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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentleman, thank you for standing by and welcome to the Elevance Health fourth quarter conference call. (Operator Instructions)
As a reminder, today's conference is being recorded.

I would now like to turn the conference over to the company's management. Please go ahead.

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

Good morning and welcome to Elevance Health's fourth quarter 2025 earnings conference call. My name is Nathan Rich, Vice President of Investor Relations. With us on the earnings call are Gail Boudreaux, President and CEO; Mark Kaye, our CFO; Pete 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 4th quarter performance, our 2026 guidance and the progress we continue to make on our strategic priorities. 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.

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.

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

Good morning and thank you for joining us today. Affordability remains the central challenge in healthcare. At Elevance Health, our focus is on improving outcomes, making care easier to access and navigate, and managing costs responsibly.

Our commitment to whole person health shapes how we deliver on our strategy by strengthening care coordination, reducing unnecessary complexity, and creating a simpler experience for those we serve.

Before I go through the business, there are three points I want to underscore. First, 2026 is a year of execution and repositioning. And the outlook we provided today reflects prudent, achievable assumptions grounded in pricing discipline, operational rigor, and targeted investments.

Second, even in a dynamic environment, we are acting decisively in the areas within our control to strengthen margins, reduce volatility, and improve the consistency of our performance.

And third, as those actions take hold, we expect to return to at least 12% adjusted EPS growth in 2027, off our ending 2026 earnings baseline, supported by the earnings power of our diversified platform.

Consistent with that approach, we are establishing 2026 adjusted diluted earnings per share guidance of at least \$25.50. As you consider the year over year comparison, it's important to remember that our 2025 results included approximately \$3.75 per share of favorable non-recurring items.

Let me walk through how we are positioning the portfolio. In Medicaid, we continue to see our rates lag elevated acuity and utilization, and we are working urgently with state partners on both rate actions and program design changes that support the long-term sustainability of the Medicaid program.

We continue to view 2026 as a trough year. We expect our Medicaid operating margin to be approximately -1.75%, with improvement over time as rates incorporate more current experience and our actions take hold. We are also preparing for new eligibility and community engagement requirements under recently enacted federal legislation, the One Big Beautiful Bill Act. As these changes are phased in by states. We expect Medicaid membership may decline, and the acuity of the population may shift over time. And we have reflected that in our planning assumptions.

We believe this is manageable within the context of our diversified enterprise and long-term growth strategy, and we're approaching these changes constructively with state partners, with a focus on continuity of care and program stability.

Turning to Medicare, our execution during the annual election period was aligned with our emphasis on delivering greater value for members and strengthening our performance, while maintaining stable share in markets that are core to our long-term growth. We expect Medicare Advantage membership to decline in the high-teens percentage range in 2026, reflecting deliberate portfolio actions and stability in our dual eligible membership.

The actions we've taken and the composition of our membership should support meaningful margin improvement in 2026. In the Individual ACA market, we've repositioned our plans with discipline to reflect higher costs observed this year, and the expiration of enhanced subsidies, while maintaining value and access for consumers.

Our commercial business continues to have healthy momentum, particularly in national accounts, supported by a productive selling season, favorable client retention, and new opportunities to expand our reach to the second blue bid process.

We remain disciplined in our pricing and focused on delivering sustainable margins while helping employers address affordability through whole health solutions that integrate a member's medical, pharmacy, and behavioral health needs. Our integrated approach continues to resonate in the market, and we are pleased that 40 employers over the past five years have selected our Anthem affiliated plans as their sole carrier.

And finally, Carelon is increasingly recognized as a differentiated platform in the market, with growing demand for its solutions in managing high cost, complex areas of healthcare. Near-term growth will be moderated by lower health plan membership, most pronounced in CarelonRx, while Carelon Services is less impacted by membership dynamics, reflecting its broad mix of external relationships and value-based arrangements.

As our business mix evolves, and we make targeted investments to strengthen the foundation, we are also refining certain long-term margin expectations to reflect a more prudent view of the forward environment. Our long-term enterprise margin target is 5% to 6%. For Health Benefits, Carelon and CarelonRx, we are targeting mid-single-digit margins with our Carelon Services target unchanged.

These updates are intended to provide a clearer, more durable framework for evaluating performance, and they do not change our focus on disciplined execution, durable earnings growth, and strong cash generation.

Stepping back, we view 2026 as a year of execution and repositioning. Across Medicaid, Medicare Advantage, and ACA, the dynamics we've described reflect a combination of policy-driven changes and deliberate portfolio and pricing actions designed to strengthen performance consistency. And we are aligning our cost structure and operating priorities accordingly. That's why we believe we have a clear line of sight to improve performance as we move through this year and into 2027.

Now let me turn to the actions we have underway. We are strengthening our ability to anticipate emerging utilization trends and improve care coordination by leveraging actionable data and advanced analytics. These capabilities help us identify trends earlier and address inefficiencies in the system, while supporting timely access to appropriate high-quality care.

In Medicaid, we're strengthening our analytics to identify outlier utilization and billing patterns in high cost substance use disorder treatment settings, while maintaining access to clinically appropriate care. These insights are enabling targeted actions, including provider education, claims review enhancements, and payment accuracy and compliance initiatives where appropriate, consistent with program requirements and clinical guidelines.

