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ELV.N - Q3 2025 Elevance Health Inc Earnings Call

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## OVERVIEW:

Company Summary

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

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

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

**Ann Hynes** *Mizuho Securities Asia Ltd - Analyst*

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

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

**Scott Fidel** *Goldman Sachs Group Inc - Analyst*

**Erin Wright** *Morgan Stanley & Co Ltd - Equity Analyst*

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

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

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

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Elevance Health third quarter earnings conference call. (Operator Instructions) As a reminder, today's conference is being recorded. I would now like to turn the conference over to the company's management. Please go ahead.

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

Good morning, and welcome to Elevance Health' Third 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; Pete Haytaian, President of Carillon.

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 third quarter performance, our planning assumptions for 2026 and 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 financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are available on our website, [elevancehealth.com](https://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 the 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. Health care is at a pivotal moment. The industry has been challenged by rising medical and pharmacy costs and regulatory changes that will impact coverage for millions of Americans. At Elevance Health, we're focused on lowering the total cost of care and improving the member experience.

We're acting with urgency through an integrated clinical and benefits approach leveraging value-based care to align incentives, improve outcomes and guide people to high-value, lower-cost settings, tools like Health OS and our AI-enabled clinical support are already reducing friction, feeding decisions and bending the cost curve.

Our third quarter results reflected solid execution with the benefit expense ratio in line with our expectations. While results included approximately \$1 of favorable items below the line, underlying performance remained consistent with the outlook we shared last quarter. We are reaffirming 2025 adjusted EPS of approximately \$30 and continue to view \$27 a as the appropriate earnings baseline, excluding \$3 of discrete nonrecurring items.

As we planned for 2026, our posture is prudent and practical and we're approaching next year with discipline and focus. We want to set expectations that reflect today's realities, acknowledge uncertainties that remain and be clear about the levers we control. While we are still in our planning process for next year, there are a few key assumptions that will shape our outlook.

Starting with Medicaid, continued membership reverifications and state program changes have driven acuity higher, and we are planning for at least 125 basis point year over year decline in Medicaid margins as rates like acuity and utilization trends remain elevated. This is an initial input at this early stage, not formal guidance.

In Medicare Advantage, we've taken disciplined actions to improve profitability in 2026. We focusing on products that drive retention and value while exiting plans not aligned with our long-term strategy. For the 2027 payment year, approximately 55% of our MA members will be in four star or higher contracts, including three, five star contracts, up from about 40% for payment year 2026, demonstrating steady improvement in Star's performance and strong returns on the investments we've made.

In commercial, our integrated medical pharmacy model and advocacy solutions continue to resonate with employers. We maintained a disciplined approach to pricing, and we're pleased with strong client retention.

We continue to see expansion in our fee-based relationships driven by new client growth and sustained high retention among our large employer customers. Our industry-leading net Promotor scores reflect the trust employers place in our model. In the ACA market, our products are positioned to provide value to members while reflecting the higher acuity observed this year.

We have taken a disciplined approach to pricing, while continuing to design offerings that ensure affordability and access. The anticipated expiration of enhanced subsidies would significantly impact membership in 2026. If the subsidies are extended, we work closely with states to support implementation and ensure continued access for consumers who rely on this coverage.

Caroline is expanding external relationships and scaling Furnas, behavioral health, specialty care management and home-based services, embedding value-based care principles throughout. External revenue grew double digits year over year, reflecting broad momentum across pharmacy behavioral and specialty services.

Clients are turning to us for the value we deliver. Carelon Rx had another strong selling season for 2026 with several national account wins and high retention. Carelon Services continues to deepen its partnerships with external clients, driven by high-value solutions and the launch of new innovative products.

At the same time, enrollment dynamics and health benefits will create a directional headwind for Carillon next year, which we will size when we provide our earnings guidance in January. In Medicaid, reverification effects have raised acuity and sustained higher cost trends and states are preparing program changes that will influence the pace of rate adequacy.

We are proactively working with our state partners on rate alignment, recommending program improvements such as benefit refinements and supporting states as they implement program changes. In parallel, we're expanding behavioral health interventions, strengthening specialty drug management and optimizing sites of care. These steps are designed to improve program effectiveness and bend the cost curve.

We are creating our own future through innovation. By year-end, more than 10 million members will have access to our AI-enabled virtual assistant, demonstrating how digital innovation is enhancing access, efficiency and engagement across our platform. For providers, we've lowered the number of prior authorization requests in the last two years, and providers Elevance Health OS platform benefit from aligned data sharing, faster approvals and reduce administrative burden.

These initiatives collectively improve affordability, experience and productivity across Elevance Health. Looking ahead, by January, we expect greater visibility across our Medicaid rate cycle marketplace subseas and Medicare AEP results. A more complete picture of 2025 trends will refine our outlook for medical costs and the impact of our care management programs.

With these -- we will then establish guidance that is both prudent and achievable. Capital deployment remains an important lever in our long-term earnings growth algorithm. Following several years of strategic acquisitions to expand Carillon capabilities, our focus is now on integrating those assets. We remain committed to disciplined capital allocation balancing investment in growth with consistent shareholder returns.

We will prioritize returning capital to shareholders through share repurchases, while remaining disciplined stewards of capital. Stepping back, our message today is straightforward. We delivered results consistent with our revised outlook and reaffirm our 2025 adjusted EPS of approximately \$30. We're approaching 2026 with discipline and focus and will provide an EPS range in January. While we recognize the external environment remains dynamic, we are confident in our strategy, our execution and our ability to drive sustainable value for our stakeholders.

