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OVERVIEW:

Company Summary

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PRESENTATION

Operator

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

Nathan Rich - *Elevance Health Inc - Vice President, Investor Relations*

Good morning, and welcome to Elevance Health's fourth-quarter 2024 earnings conference call. My name is Nathan Rich, Vice President of Investor Relations. With us this morning on the earnings call are Gail Boudreaux, President and CEO; Mark Kaye, CFO; Peter Haytaian, President of Carelon; Morgan Kendrick, President of our Commercial health benefits business; and Felicia Norwood, President of our Government health benefits business.

Gail will begin the call with a review of the progress we've made against our strategic initiatives and the discussion of the quarter and our 2025 outlook. Mark will then discuss our financial results and guidance 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 expectations. We advise listeners to carefully review the risk factors discussed in today's press release and in our quarterly filings with the SEC. I will now turn the call over to Gail.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thank you, Nate, and good morning, everyone. Before we begin, I'd like to extend our deepest sympathies to the millions of people affected by the Southern California wildfires. With over 9 million members and over 6,000 Elevance Health associates in the State of California, we are especially grateful to the first responders who are working tirelessly to support the ongoing recovery efforts.

At Elevance Health, our teams quickly mobilized to facilitate access to essential health resources and provide much-needed aid to the communities impacted by this devastating event. This moment underscores our shared humanity, reminding us that above all, we are a community dedicated to supporting people's health and well-being.

Our purpose as a company of improving the health of humanity remains resolute, and we will demonstrate steadfast leadership in health care marked by compassion, dedication, and a profound commitment to improving the lives of the people we serve.

For our members, we play a critical role in ensuring simple, affordable, and accessible care. We recognize that the healthcare ecosystem is grappling with significant challenges, including rising costs, administrative complexity, and disparities in access to care. These issues are compound by evolving consumer expectations and the need for a more integrated approach to physical, behavioral, and social health.

In collaboration with our partners across the industry, we're addressing these challenges with great urgency, focusing on streamlining processes, reducing costs, and improving the overall experience for our members. We are reimagining how we connect with consumers to personalize experiences, tailor recommendations to meet their specific needs, and simplify the healthcare journey.

Targeted digital interactions through our Sydney app closed critical gaps in care and saved members an estimated 1.5 million hours in 2024, time they would have otherwise spent trying to find the care they needed.

Health insurers play a vital role in keeping health care affordable by ensuring our members have access to high-quality care at reasonable costs, and designing benefit structures that encourage preventative care and early intervention. Through the valued partnerships we have with care providers, we reduced inefficiencies, drive better health outcomes, and lower overall cost for members.

In our Medicare Advantage portfolio for 2025, 90% of our plans have no monthly premium and nearly all plans offer $0 co-pays for primary care visits and access to supplemental benefits. These innovative plan designs demonstrate how we align affordability with improved member health. Our data demonstrates that dually eligible members who utilize supplemental benefits are 40% more likely to access preventative services and nearly 15% less likely to have an inpatient admission.

Solutions like our Total Health, Total You advocacy program enable personalized outreach through digital channels and address whole person care before complex health needs arise. Employers recognize the value this program brings, reflected in a net promoter score of 82.

For our care providers, we create a real impact on health by going beyond the contract, and we strive to be an active partner in the care of our members. Our value-based programs account for nearly two-thirds of care today, with over 35% taking downside risk compared to less than 20% just three years ago.

Over the past year, we broadened our capabilities through the launch of Mosaic Health in partnership with CD&R. Mosaic Health serves nearly 1 million consumers across 19 states and provides the foundation for us to expand our advanced primary care and physician enablement solutions to serve a growing number of people in the years to come.

We have invested significant resources in partnering with hospitals and physicians to provide real-time insights and tools that ease administrative burdens and allow care providers to devote more time to caring for patients.

In cases where we have aligned data sharing with the health system, we have nearly eliminated claims denied due to incorrect or incomplete information, significantly easing the administrative burden for these systems. We are making good progress in expanding the solution to more partners. When health plans and care providers have access to the same information, we make the same decision.

We are working in concert with our many vital partners across the healthcare ecosystem to promote solutions that enhance outcomes and empower healthier communities. With this unified voice, we can more effectively advocate for holistic solutions that address the physical, behavioral, and social drivers of health. We are on a promising path and will work tirelessly in the coming years to achieve our bold purpose to improve the health of humanity.

Now, turning to our results. Today, we reported fourth quarter GAAP diluted earnings per share of $1.81 and adjusted diluted earnings per share of $3.84, consistent with the expectations we shared back in October. These results reflect the immediate actions we took in response to unprecedented cost trends in our Medicaid business.

Our Medicaid business serves as a cornerstone in advancing health outcomes for individuals managing chronic and complex conditions. Our complex care management programs provide the support of a dedicated care team and digital resources that have led to a reduction in inpatient admissions by 7%. We are uniquely equipped to drive better health outcomes through complementary capabilities of our integrated health benefits and Carelon platforms.

Fourth-quarter Medicaid cost trend remained elevated at levels aligned to the outlook we provided last quarter. We are grateful for the continuous and constructive collaboration of our state partners. While rates today remain insufficient to cover the elevated level of cost trend we are experiencing, we remain confident that rates will ultimately reflect the underlying acuity of our Medicaid membership over time.

