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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 second-quarter earnings conference call. (Operator Instructions) As a reminder, today's conference is being recorded.

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

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

Good morning, and welcome to Elevance Health second-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 begin with a review of our second quarter results, the progress we have made against our strategic priorities, and targeted investments designed to strengthen the enterprise over time. Mark will then discuss our financial performance and outlook in greater detail.

After our prepared remarks, the team will be available for a question-and-answer session. 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. Elevance Health delivered second quarter results ahead of our outlook, reflecting favorable benefit expense performance, disciplined execution, and the actions we are taking to manage healthcare costs more effectively across the enterprise.

Today, we are raising our 2026 adjusted diluted earnings per share guidance to at least \$27, and we remain confident in our ability to return to at least 12% adjusted EPS growth in 2027 off our ending 2026 earnings baseline. Importantly, our confidence is not based on a single line of business or a single quarter. We are seeing progress across the breadth of our portfolio.

Medicare Advantage reflects the deliberate actions we took to improve performance. Our commercial and individual ACA businesses are developing as anticipated, and Caredon and our AI-enabled capabilities are becoming more meaningful contributors. We remain focused on disciplined management of the Medicaid business as the operating environment remains dynamic.

The broader enterprise is performing against the framework we laid out. And the targeted investments underway are designed to strengthen the durability of that performance. Healthcare should be easier to navigate and more responsive to the people it serves. Consumers expect more from the healthcare system, greater transparency, better connectivity, and more personalized support that meets their needs. And we share that expectation.

At Elevance Health, trust is earned through every interaction. To be our members' lifetime trusted health partner, we must continue to make healthcare simpler, more personal, and more affordable. That's why we're accelerating investments in capabilities that directly support our strategy. These capabilities are tied to the operating levers that drive performance, earlier detection of medical cost trends, more precise clinical intervention, a simpler member experience, and better provider connectivity.

Let me share a few examples. First, we are managing medical cost trends with greater speed and precision. In a dynamic environment, we're improving our ability to detect cost pressures earlier and respond quickly with targeted action plans across our clinical, network payment integrity, and operating teams. In many cases, we've compressed months of work into days. These capabilities are already helping us identify emerging cost drivers more quickly and deploy more focused interventions across the enterprise.

Second, we're improving how members access care and support. Through Sydney Health, Concierge care and proactive member engagement. We're using data, digital tools, and dedicated care teams to help members navigate benefits, schedule care, manage conditions, and close gaps in care. The result is a more proactive, seamless, and personal experience.

Third. We're expanding Carelton's value-based solutions to address complex and fast-growing areas of healthcare spend. CareBridge extends Carelton's whole health model into the home, where better coordination can improve outcomes and lower costs. CareBridge can generate medical savings in the mid-teens for these members, and we're expanding it to new markets.

Finally, we're reducing friction for care providers and members. With Health OS, we collaborate with providers earlier in the care journey to review care plans, reduce delays, and support better clinical decisions. In health systems where these workflows have been deployed, we've seen significant reduction in avoidable denials, documentation requests, and administrative friction.

Together, these investments strengthen our ability to manage trend and improve the experience from members and care providers. They're directly tied to the areas that matter most to long-term performance; earlier trend detection, more precise intervention, and a scalable operating model.

Turning now to our performance by line of business, let me start with Medicaid. Because I know it's an important area of focus for investors. The Medicaid environment continues to be dynamic, and we're managing it with discipline. Second-quarter performance supports our full-year framework, reflecting stronger-than-expected rate updates, membership and acuity that remain broadly aligned with our assumptions and targeted actions against known areas of elevated trend.

Based on what we see today, our Medicaid operating margin outlook remains appropriately prudent and unchanged from our prior guidance. Our outlook reflects a balanced view of the second half; an elevated trend environment, improving rate alignment, acuity that remains broadly consistent with our expectations, and the growing impact of the actions we are taking to manage healthcare costs.

We continue to see 2026 as the trough year for our Medicaid margin, with improvement over time supported by better rate alignment and the maturation of our care management actions. Medicaid remains an important part of our portfolio, and we are managing it with clear strategic and financial discipline. We regularly assess each market based on strategic fit, operational requirements, and the ability to generate an appropriate return on capital. We recently reached a mutual agreement with the District of Columbia to exit the DC Medicaid market.

