are sort of seeing differences there. This year, what's different than previous years is we're driving a lot more business through the government business.

So as I talked about in my earlier comments, in terms of the post-acute care initiative with our Medicare teams as well as the durable medical equipment opportunity. These are examples of things where we're driving a lot more business through the government business, and that's translating into earnings really being weighted to the back half of the year. So that's sort of the differences.

In terms of the onetime issue, I think you're probably referencing pharmacy. And in the case of pharmacy, again, to speak about how we're performing there, we're very pleased overall with how that's going in terms of our margin performance. The 6% to 6.5% range in terms of margin performance for the year-end guidance that we gave, we still feel very comfortable with that.

The onetime issue that occurred in terms of the year-over-year difference, Q2 '22 versus this year was a onetime favorable positive impact that we experienced in pharmacy last year that we're not seeing this year. But overall, pharmacy is performing very, very well, and we feel very comfortable with the 6%, 6.5% guidance for the year.

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

Next question please.

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**Operator**

Next, we'll go to the line of George Hill from Deutsche Bank.

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**George Robert Hill** - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

As it relates to Medicare Advantage, I'm wondering if we can kind of revisit an old topic, which is the changes to the risk model that CMS announced at the beginning of April. I guess as you guys have had more time to kind of digest the proposed risk model changes.

Can you talk a little bit about how it makes you guys think about '24 just as some of your peers have kind of talked about the risk model kind of driving meaningful changes to kind of both benefit design and the bid process. Would love any update you could provide around that.

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

Good morning, George. Felicia Norwood. When we take a look at the risk model changes for 2024, they certainly were an integral part of our strategy as we thought about our bid process, but let me start by saying that we feel good about our bids for 2024. I believe when we step back and take a look at where we are, we continue to recognize the importance of stability in our offerings to seniors.

And I think that we have submitted bids that take into consideration both the risk model changes as well as the importance of having those benefits that are critical to seniors as we go forward. It's always going to be a very highly competitive environment in Medicare Advantage. We always expect that. But from our perspective, this is something that we've had the opportunity to be very thoughtful about. And as we put our bids together each year, we're always taking a very balanced approach between our aspirations for growth as well as with respect to margins.

And I think that we have landed in a place where we're going to be offering attractive plans for our seniors that provide sustainable economics for us for the long-term. So thank you very much for the question.

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

Next question, please.

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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 - Analyst*

I just want to go back to a comment that John made. And that's around higher cost if COVID never happened. And so one, I just want to understand, is there a pent-up demand because of COVID. Is that the reason for that comment? And then secondly, both at your Analyst Day and I think at another conference, you called out GLP-1 is running higher. Can you maybe just put that into perspective for us as to how much that can add to it to a medical cost trend? And does that benefit your pharmacy side of your benefit business as you see that higher utilization?

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

Thanks for the question, Lisa. Associated with trends and COVID existing versus not existing and what the baseline might have been. It's really not a lot of pent-up demand or deferred care, there certainly can be small pockets of that. But in general, the health care system was pretty much open for business quite significantly in 2022. There may have been some staffing shortages that impacted that ever so slightly, but not all that significantly, we don't believe. And we just think that it's really, it's an overall increase in cost structure.

COVID is not gone. It still exists. It's just no longer the big significant driving force that it had been for the past several years. And so as we look at things in total, we see a higher cost structure in general.

And then associated with the GLP-1 drugs, that is one element of a multitude developments as part of an overall trend conversation. And as I said, trend overall is consistent with our expectations. So we feel very good about that. And can there be an upside on Carelon Rx. Well, certainly a small one, but not enough to really change that trajectory at this point. So thank you for the questions.

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

Next question, please.



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**Operator**

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

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

I just want to go back to redeterminations and how you're thinking about that. I think you said that you expected to keep about 40% to 45% of the Medicaid determination growth, which I think is something close to about 4% CAGR since 2019, which seems a little high to me, given that total employment is up about 3 million over that time period.

So can you just maybe refresh how you're thinking about keeping those people wide and stay on, and then maybe the other 55%, if you can kind of give an update on anything you're seeing there about how those people reenroll and through the year, how we should expect them to come on? You mentioned some delays. Is there a way to think about Q2 disenrollment, when do they show up on either employer coverage or the exchanges?