In Medicare, benefit reductions and market exits in 2024 create a strong foundation for profitable growth. During annual open enrollment this year, seniors value the stability in our benefit offerings, evidenced by improved retention. We anticipate Medicare Advantage membership growth in the range of 7% to 9%, consistent with our prior expectations and inclusive of new wins in group MA. We remain confident in our ability to balance growth and margin performance in 2025.

We are pleased with the performance of our commercial businesses in 2024. Our integrated medical and pharmacy offering is resonating in the market. We welcomed 18 new national accounts who chose Elevance Health for 2025, including several who selected us as the sole source provider to manage their medical and pharmacy benefits, continuing a trend we have seen in the last few years.

We also saw record retention in our national accounts business for 2025, a testament to the differentiated value we provide the market's largest and most sophisticated clients who value simplicity and affordability. Our individual exchange business experienced strong growth of more than 30% in 2024. We delivered innovative, affordable products that resonated with consumers. And as we enter 2025, we anticipate another year of strong growth in this market.

Turning to Carelon, in 2024, we made progress against our strategy to further scale our enterprise flywheel for growth. In the fourth quarter, we closed on the acquisition of CareBridge, which will bolster our home- and community-based services for chronic and complex members and serve as a foundation for Carelon's home health business.

CareBridge's innovative approach aligns well with our enterprise focus on whole health, utilizing technology and comprehensive clinical support to improve care quality and efficiency, while enhancing patient outcomes and independence. The expanding breadth and diversity of our pharmacy, advanced primary care, and home- and community-based solutions will serve members and drive greater alignment with our health plans. Carelon Services experienced impressive internal and external growth in 2024, and we are positioned for revenue growth above our long-term target range for this segment in the year ahead.

Shifting to our expectations for 2025. We are providing guidance for adjusted diluted earnings per share to be in the range of $34.15 to $34.85. We will navigate 2025 with the same focus and discipline that has been central to the long-term success of Elevance Health.

We will continue to manage cost trend for our clients, deepen the impact of our Carelon assets, and execute on the growth opportunities ahead of us. The actions we are taking now will enhance the long-term earnings power of our enterprise and underscore our confidence in returning to at least 12% adjusted EPS growth annually on average over time.

Finally, I would like to express my deepest gratitude to our extraordinary team of over 100,000 associates and their unwavering efforts during this dynamic period for the industry. Our associates went above and beyond last year, logging over 280,000 hours of volunteer time in our communities, setting a record for Elevance Health.

This remarkable dedication underscores our collective commitment to improving the health of humanity by making a tangible positive impact on the people we are privileged to serve and the communities we call home. As we advance our mission, we remain focused on being our members' lifetime trusted health partner and ensuring our work elevates health beyond health care.

I'll now hand over the call to our CFO, Mark Kaye, who will provide more details on our financial results and guidance. Mark?

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Thank you, Gail, and good morning, everyone. As Gail noted, we reported fourth-quarter adjusted diluted earnings per share of $3.84 and full-year adjusted diluted earnings per share of $33.04, with fourth quarter results consistent with our October expectations. Our disciplined operational execution helped us navigate an elevated cost environment, primarily within our Medicaid business.

We concluded the year with 45.7 million members, a decrease of 1.1 million year over year, but roughly flat sequentially. This annual decline was driven by membership reduction stemming from Medicaid redeterminations and changes in our geographic footprint, partially offset by continued growth in our employer group fee-based offerings and our ACA health plan products. These areas of growth demonstrate our ability to deliver compelling value in competitive market segments.

Turning to revenue, we generated $175.2 billion in total operating revenue for 2024, up approximately 3% from the prior year. This topline growth reflects premium rate adjustments in recognition of higher cost trends as well as expanding customer relationships within our Carelon businesses, partially offset by lower Medicaid membership.

We also benefited from acquisitions that further our goals in pharmacy services and home health, enhancing our enterprise flywheel. A priority for the coming year will be integrating these assets to unlock greater value for the members we are privileged to serve, particularly as we drive ambitious growth in Carelon.

Our consolidated benefit expense ratio for the fourth quarter was 92.4%, bringing our full year ratio to 88.5%, in line with our guidance. As noted previously, we continue to see elevated cost trends within the Medicaid population, which remains stable at the levels we experienced exiting the third quarter.

We are encouraged by the rate adjustments from our state partners, which are helping to better align premiums with current care costs. As these adjustments become more fully reflected, we expect Medicaid margins to improve over the course of 2025.

Elevance Health's adjusted operating expense ratio stood at 9.9% for the fourth quarter and 10.6% for the full year, an improvement of 170 basis points and 70 basis points respectively versus the prior year. This reflects our continued focus on disciplined expense management and operating efficiencies.

For the year, operating cash flow was $5.8 billion or approximately 1 times GAAP net income. Our year-end days in claims payable was 42.9 days, essentially flat compared to the third quarter and aligns with our long-term target range in the low 40s.

In the fourth quarter, we opportunistically repurchased 4.5 million shares for a total of $1.8 billion, bringing full-year repurchases to $2.9 billion and exceeding our initial forecast. We remain committed to returning capital to shareholders while also investing in our strategic initiatives.

Looking ahead to 2025, we are introducing a range for our adjusted diluted earnings per share of $34.15 to $34.85 to provide greater specificity around our view of expected performance for the year. We project total Medical membership of 45.8 million to 46.6 million by year-end 2025, driven by expected growth in our commercial fee-based membership, ACA exchange plans, and Medicare Advantage.

