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ELV.N - Q2 2025 Elevance Health Inc Earnings Call

EVENT DATE/TIME: JULY 17, 2025 / 12:30PM GMT

**OVERVIEW:**

Company Summary

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**Felicia Norwood** *Elevance Health Inc - Executive Vice President and President, Government Health Benefits*

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**Morgan Kendrick** *Elevance Health Inc - President of Commercial Health Benefits*

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**AJ Rice** *UBS AG - Analyst*

**Stephen Baxter** *Wells Fargo Securities LLC - Analyst*

**Lisa Gill** *JPMorgan Chase & Co - Analyst*

**Lance Wilkes** *Sanford C Bernstein & Co LLC - Analyst*

**Justin Lake** *Wolfe Research LLC - Analyst*

**Erin Wright** *Morgan Stanley - Analyst*

**Ben Hendrix** *RBC Capital Markets Inc - Assistant Vice President*

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

**David Windley** *Jefferies LLC - Equity Analyst*

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**Ryan Langston** *Cowen and Company LLC - Analyst*

**Sarah James** *Cantor Fitzgerald LP - Research Analyst*

**George Hill** *Deutsche Bank AG - Analyst*

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## PRESENTATION

**Operator**

Thanks, ladies and gentlemen. Thank you for standing by and welcome to the Elevance Health second-quarter earnings conference call. Later we will conduct a question-and-answer session. (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 second-quarter 2025 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, our 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 discussion of our second quarter performance and revised outlook as well as the progress we've made against our strategic initiatives. Mark will then discuss our financial results and outlook in greater detail. After our prepared remarks, the team will be available for Q&A.

During the call, we will reference certain non-GAAP measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are available on our website elevancehealth.com. We will also be making 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 may 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 Boudreaux** - *Elevance Health Inc - President, Chief Executive Officer, Director*

Good morning, and thank you for joining us.

Let me start by directly addressing our revised full-year outlook. We know this adjustment is disappointing, and we're taking concrete actions to address it. Our focus is on execution, making the right decisions now to strengthen the business and position Elevnace Health for long-term sustainable performance.

Our strategy remains grounded in delivering whole health solutions that are simple, affordable and personalized. While the external environment continues to evolve, we are focused on the areas within our control, managing cost, deploying targeted investments and reinforcing the operational foundation that supports long-term value creation.

In the second quarter, we delivered adjusted EPS consistent with our expectations. These results reflect continued strength in our Medicare Advantage portfolio and disciplined cost management across key parts of the business as we navigate evolving dynamics in the ACA and Medicaid markets. Our Carelon platform continues to drive growth.

CarelonRx is gaining traction in the market with its integrated medical pharmacy offering. And Carelon services delivered strong results with CareBridge scaling rapidly across dual eligible and high acuity Medicaid populations. As I mentioned at the start of the call, we are revising our full year 2025 adjusted EPS guidance to approximately $30. This reset reflects the same pressures that others in the sector have now confirmed, particularly elevated medical cost trends across ACA and slower than expected Medicaid rate alignment.

Importantly, this decision is anchored in our view that the elevated trends we are now observing will persist and reflects our updated visibility into the second half of the year. It is not based on assumptions of a near-term recovery.

We are choosing to act now, not later, to ensure our outlook reflects prevailing conditions and to give investors a clearer visibility. We believe this step positions us to execute with discipline and begin rebuilding long-term margin stability that will empower our future growth. Looking ahead, we're executing against a clear strategy focused on strengthening structural performance across the enterprise.

We're advancing our efforts to stabilize trends, particularly in high-cost areas like specialty services, post-acute care and certain outpatient settings. Our programs focus on ensuring the right care in the rate setting, grounded in safety, quality and outcomes.

In support of our commitment to simplify care delivery, we have significantly streamlined our prior authorization processes with over half of electronic requests now processed in real time, and fewer requirements for high-performing providers. Our AI-enabled tools such as Health OS and Intelligent Clinical Assist, help streamline clinical workflows and accelerate routine approvals by surfacing relevant data.

All medical decisions requiring clinical judgment are reviewed by licensed professionals with independent oversight to ensure [care is] appropriate, consistent and aligned with our commitment to quality. We're also using advanced analytics to identify fraud, waste and abuse, enabling us to intervene where patterns deviate from clinical and billing standards, reinforcing system integrity while protecting appropriate access to care.

Our value-based care portfolio continues to expand, particularly in behavioral health and oncology. More than one-third of our benefit expense is now in downside risk arrangements, supporting improved care coordination and cost predictability. Through Carelon, we're scaling these capabilities across Elevance Health and with external clients helping to drive better outcomes for complex and chronic populations.

Importantly, these are not future state aspirations. They are embedded in our operations today and form the core of our multiyear plan to stabilize margins and build sustainable earnings power. While it is still early to provide an initial outlook for 2026. The actions we're taking are designed to stabilize trend, improve pricing alignment and restore operating leverage over time.

In ACA, we've already repriced products for rising cost intensity. We also expect a broader market reset in 2026 as the scheduled expiration of enhanced subsidies drives further risk pool changes and our position reflects early disciplined action. In Medicaid, we're proactively engaged with state partners to ensure that upcoming cycles continue to reflect the developing acuity environment. While rate recovery has lagged current cost levels, we expect a meaningful catch-up as utilization data becomes more actionable.

In commercial, we're maintaining a disciplined approach to pricing, ensuring our renewals and network contracts are aligned to the trend environment. And in Medicare Advantage, we bid with discipline for the focus on margin normalization, supported by stable utilization and Carelon-led clinical programs.

