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OVERVIEW:

Company Summary

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PRESENTATION

Operator

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

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

Good morning, and welcome to Elevance Health's first-quarter 2026 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; Felicia Norwood, our Chief

Health Benefits Officer; Morgan Kendrick, President of our Commercial Health Benefits Business; and Aimee Dailey, President of our Government Health Benefits business.

Gail will open the call by highlighting our first-quarter performance and the actions we are taking to advance our strategic priorities. Mark will then discuss our financial results and revised 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. Healthcare is undergoing significant transformation, and it requires us to operate with greater speed, precision, and connectivity. Costs are rising, expectations are rising, and both member and care providers want a simpler, more integrated experience. At Elevance Health, our strategy remains clear: lower the cost of healthcare and simplify how people navigate the system.

What is evolving is how we execute. We are operating with greater alignment, accountability, and clarity across the enterprise, and that progress is showing up in our results. In the first quarter, our performance exceeded expectations, driven by underlying business strength, along with ACA seasonality and non-recurring investment income. While it is still early in the year, the trends we are seeing give us increased confidence in the trajectory of the business. That is why we are raising our full-year adjusted diluted earnings per share guidance to at least \$26.75.

Our outlook remains grounded in prudent, achievable assumptions with clear visibility into the key drivers of performance supported by improving claims experience. We are advancing our strategy in several focused ways. First, we've realigned our leadership structure to strengthen coordination between Health Benefits and Carelon. We have streamlined accountability, aligned core functions more closely to the business, and brought decision-making closer to where the work is done. Those changes are designed to sharpen execution and create greater alignment across the enterprise.

Second, we are embedding and scaling AI across clinical, operational, and administrative workflows, where it can have direct, measurable impact, and we are already seeing tangible results. These capabilities are improving how we engage members and how we manage costs. They are enabling earlier, more personalized interventions, strengthening decision-making through predictive analytics, and reducing administrative expense through automation. Together, these are driving greater efficiency and supporting more consistent performance over time.

Third, we are transforming how care is delivered through Carelon by advancing our integrated whole health approach. By combining CareBridge and our care-at-home capabilities into a single risk-based solution, we are driving higher engagement and stronger clinical outcomes. These programs have reduced hospital readmission by 20% and generated more than 10% savings on post-acute care, supported by integrated pharmacy, specialty care, and behavioral health.

We continue to see strong demand for Carelon's capabilities, reinforcing its role as a driver of current performance and long-term growth. Let me turn to our first-quarter performance. In Medicaid, we are seeing early evidence that our actions are lowering costs, particularly in behavioral health and specialty pharmacy. That progress is being driven by more targeted, proactive interventions that allow us to engage earlier, coordinate care more effectively, and support members in the most appropriate settings.

We are addressing rapid growth in ABA therapy through rigorous clinical oversight, and we're using predictive analytics to identify members at risk of substance use disorder before adverse events occur. In Medicare Advantage, the steps we have taken to reposition the business are driving improved performance, and we remain on track to achieve an operating margin of at least 2% in 2026. We were also encouraged to see CMS address the portion of the funding challenges in the final rates for 2027.

As we prepare for bid submissions, we will remain disciplined and continue to prioritize plans that deliver long-term value while supporting progress toward our financial objectives. Regarding the notice we received from CMS in February related to historical risk adjustment data, we are engaging constructively with the agency and making steady progress toward resolution. We stand firmly behind the integrity of our risk adjustment program, supported by rigorous oversight and governance.

Importantly, this matter does not affect our outlook or how we serve our members. And it does not change how we are managing the business or our expectations for performance. In commercial, we maintained a disciplined pricing approach for 2026 to ensure appropriate returns and our first-quarter performance reflects that focus.

As we look ahead to 2027 selling season, we are seeing strong employer interest, supported by a robust pipeline and early wins. Our integrated medical and pharmacy capabilities continue to resonate in the market. In individual ACA, we are seeing modestly stronger retention, particularly in bronze-tier plans where affordability remains critical.

First-quarter results reflect pronounced seasonality given product mix, and the business remains on track toward a more sustainable financial profile. In Carelon, our risk-based solutions are delivering measurable value. Using AI and advanced analytics, we are identifying high-risk members earlier and engaging them through coordinated, whole-person care. That is driving higher medication adherence, fewer emergency room visits, and lower hospital readmissions. And it continues to support strong demand for our capabilities.

In summary, we are executing our strategy with discipline and clarity. Our actions are translating into measurable results: improving affordability, simplifying the healthcare experience, and strengthening financial performance. We are building momentum, and we are seeing that translate into more consistent performance across our businesses with strong visibility into the drivers of our results.

Elevance Health was recently named to Fortune's 100 Best Companies to Work For list for the sixth consecutive year. We view that as a reflection of the strength of our culture and our people, and an important foundation as we improve execution and build greater consistency in our results. As we look ahead, we remain confident in our ability to deliver at least 12% adjusted EPS growth in 2027.

Before I close, I want to recognize and thank our associates. Their commitment, resilience, and sense of purpose drive our progress, supporting our members, partnering with care providers, and advancing our mission every day.

With that, I will turn the call over to Mark to review our first-quarter financial results and updated outlook.

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

Thank you, Gail, and good morning, everyone. Elevance Health reported first-quarter adjusted diluted earnings per share of \$12.58, which exceeded our expectations. The strength in our operating results reflected favorable claims experience and seasonality in our individual ACA business.