Following an annual enrollment period in line with our expectations, we anticipate ending 2025 with Medicare Advantage membership of 2.2 million to 2.25 million, reflecting planned growth in group MA and high single-digit expansion in individual MA.

In terms of topline performance, we anticipate operating revenue to grow in the high single to low double digit percent range, bolstered by acquisitions like CareBridge. We expect our consolidated medical loss ratio to be around 89.1%, plus or minus 50 basis points, roughly a 60 basis point increase at the midpoint. This incorporates the persistence of elevated cost trends, particularly within Medicaid as well as impacts from recent acquisitions and Medicare Part D benefit redesign changes.

Our adjusted operating expense ratio is expected to be 10.4%, plus or minus 50 basis points, implying a slight year-over-year improvement as we pursue targeted actions to enhance our cost structure. For 2025, we anticipate a more normalized operating cash flow of roughly $8 billion, or 1.1 times GAAP net income.

We plan to allocate approximately $2.3 billion towards share repurchases with a bias towards the first half of the year. Regarding earnings seasonality, we expect to earn just over 60% of our adjusted EPS in the first half of 2025, with slightly more than half of that first-half figure coming in the first quarter.

I'm also pleased to announce that our Board of Directors has approved a 5% increase in our quarterly dividend to $1.71 per share, our 14th consecutive annual increase. This speaks to our commitment to delivering strong shareholder returns and reflects the balance and resilience of our business model.

We remain confident in our ability to execute on our strategic priorities in 2025, while meeting our financial objectives. With continued investments in our diversified business model and the expansion of Carelon's capabilities, we are building a strong foundation to deliver even greater value to our members, providers, and shareholders and position Elevance Health for long-term sustainable growth. Thank you for your time today. I will now turn the call back to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) AJ Rice, UBS.

AJ Rice - *UBS Investment Bank - Analyst*

Hi everybody. Thanks for the comments. Maybe -- I know it's not your biggest business, but there certainly has been a lot of discussion in the financial community about your Medicare Advantage business enrollment looks like you're targeting sort of mid 7% to 8% or so for the year.

Is that fully reflective of which you've got the full view of open enrollment at this point? So you think from here, it's just age-ins largely? And what are you seeing as you drill down in that demographic of the types of members you've attracted in the open enrollment?

And then just also -- I think the comment on the third quarter was that the Medicare Advantage margin in '25 might step up modestly but still be below your long-term targets for Medicare Advantage. Is that still your thinking?

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Well, thank you, AJ. I have just a few comments. First, we feel very good about and confident in the enrollment guidance that we gave for Medicare Advantage. It did come in line with the expectations that we set, and we had very strong member retention we think is a huge positive for us.

So overall, I'll ask Felicia to maybe give you a little bit more detail about it but really good in terms of the positioning of product, and geography, and overall, and we do think that's where we'll end the year. So Felicia, maybe a little bit more guidance on that.

Felicia Norwood - *Elevance Health Inc - Executive Vice President, President - Government Business Division*

Good morning, AJ, and thank you for the question. As Gail said, we are very pleased with the outcome of our annual enrollment period. Performance was really aligned with our expectations, driven predominantly by strong member retention and really stability in our offerings amid significant disruptions in the market this year.

The enrollment trends that we saw in our core markets really reflect the value that seniors placed our balanced approach. And we were very focused on our local strategy to ensure that we were effectively capturing growth opportunities where they were most favorable for us.

We are very pleased with the product and the geographic composition of our growth. We saw very strong HMO growth by design and less PPO growth in the markets that we were looking for that growth.

So with AEP results in hand right now, we are confident around our 2025 Medicare Advantage guidance of 7% to 9%, which from a member growth perspective, it's right in line with our expectations that we provided last year.

We are obviously going to continue to be very vigilant around how we manage growth throughout the rest of the year. As you said, there will be predominantly age-ins and some individuals that come in as a result of dual eligibility. But we are confident in the actions and strategies that we have to maintain growth within the guide that we provided. Thank you.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

And then AJ, on your margin question, we are positioned well to achieve a margin stability in 2025 through many of the factors that Felicia mentioned, including disciplined cost management and a strong retention.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thank you, Mark. AJ and Lance, next question please.

Operator

Lance Wilkes, Bernstein.

Lance Wilkes - *Bernstein & Co. LLC - Analyst*

Great. Thanks so much. Could you talk a little bit about what you were seeing in terms of utilization? In particular, perhaps you could talk to what you're seeing in trends by product like MA and commercial. And how you're thinking about that in terms of your assumptions for '25? And if you can give any commentary on categories of medical cost trend as far as like inpatient, outpatient, et cetera. That would be great. Thanks a lot.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Lance, thanks very much for the question this morning. Cost trend in the fourth quarter developed largely as we anticipated with stability, I would say, across our lines of business. Specifically, Medicaid, trends remained elevated. They were stable, particularly as we've called out in prior quarters in behavioral health and inpatient services. And we think it's primarily because of the ongoing impact of the membership mix changes following redeterminations has really stabilized at this point.

In Medicare, cost trend similarly in the fourth quarter were elevated. They were manageable. We saw notable drivers here, including some of the post-acute care services. Again, very consistent with prior expectations and the way that we've priced our bids for 2025.

On the commercial side, I would say, performance remains strong, in line with the disciplined pricing approach that we've adopted to date. And so as we think about 2025, we do expect these elevated trends really to persist in the first half of the year, particularly in Medicaid.