These steps, combined with our structural cost levers and care management, payment integrity and value-based care delivery are designed to improve visibility and consistency as we move through 2025 and into the next phase of growth. We recognize that revising guidance for the second consecutive year is disappointing, and we remain committed to transparency and strong execution as we continue to navigate unprecedented cost trend affecting multiple lines of business.

We're taking this step to reflect what we can control, sharpening our execution, focusing our investments and strengthening the core drivers that will support a more durable and sustainable future. And this would not be possible without the dedication of our nearly 100,000 associates that amplify our impact every day.

We remain confident in the strength of our enterprise, the impact of our investments and our ability to create long-term value through operational discipline, innovation, and our commitment to Whole Health Transformation.

With that, I'll turn it over to Mark to walk through the financials. Mark?

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

Thank you and good morning, everyone.

Elevance Health reported second quarter GAAP diluted earnings per share of $7.72 and adjusted diluted earnings per share of $8.84. As Gail discussed, we have updated our full year 2025 adjusted earnings per share to be approximately $30, reflecting both an industry-wide increase in morbidity impacting our ACA business and a slower deceleration in Medicaid cost trend, pressures we expect to continue in the second half.

Although external conditions remain dynamic, we are prioritizing factors we can directly influence and which are within our control, including taking decisive actions to stabilize trend and align pricing for long-term sustainability. We ended the second quarter with 45.6 million medical members, down approximately 200,000 sequentially, driven by a reduction in Medicaid membership and lower effectuation rates in our ACA business, a dynamic we first highlighted on last quarter's earnings call.

Operating revenue was $49.4 billion, an increase of 14% year-over-year, principally reflecting higher premium yields in recognition of elevated cost trend and recently completed acquisitions in home health and specialty pharmacy. The consolidated benefit expense ratio was 88.9%, an increase of 260 basis points year-over-year, driven by our ACA and Medicaid businesses, partially offset by a favorable out-of-period settlement with the value-based care provider.

In the ACA market, membership shifts from Medicaid into ACA following the redetermination process, together with lower effectuation rates have driven a market wide increase in morbidity resulting in elevated medical cost trends. We have also reviewed the latest data from the Wakely Consulting Group, and our expectation for risk adjustment remains unchanged.

Importantly, our 2026 rate filings capture both the current increase in market wide morbidity and further risk pool deterioration resulting from the anticipated expiration of the enhanced subsidies. Medicaid cost trend decelerated in the second quarter, though at a more modest pace than initially expected. We are experiencing higher acuity resulting from ongoing disenrollments as well as an overall increase in member utilization.

The rate updates we received for the July cohort aligned with our initial assumptions but lagged current trend levels. As a result, we now anticipate a prolonged Medicaid margin recovery period as it will take time for states to incorporate the latest experience into rates. Medicare Advantage cost trends remain in line with our expectations with Part D seasonality progressing as anticipated, and we continue to target stable margins for the year.

Our adjusted operating expense ratio of 10.0% improved 140 basis points year-over-year. We are prioritizing strategic investments in innovative care models, artificial intelligence and pharmacy services to support long-term success.

Carelon's strong performance in the second quarter underscores our steadfast commitment to expanding its capabilities as we power our enterprise flywheel for growth. CarelonRx grew operating revenue by over 20% as we gained traction with larger clients and scaled our specialty pharmacy assets. Profitability in the quarter was impacted by ongoing initiatives around accelerating growth as we expand upmarket. Carelon Services delivered greater than 50% growth in revenue and operating gain through its expansion of risk-based relationships and the integration of CareBridge.

Turning to the balance sheet. We ended the quarter with a debt-to-capital ratio of 40.8%, preserving flexibility for strategic investments and opportunistic capital deployment. Year to date, we've returned approximately $2 billion to investors. Operating cash flow totaled $2.1 billion in the quarter, and we now expect approximately $6 billion for the full year, reflecting our revised earnings outlook and discrete working capital items.

Turning to our revised guidance for 2025, we forecast our benefit expense ratio to be approximately 90% for the full year as elevated trend levels persist in our ACA and Medicaid businesses. In a dynamic operating environment, this outlook is a prudent foundation for execution during the second half of the year. With respect to seasonality, we contemplate slightly more earnings to be realized in the third quarter relative to the fourth quarter.

And looking ahead, we're also assessing the implications of the recently passed budget reconciliation bill, particularly Medicaid work requirements and more frequent eligibility reviews as well as the scheduled expiration of the enhanced marketplace subsidies. These changes could present near-term enrollment pressures and further shifts in the risk pool.

Finally, we are focused on restoring margin stability and building long-term earnings power through disciplined pricing, growth in Carelon and investments in technology to deliver value for our members and shareholders over time.

With that operator, please open the lines for questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Andrew Mok, Barclays.

**Andrew Mok** - *Barclays Services Corp - Analyst*

Hi, good morning. Question on the ACA. Can you help delineate the pressure you're seeing in that business between unit cost trends and shifts in the risk pool? And in the prepared remarks, I think you said your expectation for risk adjustment this year remains unchanged for the current year. So can you explain how that's possible given the higher morbidity that we're seeing? Thanks.

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

Andrew, thank you very much for the question and good morning. There are three principal factors that we are monitoring, and which are behind the sharper uptick on medical trend in our ACA book. The first is the risk pool acuity and morbidity, which has risen materially as a result of the higher proportion of relatively healthier members, especially in states with a larger portion of fully subsidized individuals.

And we've seen that occur because of the exit from the market. And that's concurrent with higher acuity members from Medicaid moving into ACA following the redetermination process. And you could think about that as being about 70% of the total impact.

Second and third impacts related to utilization. Utilization is running higher in several cost categories in ACA, notably emergency room visits, behavioral health services, some prescription drugs in specialty pharmacy, very consistent with the claims pattern that we have previously called out.