With that, I'll turn it over to Mark to discuss our financial results and outlook in more detail.

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

Thank you, Gail, and good morning to everyone. Elevance Health reported third quarter GAAP diluted earnings per share of \$5.80 and adjusted diluted earnings per share of \$6.03. Our operating performance reflected enhanced medical cost management and expense discipline, consistent with the expectations we outlined last quarter.

We are sharpening pricing, accelerating our digitization and automation journey and embedding value-based care principles across our enterprise. Relative to the earnings cadence previously described, results this quarter benefited from the timing of planned tax actions contemplated in our full year guidance and stronger net investment income, a portion of which we intend to reinvest to support our long-term growth.

As Gail discussed in her remarks, we are reaffirming 2025 adjusted EPS to be approximately \$30 and continue to view \$27 as the appropriate earnings baseline for modeling purposes. This excludes approximately \$3 of nonrecurring favorable items primarily tax, the value-based provider settlement recognized in the second quarter and valuation adjustments that benefited net investment income.

Total operating revenue for the quarter was \$50.1 billion, up 12% year over year, reflecting higher premium yields, recently closed acquisitions and growth in our Medicare Advantage membership partially offset by ongoing Medicaid reverifications. We ended the quarter with 45.4 million medical members.

This enrollment in our Medicaid membership remains concentrated among lower acuity members driven by more stringent eligibility reviews and changes to state reverification processes. The consolidated benefit expense ratio was 91.3%, aligned with our expectations. Medicaid performance reflected pressure from elevated acuity and utilization, which were not fully offset by rate update.

We now expect our full year 2025 Medicaid operating margin to be modestly negative, establishing a baseline from which we anticipate a decline of at least 125 basis points in 2026 as rates continue to lag acuity and utilization trends remain elevated. We continue to partner closely with states on rate adequacy and operational enhancements to ensure the sustainability of their Medicaid programs.

Medicare Advantage costs, inclusive of Part D were marginally better than expected due to disciplined plan design and member composition. Trend has been elevated but manageable and we now expect our operating margin to increase slightly in 2025 and though still well below our long-term range. Performance in the ACA market developed somewhat favorably to the prudent expectations we set in July, the cost trends remain significantly above historical levels.

We continue to anticipate a high single-digit decline in full year operating margin and are planning for higher costs in the fourth quarter as members utilize their benefits ahead of coverage changes next year. Cost patterns and margins in our Commercial group business were consistent with our expectations.

Our integrated medical pharmacy model and advocacy solutions coupled with Talon's differentiated value-based care approach is driving higher retention and expanded fee-based relationships -- continues to deliver strong performance across both pharmacy and services, reflecting the power of our integrated platform. Kill on Rx revenue grew 20% year over year, driven by strong momentum with our largest clients, and Killon services grew by more than 50%, supported by robust organic growth and the continued integration of Caybridge.

We are making targeted investments in technology, integration initiatives and operational efficiency to sustain this growth and enhance performance across the enterprise. While Killon-Rx margins are expected to be modestly below our guidance due to these investments, -- Services is trending towards the high end of our guidance range, highlighting the strength of our differentiated value-based care model.

Together, these businesses demonstrate how Kalon is driving growth across Elevance's Health. Our adjusted operating expense ratio was 10.4%, and we continue to manage the business with discipline while making targeted investments to scale -- capabilities, support and strengthen our workforce and accelerate technology adoption. Net investment income was \$625 million, with approximately \$150 million, primarily related to discrete valuation adjustments in our alternative investment portfolio.

Third quarter operating cash flow of \$1.1 billion or 1 times GAAP net income was impacted by the cash settlement payment related to the Blue Cross Blue Shield multi-district litigation. Our balance sheet remains strong, preserving flexibility to support our growth objectives, invest in new capabilities and return capital to shareholders.

In the quarter, we repurchased \$875 million of shares reflecting our disciplined approach to capital deployment and commitment to returning value to shareholders even as we continue integrating recent acquisitions. We maintained a prudent posture with respect to reserves.

Days in claims payable of 42.6 days, excluding the impact of Caybridge, were approximately flat year over year. Turning to next year. While we are not providing 2020 earnings guidance today, I will outline several key variables informing our planning assumptions. Our current outlook assumes our Medicaid operating margin will decline by at least 125 basis points year over year.

The critical factors underpinning this input include the ongoing misalignment of rates and acuity, elevated utilization trends and funding and eligibility changes in certain states. We will refine our view on our fourth quarter call as we gain visibility on the premium rates that reset in January

and the impact of state specific program changes. In Medicare, we took a disciplined and thoughtful approach to 2026 bids prioritizing plans that deliver attractive value to members, while producing sustainable financial performance.

As we have previously noted, we exited certain service areas that will impact approximately 150,000 members. We expect strong growth in Carelton to continue across both pharmacy and services, offset by the impact of expected health benefits membership losses.

And finally, our operating expense outlook includes several hundred million dollars of incremental investments to advance our strategic goals. We are intentionally prioritizing durable, long-term performance over near-term expense leverage. These include targeted use of AI and digital tools to enhance the member and provide experience, the expansion of Carelton's capabilities and initiatives to strengthen future performance, including improvements in our Star ratings.

Looking beyond 2026, we remain confident in the enterprises long-term algorithm. While next year will reflect challenging Medicaid dynamics, membership changes and disciplined investment we expect 2027 to mark a return to a more balanced earnings growth profile.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) A.J. Rice, UBS.