As we continue our assessment, we expect to exit additional Medicaid markets over the next 12 to 18 months, where we do not see a path to sustainable performance. These are targeted portfolio actions. And they do not change our commitment to serving Medicaid members in markets where we can deliver value for states, members, and shareholders.

In Medicare Advantage, we are seeing clear evidence that the deliberate actions we took to reposition the portfolio are translating into stronger performance. Disciplined plan design, a more focused mix of D-SNP and HMO products. Favorable claims experience and the growing impact of our care management programs support our path to at least a 2% operating margin this year.

Our 2027 bids were developed with the same discipline, reflecting a prudent view of cost trend, continued focus on margin improvement, and stability in the benefits that members value most. We will continue to manage this business with focus on delivering long-term value for seniors and sustainable performance for the enterprise.

In the individual ACA business, performance is developing broadly consistent with how we priced and planned the year. Member retention has been encouraging, and the composition of the risk pool remains broadly aligned with our assumptions. As expected, the higher mix of bronze plans creates more [pranced] seasonality, and we are not extrapolating early-year favorability. As we prepare for 2027, our focus remains on offering value for consumers while improving the long-term financial sustainability of this business.

In commercial, the market is focused on affordability and experience, and that aligns directly with our differentiated offerings. Employers are looking for solutions that lower health care costs, simplify navigation, and better support their employees. Our

integrated medical and pharmacy model is resonating, and we're seeing strong demand for our patient advocacy, behavioral health, and digital engagement capabilities.

Turning to Carelon. Performance remains in line with our expectations, and we're focused on scaling solutions that improve outcomes for members with complex and chronic needs. Behavioral health is a clear example. When members need additional support, our programs help identify those needs earlier, connect them to appropriate care, and coordinate services more effectively. Through stronger member engagement and fewer adverse events, these programs have delivered 10% cost savings on average.

As we expand these capabilities across new populations and external client relationships, Carelon is becoming an increasingly important and durable driver of enterprise growth over time.

In summary, our second quarter performance gives us increased confidence in the year. We're raising our earnings guidance. Managing the business with discipline. Scaling Carelon's value-based capabilities. And investing in the areas that matter most to our future financial performance.

Before closing, I want to thank our associates. The progress we are making is a direct reflection of their focus, discipline, and commitment to the people we serve.

With that, I'll turn the call over to Mark to review our second-quarter financial results and outlook in greater detail.

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

Thank you, Gail, and good morning, everyone. Elevance Health reported second-quarter adjusted diluted earnings per share of \$7.45, which exceeded our outlook. The strength in our operating performance reflected favorable benefit expense performance in Medicare Advantage and Individual ACA. Disciplined expense management and continued execution against our care management initiatives. We continue to make targeted investments in the capabilities that support our long-term growth.

In the quarter, we also recorded a net below-the-line benefit of \$0.80 per share, primarily related to valuation adjustments within net investment income. Importantly, we intend to use this non-recurring benefit to fund one-time investments in the second half of the year that advance the capabilities Gail discussed. These investments are focused on medical cost management, member engagement, provider connectivity, and Carelon's integrated capabilities. They are intended to strengthen our operating model and improve the consistency of our performance over time.

Our second-quarter operating results support raising our full-year 2026 adjusted diluted earnings per share guidance to at least \$27, while preserving appropriate prudence in our outlook. Similarly, we now view at least \$26 as the appropriate earnings baseline for modeling purposes, and we remain confident in returning to at least 12% adjusted EPS growth in 2027 of those higher earnings baseline.

Now turning to our second quarter results. We ended the quarter with 44.9 million medical members. As expected, the sequential change was primarily driven by a known fee-based customer transition and attrition in our individual ACA and Medicaid businesses.

Operating revenue totaled \$49.8 billion, an increase of 0.8% year-over-year, driven by higher premium yields and product revenue, partly offset by lower health plan membership. In Medicaid, second-quarter performance supports the full-year margin framework we laid out earlier this year. Cost drivers remain elevated and concentrated in the categories we have discussed previously, including behavioral health, specialty pharmacy, outpatient surgery, and emergency department utilization.