And on utilization here, we also do see a subset of providers employing more aggressive coating tactics and, in some ways, inappropriately leveraging what we think of as the independent dispute resolution process and that obviously inflates allowed amounts. I just wanted to make a comment here that, that inappropriate use of IDR is about -- is contributing to higher costs for the entire health care system without necessarily improving patient care. And you can think about that as being about 30% of the total.

On risk adjustment, the key point here is that the uptick in member acuity we are observing is driven by a broader market-wide morbidity trend, not by shift in our membership mix versus the market or a risk adjustment profile.

**Operator**

AJ Rice, UBS.

**AJ Rice** - *UBS AG - Analyst*

Thanks. Hi, everybody. I might just ask you, if possible, when we think about the revision you're making here, obviously, you're calling out the two areas, the public exchanges, the ACA marketplace, and Medicaid. Can you size a little bit for us? Or give us a sense about how much the relative impact of each of those is in the guidance revision. And I would guess on Medicaid, it sounds like it's a matter of just pushing out 6 to 12 months having the data to get the updated rates?

Is that the way to think about it? And then on the public exchanges, though, it sounds like you've got to reprice, you've got to take into account everything you're seeing this year plus the loss of the enhanced subsidies next year potentially. How challenging is that, if possible, to comment on at this point? And is margin recovery on the exchanges next year even practical to think about?

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

Well, thanks for that question, AJ. There's a whole number of parts. Let me take a step back and sort of reframe for you the sort of outlook that we've given. I think, first and foremost, as you heard in our prepared remarks, we took a prudent view of the full year, and we look to really incorporate those elevated trends that we experienced in the second quarter. I think importantly, we're not betting on new initiatives to bend the trend or cost curve. So we didn't assume any improvements in trends for the remainder of the year.

If you think about ACA, I'll touch on that, we have embedded a more elevated morbidity profile into our forecast. We think that the morbidity has stabilized, given what we've seen but we're also allowing for potential for a more significant pull-through at the end of the year as we expect -- unless something happens with those subsidies that we'll expect people to be using more services.

So that's embedded as people will seek treatment before coverage could potentially lapse, and I think that's an important assumption. Secondarily, on Medicaid, we're also planning for elevated morbidity due to the ongoing enrollment losses. You saw that in the second quarter in some states that have already begun more aggressive redetermination processes.

So we're seeing that. We do expect a more gradual alignment to rates, if you noticed. We have been pleased. It's been a very constructive discussion, and rates came in line with our original expectations, what changed is that morbidity increase because of the enrollment losses that increase that profile. So those rate discussions remain constructive in our states. So we're not, again, forecasting anything new in terms of what's happening there. We have made progress, and we continue to expect it to be a step down.

And then as Mark said, we're urgently working, honestly, to bend the cost trend. But again, in terms of a forward look and outlook, we haven't taken that into guidance, but again, I know that it's important. I'll turn it over to Mark to talk a little bit about your percentage issue and how that frames out.

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

Yeah, very briefly, AJ, if you think about the reduction in full year guidance split between ACA and Medicaid is slightly more weighted towards ACA.

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**Operator**

Stephen Baxter, Wells Fargo.

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**Stephen Baxter** - *Wells Fargo Securities LLC - Analyst*

Hi. Thanks. Just wanted to ask on the Medicaid side. I think the concern is kind of broadly that you're going to continue to get caught up on, I guess, what I would refer to as base period rates being incorrectly set, but then there's going to be a disconnect or potentially at risk of being a disconnect on forward trend where you're going to be continually underpaid there.

I guess how do you think about that dynamic? Do you think that's an accurate characterization of really kind of what's happening right now? And how do you think you address that with states if you need to make some argument for higher forward trend than you've received over the past couple of years? Thanks.

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

Yeah. Thanks for the question, Stephen. Just a couple of thoughts. I think first, we're going through what I would call an unusual cycle coming out of the pandemic where there was significant redeterminations, the acuity change pretty dramatically, and we have asked the states to move forward their view from their normal practices, and they've been very constructive.

So again, I just want to reinforce that the discussions with the states based on the data that we've been sharing with them, they've been very responsive, and those rates have aligned when we look at our [7-1] rating.

We're seeing, again, though, some additional just because of moving forward of some of the new regulations that are coming in, additional redeterminations. And so that data needs to catch up with the states. Our sense is that will normalize over a couple of rate cycles. And again, they're using actuarially sound data. We're getting it in front of them faster than they've ever used it. And I think that's a very positive sign.

Maybe I'll ask Mark if he wants to comment a little bit more specifically on the discussion with the states.

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

And very briefly, I'd add on here. So the updated guidance that we put out this year does anticipate slower trend deceleration together with that ongoing risk pool pressure to persist in the second half. Importantly here, Medicaid margins are still expected to show year-over-year improvement in the back half. We do expect them to remain positive for the full year, albeit below our long-term targets.

**Operator**

Lisa Gill, JPMorgan.

**Lisa Gill** - *JPMorgan Chase & Co - Analyst*

Good morning. Can you maybe just talk about what you're seeing on Medicare Advantage. Gail, I think you made a comment that you have MA strength in the quarter, but just curious around what you're seeing on trend there. And you also made a comment around your bids for '26 around margin recovery. So maybe if you could just give us a little more color as to how you're thinking about bids as well for Medicare Advantage.

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

Sure. Thanks for the question, Lisa. Let me directly address your question on trend in Medicare Advantage. It remained elevated, but it came in line with -- consistently with our expectations. So similar to what we've been sharing in the first quarter and along other conferences, very much consistent in line, so we didn't see any difference.