In addition, we recognized approximately \$1 per share from non-recurring valuation adjustments within net investment income. We are raising our full-year 2026 adjusted diluted earnings per share guidance to at least \$26.75 based on our first-quarter results, and we view the assumptions embedded in our outlook as appropriate and supported by current operating trends.

Our confidence reflects the actions we are taking to manage cost trend and maintain expense discipline. Further, we are investing to scale AI across our enterprise, which will enable earlier identification of a member's health needs, guide them to more effective and affordable

care, and reduce administrative complexity, strengthening both outcomes and long-term performance. In 2027, we expect to return to at least 12% adjusted EPS growth off of our revised 2026 earnings baseline of \$25.75.

Turning to our first-quarter results. We ended March with 45.4 million members, an increase of nearly 200,000 from year end, driven by growth in our commercial fee-based membership and higher enrollment in individual ACA. This was partly offset by anticipated declines in Medicare Advantage, employer group risk, and Medicaid. Operating revenue totaled \$49.5 billion, up 1.5% year over year as higher premium yields were largely offset by lower health plan membership compared with the prior year.

Our consolidated benefit expense ratio was 86.8%. Medical costs were modestly better than we had assumed in our outlook, reflecting both favorable claims experience and the impact from actions we have taken to manage trend. These collectively contributed approximately two-thirds of our operating outperformance in the quarter. The remaining one-third reflected seasonality in our individual ACA business associated with higher membership in our bronze plans, which have benefit designs that typically defer a greater portion of plan costs into the second half of the year.

Our adjusted operating expense ratio was 10.5%, an improvement of 20 basis points year over year. While we continue to manage costs thoughtfully, the focus investments we're making in artificial intelligence and Carelon's clinical capabilities will improve how we operate, strengthen our earnings power, and better position the enterprise for long-term growth.

Before discussing our performance in greater detail, I want to briefly highlight two items recorded in the quarter that were excluded from adjusted earnings. First, we have initiated steps to submit risk adjustment data related to historical periods to CMS and are following the process established by the agency to bring this matter to resolution. We recorded an accrual of \$935 million, representing our current best estimate of the identified potential exposure based on the information available today.

While the final amount will be determined through the resolution process, we believe our accrual appropriately reflects this matter. Second, we recorded a \$129 million charge related to business optimization. This reflects ongoing actions to simplify organizational structures and support accelerated decision-making.

Turning now to our businesses. Medicaid performance was slightly favorable to our expectations, benefiting from progress on the initiatives we have implemented to manage costs. We remain confident in our full-year operating margin outlook of approximately negative 1.75%, as our guidance maintains a prudent stance toward rate adequacy and trend development over the remainder of the year.

In Medicare, results were stronger than we anticipated, reflecting the impact of the portfolio actions we took for 2026. Those actions, including product repositioning and selective market exits, support improved performance, and we remain on track to achieve an operating margin of at least 2% this year. Commercial group developed as planned, consistent with the pricing discipline we outlined last quarter.

As employers focus on lowering healthcare costs, we are seeing stronger demand for our integrated whole health clinical programs and patient advocacy solutions. Individual ACA membership grew sequentially in the first quarter with a meaningful portion of the growth driven by our 2025 expansion states and more consumers selecting plan options at the bronze metal level. Our current view of membership effectuation indicates that we are on track to end the second quarter with approximately 1.2 million members ahead of our initial outlook.

However, given the unique market dynamics this year and a significant shift in product mix, it is still early to revise our full-year outlook for at least 900,000 members. Carelon's first-quarter operating gain declined modestly from the prior year, reflecting lower health plan membership and continued investment in the expansion of our risk-based capabilities, partially offset by improvements in specialty pharmacy in CareBridge.

These dynamics are consistent with how we are evolving the business, and we remain focused on advancing performance over time. Carelon is an important contributor to our enterprise performance and a key driver of our long-term growth strategy.

Now moving to the balance sheet and operating cash flow. Days in claims payable were 46.6 days, an increase of 5.3 days sequentially. Operating cash flow was \$4.3 billion in the quarter, and we continue to expect full-year operating cash flow of at least \$5.5 billion, inclusive of potential cash payments related to the CMS matter. In the quarter, we repurchased 3.7 million shares for \$1.1 billion at an average price of just over \$300 per share. Our capital deployment priorities reflect confidence in the durability of our business and its long-term earnings power, and we remain on track for at least \$2.3 billion of share repurchases in 2026.

We are pleased with a strong start to the year and are confident in our full-year outlook. Beyond the update to our 2026 earnings per share guidance, the principal operating elements of the framework we provided last quarter remain appropriate. With respect to seasonality, our expectations for the second quarter are largely unchanged, and we anticipate our second-quarter earnings per share to be approximately 23% of our revised full-year guidance.

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, and thanks for the question. Maybe just we're well into the PBM selling season for 2027. And I guess we're gearing up for the commercial employer market selling season. Are you hearing anything different in terms of the amount of activity that you're seeing out there and the types of priorities that our employers are putting on engaging, anything they're emphasizing given AI, given a little uncertainty in the economy that you would call out that's different this year as we begin to move into the selling season?

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

Thanks for the question, AJ. And I think it's a great one to start the call. Let me start with the commercial selling season, and then I'll ask Mark to comment on the PBM. But in terms of the national accounts season, in particular, where we see early -- I think, early interest by employers, as I think I shared in my remarks, we're off to a really strong start. We've got some early wins.

What we're hearing from our national account employers is they're very focused on affordability. AI is important in terms of the consumer experience. As you know, we've got two core goals: reduce the cost of healthcare for them and improve the experience, and we've been investing heavily in ensuring that those capabilities choke through. So from an employer perspective, we just hosted our national account group, and we had most of our clients in and they shared with us, I think, a lot of satisfaction.