We're able to execute with confidence because we've built and are scaling capabilities that improve outcomes and reduce costs in complex areas of healthcare. In 2026, we will further strengthen specialty pharmacy management, advance behavioral health support, and expand care management programs for members with elevated care needs. Established programs in oncology and serious mental illness are delivering savings for our health plans in the face of heightened utilization trend.

Our patient advocacy programs now serve over 7 million members, up nearly 20% from last year. Through proactive, tailored support, we help members navigate the system with greater confidence, remove points of friction, and close gaps in care, especially for individuals with greater care needs, where early engagement can materially improve outcomes and reduce downstream costs. And we remain deeply committed to improving the experience of care providers.

We remain on track to exceed our commitment that 80% of prior authorization decisions will be made in real time in 2027, particularly for routine approved services, supporting faster access to care and reducing administrative burden for care providers. Through our Health OS platform, we're enabling real-time data exchange that aligns information across the system, streamlines interactions with care providers, and makes it easier to deliver care.

In summary, while the environment we operate in continues to evolve, our strategic direction remains clear. We are entering 2026 with prudent planning assumptions, focused execution, and targeted investments to unlock the embedded earnings power of our diversified platform. And based on the actions underway this year, we remain confident in our long-term algorithm and our expectation to return to at least 12% adjusted EPS growth in 2027.

Before closing, I want to thank our associates for their unwavering commitment to our purpose throughout 2025. In the face of a challenging year for our industry, our teams operated with integrity, compassion, and a deep sense of responsibility to the people and communities we serve. Their dedication is the foundation of our performance today and the progress we are building for the future, and I am deeply grateful for the impact they continue to make across Elevance Health.

With that, I'll turn the call over to Mark for a more detailed review of our financial results and outlook.

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

Thank you, Gail, and good morning. Elevance Health reported adjusted diluted earnings per share of \$3.33 for the fourth quarter and \$30.29 for the full year. Relative to our guidance, fourth quarter results benefited from greater tax favorability than anticipated, increasing the full year contribution from non-recurring items to \$3.75 per share.

Solid underlying performance in the quarter enabled us to advance a portion of the investments we had planned for 2026 and to support our workforce as we enter the year. Throughout 2025, we remained focused on aligning pricing to elevated cost trends, refining our product portfolio, and investing selectively in capabilities that differentiate our model and support sustainable growth.

We ended the year with 45.2 million members, a decrease of approximately 500,000 year over year, principally reflecting a decline in Medicaid membership due to continued eligibility reverifications.

Operating revenue for the quarter totaled \$49.3 billion, an increase of 10% from the prior year, driven by premium rate adjustments in recognition of higher cost trends and acquisitions completed in the past year. Our consolidated benefit expense ratio was 93.5% for the quarter and 90% for the full year, in line with our guidance.

Cost trend development was consistent with our expectations across major lines of business. Our adjusted operating expense ratio is 10.8% for the fourth quarter and 10.5% for the full year. We are managing the enterprise with discipline while making targeted investments to support our long-term performance.

During the quarter, we pulled forward one quarter of the approximately \$1 per share of incremental investments that we had anticipated in 2026. Our Medicaid operating margin ended the year slightly favorable to the outlook provided last quarter. We are encouraged by the initial results of our targeted efforts to better coordinate care and support high-quality, low-cost treatment pathways.

While the benefit of these actions will build over the course of the year, we continue to expect cost trend to be in the mid-single-digit percent range in 2026, with rates lagging this level of trend. As such, we anticipate our Medicaid operating margin for 2026 to be approximately -1.75% in line with what we shared last quarter.

Medicare cost trend in the quarter was consistent with our expectations. For 2026, we made deliberate changes to our plan offerings and intentionally exited select geographies, prioritizing plans that deliver value to members while producing sustainable financial performance. As you heard from Gail, we now expect Medicare Advantage membership to decline in the high-teens percentage range in 2026 while achieving meaningful margin improvement.

We've also repositioned our Individual ACA business for higher expected morbidity following the expiration of enhanced subsidies. Similarly, our commercial group risk membership reflects our focus on margin stability and discipline pricing.

Carelon continues to experience strong customer demand for its solutions. However, near-term growth will be moderated by lower health plan membership. The guidance provided today reflects the impact of our anticipated membership headwinds, as well as investments we plan to make as we scale our dispensing and home health assets.

Operating cash flow was \$4.3 billion for the year, or approximately 0.8 times GAAP net income. Cash flow in December was negatively impacted by the timing of certain Medicaid-related payments, which were subsequently received in early January. Incorporating these items, we expect our 2026 operating cash flow to be at least \$5.5 billion. Days in claims payable was 41.3 days, a decrease of 0.1 days sequentially. For 2026, we expect days in claims payable to remain in the low 40s range consistent with our long-term target.

In the fourth quarter, we repurchased 1.4 million shares for \$470 million, bringing fully repurchases to \$2.6 billion. Combined with dividends paid during the year, we returned \$4.1 billion of capital to shareholders.

Turning to our outlook, we are establishing guidance for adjusted diluted earnings per share to be at least \$25.50 in 2026. We anticipate operating revenue to decline in the low single-digit percent range in 2026, driven by a low double-digit percentage decline in risk-based membership, partly offset by higher premium yields and growth in Carelon.

Our consolidated medical loss ratio is expected to be 90.2% plus or minus 50 basis points, reflecting a prudent view of cost trend and shifting acuity in Medicaid. Our adjusted operating expense ratio is expected to be 10.6% plus or minus 50 basis points as we maintain operational discipline while investing to scale Carelon, embed AI enabled and digital capabilities, and simplify the member experience.