On the Medicare side, they're similarly expected to remain stable at the current levels. And so I would say our outlook for '25 really incorporates these dynamics. We're taking a prudent approach to guidance to ensure again we deliver sustainable long-term value.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thank you, Mark, and thanks for the question, Lance. And again, I'll just reiterate, I think what you're seeing from us is a very prudent approach in terms of very consistent to what we've shared on where utilization is. Next question, please.

Operator

Stephen Baxter, Wells Fargo.

Stephen Baxter - *Wells Fargo Securities LLC - Analyst*

Hi, thanks. Just to follow up on that, you mentioned that Medicaid is an influencer of the higher year-over-year MLR that you're expecting in 2025. I think your previous expectations you discussed last quarter were for something more stable than that. And it sounds like potentially the conversation around 1/1 rates has been pretty constructive. I love to just get a better sense of what explicitly you're embedding for Medicaid full-year MLR change in this guidance. Thank you.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Stephen, thanks very much for the question. Maybe let me start with the fourth quarter Medicaid trend in a little bit more detail. So in the fourth quarter, Medicaid cost trends developed in line with the expectations we communicated during October.

So specifically, trends generally remain consistent with the elevated levels we observed in September. And again, that reflects just the stabilization of our membership base, given again, redeterminations materially completed.

As we look forward to 2025, we expect these higher-than-typical Medicaid cost trends, particularly as I mentioned a moment ago in behavioral health and inpatient care, really to persist into the first half of 2025. And why does that matter? Well, it matters because current rates have not yet fully caught up to these cost trends, and so we're maintaining a prudent stance on how quickly the Medicaid margins are going to rebound in 2025.

And this simply reflects both the elevated level of cost trends we expect to continue in the first half, but also the incremental rate adjustments that we're working on with our state partners. And so you could think about Medicaid as really being a tale of two halves, stabilization in the early part of the year, followed by improvement in the second half of the year as rate adjustments begin to more fully reflect the heightened cost pressures.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thank you. Next question, please.

Operator

Lisa Gill, JPMorgan.

Lisa Gill - *JPMorgan Chase & Co - Analyst*

Good morning. I just really want to understand two things. First would be the comments around the Part D redesign. Mark, can you talk about the specific impact to MLR? And then secondly, just understanding the performance in CarelonRx going into 2025, you talked about mid-teens growth. Can you talk about how much of that is organic? The investments that you are making when we think about the margin improvement that you are talking about for 2025?

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thank you Lisa, I am going to have Mark address the first part of your question and then I will ask Pete to talk about the growth which we are really pleased and excited about with the strategies and execution Carelon has. Mark, please?

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Lisa, thanks very much for the question this morning. So for '25, we're guiding to an MLR of that 89.1%, and that's approximately 60 bps higher than the prior year at the midpoint.

There are three primary factors that are driving the increase here. First is the impact of our strategic growth mix in Medicare, including the Part D changes, and second one is recent acquisitions. And then third is really a prudent view towards medical cost trends.

So specifically, the business mix changes are really driven by CareBridge running in the 20-ish basis point range, and that's expected to run at a higher MLR than our organic businesses as well as stronger relative growth in our Medicare businesses inclusive of, to your point, the changes in the Part D the benefit structure, which has increased the direct subsidy. In addition, the MLR guidance does reflect elevated but stable cost trends that you heard us talk about a couple of minutes ago because we're operating in a more dynamic cost environment than historical norms.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Pete, maybe share your thoughts on Carelon.

Peter Haytaian - *Elevance Health Inc - Executive Vice President and President, Carelon and CarelonRx*

Yeah, appreciate it. And thanks for the question. I'll talk broadly about Carelon, what we're really excited about what's going on in Carelon and the growth opportunities. We came off a very, very strong '24, as I think you saw in terms of our growth. We had another strong quarter of growth and very balanced with respect to internal versus external growth.

We continue to expand a lot of our risk arrangements internally across oncology, across behavioral health, post-acute solutions. And then externally, last year, we have one of our best years ever in terms of external growth, doing about 4x in terms of revenue growth versus '23.

And by the way, one of the other key points that we've talked about historically, we're seeing really nice penetration as it relates to the Blues. That momentum will continue into 2025. You'll see very significant growth in our services part of the business with over 50% growth.

As Mark mentioned, we're excited about the addition of CareBridge, that certainly adds to it. But then importantly, even outside of CareBridge, our organic growth, both internal and external on the services side, is well above 20%. So very pleased with that.

I think you also referenced Rx, Lisa. And I feel very good about our story in Rx and how our growth story is resonating in the marketplace. Momentum really does continue to build. We're working very closely with Morgan and the commercial team.

And one of the things that I'll say that's really resonating in the marketplace and has actually enabled us to win some large accounts, upmarket and national account is this real focus on high-touch customer service and advocacy. We are really doubling down on the patient experience and making sure that they have a strong experience across both medical and pharmacy.

It's what we talk about in terms of whole health and we're really pleased about how that's playing out. And then importantly, we continue to do well in our sweet spot, mid-market and down market. So I think overall, a very strong story in terms of Carelon growth.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Yes. Thanks, Pete, and thanks for the question, Lisa. And just to punctuate maybe a couple of things. We're really excited about the momentum, both internally and externally in Carelon.

And as you heard from Pete, a couple of things. One, deepening capabilities inside of Carelon, so we can advance our strategy around more whole health risk. And I can see that in the numbers that we're sharing and plus what happened in '24 and then external validation with additional clients. Both two areas that we've talked about strategically. So, thanks very much for your question. Next question, please.