We had a very strong '26 selling year. But also '27, we have a very strong pipeline, almost a record level for '27. We're pretty enthusiastic about how our assets are resonating. The other thing that we're starting to see is, again, continued consolidation from clients. We've had a record of taking clients who have multiple carriers and consolidating some single carrier under us. And that theme is continuing.

So we're very optimistic. But overall, the season, I would say, very focused on affordability given what's going on in the economy, but also very focused on experience and wanting to ensure simplicity that there's real value pulling through for the commercial group. But let me ask Mark to comment on the PBM side as well.

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

Yeah. Thanks, AJ. CarelonRx delivered a strong ASO selling season for 2026. So we had several national account wins. We also had improved win rates across both the middle market and large group. And that performance here really reflects growing demand for a more integrated medical pharmacy model and for some of the differentiated value that CarelonRx is able to bring to employers and our health plan partners.

I'd say sales momentum remains strong. We have seen total sales to date running ahead of plan including two marquee national wins. And that really does highlight our ability to compete upmarket successfully for large, sophisticated clients. We've also seen good renewal activity, especially as we enter this active phase of some of the client strategy discussions.

On the commercial side, good penetration across that book, good cross-selling of pharmacy into our existing fee-based relationships that obviously remains an important lever for us. And the reason this opportunity is real is that it is producing measurable results. And maybe just to give you two examples here.

We have seen for clients that do have that aligned medical pharmacy benefit savings upwards of \$100 per member per month as well as significantly fewer ER visits, as well as a reduction in some of the high-cost specialty drug administration. So in short, as we look forward to 2027, our confidence is really grounded in that pipeline momentum and the demonstrated value that we bring.

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

Yes. Thanks, Mark, and thanks, AJ. I think you heard from both of us, we feel really well positioned in -- for national accounts as well as for employer groups. So next question please.

Operator

Stephen Baxter, Wells Fargo.

Stephen Baxter - *Wells Fargo Securities LLC - Analyst*

I was hoping you could expand a little bit on the cost strain comments. Obviously, it seems like you're seeing some level of moderation in Medicare and are confident enough at this stage to identify that. And then on Medicaid, on the other hand, seems to be much more consistent with what you've been talking about recently. Maybe help us try to understand the differentiation that you're seeing there and what's driving that at this stage.

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

Thanks for the question, Stephen. Maybe it would be helpful to sort of take a step back in total, because I think, as we said, we're really pleased with the strong start to this year. At a high level, cost trend is tracking in line with the expectations, and that's consistent with the stronger performance that we delivered in the quarter. But I think what's really important, as you look through our results, it's not one driver or one single item.

What we saw going into this year is solid execution across our entire enterprise, and that's what supports our full-year adjusted EPS outlook guide of \$26.75. And more importantly, I think it gives us much more confidence into the trajectory, not only this year but into '27. From a cost standpoint, I just want to point out some of the actions that we've taken are beginning to show through.

So as you think about earlier using data to find out where the outliers are, utilization management, stronger payment integrity, for example, and an area that I think is really important is better site of care optimization, where we've been very focused on that. So overall, we see the

businesses are performing in line. And in some cases, as Mark shared, they're ahead of assumptions. So we've embedded, we think, very prudent assumptions in our outlook, I think, and that speaks to the resilience of the portfolio.

But I also want to, I guess, continue to say we're going to stay disciplined in how we view the balance of the year, and we're not relying on different trend environment to support the guide. So we're going to continue to scale what we're doing. But bottom line, I think it's important that our business, we feel, is performing well, and those actions are going to continue to gain traction throughout the year, and that reinforces our confidence. So thanks very much for the question.

Next question, please.

Operator

Justin Lake, Wolfe Research.

Justin Lake - Wolfe Research LLC - Analyst

Your guidance assumed a conservative view of Medicaid membership declines, I think, in the high single-digit range for the year. And I noticed for the quarter, Medicaid membership looks like it was down about 1.5% ex the growth in Indiana. So I'm curious what you're seeing here in terms of membership mix?

Specifically, are you seeing membership declines heavier among lower-utilizing members, potentially pressuring the risk pool? And can you remind us what you've built in for acuity pressure within your Medicaid margin guidance?

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

Mark?

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

Thanks very much for the question, Justin. We remain quite comfortable with our Medicaid membership guidance range that we provided for 2026, which just as a reminder, reflects a high-single-digit percentage decline driven by ongoing eligibility reverifications and disenrollment activity. At this point, we do expect to finish the year towards the higher end of that range, and that reflects both the prudence embedded in our original outlook and the way that the state reverification activity has unfolded so far this year.

Overall, what we've seen to date has been broadly consistent with our expectations. I would say timing has been modestly more favorable than what we originally assumed. And then finally, I would say our full-year guidance does assume that greater membership pressure from reverifications over the balance of the year versus what we saw in the first quarter. And that simply reflects that range of potential state actions, some of the uncertainty around the implementation of the timing of those six-month eligibility periods, and then overall enrollment-related pressures as the year progresses.

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

Yeah. Thanks, Mark. And also just to sort of bring it together for you, Justin, I mean, this is aligning similar to what we put in our guidance. And we do, as we've shared before, I think this is the trough year. And we continue to believe that given what we're seeing in the business.

Next question, please.

Operator

Andrew Mok, Barclays.