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### AJ Rice - UBS AG - Analyst

Thanks. Hi everybody. Maybe just to try to drill down a little further on the comments around Medicaid. Obviously, you're saying this year, you're slightly negative or somewhat negative and then you're going to be 125 basis point margin incrementally negative next year, it sounds like. When you're -- in your dialogue with the states, are they acknowledging that? Are they seeing you as being unique relative to other players in that trend, and therefore, it's harder to get the update. And as you talk about where the pressure points are, can you sort of give a little more flavor?

Is it just the cost trend is worse than you would have anticipated, and you expect it to continue to be worse? Is it the rate updates are not coming in as you thought? And then are you factoring in any of this change in benefit design that states are contemplating? Or would that be potentially upside if that would occur?

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

Thank you, A.J. Pretty fulsome question. So why don't I ask Mark to sort of frame some of how we're thinking about it and then Felicia to comment specifically about the discussions with the state. Mark?

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

Good morning. So we're not going to be providing specific point estimates for the composite rate update or the medical cost trend today. But let me clearly frame sort of the two anchors behind our outlook for at least the 125 basis points decline next year. The first is trend. Our preliminary 2026 Medicaid trends assumption is really anchored to our expected fourth quarter exit rate which we typically also view as the seasonal low point for Medicaid margins in the year. So it's really a prudent base from which to plan 2026.

And for context, we now expect the full year 2025 Medicaid operating margin to be modestly below breakeven or approximately negative 50 basis points. And that aligns with what we've previously communicated. The trend continues to be pressured by elevated acuity and utilization driven

by some of those state reverification processes and program changes. Second is rates. We do expect state rate updates to be modestly above historical levels, but still trail trend into 2026, given, say, rate cycle lag claims data and that more acute risk pool.

And so if I put those together, that gets us to our initial planning assumption for 2026. SP1671564738 And here's the important point. We do view 2026 as the trust, not the beginning of another reset period. And the actions we are taking will position us to improve through the cycle as we ultimately target that 2% to 4% margin range over time.

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

So A.J., thank you for that question. Our conversations with our dates remain very constructive. The state certainly recognize the challenges around affordability in this program, but our expectation that rates remain actuarially sound. One of the things that's changed certainly in conversations this time around, is states are certainly more receptive to ways that can help reduce the overall cost of the Medicaid program improve affordability. So one of the things that we've been doing is providing them with options around the levers that they have that can certainly address some of the program changes that are increasing cost and utilization in the program.

So for example, we've seen increases in certain categories of services things like ADA, which is high behavioral analysis, changes that we can make with respect to GLP-1s and other things that have been up cost.

The conversations this time around have certainly not just been about raised. So states are exploring ways that they can reduce their program costs in orders so that we all have a program that's more sustainable. So at this point, I will tell you the conversations are solid. They're going very well there's been a very nice change around ideas for maintain the long-term sustainability of the Medicaid program, which we're all aligned around, and we look forward to continuing to work with our states through this process. But -- we've laid out several approaches.

There's greater receptivity and we look forward to continuing to work collaboratively with our state partners around the long-term sustainability of this program.

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

Thank you. Next question, please.

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**Operator**

Stephen Baxter, Wells Fargo.

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

Hi, thanks. I just wanted to ask about some of the investment spending that you flagged in the slides, I think you're talking about potentially several hundred million dollars of investment Obviously, the company is investing every year. So trying to understand what you guys are trying to spike there in terms of materiality to 2026.

And then it also you look at some of the commentary that you have two and speaking about the influence of investment spending on your ability to grow earnings there. Is it fair to think that some of this increased investment is transitory in nature. Just hoping we could understand that better coming off the call. Thanks.

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

Steve, thanks very much for the question this morning. So if we look ahead to 2026, we do expect to meet discrete investments worth several hundred million dollars and quantify that as approximately \$1 of EPS really to advance our strategic goals. And these dollars are going to be really focused in three primary areas. First, technology adoption, where we're deploying AI into clinical workflows, automating roster processes, modernizing core systems already simplifying care delivery and driving efficiency. Second is Caredon investments.

We're going to be scaling new client onboarding as we expand into larger upmarket accounts and build pharmacy capabilities, in our home delivery infusion and specialty locations. And then thirdly, around operational and quality initiatives. I think here, further improvements in Star ratings and deeper member engagement. And together, these investments are intended to align with our long-term growth objectives that will enhance member satisfaction and then positioning enterprise for greater operating leverage over time.

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

Yes. And Stephen, I'd like to just give a little bit more perspective on some of the investments, particularly where we're heading on AI generative AI. And I think it's important not to see that we see it as a strategic enabler of what we are trying to accomplish, which will really drive more affordable, accessible and personalized care. We've been embedding AI responsibly, not just as an experiment, but at scale, and we see that they are improving our efficiency and our outcomes and also the experience for members, providers and associates. And maybe just to put some real tangible examples on that.

I shared a little bit in my opening comments. For members, for example, our personalized match feature in our Sydney helps one in five of our members right now. select the right provider using more than 500 personalized data points and improving navigation and satisfaction. We're using it across our customer service. We have tools that improve our first contact resolution, shortened ramp-up time.

help with proactive engagement.