Our outlook assumes this operating environment persists through the balance of the year. Rate updates received during the quarter were higher than anticipated, and membership and acuity remain broadly aligned with our expectations. We are also acting directly

on the cost drivers we are seeing through clinical oversight, enhanced payment integrity, earlier interventions in behavioral health, and network management.

Taken together, our full-year Medicaid operating margin outlook of approximately negative 1.75% remains appropriately prudent based on what we see today. We view 2026 as a track for Medicaid margins with improvement over time as rates incorporate more recent experience and our care management actions mature.

In Medicare Advantage, results were stronger than expected and were a contributor to our outperformance in the quarter. The intentional portfolio actions we took for 2026 are translating to improved performance. Disciplined plan design, a more focused product mix, favorable client experience, and our capabilities all support our path to an operating margin of at least 2% this year.

Our 2027 bid submissions placed an emphasis on plans where we can deliver sustainable value for seniors. Particularly dual eligible members, and appropriate returns for the enterprise.

In our Individual ACA business, favorability in the quarter reflected the more pronounced seasonality associated with our higher mix of bronze plans, which is contemplated in our outlook. We have now incorporated the final 2025 CMS risk adjustment results, which were favorable to our prior estimate. We are prudently re-establishing the majority of the prior year favorability in our current year risk adjustment accrual, given current market dynamics, member mix, and claims experience that is still maturing.

Member retention remains modestly ahead of our expectations, and we now expect to end 2026 with at least 1 million individual ACA members. Commercial group performance was in line with our expectations, with cost trend remaining elevated, but consistent with the pricing approach we have taken. We have applied the same discipline to the 2027 selling season.

Turning to Carelon, performance remains consistent with the outlook we provided at the beginning of the year. In CarelonRx, we are pleased with early progress in the 2027 selling season. Reflecting demand for our integrated medical and pharmacy offering. In Carelon Services, near-term earnings reflect ongoing investment in the platform and the scaling of newer, risk-based programs, which naturally take time to mature. The capabilities we are building are directly aligned with the operating priorities Gail discussed.

Now moving to the balance sheet and operating cash flow. Days in claims payable were 45.4 days as of June 30, an increase of 2.9 days year-over-year. Operating cash flow totaled \$1.9 billion in the quarter, driven by our strong operating performance. Second quarter cash flow also benefited from the timing of the state Medicaid pass-through payment received in the quarter that was remitted in July.

Additionally, we made an initial remittance to CMS of \$342 million in the second quarter related to the matter discussed last quarter, and our estimate of the potential total financial exposure remains unchanged. As of July 9, we completed all steps required by CMS and have subsequently received written confirmation from CMS that sanctions will not be imposed and the matter is closed. We are pleased to have reached this resolution and look forward to offering our Medicare Advantage plans to beneficiaries without interruption. Based on the strengths of our operating performance and our outlook for the remainder of the year, we are raising our full-year operating cash flow to at least \$6 billion.

Turning now to our revised outlook. We view our updated 2026 adjusted diluted earnings per share guidance of at least \$27 as prudent and appropriate, supported by current operating trends. Beyond our EPS outlook, the principal operating elements of our full-year framework remain unchanged, though we now expect our adjusted operating expense ratio to be in the upper half of our full-year guidance range.

With respect to seasonality, we expect third quarter adjusted EPS to represent approximately 17% of our revised full-year guidance. Our confidence in returning to at least 12% adjusted EPS growth in 2027 of our ending 2026 earnings baseline is supported by multiple levers, including continued execution in health benefits, growth in Carelon, operating efficiency and disciplined capital deployment.

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 comments. Maybe just to drill down a little bit on your Medicaid comments, if possible. It sounds like the rate updates are coming in more favorable. When you think about the trajectory over the course of the year, that 1.75% negative margin. Is the back half more favorable than the front half? Is there an expectation on where you'll exit the year?

And then if you could just provide a little color more on your thinking about exiting markets, I know you probably don't want to mention the states, but can you give us a sense of overall sizing, maybe of how much we're talking about there? And is this in any way driven by future things like work requirements or is it basically driven by just current discussions with states and where you feel you're landing.

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

Thanks for the question, AJ. It might be helpful to sort of first frame kind of the overall quarter and how we're expecting the year, because I think that's important. Then I'll ask Mark to comment more specifically on your Medicaid questions, which I think are very important.