Andrew Mok - Barclays Services Corp - Analyst

I wanted to follow up on the employer side and the affordability discussion. Can you help us understand what you're seeing in terms of consumer behavior in response to reset deductibles? And relatedly, have you observed any impact from higher gas prices or broader macro pressures on healthcare utilization?

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

I'll ask Morgan to share his perspective. Morgan?

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

Yeah, Andrew, thanks for the question. I will tell you the market is completely aligned with our strategy of reducing the cost of healthcare and improving the experience of the consumer, making it simpler. I think that's the biggest thing that I hear that it's overly complex, burdensome for the consumers to actually seek care, go through treatments, things of that nature.

That's where we're working together to solve those. That is exactly where -- and I think that's why, as Gail mentioned earlier, we had such a strong season upmarket, and that also permeates into our down-level business as well. So if we think about our local geographies and national, all of this is focused around affordability and simplicity.

Beyond that, it's just a little things around the edges are just about accentuating both of those. That said, we do see a shift in way of funding. So of course, as you go further up, it's all self-funded business. It's a fee-based business. If you look at the down market, it's about 50-50 between risk-based and fee-based. Nonetheless, people want to know that we're focused on the right things.

And as Gail mentioned, we listen to the markets, and the markets tell us quite carefully and honestly that it's all around affordability. How are we leveraging the unit cost position that we have and then how are we medically managing that to the point that is driving their trends down consistently.

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

Yes. Thanks, Morgan. Maybe a little bit on the ACA, Mark, just in terms of what we're seeing in consumer behavior there.

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

No, absolutely. So I'd say broadly, Andrew, consumer shopping behavior in the ACA market has been in line with our expectations. The biggest difference here versus our initial view is that shift towards bronze plans has been more pronounced and is a positive for us in certain markets. And that dynamic clearly makes sense in the current environment because obviously, subsidies are tied to that benchmark silver plan.

And as benchmark premiums move higher in 2026, those bronze options became more affordable on that net of subsidy basis for consumers. So we feel pretty good about our positioning in ACA.

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

Next question, please.

Operator

Lisa Gill, JPMorgan.

Lisa Gill - *JPMorgan Chase & Co - Analyst*

I want to ask a question around Carelon and CarelonRx. When I look at the margin in the quarter, it came in below our expectations. You reiterated the guidance for the year. Can you talk about the progression of getting that margin back when we think about Carelon specifically and then within that, CarelonRx?

And then secondly, any comments around recent legislation, whether we think about what's passed on the federal level and any impact to your business on the PBM side or the potential of what's been proposed, for example, in the state of Tennessee, any impact on the PBM business?

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

Lisa, thanks very much for the question. Let me start with the performance first in Rx. So I would say performance here was very much in line with our expectations in the quarter. Revenue growth was driven by strong revenue per script and continued momentum in the external business, particularly in the ASO space, and that was partially offset by lower script volume from the affiliated health plan membership.

On margin, to your question, the key point here is that the first-quarter performance was very much in line with our expectations, and it's fully consistent with our full-year guide for that mid-5% margin range. I'd say the quarter itself reflected very normal seasonality in the PBM business, along with expected mix of growth and the current earnings cadence across the platform. Though we did see some improvements in specialty and home dispensing. So that obviously helped overall performance in the quarter.

But if you step back, I'd say, from an Rx perspective, revenue and margin, very much in line with what we expected. On your point on the regulatory for a minute, I think the direction of travel here is pretty clear. We have seen recent federal actions moving that PBM market towards greater transparency, stronger reporting and I think ultimately closer alignment between PBMs and their clients.

And so for CarelonRx, I would say that direction of travel is fully consistent with the model that we are building. We already offer clients flexibility in how they engage with us, and that includes rebate pass-throughs as well as transparent fee-based arrangements. And more importantly, I'd say our strategy here in Rx is not dependent upon any single economic mechanism. It really is built around that integrated medical and pharmacy management and a focus on total cost of care.

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

Thank you, Mark. Next question, please.

Operator

Lance Wilkes, Bernstein.

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

Got a question on employer and in particular, the progress you're making on the second Blue bid sort of opportunity out there. Maybe if you could just remind us of the '26 experience you had in sales there. But then if you could just talk a little about the value proposition you're selling, sort of the target clients who are going to be open to this and what pipeline looks like for '27? And as part of that, if there's any detail on the type of Carelon Services that some of those people would be picking up more likely?

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

Thanks, Lance. I'll have Morgan address your questions.

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

Lance, thanks for the question. Regarding the -- what we're seeing in the national space, with second Blue bid, it was quite -- last year, as you know, was the very first year we did it. It was very lucrative for the business. We had lots -- we had probably 40 more additional opportunities that came through. And so it was there.

We're still seeing that again in year two, but nonetheless, not quite as high. We've got roughly 2 million members in queue. A couple of those are second Blue bid, but the overwhelming majority is just business in the market coming from other places. So it's -- to me, it's -- the assets speak for themselves, and that's exactly what the markets are telling us.

The renewal numbers that we've seen in our national business are nearly 100%. It's like 99.3%. So you think about -- these are organizations that don't move very often. They like what they're getting, they like and they keep it.

To the point around Carelon, when I think about what they're looking for with Carelon, they're looking for various solutions around medical conditions, MSK, diabetes, things of that nature to work directly in their population where it may be skewed in those areas, and we can solve for it with them. And also, as Mark indicated, pharmacy. Last year was one of the largest years we've had around integrated Rx in the upper end of the market. We do expect that to play in, but it was really, really strong last year, and we expect it to be slightly dampened this year.

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

Thank you, Morgan. Next question, please.