And I think really importantly, for the commitments we've made on care providers, our Health OS platform is automating onboarding our contracting, our roster management, -- it's also reducing a lack of information so that we have reduced denials by more than 68% in peer-to-peer reviews by over 100%. So we're getting real-time data that's also giving us greater insight into some of the things that Felicia shared, which is how we get ahead of the cost curve. So across the enterprise, we see it as a huge opportunity to help support our productivity goals. We look at it to reduce the burdens on care providers by reducing our chart request by almost half. And then our national account teams, for example, are using it to update benefits and onboard clients.

So across the board, including for our own associates, we're investing in them as well. We just signed a partnership with OpenAI where we're going to actually train our folks to be able to use these skills appropriately.

The reason I wanted to share more detail on that is we're embedding these at scale across our operations. and prioritizing high-use impact cases that reduce, first, the complexity, they drive savings and enhance the experience, which are two of our core goals. One, reducing the cost curve and to enhancing the experience our members have. So what we see is this is going to create leverage for us, improve affordability, strengthen operational performance and support sustainable long-term growth. And to your last question around sort of the impact of those, we see these as front-loaded investments across the board.

Mark shared that. We're seeing great pickup in the investments we've made in Stars. I just shared the AI investments and we think that they help support us.

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**Operator**

Lisa Gill, JPMorgan.



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

Good morning and thank you. Just want to go to the individual ACA exchanges. Obviously, the time line is taking care for the extension of the enhanced subsidies. Gail or anyone on the call, can you give us any color around what the difference would be in membership as we think about '26, should be not be able to some kind of agreement and not have the enhanced subsidies in '26. And we've clearly seen what the proposed risks are by state. So really just the question is really around membership and how to think about that going into next year.

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

Yes. Thanks for the question, Lisa. I think maybe we take a little bit of a step back and then I'll have Mark talk a little about membership. But Obviously, we're really proud of the role that we play in the ACA marketplace, and we may -- we are still being very committed to the affordable access for individuals and families who rely on these plans. As we think about 2026, we've taken a very balanced approach.

And again, I want to talk about a little bit our filings are designed to reflect the higher acuity, and we are ready and prepared for a range of policy outcomes, including both the renewal and the potential modification of those enhanced subsidies. And we're ready to work with our states and our policymakers on that path forward.

So if they are attended, we'll work quickly with regulators and states to ensure a smooth execution and continued affordability. And if there are some changes or phase downs, I think we're prepared also to work with our states closely to help people standard because I think that is the core issue here.

So I guess before we get into the membership, I think it's really important to sort of talk about this strategically first that we think we feel very strongly we're operating responsibly and flexibly, and that our pricing supports the stability for members, but also ensuring we can sustain participation in the market for the long term.

And we expect that to translate, obviously, into improved performance financial performance in '25. But let me have Mark maybe just comment a little bit about your membership question, which again, not having the final policy expectations, I think we still have to assume it's just planning assumptions at this point.

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

And Lisa here, clearly, if the enhanced advanced premium tax credits were to expire at year-end. We'd expect a material contraction in the ACA marketplace. We've seen some of those independent estimates from the congressional budget office which indicate meaningfully lower enrollments and a much higher morbidity risk pool into 2026 under those exploration scenarios. And if back just for a second, that smaller, more acute pool does mean fewer enrollees just spray risk and sharper premium increases. And that's really what we're seeing.

Certainly, a partial extension of those premium subsidies along with the transition or a glide path that would definitely support consumers in a more stable affordable marketplace over time.

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

And again, I just want to reinforce that we plan for that in terms of our filings and going forward, but also recognize that they're real pressure rising costs, and we want to be a part of that solution with our policymakers as well. Next question, please.

**Operator**

Andrew Mok, Barclays.

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

Hi, good morning. The health benefits margins finished the quarter at 1.4%, which I think implies government margins are negative. You commented that you now expect Medicare operating margins to increase slightly in '25. But I think it was unclear if that was a year over year comment or a positive revision to the outlook.

So can you clarify that comment and help us understand where Medicare margins sit for the year and there are a path back to target Medicare margin next year, given the actions you took in planned exits and benefit reductions. Thanks.

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

Andrew, good morning and thanks very much for the question. I anticipate we probably are going to get a couple of questions here on the margin and trends. So maybe let me start by framing high level what we're seeing and what we've incorporated into our outlook for the full year.

On Medicaid, as we spoke about earlier, performance has been weaker than expected, really as that trend does remain elevated given the high utilization and the member acuity shift driven by the ongoing state reverification efforts and program changes. Within the commercial book, our outlook incorporates trends in our ACA book, reflective of the holistic impact of higher population mobility that elevated utilization and rising unit costs.

We're continuing to expect operating margins for our ACA business to be down year over year in the high single-digit percent range. And then commercial -- group margins to remain largely consistent with prior expectations. Now we have seen some favorability in ACA relative to our initial expectations, and you see that come through in a sense of this quarter.

And then to your question in Medicare, we feel good about our positioning, given the composition of our membership and our results to date, we actually expect margin stability with potential for slight improvement this year. even excluding the onetime value-based care settlement that we recognized last quarter, and that's going to be supported by strong retention, disciplined cost management and product positioning and then ultimately really better recognition of that member acuity following the elevated utilization we've seen in recent years. Thank you.

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

Thank you. Next question, please.

**Operator**

Justin Lake, Wolfe Research.

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

Thanks. Good morning. I wanted to follow up on your Medicaid comments. I appreciate the color on the 50 basis points of negative margin for this year. But I think you've been clear that this business has deteriorated through the year, and thus, the losses are probably more significant than this than the full year would indicate coming out of the year, meeting the run rate in 3Q and 4Q might be worse than that and that minus 50 basis points annually.