Operator

Andrew Mok, Barclays.

Andrew Mok - *Barclays Capital, Inc. - Analyst*

Hi, good morning. I think there's still some confusion around your Medicare Advantage membership growth for 2025. So I was hoping you could to clear some of this up and tell us what your actual AEP growth is, how much of that accounts for the full year outlook.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

I'll have Felicia share her thoughts on that.

Felicia Norwood - *Elevance Health Inc - Executive Vice President, President - Government Business Division*

So Andrew, thank you very much for that question. Our AEP growth is certainly very strong, and that reflects a lot of group membership growth that came in, a particular group account that, frankly, we're pleased with. That was a commercial account that we had a long-standing relationship with. So very familiar with a lot of the demographics and dynamics associated with that group.

And then in terms of our Medicare -- individual Medicare Advantage growth, it's right in line with the expectations that we provided. So in total, we are right in the range that we left you with, which is the 7% to 9% growth, which we expect overall this year. And we'll continue to have in place actions to manage appropriately growth throughout the rest of the year around our Medicare Advantage business.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Yes. Thank you, Felicia and Andrew, just to be clear because I don't want any confusion. That 7% to 9%, we essentially don't expect significant growth, we expect minimal growth for the rest of the year, which -- with strong retention. So just to give you some sense of our confidence in that, that's how we're projecting that, aligned similarly to what we've seen, for example, in '24 just given the market positioning. Next question, please.

Operator

Ryan Langston, TD Securities.

Ryan Langston - *TD Securities - Analyst*

Hi, thanks. I know you stepped back from the Blue Cross of Louisiana acquisition a little while ago, but I believe there's still a potential to revisit that deal. I guess is that true? And then just maybe more broadly on the environment. You closed Kroger Specialty, closed Paragon, you closed CareBridge. Maybe just remind us of your priority going forward into '25 and beyond on potential acquisition targets? Thank you.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Yeah. Thanks for the question. We really don't comment on acquisitions or our posture on that. I mean we have a good partnership actually with Blue Cross Blue Shield Louisiana. We work with them closely in Medicaid and some of the duals in Medicare and a number of products in Carelon.

So with many of our Blue partners, which you've heard us talk about, we continue to provide services because we have some really unique capabilities. Let me ask Pete to comment on your CareBridge question.

Peter Haytaian - *Elevance Health Inc - Executive Vice President and President, Carelon and CarelonRx*

Yeah. No, thanks a lot. I think your question in terms of what we're interested in. I always like to talk about strategy in terms of framing where our interest reside. And again, we've talked about that the strategy overall of Carelon's to deliver whole health, we're really focused on affordability and empathy. And we face off with our health plan partners and really identify areas of complexity in healthcare and try to solve those with differentiated solutions and doing so at risk.

And you've seen that really play through in our transactions, be it on the pharmacy side or on the services side, and we'll continue down that path. So there are many areas of interest when you think about where specialty trend is, how that impacts the different lines of business. We continue to sort of evaluate that. We'll be opportunistic on the pharmacy side. We think there are additional ways to enhance the whole health experience.

And importantly, we think with what you're seeing in healthcare today, the fragmentation of data and the patient experience, and enabling a much better whole health experience, as Gail said before, we see a tremendous opportunity around technology and data and enhancing the overall experience. So those are areas that we're very interested in as we move forward.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Next question, please.

Operator

Justin Lake, Wolfe Research.

Justin Lake - *Wolfe Research, LLC - Analyst*

Thanks. Good morning. A question on the healthcare benefits business. First, hoping you can talk to your expected seasonality for 2025, including how Q1 should look versus the full year. And then on the health benefits 2025 op margin guidance, looks like it's down year-over-year. You've talked to Medicaid being flat, Medicare being flat. Is that coming in commercial? And maybe you can talk about what's driving that and the magnitude of it on the commercial side. Thanks.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Justin, thanks very much for your question. Let me go ahead and start with the seasonality, and then I'll talk a little bit about operating margins, the health benefit level after that. For seasonality, as you heard during our prepared remarks this morning, we do expect adjusted EPS to be weighted more towards the first half of the year with slightly more than 60% of full-year earnings occurring in that period. And then within the first half, we anticipate a little bit more than half of those earnings to then show up in the first quarter.

And that reflects two things. One is typical seasonal dynamics, and then two is sort of our evolving business mix. As I think about seasonal dynamics, if you can think about the commercial business here, typically contributing a larger share earnings in the first half of the year, and then with continued strong retention and disciplined pricing, we expect that's going to continue to be the same pattern in 2025.

On Medicaid, margins are more back-end loaded, especially as rate updates from state partners take effect. That's our first-half, second-half story. And then, of course, we've also reflected the inflation reduction act Medicare Part D changes and the benefit of the leap year in the first quarter. So a lot going on with seasonality, but let me point to those early comments I made.

On the operating margin expectations, we do expect a 25 to 50 basis points decline year over year. And there are a couple of discrete impacts outside of core operating performance, but in line with our expectations, that's what I would call out for you. The first is that we're going to be cycling the nonrecurring expense benefits that we had in 2024.

Second, we're going to get a little bit of membership mix impacts through the slightly stronger relative growth in our Medicare lines of business compared to commercial, inclusive of the Medicare Part D design change. And then I would make the point sort of excluding those discrete impacts the margins across the health benefits businesses would have been stable.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thank you. Next question, please.