Let me ask Felicia to talk a little bit about our bid strategy and share how we're thinking about that.

**Felicia Norwood** - *Elevance Health Inc - Executive Vice President and President, Government Health Benefits*

Good morning, Lisa and thank you for the question. As we look ahead to 2026, it is still too early to be specific about our bid. But I will say that we continued a very disciplined and thoughtful approach in terms of how we approach the bid knowing that there is going to be the potential for some volatility as we head into 2026. We prioritized the plan offerings that we believe are going to deliver strong retention for us and sustainable long-term value for our members.

We specifically focused on geographies and plan types that we've been very much focused on as we go forward, namely our HMO, our duals and certainly looking to lean into margin as we think about 2026. So it's too early to comment on the more specifics of that, but we feel very good about how we are positioned, the actions we've taken to lean into margins as we go forward and the progress we continue to make around stabilizing and improving our margins in the MA program.

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

Thank you, Felicia. And the only add I would make is just a reminder, this has been a multiyear strategy for us over the last several bid cycles where we're really focused on trying to get to stability in this marketplace and have taken those approaches. So thank you and next question, please.

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**Operator**

Lance Wilkes, Bernstein.

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**Lance Wilkes** - *Sanford C Bernstein & Co LLC - Analyst*

Great, thanks. Could you comment a little bit on the utilization you're seeing, understanding risk pool deterioration in a couple of those lines. If you could just talk a little bit about utilization you're seeing by category, inpatient, outpatient, et cetera, and then also differences by segment. And along those lines, if you could comment on prior period development, how things are developing in reserves. Thanks.

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

Thanks very much for the question here. Maybe let me start off by saying the ACA marketplace is in the midst of a broad recalibration that is exerting near-term pressure on managed care performance across the industry. And there are several underlying drivers, some of which I called out a moment ago, but principally among them the migration of membership for Medicaid post redeterminations on to the exchanges.

And that, together with the lower effectuation rates we're seeing in some states has made the resulting risk pool much more acute, and that's really what's driving the elevated medical cost trends. So in effect, again, you could think about this as a market-wide mobility shift not in Elevance specific pricing or risk adjustment issue.

As we think about the individual categories, as I noted earlier, chief among them is emergency room and behavioral health services. Maybe just to call out one stat here. For the ACA, we are seeing members in our 2024, '25 cohort utilizing the emergency room at nearly 2 times the level of our commercial group members. And then finally, on prior year or prior period development, there's nothing of particular note to call out here. As you'll recall or as you'll see in our filed earnings release this morning was approximately $40 million for the quarter.

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**Operator**

Justin Lake, Wolfe Research.

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**Justin Lake** - *Wolfe Research LLC - Analyst*

Thanks. Good morning. Just a couple of numbers questions here. First, I appreciate your color on the split of the guidance revision. If I think about the impact here, would it be fair to say your Medicaid margins are now maybe in the 1% range. And maybe the exchanges are slightly negative. And then just given the potential for margin improvement in Medicare, the exchanges and Medicaid next year, do you see the potential to grow above the 12% LRP next year? And maybe you could share your view of head with the tailwinds in 2026. Thanks.

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

Thanks very much for the question. There's a couple there. Maybe to start, let me -- we do not break out individual business margins, but we do expect our operating margin on the individual ACA business to decline year-over-year in the high single-digit percent range. And that really underscores why we're proactively leaning into disciplined '26 pricing, why we're intensifying the key management programs that are in flight.

Why we're looking at selective provider contract actions, again, to help rebuild margin and ensure long-term sustainability. As I mentioned earlier, on Medicaid, margins are still expected to show year-over-year improvement in the back half. They will remain positive for the full year, albeit below our long-term guide.

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

Yeah. Thanks, Mark. And Justin, to your second question, as we said, we're really not in a position to give formal guidance, but let me sort of frame some of the areas because there are a number of variables. One of the -- in terms of the opportunities we see, I guess, I would price to, first and foremost, significant discipline in our pricing for cost trends. And that is across the ACA, which we've already talked about, our product filings, are addressing this higher market acuity and the potential for further deterioration in the risk pool, should subsidies not be renewed.

In Medicaid, we're also, as we also shared on this call working with other states to ensure that our rates are tracking to the member acuity as well as preparing for the policy shifts that can occur. And then finally, a Medicare Advantage and as Felicia just spoke to, we have put very disciplined benefit designs and have focused on sustainable position and margin recovery.

And then I'd add to that in terms of those opportunities, we also continue to expect ongoing strong growth and performance from our Carelon business, as you heard from the call today and an ongoing what we're seeing in our pipelines. The biggest unknown for us right now is the policy uncertainties around the ultimate disposition of the enhanced subsidies in the individual ACA market. Whether they expire or there's a step down, I think, is really an important factor going into it.

The impact of the Market Integrity rule, which will come into play, which we think is a positive, quite frankly, for the discipline in the market. But again, we need to be able to understand that. So it's early for us to define. I'll share again what I said in my comments earlier. While those are unknowns, we are taking action now.

While we haven't put them into the 2025 reforecast, we are working very hard to make sure that we bend the trend on areas that Mark has talked about, some of the aberrant billing practices we're seeing, but also around areas that we think we can have an impact like ER utilization and things like that. So we'll be back to you with more clarity as the year progresses, but wanted to give you a sense of both the opportunities we see and the unknowns that we're facing as we go through this year.

Next question please.

**Operator**

Erin Wright, Morgan Stanley.

**Erin Wright** - *Morgan Stanley - Analyst*

Great. More along those lines about some of the areas that are under your control. I guess more specifically, what are you doing maybe differently in terms of cost structure initiatives throughout the balance of the year and into next year? And can you speak to the major timing magnitude of those and how you're thinking about that as you approach some of those items that are more under your control? Thanks.