So it would be helpful to give us more color on kind of how you see this business exiting the year, maybe the fourth quarter margin. So if you can understand how that 125 basis points compares to that Q4 run rate?

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

Justin, thanks very much for the question here. And certainly, your underlying premise is correct. Margins deteriorated as the year has gone on. But we've been very clear today as I try to think forward a little bit that is going to reflect those same continued pressures in Medicaid as rates catch up to acuity. And it's important to be real about that.

Again, in 2026, we do expect also those rate actions to be directionally constructive -- you heard Felicia talk to that. And to reflect that elevated acuity we've experienced since redeterminations, and that's an important turning point. At the same time, we've also spoken to not waiting and rate cycles alone, right? We've intensified key management and program integrity programs in the highest-cost categories, long-term services and support, behavioral health, specialty pharmacy.

-- and we are seeing measurable improvement. And if I put that together, that's really why we see 2026 the low point in the Medicaid margin. And from there, we would expect to see sequential improvement through 2027 as those rates and the operational savings take more of a hold. And I'd say we're pretty confident that the business ultimately will return to that 2% to 4% target margin range.

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

Thank you, Mark. And just to put a fine point on that, kind of reiterating that we are taking a very prudent approach to Medicaid. And as we think about the 125 basis points of margin deterioration we are assuming that we enter the year at the place we exited the year. Next question please.

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**Operator**

Lance Wilkes, Bernstein.

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

Yes. On the Medicaid book, could you talk a little bit about how you're looking at that book, if there's a wide range of margins by state and contract, what are your opportunities to exit any contracts? Obviously, given the more significant negative margins there? And maybe just a quick follow-up over on Carelton, if you talk a little on Carelton Rx about any progress you're seeing in especially pharmacy acquisition contribution to margin stability or any sort of impacts on margin were there? Thanks.

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

Thanks, Lance. I'll ask Felicia to start and then Pete to comment on Carelton.

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

Good morning, Lance, thank you for the question. There certainly is great variability in performance as you go from state to state. And as you know, we have a portfolio of over 24 markets in Puerto Rico. And we take a look across the board states are certainly at a very different place. The expectation, as you heard from Mark, is that we were going to continue to work with states on their rates, program changes and the other things that we can do to improve overall performance.

With that said, if a state is that going to deliver the expectations that we need from a financial perspective, we will certainly consider exiting that business if we can't deliver on the long term. But our framework has to consider a lot of variables. We have to take a look at the rate adequacy versus the trend that we're seeing, the prom designs, the regulatory environment and policy stability that we see there. all kinds of things with respect to our risk-sharing arrangement, operational challenges and other things.

At the end of the day, we are very much committed to Medicaid. We think it brings strong value to this enterprise. It aligns with our ability to serve incredibly vulnerable members. And our preference is to be there. But if we were to exit this, we would align that with normal changes in terms of contract extensions, which, as you know, actually happen every year because Medicaid contracts, while their four or five year contracts, the contract renews every single year.

And then there's also certainly the opportunity around RFPs in that strategy with respect to exiting. But our expectations would be to do everything we could to minimize disruption and ensure continuity of care for members.

So we're going to be strong partners with our states, but we're going to be incredibly mindful around this business. and whether or not there is the ability to be there sustainably for a long term in support of our states and our members. So thank you for the question. And then I'm going to turn this over to Pete.

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**Peter Haytaian** - *Elevance Health Inc - Executive Vice President and President, Caredon and CaredonRx*

All right, Lance. Thank you very much for the question. I appreciate it. And our specialty strategy is integral to the diversification strategy that we're deploying in pharmacy. We're very excited about it.

We stand for whole health and driving greater affordability and simplicity and very focused on the patient experience.

And this diversification strategy is very important to our long-term growth trajectory going forward. We're making really good progress as it relates to that. I think we started with the Bio Plus platform, and we continue to migrate scripts to that platform. Last year, we have -- as you know, we acquired Kroger Specialty Pharmacy. And in light of that, we had a commitment to transition those scripts by the end of this year, which we're making really good progress on very, very happy with the team's performance in that regard in terms of how that's gone from an action perspective, and we'll continue to migrate further ships as we move forward into 2026.

I would also say that we look forward to really continuing to build a diversified and differentiated strategy around this, so we can garner scripts outside of Levante as well. So thanks for the question. We appreciate it.

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

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 guess just to follow up on the Medicaid comments, trying to understand, I guess there's been a concern that the risk pool shifts that are supposed to happen from the reconciliation bill could be pulled forward. So I just want to understand how much of that risk pool shift that you kind of expect to be happening in 2026?

I don't know how you would quantify that, whether it's 1/3 of what you expect the next five years happens next year or some way to think about that? And then just to clarify, when you guys talked about returning to balanced growth in 2027, is that saying back to the normal growth algorithm? Or is balance kind of imply something a little bit less than the long-term growth rate? Thanks.

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

Kevin, thanks very much for the question. Let me maybe touch the first one, briefly, then I'll talk about the balanced drinks growth after that. On Medicaid, I think the way you could think about this is that the reduction in our expectations for margins this year and sort of our guidance next year of that 125 or at least 125 basis points decline really reflects a more balanced split now between acuity and utilization versus what we provided last quarter.

On balance, when you talk about that return to a more balanced earnings growth profile we really need getting back to the growth algorithm that has characterized our business. And that means contributions from commercial, government, Carelton, supported by the operating leverage and disciplined capital deployment that we've done historically.