Operator

Ann Hynes, Mizuho Securities.

Ann Hynes - *Mizuho Securities USA LLC - Analyst*

I know you said Medicaid margins were tracking better than your expectations and what's embedded in guidance. Can you actually tell what Q -- tell us what Q1 results were? And can you also remind us what your rate increases are for 2026 [as in] guidance? And have there been any positive updates since the last report?

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

Mark, I'll ask you to start and then Felicia to give some more comments.

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

Ann, thanks very much for the question. So from a trend perspective, I would say first quarter was slightly ahead of our expectations. That reflected the favorable claims development. That said, underlying cost trend does remain elevated. The first-quarter trend is consistent with our full-year outlook.

And we do continue to contemplate Medicaid trend at the high end of that mid-single-digit guidance range that we provided. So as you think about margins, to your question for the first quarter, certainly, on a sequential basis, we did see an expected deterioration in the first quarter, meaning coming in exactly as we anticipated. And so for the full year, we're continuing to be very comfortable with our guide of minus 1.75% operating margin.

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

Good morning, Ann, and thank you for the question. In terms of our Medicaid rates, our Medicaid rates for the first quarter, which means through April, are right in line with our expectations. The rates absolutely are coming in close to the mid-single-digit range. At the end of the day, however, that remains slightly below the trend that we continue to see in the business.

So we are going to continue to work very constructively with our state partners around closing that rate to trend gap. Overall, I will tell you that those conversations continue to be very constructive. We provide regular information to our states in terms of our performance, and we look forward to continuing to make the improvements that we expect to see in the Medicaid rates over time.

But through the first quarter, certainly right in line with the expectations, and we've already started to work with our states around July rates, although it's still early in terms of a view of July, but the continued progress that we're making is expected to really continue throughout the rest of the year. So thank you very much for the question.

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

Next question, please.

Operator

Scott Fidel, Goldman Sachs.

Scott Fidel - *Goldman Sachs Group Inc - Analyst*

I was hoping if you could maybe expand on just giving us an update on the risk-based management programs that you've been deploying in Carelon Services. Maybe just talk about the overall scope of how those programs have been expanding and the -- and basically sort of the actions within the operating model that you have to sort of protect against sort of upside risk on medical cost trend? And then also if you could just talk about the investments that you called out in the quarter also related to that line of business?

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

Scott, thanks very much for the question this morning. I think let me start off by saying that we are taking a very disciplined approach to how we manage risk in Carelon Services. And specifically, we're very intentional about where we take risk in the business, how we price for it and then ultimately, how we balance that exposure across our Medicare, Medicaid, and commercial businesses with a mix of either sub-capitated full risk or [really] fee-based offerings.

One of the real advantages in Carelon here is that we can use our affiliated health plan membership as a proving ground to launch and scale capabilities quickly. For example, we started our risk-based oncology solution in commercial. We expanded it into Medicare. And then we plan to move it into Medicaid in the latter half of this year.

And we followed a similar path for post-acute and more recently in BH as well. So a lot happening in that space. At the same time, obviously, as we continue to grow the risk-based side of Carelon Services, the segment is going to reflect some of that normal mix and timing dynamics. And I think that's the heart of your question. And that really comes with our scaling of these capabilities.

Just to point out, low affiliated health plan membership does remain a headwind across several of the offerings this year. And of course, some of the newer risk-based programs will have a different earnings cadence as they progress.

And a couple of quick examples here before I leave at least this question. Risk-based oncology program, we started in 2024. We expanded in '25. Post-acute started in Medicare, we've deployed commercial. And then BH is the one that we've recently launched with some serious mental illness in the Medicaid population.

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

Thank you. Next question, please.

Operator

Ryan Langston, TD Cowen.

Ryan Langston - *Cowen and Company LLC - Analyst*

I appreciate you sizing the settlement potential CMS. I guess can you give us a sense on how those conversations are progressing? And I'd be interested if you could help us frame sort of how you arrived at that \$935 million figure?

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

Sure. Let me like provide you sort of a comprehensive view of how this works. Let me start with the accrual. First, the \$935 million accrual that we recorded in the first quarter reflects our current best estimate of the probable exposure that is associated with this historical matter. And that's based on the information that we have today as well as our engagement with CMS.

I think it's important too, as you think about it, this relates to historical payment disputes that involves the interpretation of the risk adjustment policy during that period in question. And actually, really importantly, I think everyone -- to remind everyone, it's not about how we operate the business today, and it doesn't change the confidence, as I shared in my comments, about the integrity of our current risk adjustment practices, our compliance, or our governance.

But in terms of where we're going, since receiving the notice from CMS in February, we've moved very quickly to engage directly and quite constructively with the agency on this matter. And those discussions have given us much better clarity both on process and on the path to resolution. So I want to be clear about that. We are working through the process that CMS has outlined to address those issues raised.

And CMS has updated because of the compliance time frame, which you want to share and as we work through that process and under the current timeline, we have through July 31 to meet all of those compliance requirements. Certainly, we appreciate the extension of that time frame because it reflects, I think, the complexity of the work required to complete this.

That said, based on the steps that CMS has prescribed and the current timeline, which I've shared, we believe and expect that if we complete those steps that the sanctions will not go into effect. So I also want to share that. But again, we're working very constructively with the agency and feel that we're moving towards resolution of the issue. So thank you for the question.

Next question, please.

Operator

Elizabeth Anderson, Evercore ISI.