Our capital deployment plans remain aligned to our long-term framework, and we plan to allocate approximately \$2.3 billion towards share repurchases in 2026. Regarding earnings seasonality, we expect to earn approximately two-third of our adjusted EPS in the first half of 2026, with 65% of that coming in the first quarter.

Based on the actions underway this year, we are reaffirming our long-term algorithm of at least 12% adjusted earnings per share growth annually on average over time, and we expect to return to at least that level of growth in 2027 off our ending 2026 earnings baseline.

Finally, a long-term earnings growth algorithm is supported by multiple levers. Robust revenue growth, operating margin expansion driven by operational execution and technology integration, and our commitment to disciplined capital allocation.

As our business evolves, we are recalibrating our long-term margin targets for the enterprise, as well as for each segment to reflect our current portfolio and how we expect it to evolve in the future, both across and within segments.

Importantly, the revision to our health benefits target margin is reflective of the revenue mix we have today while maintaining our targets by line of business. These adjustments are intended to provide a clear and durable framework for evaluating performance, but do not change our conviction in the embedded earnings power of our diversified platform.

And with that operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

AJ Rice, UBS.

AJ Rice - UBS AG - Analyst

Hi everybody. Thanks for the question. I wonder, when you think about the cost trend across the major lines of businesses, I think the industry would say and I think you guys would say that it was elevated in 2025 across commercial, Medicaid, Medicare and exchanges.

I know Mark is saying that you have a mid-single-digit cost trend assumption in Medicaid, I believe in the '26 guidance. But I wondered if I could just get you to comment on are you assuming sort of a similar cost trend in '26 in your embedded guidance to what you experienced in '25? Or is there any place you're assuming it gets worse or better?

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

A.J., good morning and thank you very much for that question. Briefly, I would say the fourth quarter medical cost performance across the health benefits segment came in generally in line to slightly better than our expectations. We did see some modest variations by line of business, and so we've carried that forward into our planning for 2026.

To your question, in commercial, within large group, we do expect cost patterns and margins to be largely consistent with what we saw in 2025, meaning an elevated but stable trend environment with some pockets of high utilization.

In ACA, we again expect accelerating cost trends, especially as the expiration of the enhanced premium subsidies affects the risk pool. We do expect to see some healthier members exit. We do expect the remaining population to become more acute.

In Medicaid, we expect cost pressure to remain pressured again in 2026 at roughly twice the historical average, and that's going to reflect elevated utilization. It's going to reflect continued misalignment between rates and member acuity. That said, I would say, after two years of fairly unprecedented trend, we do expect some moderation versus 2025. So you could think about cost trend here moving into that mid-single-digit range, per your question.

And then finally, in Medicare, we anticipate higher reported cost trend in 2026 but that's going to be largely driven by our membership mix, including a greater emphasis on D-SNP. So overall, I'd say we're continuing to monitor trends very closely. We're comfortable with how we ended 2025, and we're very confident that our outlook for 2026 is prudent and appropriate.

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

Thank you, Mark. Next question, please.

Operator

Andrew Mok, Barclays.

Andrew Mok - *Barclays Services Corp - Analyst*

Hi, good morning. Your 2026 membership declines generally came in larger than expected, especially on the Medicare side. Can you walk us through what played out during AEP that prompted the negative revisions and help us understand the components of membership declines within commercial risk between ACA and employer group? Thanks.

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

Thank you for the question. I'm going to have Felicia Norwood start and then maybe Mark talk a little bit about the second part.

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

Good morning Andrew, and thank you for the question. Our enrollment during AEP and the member composition is really aligned with our focus on margin. As you know, we took very deliberate steps to reposition our business to deliver sustainable value for our members and move the business towards our margin objectives.

So while our outlook for our membership is going to be in the high-teens percentage range, and this is below our expectations, we're really pleased with how members reacted to our emphasis on D-SNP as well as our HMO products as we go forward.

From a profitability perspective, I will say the mix of the lives that we lost was very consistent with our strategy. A majority of the attrition occurred in PPO products and in HMO products in geographies where we didn't offer a comparable alternative and where we were intentionally disciplined in repositioning our product vis-a-vis the broader market.

The outcome that we've seen in January AEP reflects deliberate choices. The products and the members that we exited were less aligned with our long-term objectives, particularly as we continue to focus on our D-SNP products.

Importantly, and I think this is critical, we are positioned to deliver meaningful Medicare margin improvement to at least 2% in 2026, which is a meaningful step up year-over-year. So very pleased at how things turned out, higher membership losses, but very consistent with the expectations.

And then I'll turn it over to Mark for the rest of the responses.

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

And Andrew, on your question on the employer group risk membership, we are expecting to end 2026 down in the high single-digit percent range, and the short answer here is it's just a strong focus on margin discipline.

Some of the expected decline is really driven by deliberate pricing decisions that we've made. Maybe more specifically in a subset of accounts, including, some of the lower or negative margin of public sector business that we had. And, we really did make a conscious decision to hold the line on pricing and not pursue business that returns below our margin thresholds.

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

So thank you for the question. And I think the headline there again is this played out in a very disciplined way against the pricing expectations we set. And I think we feel very good about where we're coming into 2026.

Next question, please.