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

Yes. Thanks, Kevin. Appreciate the question. Associated with the 40% to 45%, I'm not positive about the CAGR you're looking at from '19 and exactly what's in the baseline and what all the thought processes are versus qualifications and eligibility requirements. But as we do our review in our work and certainly access a lot of independent studies as well, we feel very comfortable that we believe that 40% to 45% will stay on. And that's really a projection for what will be the ultimate result a year from now after the entire redetermination process occurs and things shake out.

So I think it's a very reasonable expectation, and we feel very good about it. And then in terms of the overall coverage patterns, everything else, one thing to point out that might be inherent in your question is as we look at the second quarter of 2023, actually, many of our states -- Medicaid states that are not Blue states, actually went a little bit earlier on in the beginning of the redetermination.

So everybody will have started to redeterminations by now. But when you look at who started in the April, May time frame, for us, it was more heavily weighted to the states that are not our Blue state. So we still feel very good about our overall catchers met and the fact that we think 20% to 25% of these folks will ultimately end up on employer-sponsored plans, 20% to 25% will ultimately end up in an individual ACA product, 40%, 45% will stay on Medicaid. And that's what we're tracking to, and we actually have some insights into the states that are starting in June looks very promising that our thought process is going to be validated. So thank you for the question.

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

Yes. Thanks. And the only thing I'd add to that is, again, there is a timing lag here, but we feel our expectations are very much aligned. And we are seeing, particularly in the individual exchange, the early states that our applications are up at a much higher rate than they were prior to redeterminations, which you would expect and given our commercial market share in our Blue states, so very well positioned in the ACA market for those that will ultimately not keep Medicaid coverage.

But again, as I shared in my early remarks, we're working really hard to make sure that everyone who's going through this process in conjunction with our state partners understands the options that are available to us, and that's been very positive. We're seeing a lot of really good uptake. And we're actually contacting, having great success rates in contacting individuals where we have the information.

So those are very encouraging early signs to us. And again, we'll continue to update as we get through this process because many of the states are really just in the throes of it, certainly our Blue states. But thanks very much for the question.

Next question, please.



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**Operator**

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

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

I was hoping, first, if you could just maybe touch on the EPS split expected for 3Q versus 4Q? And then my main question is just sort of taking the discussion we're having on the cost structure for medical costs in 2023. Just interested in how you're thinking about that rolling forward into 2024. We're already starting to capture a lot of early data points on commercial premium pricing. It looks like the environment is hardening quite a bit in terms of pricing trends. So just interested how you're sort of thinking about sort of pricing for cost trends for '24?

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

Yes. Thanks for the question. In terms of our EPS guidance, as you know, we raised it to $32.85 or greater than $32.85. And I think that would assume that a little bit more than 56% of our earnings will have occurred in the first half of the year.

So when you look at the last 6 months of the year, we are actually pretty comfortable with what the current consensus estimates have associated with the third quarter, and with the seasonality that the current consensus estimates have inherent in it, and that is that the third quarter will be a bit more profitable than the fourth quarter, which is very consistent with the typical seasonality of our business.

And then for '24, as you know, it's just really premature to go into a 2024 conversation at this time. We'll provide a lot more insights on that at the end of the year, a little bit more in the third quarter, and a lot more at the end of the year and have a more robust conversation about 2024 at that time.

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

Yes. Thanks again for that question. And again, on just your pricing question, we've had a very consistent approach to pricing, and we're going to keep that discipline as we project our forward view costs. So I don't think anything has changed though. There's not a whole lot more that's new, but we're very disciplined about our projection and how we see that, and that's how we price to you. So thanks for the question. And next question.

**Operator**

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

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

This was touched on a little bit with your comment though that commercial membership growth should reaccelerate in the back half of '23 and into the '24. Just curious, if you could remind us whether or not that's due almost all to the potential tailwinds from redeterminations, or are there other factors that are just very (inaudible) such a more favorable market dynamics related to lower employment or any potential expectation of market share gains for Elevance, thinking for '24 that might help your commercial membership growth acceleration outlook?

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

Sure. I'll ask Morgan Kendrick, who leads our commercial business maybe to comment a little bit about commercial and what we're seeing in the marketplace.



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**Morgan Kendrick**

Yes. Thanks for the question, Steve. Morgan here. I want to address -- I would say that our expectations for membership growth are in line with what we projected and discussed in other instances.