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

Yeah. Thanks very much, Erin. I mean I think there's a number of things that are within our control. Obviously, we have been managing our cost structure. Most with really, quite frankly, this was something we committed to at the beginning of the year, but the transformation of using technology fundamentally to simplify our processes, to automate our processes. That is ongoing, and we have shown, I think, very strong discipline, and that will continue, and that will drive run rate for us.

We're also using our data and using AI, quite frankly, to get ahead of the cost curve. And what I mean by that is really trying to shift left to understand what's happening earlier in the process. and making sure that we are identifying these trends, particularly these billing abnormalities that we're seeing, one great example of that is the IDR process, which Mark spoke about. This quarter, we took very aggressive action and filed a legal suit against what we think is the misuse of the IDR process under the No Surprises Act.

And just to put that in perspective, we've seen out of network providers and their billing partners submit thousands of disputes sometimes hundreds in a single day, and our payment request can be significantly inflated, which is costing the entire health care system sometimes those are from as much as 21 times billed charges, just to give some perspective on this. We fully support that act, but we also know that it has to be implemented appropriately. So that's one example. We're also leaning into the work that Carelon has done. We had very good results in Carelon.

So you think about the areas that Mark talked about our ability to take more of that and manage it through Carelon, I think, is really important, whether it's around specialty services, areas like that. So again, we haven't embedded that in the trend right now, but we are clearly working on oncology, severe mental illness, MSK products, things of that nature that we think are important for affordability over the long haul. But again, it takes time to implement, and we know that the issues specifically in the individual ACA market are because the entire market has exhibited this increase in acuity across the board. So thank you very much for the question and next question, please.

**Operator**

Ben Hendrix, RBC Capital Markets.

**Ben Hendrix** - *RBC Capital Markets Inc - Assistant Vice President*

Great. Thank you very much. Just wondering if the current environment is making any -- or probably drastic changes to your capital allocation strategy this year. Are you still thinking about the kind of 50-50 split of investment versus return on capital? And then to the extent that the M&A and organic reinvestment piece of it is changing, are there shifts there that may allocate more capital internally versus for example, adding capabilities to Carelon or other activities. Just any thoughts on capital allocation for the rest of the year? Thank you.

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

Ben, thanks very much for the question. In the second quarter, we repurchased approximately $380 million worth of shares. But importantly here, our adjusted share repurchase pacing in the second quarter was different, and it was different because we wanted to ensure we had enough flexibility heading into what we see as a dynamic rate and margin environment. That said, in my opinion, with the stock trading well below what we see as its intrinsic value, I really wanted to make sure that we retain full flexibility to be more opportunistic in the periods ahead.

We are firmly on track to achieve our full year diluted weighted average share count of 225 million to 226 million. But the idea is we want to be opportunistic. More broadly on M&A, our focus in 2025 is really on integration and scaling of the acquisitions that we completed last year. So we do anticipate lower levels of M&A activity this year with a greater emphasis, as I mentioned a minute ago on opportunistic share repurchases.

And then as I try to think over the long term, we're going to maintain consistency with our algorithm, meaning we'll target deploying about 50% of free cash flow towards M&A, organic reinvestment back into the business with the other 50% being returned to shareholders, including 30% for share repurchases and about 20% for dividends. Thank you.

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**Operator**

Joshua Raskin, Nephron Research.

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

Hi. Thanks. Good morning. I guess my question is really about your commentary around creating more stability and predictability and maybe what could be done differently in the future. We've spoken about the potential for risk pool changes, both in the ACA exchanges and on the Medicaid side. And so how do you change that pricing process for the ACA or rate negotiations with the state? What makes this business more predictable in the future?

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

Thanks very much for the question, Josh. Let me maybe step back for a moment. We continue to see the ACA market as a valuable and a complementary business to our Carelon and Medicaid segment. And that's because it enables us to extend affordable coverage to more consumers while maintaining balanced profitable growth. We very much appreciate CMS's ongoing efforts to promote stability in the individual market and get that gets at the heart of your question.

They included several provisions in the recently finalized marketplace integrity and affordability rule that supported that goal, including, for example, the elimination of the monthly special enrollment periods. They strengthened pre-enrollment verification of income. And I think all of that contributes. And importantly, I'd add, our rate filings that are upcoming for the '26 cycle will capture both the current acuity and our expectation for further deterioration in the risk pool in 2026. And so in my opinion, and our opinion as a management team, more obviously could be done here.

Ultimately, we believe the AC market will likely be smaller and higher acuity driven next year, especially if the enhanced subsidies expire. And one other quick comment just on Medicaid from an earlier question. We do expect the full year 2025 Medicaid cost trend to be driven approximately a third from acuity and about two-thirds from utilization and coding.

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**Operator**

Dave Windley, Jefferies.

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**David Windley** - *Jefferies LLC - Equity Analyst*

Hi. Thanks for taking my question. I wanted to confirm an understanding and then pose a question. So Mark, to your earlier answer on ACA, if I understand right on risk adjustment, you're basically saying the pool is deteriorating, your book is basically shifting in line with the broader risk pool. So your risk adjustment assumptions don't change, your risk transfer assumptions don't change from your beginning of your expectations? Is that the right understanding of what you're saying? And therefore, the pressure on your book is reflective of just the deterioration of the book. Is that right?

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

Dave, that is spot on. And I would go one step further to say you could think about the acuity in the ACA market at this point in time, largely being stabilized post those lower effectuation rates the industry saw in April.