Operator

Justin Lake, Wolfe Research

Justin Lake - *Wolfe Research LLC - Analyst*

Thanks, good morning. Wanted to ask about margins in the Health Benefits business for '26. So you mentioned Medicaid margins of minus 1.75%. I appreciate the help there. And you did say that margins were a little better than expected, I think, Mark, in the fourth quarter. Can you expand on the drivers of that in terms of pricing and cost as you go into 2026? And then any color on where guidance assumption sits for margins for the exchanges on Medicare Advantage would be helpful as well. Thank you.

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

Justin, thanks very much for the question. I thought a good place for me maybe to start here is really to talk about how we ended the year from a margin perspective. And then I'll give a little bit of color in 2026. So overall, Health Benefits margin is very much in line with our outlook and our expectation.

On Medicaid, margins were pressured in the fourth quarter, but they did track slightly better than our outlook that we gave in October. And that really reflected two things, one, we had some favorable prior period development come through, and we also had some modest retroactive rates. And if you exclude those two items, Medicaid margins, completely in line with expectations. They still reflected that elevated utilization. They still reflected that ongoing reverification-driven, risk-pool deterioration and the misalignment of our rates and acuity.

On Medicare fourth quarter margins, inclusive of the IRA driven Part D seasonality were largely in line with our expectations. They reflected the prudent assumptions that were embedded in our 2025 bids and overall guidance.

And then in the commercial large group, cost patterns and margins, I would say, were again largely consistent with our expectations. On the ACA side, a smidgen better than our prudent outlook. Cost trends were significantly above historical levels, but again, very much in line with what we were expecting.

And so as we think about 2026, the guidance that we put out this morning really incorporates that framework, and that really means that continued pressure in Medicaid offset by improvement in Medicare Advantage, as you heard Felicia talk about, and then better performance in the Individual ACA space.

And then lastly, you had a quick question on flu. So maybe let me go ahead and cover that here. We did see a meaningful uptick in influenza-like activity in December that did have a modest adverse impact on the fourth quarter benefit expense ratio. And we have carried some of that experience into our 2026 planning. So specifically, we are expecting first quarter headwind of about 20 basis points for flu. That's already embedded in that outlook.

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

Thank you. Next question, please.

Operator

Lance Wilkes, Bernstein.

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

Great. In the Medicaid business, could you talk a little bit about rate outlook for 2026? And then could you help frame for us how we should be thinking about this on a go-forward basis with respect to, obviously, you've given the trend estimate. But how should we be looking at kind of rate expectations, what states are doing as far as program changes? And then what are the opportunities and the achievable objectives for medical management? Thanks.

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

Felicia?

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

Good morning, Lance, and thank you for the question. We are contemplating a composite rate increase in 2026 in the mid-single-digit percent range net of certain known risk corridor impacts. I will say the final rates that we've received from states for January, and as you know, January represents about one-third of our Medicaid premium, those rates were in line with our expectations. But for these states, the rates, while modestly above the historical levels, will still lack trend in 2026 given the ongoing membership attrition and the shifting risk pools we continue to see as a result of some ongoing state reverification activity.

You mentioned program changes. I will say the rate discussions today are increasingly tied to broader program changes and benefit designs that states are more receptive to consideration. And I think that's very important as we think about trying to maintain long-term sustainability and the adjustments that need to be made in states around budget challenges that we're going to see in 2026.

We are always engaged in constructive conversations with our state partners, and we're also taking actions ourselves to help control what states are seeing in terms of their Medicaid budgets by doing all of the things that states expect. That's tightening our cost management, increasingly focused on those high trend drivers that you heard earlier around behavioral health, ABA and other services. And certainly very much engaged in program integrity activities to make sure that the program reflects soundness as we look at ongoing issues in the program.

So good constructive conversations with rates, a continued lag, though, in terms of the trend. But I would say we continue to be very engaged in having a program that's long-term sustainable in our Medicaid program.

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

Thank you. Next question, please.

Operator

Josh Raskin, Nephron Research.

Joshua Raskin - *Nephron Research LLC - Analyst*

Hi, thanks. Maybe just big picture, if you could give us a little bit more details and speak to what gives you that confidence to confirm the long-term EPS growth target of 12% plus starting in 2027 in light of the trends that you've seen in the past two years.

Is there something specific in Medicare or Medicaid or the commercial markets that suggest an opportunity to start growing earnings in '27? Or are you seeing something in Carelon side that maybe leads to a stronger acceleration of growth there? And lastly, I assume this includes your view of the 2027 MA rates post the prelim notice.

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

Yeah. Thank you for the question, Josh. I think it helps, as we frame '27 let's start with '26. We guided to an adjusted diluted EPS of at least \$25.50. And again, as I shared, we see that outlook as prudent and achievable, and it's based on actions that are already underway to reposition our business and improve margins across the enterprise.

So if I step back, '25 was about strengthening the foundation. We tightened pricing discipline. We improved our execution and we advanced our affordability through Carelon. And as you just heard from Mark, the fundamentals came in where we expected them to. And I think that work matters as we think about the next few years because it gives us a very clear line of sight and a lot of confidence in the outlook that we're laying.

So my headline for '26 is all about execution. The fundamentals are there. Looking to '27, we have confidence in at least 12% adjusted EPS growth coming off of our '26 ending baseline. And again, that's because it's driven by the same fundamentals that we saw at the end of '25 and into '26. Again, over the past two years, we've made very specific portfolio targeted decisions.