Elizabeth Anderson - Evercore Inc - Analyst

Thanks so much for the question. Just appreciate the comments about the two-thirds of the outperformance is favorable claims and sort of better management of those claims. Could you maybe help us parse out the breakdown of that? I know Mark was helpful in providing some comments about the flu and other 1Q utilization issues. But just anything else, if you could sort of clarify at this point, how you're viewing any weather or flu items in the first quarter?

And then secondarily, in terms of some of those better management of claims, I appreciate you said that you're going to sort of flow those through for the rest of the year. Anything we should sort of think about in terms of that ramping up or should we think about that as relatively ratable across the rest of 2026?

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

Elizabeth, thanks for the question. Let me start by framing the quarter because I think that's the cleanest way to answer your question as well as address sort of the guidance change that we put through. So in the first quarter, EPS did come in ahead of our initial outlook, and that included about \$0.45 of core outperformance. About two-thirds of that or roughly \$0.30 reflected underlying business favorability and the remaining \$0.15 was really driven by seasonality-related timing dynamics.

The underlying favorability was concentrated primarily in our Health Benefits business, and that did reflect better claims experience than we had assumed, including to the point you made, a less severe flu-like season that was embedded in our first-quarter outlook, and that accounted for about \$0.10-ish of that benefit.

And so the remaining outperformance was really timing related. And as we noted in our prepared remarks this morning, primarily came from our ACA business, and that's simply driven by that higher mix of bronze plans, which we expect will defer a portion of planned costs into the back half of the year. So if I turn -- if I brought that all together and I turn to the guidance range, we did increase that full-year EPS guide by \$1.25 per -- relative to our prior outlook.

And I would say of that increased \$0.25 reflects that portion of the underlying nonseasonal business favorability we saw in the quarter. And of course, the remaining \$1 was a nonrecurring item. And one last point, just from a modeling perspective, that dollar should clearly be excluded from the 2026 earnings baseline. So when you think about us returning to at least 12% EPS growth in 2027, that growth is off of an ending 2026 baseline at this point in time of at least \$25.75.

Elizabeth Anderson - Evercore Inc - Analyst

Next question, please.

Operator

Kevin Fischbeck, Bank of America.

Kevin Fischbeck - *Barclays Services Corp - Analyst*

Can we maybe go back to the exchange commentary. I guess we've been trained to look at better-than-expected enrollment sometimes as a red flag. So I just wanted to see if you could give any color about whether the high enrollment has come with any change in the underlying risk pool that you're seeing? And I guess last year, there was a change in the risk pool in part because there was a group of people coming -- losing Medicaid coverage coming on to the exchanges. Are you seeing any signs that that's a potential pressure happening this year?

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

Thanks for the question. Let me start off by saying we took a fairly prudent view when pricing 2026. And we did that really with the assumption that while much of the impact from the expiration of the enhanced premium subsidies would occur in the first year, it's going to take a little while for the risk pool stabilization to ultimately play out.

I'd also note it's still early in the year and more time is going to be needed for those retention patterns or member retention patterns really to settle out and for claims to mature before we have a fully developed view of the morbidity profile of the risk pool this year. That said, one really early indicator that we have seen prior claims experience for renewing members in paid status running moderately higher than for the cancel or nonpayment cohorts.

And that did support our view that (inaudible) here has increased the morbidity of the remaining pool. But importantly, that dynamic, that is tracking consistent with or even better than how we price the business in 2026. And so sort of to conclude here, I feel very good about our membership mix, and I feel very encouraged by that shift towards bronze, both in our book of business, but also broadly across the market itself.

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

Next question, please.

Operator

Dave Windley, Jefferies.

David Windley - *Jefferies LLC - Equity Analyst*

Thanks for taking my question. I wanted to come back to Medicaid. Gail, you reiterated the comment that you think '26 is trough. I wanted to understand the assumptions embedded in that for '27 in terms of your expectations for member attrition from work requirement implementation and things of that sort? And then also ask where your thinking is around stay or leave state by state in situations where rate discussions are perhaps not moving in the direction that you'd like them to?

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

So let me take the second part of the question first, and then I'll ask Mark to comment on the membership assumptions. We -- so as Felicia shared with you on Medicaid, we're having very constructive discussions with the states. While the rates are still lagging, we've seen, I think,

positive movement in states trying to be constructive. And it's not only about the rates, it's also about the actions that we can take on benefits as well as the changes that we're making to our networks and other things.

That being said, as I shared, I think, on the last call, where we don't see a sustainable path to profitability in a state, we will exit. I don't think we're at that stage with states. I just want to be clear. But again, we also are taking the view of, look, we need a sustainable path to this business. We do think it's an important business, both between our Medicare and Medicaid business in terms of how we serve our duals. But again, we will take a look to make sure that these rates are sustainable and that the capital we put into it can be returned.

So with that, I'll ask Mark to comment just on how we're thinking about membership evolving over this year and next year.

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

Thanks for the question here. I think modestly better Medicaid membership at year-end 2026 would not change our view that 2026 is the trough year for Medicaid margins. And if membership comes in somewhat better than we expected, the most likely explanation here is really timing, really that some eligibility-driven attrition would occur later than we had assumed. And that could, in theory, to your question, shift a portion of that membership and acuity pressure into 2027.

But we would not expect any incremental pressure to be or we would expect any incremental pressure to be much more measured than what we would have experienced during the post-PHE period. And the key point here is because it's much more targeted, it's much more concentrated in that expansion population rather than being broad-based across the Medicaid book.