As you take a look back at just what we've reported, we're very pleased with the performance we've seen through June, and second-quarter results exceeded our outlook. And I do think they very much focused on the disciplined execution. Given that, as you know, we've raised our guidance to at least \$27 while maintaining, I think, which is important, a prudent view of the second half.

And again, thinking about our overall performance, the second quarter was broad-based. We saw favorable performance in Medicare Advantage and individual ACA and continued disciplined execution in commercial, with also ongoing progress against Carelon, which is scaling quite nicely and seeing some good benefits from the actions we've taken to manage medical costs. Specifically to Medicaid, as I shared and Mark shared in his comments, it remains dynamic, and we are managing that business with discipline.

What's important to think about is that original full-year framework is still intact from what we see today, and it's supported by stronger-than-expected rates, membership and acuity that are broadly aligned with our assumptions, and very specific focused actions around the known cost pressures, which really haven't changed over the course of this quarter or last year.

And importantly, we're seeing those begin to mature the actions we're taking, and I think that's important too. But again, we want to remain prudent given the dynamic environment that we're in. I also just want to comment briefly on the investments we're making on the non-recurring below-the-line favorability we saw. These are targeted investments, and they're very focused on long-term performance acceleration, so strengthening medical cost management, the provider connectivity work, and improving operating efficiency.

I think it's really important for everyone to understand these are one-time and non-recurring investments that will not go on beyond '26 for these. We found it was important because it wasn't part of our recurring earnings. So taken together, we see a lot of confidence in 2026 and quite frankly, a lot of confidence now in these emerging areas to return to our at least 12% adjusted EPS.

With that, I'll ask Mark to comment more specifically on your Medicaid questions so that we can round out the totality of what you asked.

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

AJ, appreciating you may get a couple of Medicaid questions on the call today. Just to answer yours specifically, we do expect the second-half Medicaid margin profile to improve from the second quarter, and that's going to be supported by that favorable July 1 rate activity, as well as our continued execution against the cost pressures that we've been discussing.

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

Thank you. Next question, please.

Operator

Justin Lake, Wolfe Research.

Justin Lake - *Wolfe Research LLC - Analyst*

Thanks. Good morning. Maybe I'll just follow-up on AJ's question here in a couple of ways on Medicaid. First, maybe -- is there anything you can give us in terms of order of magnitude on some of the exits you talked about maybe versus that \$57 billion kind of Medicaid run rate on revenue. How do we think about those exits in terms of sizing?

And then you talked about acuity being in line with your expectations in Medicaid. And I find that interesting just because you had one of the more conservative assumptions on acuity impact the trend this year, I think it was in the 2% to 3% range. So I'm curious, as Medicaid lives keep attriting, are you seeing the acuity of those members, the utilization continuing to tick higher, meaning the healthier members that keep attriting. Is it kind of in line with that 2% to 3%? Thanks.

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

Justin, good morning, and thank you for the questions there. Let me go ahead and start off by saying that Medicaid cost trend in the second quarter developed broadly in line with the framework that we expected. Costs remain elevated, but the drivers are identifiable and they're actionable. And they're primarily in the categories that we spoke about in the scripted remarks here, behavioral health, including ADA therapy, emergency department utilization, outpatient surgery, and specialty pharmacy.

Importantly, I would say we are not seeing a new stepwise acuity reset. Membership and acuity remain broadly aligned with our assumptions. And the incremental pressure is increasingly coming from utilization among members who remain in the program. And that distinction is really important because it gives us very clear operating levers.

From an outlook perspective, the second quarter really reinforced our confidence in the full-year Medicaid framework. The July rate activity was constructive. It was also modestly favorable to our expectations. And that shows that the rate environment is moving in the right direction as states incorporate more recent experience.

And at the same time, we are staying quite prudent. Specifically, we are not assuming a material improvement in Medicaid trend in the back half of the year. And so the way I'd summarize it is as follows, elevated but understood trend improving rate alignment, targeted cost actions underway, and a full-year margin outlook that we believe is appropriately prudent.

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

Thank you. Next question please.

Operator

Stephen Baxter, Wells Fargo.

Stephen Baxter - *Wells Fargo Securities LLC - Analyst*

Yeah. Hi. Thank you. I know it's still pretty early in the year for the exchanges and you aren't carrying the favorability that you've discussed largely forward at this stage. But, it would be great to try to understand as you got a better perspective on where risk adjustment is coming in for the first half, like how do we think about where first half performance was versus your expectations? How are you thinking about your risk adjustment position in 2026?