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**David Windley** - *Jefferies LLC - Equity Analyst*

That's great. And that tees up my actual question, which is what assumptions are you making about further attrition in the overall membership and therefore, shifts in risk pool in light of kind of thinking about, one, pre-pandemic, the ACA market attrited month by month by month normally.

And then two, to your point, that some of this acuity is coming from membership shifting from Medicaid. And I think you also made -- one of the management team members made a reference to non-Medicaid expansion states. And my concern would be that some of those Medicaid shifts will be found to be ineligible in the ACA market. Now that might help the risk pool in fact. But what -- again, what assumptions are you making about the further attrition this year in the ACA enrollment base? Thank you.

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

Great question. To be clear, at least for the remainder of 2025, we've assumed membership stability in the ACA base. What we have done is think about what fourth quarter utilization is going to do. And here, obviously, if Congress allows the enhanced premium tax credits to lapse at the year-end, we will expect a measurable last chance uptick in fourth quarter utilization as some members are going to schedule their elective care before their out-of-pocket costs rise in 2026. And starkly, the reason I bring this up is that this use it or lose it pattern has been modest in the individual market because most ACA enrollees either use coverage consistently throughout the year or they're going to hold us for financial protection.

However, the combination of what we're seeing now with this higher prevailing acuity and the likely subsidy clip has led us to believe that we're going to see a much more meaningful Q4 surge than in prior years. And that's the key assumption that we've now embedded in our full year guidance outlook.

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**Operator**

Ann Hynes, Mizuho Securities.

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**Ann Hynes** - *Mizuho Securities USA LLC - Analyst*

Hi. Good morning and thank you. Several times, you talked about increased coding, I think Mark one of your responses, you noted that HIX, you saw increased coding. Can you just elaborate on those comments? Are you seeing increased coding across all segments. And you did, I think, mentioned you said a certain set of providers. Can you elaborate on that comment?

And I think there's some indication that going forward providers might utilize AI to help document and code better. As a health insurer, how do you view this as a risk? And how do you underwrite for this behavior change?

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

Yes. Thank you for the question, Anne. I think there's a lot there. So let me clarify these questions because I think they're important. So I already spoke to the IDR issue, which is very specific. And I think that one has driven, what I'll call very unnecessary costs beyond what -- across the entire health system. And as you've heard, we're taking a very aggressive approach against those billing companies that are doing that.

So that's one specific pocket. The other one is, I would say it's actually more isolated pockets where hospitals are using some AI-enabled coding tools that can increase document acuity and in turn unit costs. We have flagged these because we've been tracking those, as I said, with our analytics earlier in the quarter.

And it is one potential contributor to outlier claims and higher allowed amounts. We are, though, putting those through our payment integrity process. So in a bit of a catch-up game, honestly, but we're very, very careful about that. And we are differentiating by the way, between what we'll call responsible innovation and inappropriate coding.

We do support providers using this technology to improve their documentation and patient outcomes and actually think that's a very good thing. So when those tools are used to inflate revenue, it's another issue, and that's where we're really focused on these outlier cases where we're seeing aberrant patterns. And we're using our technology to identify those aberrant patterns earlier.

And in those issues, we are -- in those cases, we are taking swift action. In terms of your last issue, I think it's quite frankly, about us making sure that we are looking at all the patterns. And we think that the use of AI is actually very helpful when it aligns us like in the areas of prior authorization where you can get the documentation and the medical records aligned immediately, and we have the same data and then we're not going back and forth.

So I think that's a positive in the system. But where we see it like in the IDR process, just increase that doesn't help anything around the system. We're going after that. So I want to just differentiate between that, but it has been a contributor, and it's something that we think is that we need a focused response to and that's where we're using our technology as well.

Thank you for the question. Next question, please.

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**Operator**

Kevin Fischbeck, Bank of America.

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**Kevin Fischbeck** - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Great. Thanks. I just want to go back to an earlier line of questioning about Medicaid. Because going into redeterminations, there was a lot of optimism from the industry about being proactive about risk pool shifts, understanding those shifts, better real-time data and we're still struggling with dealing with these types of things.

And I appreciate that, in many ways, the risk pool shifts have been unprecedented, but it does seem like what Trump is doing with his bill is going to create other period of the next three to five years of unprecedented risk pool shifts as well. So why should we be assuming any improvement in Medicaid margins over the next couple of years if there seems to be this lag here between rate setting and the data coming in around where costs are real time? Thanks.

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

Well, first, thanks for the question, Kevin. I think as we think about this, we still think that both Medicaid and the ACA markets are both very positive markets. And yes, there's been a period of dislocation in what's happened. But again, it has been unprecedented given what the amount of redeterminations that occurred first in the Medicaid market and now what we're seeing in the risk pool as we think about what is happening longer term with what this potential bill could do. We're monitoring those implications, particularly the enhanced work requirements, changes to the subsidy eligibility that may impact Medicaid and ACA.

And while they may present, I guess, what we'll call near-term enrollment pressure because we think we're going to be able to work through them. We've long maintained that these strong partnerships with the states and our capabilities can help them actually deliver a much better outcome.

And again, we are not passive in this relationship with the state. They're looking to us in terms of capabilities we have in the commercial market to help them manage through this. We know that a lot of the early redeterminations were administrative and the states -- quite frankly, the states struggled with the amount of volume and process.

So we've learned a lot in this process. We're going to have to work through them and also moving up the experience that we're seeing on the acuity of the population using that data earlier. We're seeing more constructive engagement from the states. Their actuaries are now, I think, quite aware of the kind of shifts that occur when this enrollment changes. So again, we have to work through what work requirements will mean. We've had it in a few states.