Operator

Josh Raskin, Nephron Research.

Joshua Raskin - *Nephron Research LLC - Analyst*

Hi, thanks. Good morning. Just within the 2025 guidance, can you speak to your expectations for commercial trend and what you priced for? And I just want to make sure I understand, are you still expecting margin improvement in commercial? I thought that was a previous expectation.

And then just on the MA side, I know the CMS data got rescinded, but it looked like your growth was already above -- slightly above the midpoint of full year guidance. I heard not a lot of growth the rest of the year. Could you just help us with the actions you've taken on the distribution side and maybe why you've taken some of those actions, and if that's what's slowing the growth?

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Josh, thanks very much for your question. On '25 commercial trends, looking ahead, we really do anticipate commercial cost trends to stay above those historical averages. But most importantly, this is something that we've expected and we've accounted for in our pricing strategy.

Morgan and team have taken a very disciplined approach between competitiveness and underwriting discipline to ensure that those are priced for. It's a hard market. It's a very rational market. We feel very good about our balance of pricing and our forward-looking view of trends here. So on the commercial side, certainly, retention is strong, pricing is strong, margins remain robust.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Yeah. Thanks, Josh. I'll take the second part of your question, which is kind of our view. Part of this is, as you think about AEP, we expect the data to settle out over the next few months. So I think you'll have a better view of what AEP actually looked like.

And then secondarily, just looking at our trajectory and our placement of our products in each of the businesses. And as you note, just duals and sort of that pace, that's why we feel very confident of the rest of the year growth.

We still expect strong retention, but we don't expect any significant growth of new sales, for example. But other than a normal cadence, and we saw that cadence in 2024 as well. Next question, please.

Operator

Dave Windley, Jefferies.

David Windley - *Jefferies LLC - Analyst*

Thanks for taking my question. Good morning. Question on pricing, kind of a two-parter. The guidance in commercial for ASO revenue or fee revenue flat. Your membership, I think you're expecting up, is there no pricing there?

And in Medicaid, I hear you saying kind of stable MLR, stable margin, as we move into the early part of 2025. I think 50% of the book reprices on Jan 1. And so I'm just curious about the benefit or lack thereof from that price to actually move you into an improving pattern in your Medicaid margins. So pricing on Medicaid and ASO. Thanks.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Okay. We'll try to address -- there's a lot embedded in that question. Maybe Mark first, and then I'll ask some of the other colleagues here to join in on the rest of the answers. Mark?

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Dave, thanks very much for the question. The first one is relatively simple on the service fee revenues guide of approximately flat year over year. This is primarily because one of the main business drivers here as we're targeting a shift from fee-based to risk-based contracts.

Meaning, within Carelon Services, we're expecting a portion of our new wins and contract expansions really to convert on those fee-based arrangements to risk-based arrangements. And so we'll record that premium rather than necessarily through the service fee line.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Next will be Felicia to answer the other parts of your question.

Felicia Norwood - *Elevance Health Inc - Executive Vice President, President - Government Business Division*

Yes. Dave, thank you for the question. Certainly, let me start by saying that we continue to be very focused on working tirelessly with our states partners to make sure that we are getting actuarially sound rates. When we take a look at our rating cycle, we have about 41% of our members tied to January, but then we have the rest of the rating year for the rest of our membership.

At this point, we have visibility into about 70% of our premium on the Medicaid side. And as you heard Mark mention earlier, January came in, in line just with what we expected, insufficient but very constructive conversations and good work with our state partners. And then the July rates will be critical as well as we continue to close and narrow that gap, and expect to see strong improvement in the back half of the year in Medicaid.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Next question, please.

Operator

Joanna Gajuk, Bank of America.

Joanna Gajuk - *BofA Securities, Inc - Analyst*

Hi, good morning. Thanks so much for taking the question. So I was looking at your slides. And the slide that when you talk about the long-term CAGR targets, I noticed that you no longer seem to be targeting to get to your margin 6.5% - 7% by 2027.

So is that the way to read it? And also, I guess, if that's the case, when should we expect that to be achieved? And what would need to happen really for the margins to get to that target Thank you.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Joanna, great question and a very sharp eye. Let me maybe start by emphasizing, we remain committed to the long-term financial targets that we introduced at our 2023 Investor Day. We've not changed our target ranges or our expectations for either revenue growth or operating margin, and our goal is to deliver at least 12% average annual adjusted EPS growth.

In other words, nothing has changed about our conviction in the significant embedded earnings power of our businesses. What has evolved is that the faster than projected and, I'd say, very positive growth that we've delivered across our Carelon businesses versus what we shared when we set those targets in 2023 has changed.

And specifically, Carelon growth is exceeding those original expectations. And we're very pleased that the deliberate actions we've taken to enhance and deepen our risk-taking capabilities has led to an acceleration of this business.

So putting it in numbers. With today's 2025 revenue guidance, we anticipate Carelon services to grow at over a 30% CAGR since 2022. And that's significantly above our original target range of high-teens to low 20s. And that's very positive for the earnings growth of Carelon, but it also shifts the near-term margin dynamics for those newer capabilities, right? Just given the normal time it's going to take for new deals to reach, for example, mature margin levels.

So in other words, our earnings power remains strong, but the business mix and timing have changed. So I'd probably end here with, look, we remain confident in the embedded earnings call of the businesses. We'll provide a couple more details at our Investor Day later this year. But this is really representative of the change.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thank you. Next question, please.