And our 2026 repositioning and investments are intended to set up 2027 for the more balanced contribution across businesses. So specifically, we would expect our earnings drivers to be more evenly distributed including improved Medicaid rate alignment, further Medicare margin normalization following our pricing actions and sustained momentum across Carelton, as you heard from Pete and our commercial franchise. Of course, on policy, the BBBA implementation is still going to be progressing.

But we're confident we can manage through it with the disciplined execution. And so while we're not providing an outyear EPS growth rate today, Hopefully, you can see from our comments that we reflect that confidence that really past 2026, the business should again resemble that more balanced, consistent growth that we've historically delivered grounded in discipline and diversification across cycles.

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

Thank you. Next question, please.

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**Operator**

Ann Heinz, Mizuho Securities.

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**Ann Hynes** - *Mizuho Securities Asia Ltd - Analyst*

Great, thank you. I just would like to focus on membership growth in 2026. So with the Medicaid redetermination, should we assume that membership in Medicaid book will actually decline next year and that coupled with rates I'm just trying to figure out like where you have revenue actually declining?

Or should we assume Medicaid revenue actually grows in 2026? And then also with the Medicaid expected membership decline in for Medicaid and the ACA. Can you just give us more detail how that impacts Carillon services in Carelton. Does one of the segments have an outsized proportion from membership losses versus the other? Thanks.

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

Appreciate the question this morning. So the 2026 Medicaid membership outlook, while very preliminary at this point, does consider things like the continued normalization following the redetermination process as well as the impact of the state program changes and RFP outcomes.

Whilst we do expect some churn to persist into next year, we do expect the pace of disenrollments to be manageable and we are beginning to see stabilization in some of our markets. Overall, again, as a planning assumption, you could expect 2026 average Medicaid membership to be modestly lower than where we're in 2025. And that's going to be driven by many of the factors that we've spoken about our call today, and we'll provide more guidance as we enter January.

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

Yes, I'm going to ask maybe Pete to comment on Carelton.

**Peter Haytaian** - *Elevance Health Inc - Executive Vice President and President, Carelton and CareltonRx*

Yes. No, thanks for the question in the context of membership impacts on Carillon going forward. Let me just step back first and talk about the growth prospects in Carelton. I think you saw that come through. You heard it through Gail's comments and Mark's comments, we're seeing very strong growth, both on the services side as well as on the pharmacy side.

And importantly, we're diversifying our growth. We're seeing a lot of really nice external growth across many of our solutions. Now of course, Alliance is our largest client.

And if Elvance has significant membership impacts, it will have some impact on Carelton, but I view that really as time bound. We have incredible momentum in the marketplace. That would be short-term we feel like depiction of our assets and our strategy will continued growth in Carelton.

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

Thank you. Next question, please.

**Operator**

Joshua Raskin, Nephron Research.

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

Hi, thanks. Just a quick clarification on Medicaid. Maybe if you could just sort of delineate how much of the 125 bps next year is trend running above reimbursement? How much of that is the adverse selection continuing and that there's any impact from the BB. And then my real question is just, can you provide -- you talked a little bit about this last quarter, an update on the increased coding trend that you talked about from providers. And maybe specifically, if that's still just pockets? And have you made any progress? I think you were talking about using payment integrity tools or other areas.

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

Josh, I appreciate the question. And the short answer to it is we'll provide more specificity around our outlook for Medicaid in January. Maybe I can spend just a minute talking about really what's changed since our commentary in July on the earnings call or September at the Wells Fargo conference. And we've always consistently framed 2026 Medicaid margin is having a wide range of potential outcomes. And our preliminary guide of the 125 basis points decline sits within that range.

And really what's changed now is we have more 2025 experience, we have updated state inputs, and that's let us narrow the early view while staying prudent. First, I would say our experience is clearer this year.

Medicaid performance has been pressured by elevated acuity and utilization. We spoke about that last quarter and we're reiterating that commentary again today. And that has not been fully offset by rate update. We've seen disenrollments remain concentrated among lower acuity members due to those more stringent eligibility reviews and changes to the state reverification processes. And those are factors that have increased the average

acuity of the remaining risk pool. And that led to our direct -- it's directly led to our guidance today that Medicaid operating margin will be below breakeven for the full year.

The second point I'd make here is that state level updates have also sharpened our assumptions. We have seen several large states, including our home state experience budget pressure. And as a result of implementing program changes in response, and that will similarly lead to continued risk pool deterioration and that ongoing sort of near-term misalignment of rates would trend briefly on coding trends, as we spoke about last quarter, our focus really remains on working with the providers to ensure accuracy compliance and sustainability and how those member conditions are documented. We are taking meaningful steps to improve sort of that oversight so that the data capture, the clinical documentation, the vendor of site is all accurate and appropriate for our business. Thanks.

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

Yes. Thank you, Mark, and thanks for the question, Jon. Just taking a step back, and I know there's a lot of interest in this. I think I just want to reinforce. As we think about decade and our other assumptions, these are prudent planning assumptions and that we are matching our near-term dynamics with discipline.

And the work we've done this year, we are looking to position Elevance Health for a durable sustainable growth as we go beyond '26 and into '26. So just a little bit around. And as you heard from Mark, we are very aggressively addressing the higher coding intensity and we've seen it in pockets but have significant tools to advance that as well. So thank you for the question. Next question please.

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**Operator**

Ryan Langston, TD Cowen.