And I know you're reestablishing most of the 2025 risk adjustment favorability that you saw in the quarter, but any sense of what did actually flow through the results in the quarter would actually be helpful.

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

Steve, thanks very much for the question. I think the way I'd frame this is that the final 2025 risk adjustment results were quite favorable relative to our prior estimate, and that's reinforced our confidence in our estimation and reserving process. And you're able to get a sense of the magnitude of that simply by looking at our disclosures in the earnings release in terms of the sequential move quarter over quarter in reported ACA revenue.

At the same time, we are not extrapolating that favorability into 2026. Now, from our perspective, the ACA market is still developing. Member mix has changed meaningfully. And obviously, the shift towards bronze plans has implications for both premium yield and risk adjustment. So, as we move into the second-half of the year, we are reestablishing much of that 2025 favorability in our 2026 risk adjustment accrual. And again, I call that really intentional prudence.

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. Can you remind us in all your divisions. What your trend actually was for Medicaid, ACA, and MA in guidance and what Q2 actually came, the final results were. Thank you.

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

I very much appreciate the question this morning. And maybe let me take that really from the perspective of Medicaid to start. And I'm going to combine your question a little bit with what Justin asked earlier, just around utilization and acuity, specific in Medicaid, as I think a little bit more color here would be helpful to put out.

So I would say both utilization and acuity, especially Medicaid, do remain part of that equation, but that persistent pressure now is increasingly driven more by utilization among members who remain in the program. And, obviously we saw during the post-PHE unwinding, the largest issue was really that acuity reset of lower cost that members really exited the program.

And I would say that dynamic hasn't disappeared, but it really is moderating. We are seeing members leave Medicaid today who are still lower costs than those that are staying, but that gap has really significantly narrowed, and that's really important to us as we think about our trends and outlook for the remainder of the year.

And then in terms of ACA, I would simply say here that trend was very much in line to slightly favorable for the second quarter. That's supported by those favorable volume and timing dynamics. I'd simply note here that we don't view the quarter as a change in the earnings profile for the year, and that favorability reflected that more bronze plan orientation as well as that better early membership coming in. Thank you.

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. I wanted to follow-up on the seasonal favorability. You called out \$0.25 of favorability this quarter, which grew sequentially from \$0.15 in the first quarter. I understand that you're not taking credit for that in guidance, but can you help us understand why this increased sequentially when you presumably had better visibility into underlying membership and benefit design?

And then relatedly, is there anything you're seeing that suggests that this first half upside would reverse in the back half of the year or is that just a conservative stance on your end? Thanks.

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

Andrew, thanks very much for the question. Let me go ahead and start here by reiterating sort of a comment from Gail earlier that the quarter really reflected very solid execution, reflected a diversified set of earnings contributors and the financial flexibility to now invest in further capabilities that are going to make our performance more durable over time.

In the quarter, we had about \$0.50 of the operating outperformance. And I would say that was about equally split between Medicare Advantage and the individual ACA.

In Medicare Advantage, that favorability primarily reflected the deliberate portfolio actions we took for 2026, our favorable membership mix, better claims experience, and those actions were really intentional, right? We prioritized sustainable economics, and we're delivering on what we committed to do.

In the individual ACA, to your question, the favorability really reflected two factors: first, we saw more pronounced seasonality, to your point, from a higher mix of bronze plans, that was about equal in magnitude to what we saw in the first quarter. And secondly, we did see that final ACA 2025 risk adjustment results come through favorable to our estimate. We have reestablished the vast majority of that. And so as we think about the outlook for the full year, this is really about us being prudent for the second-half rather than anything else.

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

Yeah. Thanks, Mark. And I guess I would just like to reiterate Mark's comment given the last several questions. One, around there are no surprises. Our outlook remains prudent, as Mark said, and in explaining each of the lines of business. So we feel very much aligned, but we wanted to make sure in this environment that we do remain prudent.

Next question, please.

Operator

Lance Wilkes, Bernstein.