Operator

Erin Wright, Morgan Stanley.

Erin Wright - *Morgan Stanley & Co - Analyst*

Great. Thanks. A follow-up on Medicare Advantage. I wanted to hear your thoughts on the advanced rate notice and where it can go from here in terms of incorporating a catch-up period in the final rate notice. And just bigger picture in light of that and the broader political environment seems to be more supportive of MA, but how are you thinking about regulatory implications, I guess, across the rest of your business and mainly in Medicaid, where I guess there's a lot of questions and maybe there's no answer. But wanted to hear your initial thoughts. Thanks.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Again, a very fulsome question, Erin. We'll try to address that. Maybe directionally, we think it's positive. Obviously, it's preliminary, not final. I'll have Felicia share some more details on that, and we'll talk about sort of kind of how we're heading. Felicia?

Felicia Norwood - *Elevance Health Inc - Executive Vice President, President - Government Business Division*

Sure, Erin. Thank you very much for that question. we all have to keep in mind that beneficiaries choose Medicare Advantage for the value that it provides and it delivers. In over 34 million people in this country, older adults and persons with disability, have proactively chosen MA. Rate stability really helps us to continue to be able to provide the benefits that deliver high-quality care that seniors value and depend on.

Regarding the advanced notice, after two consecutive years of cuts to MA program, we are very pleased to see the direction of the advanced MA rate notice that came out earlier this month. Now, while the base rate reflects progress, I think, towards more adequate funding in the program, we still believe that it's insufficient in light of the cost trends that we've seen over the past year.

So we look forward to working very collaboratively with the new administration in terms of our proposed recommendations on changes in the advanced notice, particularly with respect to some of the reforms in the Part D risk model and other policies which we believe will improve the program long term. So we look forward to working with the administration over the next few weeks and months to make sure that the final notice advances a program that seniors in this country have certainly come to rely on.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

And Erin, just briefly on your comments around sort of Medicaid and the environment there. Just a couple of things. I mean I think as you think about the deep expertise and the years that we've worked in this space, we have a long history across multiple administrations providing critical benefits to our members and deep expertise, particularly in working with the states.

What I'd say we're really looking forward to is a public private partnership where we can work with our states and the government to bring innovative programs that we think can really benefit these members and I think provide even better value.

So we're -- again, it's early. There are no firm proposals. A lot of different discussion. But I think we're approaching this in the public private partnership and also a long history of working across this for many, many years. Thank you. Next question, please.

Operator

Sarah James, Cantor Fitzgerald.

Gabie Ingoglia - *Cantor Fitzgerald - Analyst*

This is Gabie on for the line for Sarah. Could you just speak a little bit more to the commercial cost trends you saw in the fourth quarter and overall for 2024, maybe more by product inpatient, outpatient? And then just reiterate what's assumed in guidance for how commercial cost trends evolve in '25?

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Gabie, welcome. And I'm going to apologize in advance, this might be a little bit of a short answer. So I'd simply note that commercial performance remained strong in the fourth quarter, trends were elevated throughout the year, they were stable, and most importantly, they were priced for.

We see continued driver-of the elevated cost trend come from a couple of key categories, for example, some of the inpatient medical, a little bit of outpatient ER. But for the most part, developed exactly in line with what we expect.

And I'd say the same for 2025. Our pricing initiatives are ongoing. We'll look to continue to expand margin via mix and penetration of some of the specialty products, but we feel very good about how we're positioned.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thank you, Mark. And just reiterating, I mean, we feel very good that we priced. It's a hardened market in commercial and have seen really strong results across our commercial business. So thank you for that question. Next question, please.

Operator

George Hill, Deutsche Bank.

George Hill - *Deutsche Bank AG - Analyst*

Yeah. Good morning guys and thanks for taking the questions. Kind of two parts here on the exchange business. I guess, number one is do you guys have an expectation for what happens to the enhanced subsidies as part of the upcoming political cycle?

And then part two, Mark, is kind of a nuanced one. What percent of your exchange members have actually paid the January premiums relative to what you guys have experienced last year given that the government turned the income verification back on kind of expecting a change in like when people actually show up and pay the premiums there? Any color would be helpful.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Let me have Morgan address your first question and then Mark your second. So Morgan?

Morgan Kendrick - *Elevance Health Inc - Executive Vice President, Elevance Health and President, Commercial and Specialty Health Benefits*

So George, thanks for the question there. First of all, we're really pleased with the commercial ACA performance. That business has turned out to be quite a good one. And as you've noticed over the past several years, we've taken a very prudent methodical approach to getting into various markets and actually growing that slowly.

It's one where we've seen the trends as they are they've been priced for. This year, we're particularly pleased with the fact that we've expanded into non-Blue geographies in three additional markets. So we really look at this as an overall white space.

Certainly, there's the opportunity to have a reduction in the actual subsidies or elimination, which would certainly shrink the market at some sorts, if indeed that occurs. That said, we absolutely believe that this is a really, really solid market for us.

We like the business. It's a complementary business for us in taking risk, and it certainly created a promising white space for long-term growth as we continue to kind of create that harmonious connection between [Medi]Care, [Medi]Caid, and ACA. So it brings together both government and health benefits or commercial benefits. And I'll pass it to Mark to the balance of your question.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

George, thanks. At this time, there's really no change in our effectuation rates being a little bit conservative in the assumptions. I'd say the effectuation has been very consistent with what we've observed in the prior years. And our guidance for membership growth that we released this morning, incorporates those assumptions.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

And one thing about -- just in terms of where the Federal Government. Obviously, there's still a lot of discussions. There's no final policy. And I think one of the things to consider that -- there's a lot of flexibility that Congress has when considering an extension of a subsidy, so it doesn't have to be an all or nothing decision.