And then just as importantly, and you heard this from Gail, that does not change our belief in the setup that we see for 2027. And we do believe 2027 is going to continue to benefit from better rate alignment as states incorporate more of that recent experience into their rate setting cycles. And certainly, while work requirements and community engagement requirements may create some additional pressure over time. I just want to emphasize the point, we do expect that impact to be much more phased and much more manageable than the redetermination cycle historically.

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

Thank you, Mark. Next question, please.

Operator

Erin Wright, Morgan Stanley.

Erin Wright - *Morgan Stanley - Analyst*

So AI and automation across just managed care in general has been a big question area for investors. I guess, can you talk about some of the proof points today or progress on that front, quantify any of those efficiency gains or maybe your long-term goals as it relates to that? And how are you tracking in terms of the associated incremental investments? How do you see that playing out as well as we head into '27, '28? Any context there would be great.

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

Great. Well, thanks for the question, Erin. I think it's a great question in terms of how we're thinking about AI. And I think it's important as we talk about AI to step back because fundamentally, we see it and our technology strategy as supporting our overall strategy, which, as I said,

is really very simple, make healthcare more affordable and make it simpler and more personalized for the people we serve. In terms of investments, we're investing more than \$1 billion in digital and AI-enabled capabilities to support that strategy.

And I think the key point that I really just want to start with is we're not approaching AI as a separate technology element or experimentation. We're looking at things that will scale and support those absolute core things of our business. So to give you some specifics, we're embedding it, I would say, in practical ways, first to help us reduce costs and again, to simplify experiences and then take administrative costs and complexity out for ourselves.

So I'll walk in a couple of examples. One, for our members, that's really about making it easier to navigate. Healthcare is really complicated. When we look at where we've already invested, our AI-enabled virtual assistant, I think, is a really good example. We already have 22 million commercial members on that using it regularly, and it's helping people get answers fast with less friction. And we're seeing that dramatically improve, for example, our consumer effort scores.

We're also being more personal. And I think that's another really important part of how we can deploy this technology through Sydney, which is our personalized matching tool, where we help actually using over 500 data points, match people to the right care providers. More than 20% of our members have already connected and are finding the right providers.

So not only is that simpler for them, but quite frankly, brings them to our providers that are high-performing providers. And again, that helps drive better medical costs. On the clinical and care operations side, we see AI helping improve things around speed, accuracy, decision-making, strengthening payment integrity. And what that's doing is giving us information much earlier to identify outliers.

Again, that feeds into our ability to see trends faster and then take actions with our team around network, around clinical interventions. So over time, we see that as a real opportunity to manage costs. Right now, it's about getting information in our hands a lot faster. And I'll sort of close on a couple of final examples for care providers, it's really about reducing burden.

We need to really reduce the friction and simplify workflows. That's a commitment that we've made. Health OS is an area that we've been investing over. You've heard us talk about it the last several years. And that's really about data sharing, reducing paperwork, and accelerating approvals. We're using it right now in our prior authorization commitments.

And one of the areas that I know frustrates everyone is this lack of information and denials generally get caused because we don't get the right information. We see this technology and AI reducing those denials by more than almost 70%, and it eliminates a lot of the need for follow up and back and forth. So that's good for the system, and I think good for care providers.

Then I'll just close, how else we're thinking about AI. We're leveraging it across our associates. More than 60,000 already have access to it. They're using it in their productivity tools. They're learning it. We have individuals signing up to understand how to use it. We have guardrails around that.

We're obviously very cautious about making sure we use it the right way, but we think -- we see it as a productivity tool. So let me just step back. I know that was a lot, but we see it. We're encouraged by technology. It's not just pilots. It's embedded in our capabilities, and you're really going to see it come through in the results we have in the measures, not just in the dollars, but also in our [admin].

So thank you very much for the question. Next question, please.

Operator

Ben Hendricks, RBC Capital Markets.

Ben Hendrix - *RBC Capital Markets - Analyst*

I wanted to get a little bit more color on the site of care optimization actions you mentioned helping to control your cost trend. Yesterday, we heard your peer mentioned some notable reductions in hospital admissions and skilled nursing transfers through some heightened clinical review. And I'm wondering if you could share some anecdotes either within the Carelon risk-based programs or in the broader benefits business where you're seeing gains from those site of care efforts specifically?

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

Thanks very much for the question this morning. So just as a reminder, CareBridge is our home-based care platform focused on Medicaid and dual-eligible members, especially those with complex needs. And strategically, this is important for us because it extends Carelon's whole health model into the home, where obviously, better coordination can improve outcomes, lower total cost of care and then support stronger health plan performance.

We're also very pleased with how CareBridge is ultimately integrating into the broader Carelon ecosystem. I'd say first-quarter results are very much in line with our expectations for CareBridge. But we are seeing continued signs of improvement as we scale that platform and drive operational efficiencies across the book.

We are also expanding CareBridge in ways that deepen both its reach, R-E-A-C-H, and its value. And intentionally, we have launched additional Medicaid home and community-based support programs in several states, which has deepened our market penetration. And as a result of that, we are seeing early indications of that improved cost of care performance, especially as those capabilities are ultimately embedded into our market.

So to your question, when we talk about site of care optimization through CareBridge, it's really about keeping members aligned to the right level of care, reducing unnecessary facility-based utilization and using that home as a more effective and lower cost setting for managing those complex and chronic needs.

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

Thank you, Mark. I might ask Aimee Dailey, who leads our Government business, to also comment on how we're deploying that inside of the Health Benefits business. Aimee?