That will be something new for most states to have to implement. We've got some time to implement that. But again, I think those are all really important factors, and we consider this partnership with the states that we need to help them get through this process. But overall, I just want to reiterate, we do continue to think that these are core strategic franchises and that it's a short-term volatility issue that we're going to get through, and we feel really good about sort of the kind of how we're pacing through it. And as Mark said, we are seeing sequential improvement.

Thank you very much for the question. Next question.

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**Operator**

Ryan Langston, TD Cowen.

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**Ryan Langston** - *Cowen and Company LLC - Analyst*

Thanks. Mark, I hope I heard you right, but I think you said Medicaid cost trend decelerated into the second quarter slightly, but underlying utilization increased. I guess if I have that right, do you really have a sense on what's actually driving that utilization pick up. And we've seen some commentary by other competitors of states carving in benefits without suitable rate increases. Are you seeing that in your states? Thank you.

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

Thanks very much for the question. I simply say Medicaid cost trend did moderate in the second quarter. The slowdown was far less pronounced than we had expected. And to the point Gail made a couple of moments ago, we are seeing more disenrollments among relatively lower acuity members, especially as states and act more stringent eligibility reviews and that obviously raises the average acuity of the remaining population.

In terms of where we're seeing elevated utilization, I'd call out LTSS, behavioral health, inpatient medical surgery care, and those dynamics are what's putting upward pressure on costs and explain why that trends deterioration is unfolding more gradually than we first anticipated. And then again, a third from acuity, two-thirds from utilization coding and I acknowledge that is different from 2024, where we indicated 60% was acuity, 40% was utilization.

And that's simply affected simply a result of the fact that most redetermination related acuity impacts have now been absorbed while the elevated utilization is what we're seeing come through.

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

Yeah. And Ryan, to the last part of your question on the carve ins, the normal process for states implementing new programs is generally, we work with their actuaries on what we think is the right amount. And if for some reason, there's a dislocation in that, we continue to work with them. And they are usually very responsive. So again, I would look at that is not the biggest contributor.

I would a big contributor at least for us. I would look at that really as an issue of timing for the most part and generally getting that right as they get more mature in the program.

Next question, please.

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**Operator**

Sarah James, Cantor Fitzgerald.

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**Sarah James** - *Cantor Fitzgerald LP - Research Analyst*

Thank you. Can you talk about how Carelon margins are lining up compared to your initial expectations? And then some of the growth-related pressure on the Rx side from growth in large employers and specialty and then on services from CareBridge. When do you expect that to normalize? Or is the shift in CarelonRx more the long-term margin shift with the mix?

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

Let me have Pete Haytaian, who leads that business comment.

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

Thanks for the question. Sorry, you asked a lot there about Carelon, so I'll try to cover it all. On the services side, again, really strong growth, as we've talked about, and that's contributed to the year-over-year performance improvement. And as it relates to margins and service as you specifically asked about, they came in within our expectations, slightly down from last year. Again, that was largely driven by CareBridge as well as continued expansion of risk arrangements and taking on more risk, both in Elevance Health and externally. We're also very happy about what we're seeing externally in terms of growth.

And so that is all contributing to our performance. In terms of how that progresses through the year, I think that that's what you were asking as well. Similarly, because of seasonality in these risk deals, we'll see that margin decrease throughout the year. And again, with the addition of CareBridge, our margin moderates because it comes with a different profile from a margin perspective.

On the Rx side, similarly, very strong growth. In fact, it was our strongest year of growth yet. And that actually is contributing to the issues associated with our margin. The year-over-year performance from an operating perspective actually improved in pharmacy pretty nicely, 7.8% in the quarter. Margins were lower because of very significant growth that we're seeing. We continue to do well down market and middle market but also we're seeing an expansion at the upper end of the market with some large jumbo accounts.

And so we're investing in that pretty heavily as it relates to both this year and going into next year. And I would largely put that in the context of a lot of the differentiated services that we're working on along with our commercial business on programs like Total Health Connect that is really oriented to whole health and differentiated customer service. So we look forward to that continued growth and expansion in our pharmacy business.

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**Operator**

George Hill, Deutsche Bank.

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**George Hill** - *Deutsche Bank AG - Analyst*

Yeah. Good morning, guys and thank you for taking the questions. Mark, except for the Q4 surge in acuity in the ACA business, it seems like you called out. I guess first, I would ask, can you kind of quantify the expectation there. And are there any other onetime items or things that you would call out in the guide as it relates to the back of the year assumptions given that the deterioration kind of in the earnings power looks pretty significant in the back half of the year. Thank you.

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

Thanks very much for the question. Maybe I'll take this is to talk a little bit about seasonality between the third and fourth quarter. We do anticipate a modestly higher portion of earnings to be realized in the third quarter compared to the fourth quarter. And while our fourth quarter outlook reflects some utilization pull forward in the ACA exchange business, as you mentioned, I'd say there's also evolving seasonality dynamics that we've called out previously in Part D offering. The expected step down in earnings is lower than what one normally would expect. And there are two factors here.

First, in fact, most important, we expect a discrete nonoperating tax benefit to be recognized at year-end. And then second, to a lesser extent, the savings from the incremental expense reduction efforts, our in-flight medical cost management programs, they're going to have the greatest impact in Q4 helping to offset that higher trend that we've modeled into our business. And so taken together, those two factors would account for what we're seeing and likely what you're asking about George.

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**Operator**

Jason Cassorla, Guggenheim.

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**Jason Cassorla** - *Guggenheim Securities LLC - Equity Analyst*

Great. Thanks for taking my question. Just on Medicaid, I guess, given the continued disconnect there, I mean, you've talked about this being a near-term issue, wanting to be a continued partner to states, but your comments before around the potential for normalization rates, cycle normalization over the next couple of rate cycles, are you coming to a point where it could make sense to potentially exit states or reduce footprints within certain populations? Or maybe what would you have to see outright to start considering those possibilities, I guess, in context if you're trying to improve margins for that business? Thanks.