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

Hi, good morning. Thank you. I know you commented that you're working with state partners on some of these initiatives. But did I hear you say that your state partners are explicitly contemplating, pulling back on benefits or other ways to give you some relief just besides paying better rates? And if so, how long would those adjustments typically take to implement and you to maybe see any potential benefit? Thank you.

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

So good morning and thank you for the question. Absolutely. I think states are looking at all of the levers that they have in order to improve affordability in this program. I mean, one of the things you have to understand is we step back and think about where states are the enhanced FMAP that states used to have to support their Medicaid programs no longer there. And so states have to look toward all the levers they have to be able to improve affordability and what really is one of the largest spend in a state budget.

Those levers include program changes that I mentioned before, including changes to a range of optional medical services that you see in the Medicaid program.

The timing of those generally aligned with the new contract here and sometimes that can be either January or July. -- but those are certainly within the power of the state to drive those changes with respect to the contracts, and we continue to work closely with them. Ultimately, our goal is to make sure that we are working with states around improving total cost of care, and being able to have at their disposal, the levers that they can to do that. combined with the work that we bring to the table around being able to deliver networks that have value-based arrangements and other ways to introduce care innovations to improve overall total care costs, are things that states are looking at.

So I think there's an opportunity here to continue to be collaborative with our state partners around the long-term viability of this program, and we're fully aligned with our partners in doing that. Thank you.

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

Next question, please.

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**Operator**

Scott Fidel, Goldman Sachs.

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**Scott Fidel** - *Goldman Sachs Group Inc - Analyst*

Hi, thanks. Good morning. I was hoping to just drill into two of the product areas in Medicare and get your updates on your thinking there. The first would be just I know -- that that's an area want to continue to focus on moving forward? And maybe give us some thoughts on how you see that positioned for '26 now that you have more insight into the competitive landscape. And then a PPO, just curious on sort of your view on that longer term. I know that you're pulling back for 2026.

There has been a longer-term sort of cycle of expansion and then pull back for ELV and the PPO product. So curious on just how you're thinking about sort of putting that into the longer-term strategy projective. Thanks.

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

So thank you for the question. And certainly, it's very early in the AEP process. We're only six days into the annual election period. So we are very pleased with how we are positioned in our products and in our target markets. As you said, we took very strong focus and investments in our HMO and our duals products.

Duals has been a strategy for us for some time. It aligns very well with our Medicaid footprint, and also the ability of Carillon to help manage individuals who have complex conditions. So we invested in HMO and duals in order to make sure that we were continuing to focus on those areas that we believe drive great value for seniors and meaningful value for the enterprise.

PPO has never really been a strong product focus for Elevance Health, not traditionally, we had a handful of PPO products across the. And as you know, over the last couple of years, we actually even declined our position where we had a PPO footprint, is our expectation to be able to manage the conditions of our members effectively and PPO certainly doesn't allow us to do that same way that our HMO and DISA portfolio allows us to do.

So as we sit here today, we feel good about our positioning in our key markets where we made the geographic decisions to expand and go deeper are those markets where we believe we bring great value. And as we think about the strategy that we put in place a few years ago and pulled through into '26, we feel good about how we are positioned around improving our profitability and believe that we're going to make meaningful progress towards our long-term target range of 3% to 5% in our Medicare program. Thank you.

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

Thanks, Felicia. Scott, just to reiterate, we've always been more heavily weighted on HMO products and it also aligns very much to our value-based care strategy and our ability to take risk, particularly with Carol on our specialty risk such as in oncology. So it's an alignment to a long-term strategy that we've had. Next question please.



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**Operator**

Erin Wright, Morgan Stanley.

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**Erin Wright** - *Morgan Stanley & Co Ltd - Equity Analyst*

Okay, was on mute. Anything to call out on the commercial cost trend? I mean, I think you mentioned just broader cost trends kind of in line with expectation, but any areas such as behavioral to call out that have been called out before by you and others, I guess anything else to call from a pricing perspective or otherwise from a commercial perspective, thanks.

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

Erin, thanks for the question. Erin, -- in the ACA market developed somewhat favorably to our prudent expectations in the quarter despite the overall deterioration in the risk or acuity and the elevated utilization, we continue to see pressure in that ACA market across inpatient medical surgery, behavioral health, pharmacy and ER usage, on the commercial group side, elevated trends persist, but remain mostly in line with what we're expecting.

And we have a couple of pockets there around outpatient utilization and the unit cost mix of services, including some higher-cost surgeries that we're monitoring. But for the most part, very consistent with our outlook, no concerns. Next question, please.

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**Operator**

Ben Hendrix, RBC Capital Markets.

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

Great, thank you very much. Just Medicare Advantage thinking about the 150,000 members impacted by exits and other planned changes. To what extent are these members just members that you're simply no longer competing for versus a subset that could be recaptured into other plants. And then stepping back a bit from that, how are you thinking about retention broadly in your continuing markets, especially in light of the better star ratings we saw earlier this month. Thanks.

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

Morning, Ben, and thank you for the question. Retention is certainly a big part of our strategy. And I think we've done an excellent job over the last couple of years of being focused on those places geographically and in those products where we have the best opportunity to do that.

Our strategy in 2026 reflects a very disciplined focus on our sustainable performance over time. So we approach select plans and service areas where we didn't believe we had the opportunity to see long-term sustainable performance as we looked out towards the future of our Medicare Advantage program.