Aimee Dailey - *Elevance Health Inc - President, Government Health Benefits*

Yeah. No, thank you, Gail. Really, one of the greatest things about CareBridge is its ability to engage members in a place that they're comfortable being engaged. And that engagement rate allows better reach, better access for those members to their healthcare and actually has created a fair amount of ER avoidance and improvement in PCP visits, which allows us then to get quality gaps in care closed and really make sure that these members are getting better outcomes in the long term.

And we're really -- very pleased with what we're seeing and the early adoption of our CareBridge model across our duals business. And that dual business is where we see really a high level of need in that engagement. And so very pleased with how we've been able to embrace that CareBridge model.

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 - Analyst*

Was there any takeaways on where you sit versus the industry from the new March Wakely data? I think they may have provided some context around average premiums or metal tiers. And then on the bronze shift you mentioned, can you quantify how much your mix moved? And just give us an idea of the delta between peak and trough MLR between bronze and silver. Is that just like a couple of hundred basis point or is it larger than that?

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

Thanks very much for the question here. The early Wakely report has been a helpful input because it provides additional visibility into market size, metal mix and enrollment patterns. And importantly, the report from our perspective supports our view that we are seeing a greater shift towards bronze and a greater share of new sales, both of which obviously have implications for our relative risk to the market. And therefore, to an earlier question that was asked around risk adjustment.

I'd really caution it's still an early data set from Wakely. It does not fully capture the impact of retro cancellations, nonpayment behavior or even maturing cohorts. And so I'd say while the report is useful, visibility is going to continue to improve as we get more effectuation data and cohort-based information over the coming months.

All in, I think the most important point here is we feel very comfortable with our pricing and how we positioned our products for sustainability in the ACA market this year. And then to your question on specific splits, we are seeing a much more balanced bronze-silver mix this year come through based on the new sales.

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

Next question, please.

Operator

Jason Cassorla, Guggenheim.

Jason Cassorla - *Guggenheim Securities LLC - Equity Analyst*

I wanted to ask a little bit more on the return to at least 12% EPS growth in '27. You've got margin expansion opportunity across most of your end markets. You've talked about the early benefits of AI and investment spend. But I guess could you help frame how we should be thinking about the components of that 2027 growth, including how much of that is predicated on pricing and trend that you can control or impact.

Or maybe said another way, to the degree that Medicaid margins remain pressured next year, how do you feel about the levers and growth opportunities across your other businesses that could offset to drive that at least 12% growth expectation?

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

Well, thanks for the question. I think it's important to first start with '26. And I think the headline around '26 is this is all about execution. And as you saw, we upped our guide to at least \$26.75, reflecting that early execution while remaining grounded again in prudent, achievable expectations. Specific to your question, as we think about '27, we're confident in at least 12% adjusted EPS growth off of that earnings baseline, which now stands at \$25.75, as Mark shared.

Over the past couple of years, and I want to reframe that we've made targeted investments in portfolio, pricing and operating discipline. And those were all designed to protect our earnings base and position us for the durable growth that we're projecting. We're leveraging the capabilities of our diversified platform, and I think that's really important. And there's three things I just want to underscore to your '27 question.

First, the key earnings levers are already in motion, and I think that's important. Those are the actions that we put in place in '25 and into '26, and those are across many of the things you said, pricing, care management, and portfolio positioning. Second, we're making meaningful investments in 2026. So as those investments mature and we realize returns on those initiatives, we're going to see a clear step-up for 2027.

And third, again, the path isn't predicated on any single assumption. And I think that's really important as you think about our portfolio. It's built on many and multiple independent levers, and it's disciplined execution across both Health Benefits and Carelon. So those are the factors as I think about it, that give us confidence in achieving the earnings growth consistent with the long-term growth algorithm that we talked about through '27.

So thank you for the question. And next question, please. This will be our last question.

Operator

George Hill, Deutsche Bank.

George Hill - *Deutsche Bank AG - Analyst*

Thanks for squeezing me in, This one is probably for Mark. Mark, we saw a pretty big step-up in base claims payable, both sequentially and year over year. I was wondering two things. Number one, might you be able to unpack kind of what drove that for us? Was it membership mix? Was it the exiting of Part D? Was it like legacy claims? And kind of how should we think about how that number trends through the balance of the year?

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

George, thanks very much for the question. So DCP ended the quarter at 46.6 days. That was up 5.3 days from year end, and that was driven mainly by normal first-quarter seasonality and higher medical claims inventory across the business.

A little bit deeper here. Commercial was affected in part by individual mix dynamics that we've discussed. Medicaid and Medicare really reflect that typical earlier slowdown in claims payment cycle. And really, the main takeaway here is the DCP result was largely a seasonal and mix-related movement. I wouldn't say it reflects any change in our underlying reserve approach.

On the prior year development, that was approximately \$250 million in the first quarter. And it's really worth noting here around that number is that typically for prior year development, we reestablish that as margins and reserves through the normal process. And so it really doesn't have a material P&L impact.

Thanks for the question.

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

Well, thank you. Thank you for the questions. And thank you, operator, and thanks to everyone on the line. As we move through 2026, our focus remains on operational execution, strengthening our diversified platform and building momentum across the enterprise. We're encouraged by our strong start to the year and the progress we're seeing.

Our strategy to improve affordability, simplify the experience for all of our consumers and care providers, and deliver better outcomes for the people we serve is what's driving durable financial performance over the long term for us. Thank you for your continued interest in Elevance Health, and have a great rest of the week.

Operator

Ladies and gentlemen, a recording of this conference will be available for replay after 11:00 AM today through May 22, 2026. 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 and for using Verizon conferencing. You may now disconnect.

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