One of the things that's interesting, though, is we're wrapping up the -- our national cycle. And so that's almost complete. One thing notably this year, it felt like the receipts were coming in slower or later, and the actual decisions were made longer, which isn't terribly inconsistent with what we see during an economic shift if you think of things and where the affordability really matters.

Our local market right now, we're just now getting into 4Q when we think about our business and 3Q, 4Q and then [one, one] all of which look promising. We've gotten into some of the bigger lower market wins for next year, and we're pleased with how the assets are resonating. And when I go back and speak to National, we've had just an unbelievable run for the past several years. That's not different this year, but we've talked many times about each 1 of these cycles have nuances.

There are 3 things that I think are important to note. Number one, this cycle for us when we think about our largest employers that will be the end of the year and into next year, there was a very, very large cohort of in-force business. So this is a very strong retention year for our company. That's been quite successful, which again reinforces how the assets are being -- are resonating with some of the most discerning buyers in the country.

Secondly, our win share continues at the rate that we've seen, albeit on a lower pipeline and smaller case count. But then lastly, I think the notable conclusion of the notable piece that we've shared in the past several years, we're continuing to see strong growth internally, where employers are consolidating their benefit partners from one vendor -- from multiple vendors to one. So that's continuing with us.

So all in, we feel good about our continued trajectory in the business. And as noted earlier, our pricing activities to continue with our forward view of trend. So we're quite optimistic at this point. Thanks again for the question.

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

Thanks, Morgan. And again, just reiterating something that Morgan just said, I think, is important is the consolidation trend where we become single source has been accelerating over the last few years, and we continue to see that. That's a notable trend this year. And I think what's important is we're also seeing it not just in medical coverage, but beginning to consolidate with Carelon Services as well. So that's a very positive trend for the strategy around the whole health that we laid out.

Thank you. Next question. I think this will be our last question.

**Operator**

Our final question comes from Nathan Rich from Goldman Sachs.

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

I wanted to ask on the Carelon Rx margins. I think they were down sequentially from the first quarter. Could you maybe just elaborate a bit more on what drove that margin step down? I know you had BioPlus rolling in, but do you still expect margins to be flattish for the full year?

And then on biosimilars, how is the pricing of biosimilar Humira come in relative to expectations? And is that a significant swing factor kind of in the outlook for that segment?



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

Yes. Nathan, thanks for the question. This is Pete. Again, when we think about our operating performance in Carelon Rx, I'll just say it front, we're confident in our pharmacy business. And if you exclude BioPlus, we will come in at that 6% to 6.5% range. So flattish as we talked about.

And as Gail mentioned in her prepared remarks, we're continuing to invest and things like BioPlus and advanced on delivery. BioPlus, our original guidance did not include BioPlus. And so that, as we talked about that, that's had a bit of dilution. But again, outside of BioPlus, we're very confident in coming in into the 6% to 6.5% range.

As it relates to your question on Humira and biosimilars. Again, as we said, we're very excited about biosimilars coming into the marketplace and how that's going to drive overall cost and affordability down the road. We and Carelon Rx have been very, very focused on driving lowest net cost.

We obviously were well aware of what occurred in July in terms of the launches, and we've been staying very, very close to that. And as we've said before, we have historically supported biosimilars alongside our reference brand.

On Humira, we do expect to include a biosimilar or biosimilars in a similar formulary position as Humira this year. We're not going to go into more specifics in terms of timing, where specifically what we're going to do, but we will do that. And I would finally say that with the addition of BioPlus in our portfolio, I think we're now in a much better position to directly manage specialty pharmacy more holistically. So I appreciate your questions.

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

Thank you, Pete. Now I'd like to close by saying thank you. We're pleased with our performance year-to-date, and we're confident that the ongoing execution of our strategy positions us well for the balance of 2023 and in the years to come.

Through a steadfast focus on whole health and our diverse and expanding suite of products and solutions, we'll continue to meet the needs of clients, consumers and communities we serve, advancing our strategy of becoming a lifetime trusted health partner.

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

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**Operator**

Ladies and gentlemen, a recording of this conference will be available for replay after 11:00 a.m. today through August 18, 2023. You may access the replay system at any time by dialing (800) 391-9853, and international participants can dial to 203-369-3269.

This concludes our conference for today. Thank you for your participation and for using Verizon conferencing. You may now disconnect.

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