Our pricing has hardened and our operating decisions are designed to protect our earnings base and position the enterprise for durable growth. That leverages the unique capabilities. And I think our diversified platform, we're going to start to see come through.

And there's three points I just want to underscore. First, the key earnings levers are already in motion. So that puts us in place for '25 and '26. Again, pricing care management and the portfolio, we feel, are positioned.

Second, our '26 outlook is intentionally prudent so as those actions mature, we can capture more operating leverage, and that sets up a clear step-up into 2027.

And third, and I think this is really important to your question. The path isn't predicated on a single assumption. It's built on multiple independent levers and disciplined execution across Commercial, Medicare, Carelon and Medicaid. And that's why we have the confidence both in the '27 and our long-term earnings algorithm. And that confidence is behind our outlook in 2026 and the growth in '27. So hopefully, that provides some clarity.

Thank you for the question. Next question, please.

Operator

Lisa Gill, JPMorgan.

Lisa Gill - *JPMorgan Chase & Co - Analyst*

Thanks very much and good morning. I want to go back to Mark's comments on the investments that were pulled forward. Mark, I want to make sure that I heard you correctly. You said it was roughly \$1 of investments but \$0.25 was pulled forward. So should I think that \$0.75

is still embedded in your guidance for 2026? And can you talk about specifically what buckets those investments are in? And how do we think about how it flows through the model?

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

Lisa, good morning and thanks very much for the question. Maybe let me do a little bit of a broader framing and then I'll get specifically to your question. So our results this morning do include \$3.75 of discrete noncore items embedded in our outlook. And that is, to your point, \$0.75 more favorable than what we contemplated in our October call.

So what changed versus prior expectations? Well, that incremental favorability, that was driven entirely by strategic tax items that came in better than expected as we finalized results particularly in the fourth quarter. And importantly, I want to emphasize this point here. Underlying operating performance came in as expected, meaning medical cost trends, operating execution, they're consistent with our outlook.

So given that our performance in those tax-related benefits, we made two intentional decisions. One, we pulled forward a \$0.25 of the approximately \$1 of incremental investments that we had previously planned for 2026. And two, we deployed an additional \$0.25 towards retention and targeted workforce investments here. And so it gives us a lot of confidence as we set the baseline for 2026.

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

Thank you. Next question, please.

Operator

Ann Hynes, Mizuho Securities.

Ann Hynes - *Mizuho Securities Asia Ltd - Analyst*

Great, thank you. Good morning. Great. I know in your long-term guidance, you're lowering the margin profile of each segment. Within the health care benefits segment, can you let us know what changed for your long-term targets for Medicaid, Medicare and commercial? And then on Carelon, it looks like you're lowering the Rx part of it. Is that just driven by membership losses? Or is there anything else that's lowering of that target? Thanks.

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

Ann, good morning. So most important here, we have not changed the underlying margin expectations for any line of business within Health Benefits, and that continues to reflect the risk that we assume and the value that we deliver for employers and the government programs that we support.

What has changed is how we calibrate the Health Benefits segment margin to the portfolio we are operating today, applying the same line of business margin framework that we've always used. So as we worked through an elevated cost trend environment, I would say commercial growth had been more measured than we originally anticipated, also as we prioritized disciplined pricing and margin integrity over volume.

At the same time, the composition within commercial, that's also evolved. So individual ACA now represents a larger share of the segment relative to group commercial, and that obviously carries a different margin profile.

And so when you reflect these dynamics through the existing line of business margin ranges, the result is that mid-single-digit Health Benefits segment margin expectation. And so the key point here, look, this is not about a change in strategy or change in underwriting discipline or pricing. This is just a recalibration to better reflect the mix of our business today and a prudent view of the operating environment.

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

And why don't we have Pete talk a little bit about Carelon?

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

Okay. No, thanks a lot for the question, Ann. So you asked about the Rx margins longer term. And yes, we are adjusting them. It's a positive story around really growth and diversification of our portfolio. As we talked about, we're seeing a lot of growth in Rx. And in fact, just to reflect on what happened this past year headed into 2026, it was our best growth year ever.

And part of that is the composition of the business that we're growing through. And we're starting to see a lot more large upmarket jumbo accounts flowing through our business. So that's one factor, and that comes with a different margin profile.

In addition, we continue to build out our specialty business. That's going really well both internally and externally. And again, that comes with a bit of a lower margin profile. And you've heard Gail and Mark talk about the investments that we're making in that regard.

And then finally, I would say, longer term, we're very mindful and respectful of what's going on from a policy perspective. And I think we're being very prudent in this regard as we think about the longer-term profile of the Rx business. Thanks for that question.

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

Thank you. Next question, please.

Operator

Ryan Langston, TD Cowen.

Christian Borgmeyer, CFA - *Cowen and Company LLC - Analyst*

Hi, good morning. This is Christian Borgmeyer on for Ryan Langston. Can you share where you began the year in terms of ACA membership after the annual enrollment period? Data on sign-ups nationally came in higher than we expected given the expiring subsidies, but I know there's some attrition typically in the first quarter. I know it's early in the year, but any notable changes in utilization patterns from this line of business in January? Thanks.

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

Christian, good morning and thank you very much for the question. On the Individual ACA, we are guiding towards at least 900,000 members at year-end 2026. And that outlook really reflects two drivers here, first, the expiration of the enhanced premium tax credits, which we expect is going to pressure retention and increase lapse activity, and second, intentional exits that we've made as part of our repositioning of the book for a more sustainable profile.