Adjustments can include full extension or partial. So just as we go through this process, we're obviously sharing the value that these subsidies have for our members and the impact it has to them. Next question, please.

Operator

Scott Fidel, Stephens.

Scott Fidel - *Stephens Inc. - Analyst*

Hi, thanks. Good morning. I wanted to just get a clarification and then a question. Just the clarification would be appreciate Mark's comments on the operating margin dynamics for Carelon by '27. I was hoping maybe, Mark, if you could also just elaborate on health benefits and whether those margin targets are still intact for '27 or have evolved? And then also I was just curious if you guys can give us the breakdown in the commercial risk enrollment growth guidance between commercial group and the exchanges. Thanks.

Mark Kaye - *Elevance Health Inc - Chief Financial Officer, Executive Vice President*

Thank you very much for the question. Scott, just on the health benefits margin. So again, maybe just to reiterate some of the importance from my prior commentary. So our long-term vision and margin objectives for health benefits business haven't changed. And we do remain confident in the earnings power that's embedded in these health businesses and the growth they continue to drive for Carelon.

In terms of the change we made this quarter based in part on investor feedback was really to reflect faster than projected. And I spoke about this a minute ago, that the positive growth that we've delivered across the Carelon businesses.

So concurrent with that, we also want to stay prudent about the pace at which our evolving health benefits business mix and investments come together to support those long-term target margins. We'll provide more details at this year's investor conference about where we stand with that, and you'll hear more about the growth opportunities at that time.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Yes. Thanks, Mark. And again, I guess our key message is we believe that there's really strong embedded earnings power, and Carelon has really accelerated that as well. So that's really the message that we are trying to share today. Next question, please.

Operator

Michael Ha, Baird.

Michael Ha - *Baird - Analyst*

I wanted to revisit AJ's question and ask it in a bit different way. So regarding your '25 MA growth guide, healthy growth in line with expectations, averting the worst case high-growth scenarios that investors had. With that said, for the investors who may still push back and say, okay, Elevance only achieved this healthy growth level through aggressive plan suppression tactics, and that the company still mispriced the business.

Curious to hear your response to that. I know you're still very confident. But given this context, I'm trying to get a better sense of the level of conviction and confidence on MA margins this year. Thank you.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thank you for the question. I guess sort of just to level set kind of our view. I mean, obviously, we were very specific around wanting to target certain types of growth by marketplace, geography and product as well as continue our growth in our strong duals business.

So I guess I would reframe the answer, to your question as we had really good retention. And that in our individual Medicare Advantage book, I think, has positioned us quite well for sustainable long-term growth. So we feel all of this actually plays into our long-term strategy. We're being prudent around where Medicare is going as Mark shared in sort of our guide around trend, and want to make sure that we position that business the right way.

The other growth that we saw, which is also, I think, a significant positive is in our group growth. And that's from a large client that we have significant experience with and have worked with. And I think that is an inherent part of our strategy in group MA is to convert those members over. And we did that this year, and we're really pleased with.

And we saw some stronger growth because of the strength of the brand that we have with that customer. And again, the strong service and delivery, we've delivered this customer for many, many years. So I guess my positioning is we feel quite good about where we said we were going to guide for growth, where we are ending on growth. And it is the right mix of product and geography to match where our capabilities are. Next question, please.

Operator

Whit Mayo, Leerink Partners.

Whitman Mayo - *Leerink Partners LLC - Analyst*

Thanks. I just wanted to get a quick update on the performance of your Puerto Rico MA business. How did that perform last year versus your targets? And what are you thinking about growth in margins this year and whether or not that's driving any contribution to the views on stabilization overall MA margins. Thanks.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Well, Felicia should address that. Thank you.

Felicia Norwood - *Elevance Health Inc - Executive Vice President, President - Government Business Division*

So, good morning, Whit, and thank you so much for the question. As you know, as we headed into AEP of '24, we made some strategic decisions with respect to our Puerto Rico business, making significant reductions in our supplemental benefits to make sure that over time, we were balancing margin and membership. And I will say that the success of that was very solid.

We demonstrated our ability to be able to get to a place we needed to stabilizing that environment. It worked very well in '24 and we continue that same strategy as we headed into 2025. So we feel very well about how we are strategically positioned in Puerto Rico and look forward to continuing to make sure that we deliver value to the residents of Puerto Rico in the MA program. So thank you very much for that question.

Gail Boudreaux - *Elevance Health Inc - President, Chief Executive Officer, Director*

Thank you, Whit. And that will be our last question. I want to thank everyone for joining us on the line today and for your continued interest and support in Elevance Health. We entered '25 resolute in our efforts to make the healthcare system simple, affordable and accessible for our members. And we're confident that our actions will ensure meaningful impact in 2025 and position the business to return to our long-term growth algorithms over time. Thank you so much again for your interest in Elevance Health, and have a great rest of your week.

Operator

Ladies and gentlemen, a recording of this conference will be available for replay after 11:00 AM today through February 23, 2025. You may access the replay system at any time by dialing (866) 405-7292, and international participants can dial (203) 369-0604. This concludes our conference for today. Thank you for your participation and for using Verizon Conferencing. You may now disconnect.