So this is a very intentional strategy that we took continuing on our AEP strategy from 2025. It gives us deeper performance in those markets where we have a larger footprint and aligns with our Medicaid business. And I think from our perspective, Ben, we are working closely with those individuals that we are not retaining to make sure that they are able to find the right plan that works for them.

But we feel good about the focus, the strategy, the footprint and the products that we've laid out for 2026, and look forward to continuing to improve our overall performance in Medicare Advantage. So thank you for the question.

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

Next question, please.

**Operator**

Dave Windley, Jefferies.

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

Hi, thanks for taking my question. I wanted to come back to Medicaid and try to understand a little bit of progression. I understand that you're highlighting some reverification activity that is ongoing in your markets. It seems that OB3 will trigger another round of acuity shift maybe starting as early as late.

And our assumptions are our understanding is that, that could be fairly significant. And so I'm trying to marry that with your expectations for sequential improvement in Medicaid margin through '27 when you are facing what seems like another acuity shift ahead of a catch-up situation from late '26 through '27. Thank you.

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

Dave, thanks very much for the question. So let me do a little bit of a progression here. As we think about 2026, about evenly split two key drivers, rates continue to lag higher acuity and in persistently elevated cost trends. On the first driver rates continuing to lag higher acuity, that's really compounded by the state reverification processes. Those program changes that we've spoken about and that's really where those higher disenrollments are raising that acuity.

On persistently elevated cost trends, this is simply utilization remaining above historical norms across several categories that we continue to monitor, and I spoke about a little bit ago. 2026 -- or at least our view is 2026 will be the low point for us in Medicaid margins. And we're going to see sequential improvement in 2027. And there are really four concrete drivers that underline our view. First, tighten medical cost management, right? And that means expanding behavioral health interventions, they mean strengthening specialty drug management.

That means optimizing sites of care. And you heard from Felicia, we're actively working with the states on that rate alignment and program refinements. These programs are in flight, and they are really designed to ban that cost of care curve as 2026 progresses into 2027. Second is the budget reconciliation build provision. Those are phased and manageable. Clearly, we know that federal changes under the build that are going to be staggered primarily effective in '27 and '28.

But that's going to allow us time to plan and collaborate with the states. And importantly, that pacing then reduces execution risk and supports a more steadier transition of the risk pool. The third one is rates, right? Rates are going to begin to catch up to trend and reverification impact. States are starting to incorporate more recent experience into base rates, albeit with lags.

And so as 2025 and '26 experience rolls into the state cycles, we expect further alignment and progress. And so finally, I would say our 2026 outlook is intentionally prudent and and therefore, a credible base off of which to build.

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

Yes, thanks, Mark. Dave, just to put a finer point on one of Mark's discussions around, as you think about the implementation of the bill in '27. It is not complete reverification. It's less than 20% of our membership will be impacted. So I think you need to sort of size that in terms of that. So that's why we feel '26 is the lower point.

And we do see that as manageable going forward. And we do believe that the risk impacts we have seen in some states, some of our larger states have accelerated some of that redetermination work even into '25. So that gives us confidence. I'll take the last question, please.

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**Operator**

George Hill, Deutsche Bank.

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

Yes. I think Dave took one of my Medicaid question, some work. I have a quick 2 point around it on Medicaid. I guess, number one, is there a way to put a bottom goalpost around Medicaid expectations for you said you expect it to be greater than -- or call it, down about 125 basis points. I guess, is there a way to put a bottom limit on that? And then I thought your answer to the last question was great. But if Medicaid margin recovery is pushed out another year, does that impact your ability to earnings in 2017?

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

George, thanks very much for the feedback and for the question -- understand the interest in incurring to a floor, but we believe it's more responsible to wait until we have clear visibility before setting formal guidance. There are obviously a lot of key variables that we're monitoring. Certainly, January Medicaid rate updates is an important one. But now I think more broadly across the business, the Medicare AEP outcomes, the status of the enhanced subsidies, the cost trends really through the rest of the year.

And so all of that factors into our thinking holistically in how we think about 2026, and really what we wanted to share with you on the call today is our preliminary view into key planning variables and assumptions for next year. And we'll come back with more specificity in January to answer detailed questions. Thanks George.

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

Thank you. And again, just so we're clear, we're not waiting on rate cycles. We're doing a lot. So we're not victim only to this. I think that's really important. And then secondarily, as Felicia shared throughout the course of this call, we have -- we're in the midst of those discussions with our states. They are meeting constructively.

But again, we wanted to give a planning assumption that we thought was very prudent going into '26. Let me please close because I want to thank you again for your continued confidence in Elevance Health. As you've heard, we've taken decisive steps to strengthen our foundation, advancing affordability, enhancing the member and provider experience and positioning our enterprise for sustainable growth.

These efforts are grounded in our whole health strategy which connects our physical behavior on social health to deliver a more affordable, personalized and effective care. I want to take a moment now to thank our associates across Elevance Health for their dedication to our members, care providers and the communities we serve.

It's your commitment to affordability, experience and outcomes that is the cornerstone of our success. We remain focused on disciplined execution, innovation and delivering consistent value for our members, our partners and our shareholders. Thank you for joining us today. We look forward to demonstrating our continued progress as we execute on our strategy.

**Operator**

Ladies and gentlemen, a recording of this conference will be available for replay after 11:00 AM today through November 21, 2025. You may access the replay system at any time by dialing (800) 391-9853, and international participants can dial (203) 369-3269. This concludes our conference for today. Thank you for your participation for using Verizon conferencing. You may now disconnect.

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