Importantly, coming out of open enrollment, membership is up approximately 10%, and that's helped in part by some of the modest growth that we've seen in markets we first entered in 2025, which offsets some of the intentional attrition that we expected in our core Blue states. Overall, I'd say trends through open enrollment are largely in line with what we've seen in the broader market.

The key swing factor, and I think this gets to the heart of your question, is really now effectuation rates. And that's going to come down to member premium payments and lapse behavior. And that typically is going to become much clearer through early April as members work through that normal billing cycle over the next few months.

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

Thank you. Next question, please.

Operator

Scott Fidel, Goldman Sachs.

Scott Fidel - *Goldman Sachs Group Inc - Analyst*

Oh hi, thanks, good morning. Just interested if you can provide us with an update on capital deployment priorities for 2026. And in particular, maybe just sort of touch on the M&A priorities in terms of, one, just appetite for doing transactions this year just given a dynamic backdrop.

And then two, looking over the last several years, certainly, you've had a lot of activity on the M&A side on Carelon Services, and in particular, acquiring risk-based platforms to integrate into that. Just interested if that remains a priority at this point or whether you're more focused on integration of those assets you've acquired over the last several years. Thanks.

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

Thank you very much for the question. I'd say in the near term, our capital allocation is going to reflect a more conservative posture. Our priority here, look, is to maintain balance sheet strength and strong credit profile, fund targeted investments that accelerate margin stabilization and Carelon's continued growth and then to remain opportunistic around share repurchases, especially where we see compelling value.

Over the longer term, the capital allocation framework is unchanged. We remain completely committed to a balanced approach that supports our long-term growth algorithm, including reinvestment back into the business, disciplined M&A focused on some of the integration or integrated capabilities that have strengthened our competitive position and then, of course, consistent capital return back to shareholders through dividends and share repurchases.

On M&A specifically, our near-term priority is really focused on that integration execution, really fully scaling and realizing the value from recent acquisitions. And so at least in the first half of 2026, you should expect a lower level of M&A activity and a much greater relative emphasis on opportunistic share repurchases.

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

Thank you. Next question, please.

Operator

Kevin Fischbeck, Bank of America.

Kevin Fischbeck - *Bank of America - Analyst*

Great, thanks. I wanted to follow up kind of on this margin commentary and the changes that you're doing there. I guess maybe putting in the framework of just the changes that you've had in the enrollment across the different businesses. I definitely applaud when managed care companies exit markets that aren't profitable, low margin. I think it's 100% the right thing to do.

But given that the membership numbers have been lower than we would have thought, I guess, across most of the products, is there anything that we should be reading into as far as where you are strategically or competitively in these markets? The magnitude is more than we would have expected and it's a broad-based, across-the-board dynamics.

So just trying to understand there's something we should be reading into this and why like this business mix that you're now forecasting is different than the business mix you thought a few years ago when you provided your previous margin assumptions. Thanks.

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

Yeah. Thanks for the question. I guess I would simply say the headline is no, this is a very disciplined approach in each of the businesses. And let me just touch on them. In the commercial business, we made very specific decisions around the ACA and feel very good about the sustainability of where the platform and the membership is coming out. And as you heard from Mark a few minutes ago, I think we positioned ourselves well for sustainable business there.

On the broader commercial risk-based business, we actually had quite high retention amongst our commercial business but made some very conscious pricing decisions around public sector accounts that have been below profitability. So again, this is a repositioning of the portfolio ready for growth. On the ASO, we had a very strong national account selling season with great retention.

I think Medicaid represents really just the redetermination impacts, but we continue to grow and have won accounts in some of the more complex populations. So again, feel good there. And I feel very good about the positioning in Medicare Advantage. We came into this. We are very clear what we needed to do.

As you heard, we believe we have improved our margin and, again, our sustainability. So I actually would say where we are entering '26 quite strongly positioned for future growth in a very sustainable, strong margin position. So thanks for the question.

Next question, please.

Operator

Erin Wright, Morgan Stanley.

Erin Wright - *Morgan Stanley - Analyst*

Great, thanks. So clearly, the industry was somewhat caught off guard with the MA rate notice this week. And just can you remind us of just your response? I think we know that to some extent, but your just ability to mitigate this on top of the cuts that you're making this year as well. I assume you'll continue to take a disciplined approach here.

And just your thoughts on what this means for the industry, for the MA market as a whole and from a policy perspective and what we could see going forward. And just do you think also more specifically, some of the risk adjustment changes being made, are you more or less exposed relative to the industry on that front? Thanks.

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

Yeah. Well, thank you for the question, Erin. And I'll start with just your sort of between the lines question, which is we will continue to take a very disciplined approach and positioning of our Medicare book. But I think it's important to start off by first framing the implications of the advance notice. Medicare Advantage is a critically important program for seniors, and it brings together, as we've said, affordable coverage, coordinated care and supplemental benefits that members rely on to stay healthy and independent.

We are still going through the details. We just got them of the advance notice. But at a high level, the advance notice is effectively flat, which you've all reported on. And quite frankly, it just doesn't keep pace with the current medical fasting utilization trends, and that does create real pressure on benefit stability and affordability for seniors.