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

Yes. Thanks for the question. I think there's a couple of things. One, states in our footprint have been very responsive in terms of the alignment of what we've shown them. And we do believe at this stage, it is really catching the data up once we have the data in front of them.

They have been, again, improving the rates to align with the acuity of the population. So I think that question is clearly, we're always looking at ensuring that we have a stable Medicaid population that is aligned to the acuity and we get appropriate rates. And I think it's premature from what we've seen from our states to make those kind of determinations because, again, it's been very productive, and our states have been very responsive. Although again, it's a lag because what they're facing as well. So again, but we are always looking at this and thank you very much for the question.

Next question, please.

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**Operator**

Whit Mayo, SVB Leerink.

**Whit Mayo** - *Leerink Partners LLC - Analyst*

Hey. Thanks. Just a quick one. Maybe just an update on where you think you are around commercial margins now in light of all the commentary and how you're thinking about the pace of getting back to the targets? And any comments maybe on midyear renewals for your fully insured business. Thanks.

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

Whit, thank you very much for the question. I'll start by saying that we continue to be very pleased with the trajectory of our large group commercial margin recovery over the past couple of years. In 2025, our guidance continues to include expected strong consistent margin performance.

On utilization in that group just because we haven't touched on it, I'd say group medical trend continues to remain elevated, but really importantly, in line with what we've expected and what we priced for. Similar cost pressures in that market, emergency room visits, physician-delivered BH services and specialty pharmacy. And if I think overall commercial margins, we obviously expect a slight decline this year. That just reflects the performance of our ACA business, which we've spoken about.

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

Thanks, Mark. And maybe I'll ask Morgan Kendrick just to talk a little bit about what he's seeing in the market. I think that's an important context.

**Morgan Kendrick** - *Elevance Health Inc - President of Commercial Health Benefits*

Yeah. Whit, thanks for the question. As Mark said, outside of ACA, we're pretty pleased with the way that how the business is actually performing. And you made reference to the large group insured or risk business earlier in your question. And that's one where I think we're seeing the market harden quite a bit relative to pricing. Several years back, there was sort of a run on membership.

It's certainly the market sort of rationalized around the proper trends and the proper pricing on the business. So when we finish, we -- the second largest cohort of ours was July, we're really comfortable with how it manifested as far as the retention on that business. And where there is opportunity to continue to sell the large group fully insured products quite nicely in our geographies, albeit there is a desire for many entities who have some level of risk tolerance to move to self-funded.

So that's when we see the loss on the actual risk side. It's typically moving over to a self-funded opportunity with us. But again, quite pleased with the business, and that's consistent with how we're looking at the national business, of course, albeitreally, really strong performance.

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

Thank you, Morgan. And I think the theme there, just to sort of call it out is we've seen a I think a much more rational hardening market and are fully insured across the board and Morgan and the team have done a nice job there. We have time, I think, for one more question.

**Operator**

Michael Hall, Baird.

**Michael Halloran** - *Robert W. Baird & Co Inc - Analyst*

Hi. Thank you. Quick one first on exchanges. I understand the FTR checks this year had been delayed to the summer. Is that already concluded? Has that member attrition been reflected in your updated guide? Just trying to understand if that could be another issue to drop?

And then my main question, I guess, the piggyback off of Kevin, and Stephen's question, but maybe to frame it slightly differently. As we look ahead and as it relates to work requirements, as we think about Georgia, Arkansas precedents, what we just experienced with three determinations the large dis-enrollment from procedural reasons.

And now with the new timeline starting '27, all the preparation states need, especially with what you mentioned with how they've struggled with all the volume of processes. How do you gain comfort that work requirements won't catalyze another big procedural disenrollment situation and widen that rate acuity mismatch even further over the next few years? Thank you.

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

Thanks for the question. There's a number embedded in there. Maybe I'll ask Felicia to address sort of the work requirements component. Thank you.

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**Felicia Norwood** - *Elevance Health Inc - Executive Vice President and President, Government Health Benefits*

No. Thank you for the question, Michael. I'll start by saying that we have very good experience in terms of work requirement programs and working collaboratively with our state partners. When it's all said and done, we've operated in multiple regulatory environments. And the expectation from us is to be a good state partner in helping them through some of the operational challenges.

So we are going to be providing them with opportunities to understand how you can do this more efficiently. States certainly are always pressured when it comes to resources and staffing to support this kind of activity. And so we are there to make sure that we bring innovative programs to help them meet the needs of beneficiaries. We have that experience in Indiana, which early implemented work requirements. Georgia is another state where work requirements are in place today.

And I think we've been able to work very effectively with our state partners to make sure that we are bringing the value to the table to support our states and equally important, support members and individuals who rely on Medicaid programs to make sure that they continue to have access for necessary care as we go through this period.

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

Thank you, Felicia, and thank you to everyone on the line. As you heard on the call today, we're actively addressing the levers that we can control, even as the ACA Medicaid markets go through a period of recalibration. The actions we're taking to align pricing, stabilize trend and drive operating leverage will position us for improved performance in 2026.

At the same time, we're making the right strategic investments to enhance the embedded earnings power of the business and enable the enterprise to achieve its long-term growth objectives. Thank you for your interest in Elevance Health, and thank you for joining our call today.

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**Operator**

Ladies and gentlemen, a recording of this conference will be available for replay after 11:00 AM today through August 17, 2025. You may access the replay system at any time by dialing (866) 511-1890 and international participants can dial (203) 369-1945.

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