For MA to remain strong, the program needs to be stable and sustainable, and stability gets underlined when payment rates don't keep pace with the utilization and cost trends, especially as the member needs grow more and more complex. So we're going to continue to advocate, obviously, because if funding consistently lags the reality on the ground, the levers that we have are benefits, networks, premiums and exiting geographies. And quite frankly, that's not good for seniors and I don't think it's good for the program. And we do believe, we see more than 55% of seniors selecting this program. So it's very popular.

We're also supportive of the measures that protect the integrity of the risk adjustment program. And if you think back, risk adjustment exists for a reason. It's to ensure that plans are paid appropriately for the health status of the members they serve. So as we look ahead, we're going to continue to work with CMS on two things that have to go together.

One is the appropriate funding that reflects the actual utilization and cost trends to support program stability, and two, if changes to that risk adjustment framework are proposed, they need to be accurate and predictable and trusted to avoid disruption, I think, in negatively impacting seniors. So our priority is, again, work with CMS and also protect seniors' access and affordability because we know the very popular program that delivers significant value for seniors. So thanks very much for the question.

Next question, please.

Operator

Ben Hendrix, RBC Capital Markets.

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

Great, thank you very much. I just wanted to go back quickly to the Carelton margin discussion. You noted expansion of risk-based solutions in Carelton Services through 2025. I was wondering if you could remind us of the new services under product lines where you're taking risk, and to what degree could that expansion provide an offset to the shifting margin dynamics you mentioned in CareltonRx. Thanks.

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

I'll have Pete address your question. Thank you.

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

No, thanks for that question. I think it's important to step back and just talk about how we address risk and Carelon because I think it's very important strategically. We're very intentional and disciplined about how we do that and take on risk. We, as you noted, have a diverse set of services and products and offerings. And importantly, in the infrastructure of Carelon, we're very disciplined around cost of care and managing trend across all these relationships.

I'd also say that we have a good mix of fee-based business as well as risk business. And then when you break down our risk portfolio, we approach it in a very different way, in a diverse way, where we're taking risk on a category of service basis in some cases as well as on a whole health risk basis.

And again, we built in appropriate protections with risk corridors and discipline in terms of how we approach that. So I do think from an enterprise perspective, the way we approach that is very important in protecting our growth and our margin profile.

In terms of the services in which we deploy risk because you asked that as well, it varies. In most of our product offerings, we are assuming risk, like I said, sometimes on a category of care basis or on a whole risk basis. In some instances, we're on a fee basis. But we're excited about the proliferation of that and our advancement of whole health going forward.

When you think about our new offerings like SMI, when you think about what we're doing around oncology, when you think about what's happening with CareBridge, these are all risk offerings that are deploying a lot of value from a cost of care and quality perspective for the enterprise.

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

Yeah. Thanks, Pete. And the only thing I'd say is we have a very strong external growth pipeline, which I think validates what Pete is saying. Again, we're looking at serving the more complex populations based on the experience we have in our own health plan. So a lot of those programs around oncology, severe mental illness, orthopedics really give us a growth opportunity. So thank you for the question.

Next question, please.

Operator

Dave Windley, Jefferies.

David Windley - *Jefferies LLC - Equity Analyst*

Hi, thanks for taking my question. I wanted to ask on the Medicaid membership expected decline. Is that all same store? Or does that contemplate an exit of a state or an end of a contract? I'm thinking about Georgia. And then the 9% in total is a little bit higher than we were expecting your 125 basis points, I think, of margin pressure in Medicaid is consistent with what you had said before. And so I wanted to try to reconcile those that, that additional membership decline doesn't further disrupt the margin. Thank you.

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

Morning, Dave, and thank you for the question. You're right. We've guided to Medicaid membership decline around 750,000 members for 2026. And this really reflects really same-store, so a continuation of the challenges that we've seen across states as some states have really implemented more stringent eligibility reverification requirements. And that has happened, it happened consistently in 2025.

And we thought it was very important to be prudent as we took a look at 2026 to maintain that same posture. We're continuing to work closely with our states, but certain eligibility requirements as well as program changes will lead to some of those reductions in 2026

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

And then, Dave, how that carries in forward into our margin guidance of approximately negative 1.75% for the year is really grounded in three core assumptions. Number one, cost trend is going to remain elevated. We have planned for medical cost trend in that mid-single-digit percent range, still materially above historical norms.

And number two, rates, as we discussed early on the call, are going to improve. But they will still lag trends. And you can think about that as roughly one-third of those Medicaid premiums reset in January.

And then third, we're not relying on rates alone. We are using all the levers we control, title medical and pharmacy cost management, expanded BH interventions, et cetera. And so taken together, we think our outlook for Medicaid margin is prudent for 2026.

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

Thank you. Next question, please.

Operator

Sarah James, Cantor Fitzgerald.

Sarah James - *Cantor Fitzgerald LP - Research Analyst*

Thank you. Commercial risk guidance is down about 700,000 lives while ACA is growing. Can you quantify how much of that decline reflects pricing actions on those government accounts versus employers shifting preference to ASO? And in your long-term Health Benefits margin guidance, does the mix change assume further commercial risk attrition or mainly the impact of the actions taken this year?

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

Thanks very much for the question. Maybe just a moment here to clarify. So on the individual ACA, we are guiding to at least 900,000 members at year-end 2026, and it's important to put that in the context of obviously where we ended 2025. For the employer group risk-based membership, we do expect to decline year-over-year in the high single-digit percent range. We spoke a little bit about that earlier, and that's primarily because we're prioritizing margins.

And then finally, in ASO, we are expecting a pretty good season. I'm actually going to ask Morgan to help here because he deserves a lot of credit for our success in how we're guiding 2026.

Morgan Kendrick - *Elevance Health Inc - Executive Vice President & President- Commercial and Specialty Business*

Thanks, Mark, and thanks, Sarah. Regarding the ASO business, National accounts, and Gail mentioned too earlier, is just a spectacular year, which I think sort of speaks to the health of the assets across the entire enterprise when you look at it. And a couple of things were sort of driving that, Gail mentioned at the beginning of the conference today around second Blue bid, where this is the first year that we've had the opportunity for employers in competing geographies against us could actually quote with our organization if they wanted.

So when we think about how it came together, we had about 11 bids in the second Blue category for 2026, Won 9 of them. And the tee-up of the actual pipeline, 2027 looks strong and also '28 as we sit here. So whether we're talking to local markets or the national markets, the self-funded business has done quite well.

We expect it to continue to. And with that, as you also heard from Pete earlier, the pull-through with the CarelonRx has been really, really strong and notably in the upmarket where it had not been formerly. So we're pleased with it and, look forward to continued success.

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

Thank you. Next question, please.

Operator

Jason Cassorla, Guggenheim.

Jason Cassorla - *Guggenheim Securities LLC - Equity Analyst*

Great, thanks. Good morning. Maybe just a question on aggregate Carelon. It looks like for '26, revenue is growing across both Rx and Services, margins are generally holding in for both despite the enrollment losses for your Health Benefits business. Maybe can you just help unpack or bifurcate CarelonRx and Services revenue and margin impacts, specifically coming from the Health Benefits enrollment losses versus perhaps the growth in margin maturation you're seeing from external clients would be helpful. Thanks.

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

Right. I'll let Pete address that. Thanks.

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

Yeah. No, thanks for that question. Let's step back and just talk about first setting up Carelon for 2026 of what we came off of in 2025, which was very, very strong. I think you saw that come through. We had almost 60% growth on the services side, and on the pharmacy side over 20% growth.

And we're very encouraged in terms of what we're selling, a diversity of services, a growing portfolio of solutions. We launched CareBridge last year on the Rx side. As I noted before, we're selling upmarket to a much greater degree.

And importantly, that momentum is continuing into 2026, with respect to your question, external sales. In fact, I'll emphasize this. We had the best year both in Services as well as Rx in terms of external growth. And when I mentioned external growth on the pharmacy side, that's the integrated ASO growth going forward.

As you noted, those tailwinds are being offset by affiliated membership attrition. And when you think about services, we also had one large external client, which we had planned for, that went from a risk basis to a fee basis. But that was the largest driver in terms of headwinds overall.

If you step back, though, and you take out that internal membership headwind, our overall growth would have been on the services side high teens, low 20s, and on the Rx side, in the low double-digit range, so consistent with what we've guided to longer term. And I would think of that as a mid-single-digit sort of op gain impact on the affiliated membership.

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

Thank you, Pete. I think we have time for one last question.

Operator

George Hill, Deutsche Bank.

George Hill - *Deutsche Bank AG - Analyst*

Hey, good morning guys, and really appreciate you sneaking me in at the end. Mark, the topic where I'm getting the most questions is can you just contextualize a little bit more what does the ending baseline mean? You talked about earnings for fiscal '26 being front-end loaded. Should we kind of be thinking about that last period run rate as the baseline for 12% growth? And then maybe talk about any visibility to any onetime items in '26 and whether or not that will be included or excluded from the baseline. Thank you.

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

George, thanks very much for the question. This is really a good one to conclude on. So let me try to bring it together, the key themes and messages that we've delivered on the call today. So we have established the 2026 EPS guidance of at least \$25.50, anchored in what I consider very prudent, achievable assumptions supported by actions that we have already taken underway to reposition our business and improve margins across the enterprise.

And at a high level, you could think about the EPS bridge to \$25.50 is really being driven by a few key building blocks, stable performance in commercial fully insured and continued strength in commercial fee base, continued progress towards sustainable performance in ACA, Medicaid margins compressing to approximately negative 1.75% consistent with our view that 2026 is the trough year, more than 100 basis points of operating margin improvement in Medicare Advantage to at least 2%, low single-digit operating gain growth in Carelon where external momentum is partially masked by those affiliated health benefit membership declines, and then below the line, a meaningful step down reflecting the non-recurrence of the 2025 investment income and a return to a more normalized tax rate. So putting all of that together, again, the guidance of \$25.50, prudent, achievable assumptions.

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

Okay. Thank you, operator, and thank you to everyone on the line. As we close, Elevance Health is entering this year with a clear strategy and a strong sense of purpose. We're focused on improving affordability, simplifying health care and applying our capabilities in ways that drive better access outcomes and experiences for members and care providers and stronger health for the communities we serve.

While the operating environment remains dynamic, our diversified platform and differentiated whole health approach give us confidence in the path ahead, and the actions we've taken position the enterprise to drive sustainable earnings growth over the long term.

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

Operator

Ladies and gentlemen, a recording of this conference will be available for replay after 11:00 AM today through February 28, 2026. You may access the replay system at any time by dialing (888) 566 0046 and international participants can dial (203) 369 3677. This concludes our conference for today. Thank you.

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