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

Great. Could you talk a little bit about the bidding posture you've got in ACA and MA for '27 as far as your orientation towards growth versus further margin recovery? And maybe if you can just give a clarification on the Medicaid exits. As far as criteria, are you looking at particular types of programs, blue states or maybe your market share position in states that would be important criteria for determining which ones would be more likely to be subject to exit.

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

Great. Well, thanks, Lance. I'm going to have Felicia to address the ACA question and then Aimee Dailey, who leads government business, to talk about the market exits in Medicaid. So, Felicia?

Felicia Norwood - *Elevance Health Inc - Executive Vice President and Chief Health Benefits Officer*

Good morning, and thank you for the question, Lance. As we think about ACA for 2027, I think we are taking a very consistent posture with what we had in 2026. So we are going to be very focused on making sure that we are achieving the sustainable margin through very disciplined market-specific pricing that will reflect the cost trend and certainly the evolving morbidity.

When you look at our prioritization, obviously having planned options that are going to drive that sustainable performance becomes very important for us. So we've been very pleased with how we've seen the marketplace shift in terms of bronze plans. We think that it's going to be very important for our strategy as we drive sustainable margins going forward. And I do think the expectation for us is to continue to prioritize affordable plan options that are going to continue to drive sustainable performance for the enterprise.

In terms of Medicaid exits, I will say this. Medicaid remains as Gail said, a very core part of our diversified portfolio, but we are going to be very disciplined around where we participate. We made a mutual decision with DC to exit. And we feel good about that decision, and we will make sure that there is continuity of care for our members as we go through this transition.

But if we take a look at our overall portfolio, we regularly assess all of the markets that we participate in. And as a result of this, we will plan to exit additional markets where the economics don't support sustainable performance. At the end of the day, Medicaid participation has to make strategic and financial sit for us within our diversified portfolio. So where we have alignment with duals, our Carelon strategy, and a sustainable operating framework, we remain committed. And where those conditions aren't present, we're going to take the disciplined action that we need to.

Bottom line, we are very committed to supporting members in states where we can deliver sustainable value going forward, and we'll continue to work very closely with our state partners.

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

Thanks, Felicia. I know Felicia was very comprehensive, but maybe just some comments from Aimee as well.

Aimee Dailey - *Elevance Health Inc - President of Government Business*

Yeah, I will just reiterate that Medicaid remains a core part of our diversified portfolio. We continue to be committed to the program and the members we serve. Our participation has to make strategic and financial sense, as Felicia said, but we will remain committed in this market and we'll evaluate it with discipline.

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

Thank you. Next question please.

Operator

Lisa Gill, JPMorgan.

Lisa Gill - *JPMorgan Chase & Co - Analyst*

Thanks very much. Good morning. I appreciate the comments on your investments, one-time, non-reoccurring, but can you help me understand how that's going to play into the growth rate going into next year? What kind of operational leverage you can get? And more specifically, are these investments in technology and people? How do I think about the specific investments that you are making, and again what the return will be as we get into '27?

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

Thanks, Lisa, and thanks for the question. So I think, again, going back to reframing, the investments as I said are one-time and non-recurring. So those, the investment costs sit in '26, will not reoccur until '27. And also, we are looking at these as long-term durable capabilities. Some are technology, but honestly they're all driven based on improving the capabilities that we have inside of the business.

So as we think about that operating impact, it's really an enabler of all of the key capabilities we talked about. They're aimed at the levers that matter most to our long-term performance. So strengthening medical costs, in my opening comments, I talked about moving from months of identification to days and hours. And again, we're using this to strengthen our data and our insight capabilities and then take actions faster on medical cost management.

It's also about simplifying the member experience, improving provider connectivity and enhancing our claims accuracy and driving greater operational efficiency. We feel very confident in returning to our adjusted at least 12% earnings growth next year. And I think these are the kinds of things that give us that confidence because it gives us the leverage that we're talking about. So just a couple of things to make this real.

For members, what we're looking at, we've shared Sydney Health touches about 22 million members now. That means fewer handoffs, better navigation, more proactive support. Concierge Care and proactive member engagement helps us support members upfront faster because the data is now all centralized and members can navigate much more easily.

Medical cost management is really about investments in analytics and AI-enabled tools that again allow us to identify those pressures earlier, but more importantly, allow us to implement clinical oversight, payment integrity, changes in our network, those kind of interventions. Does take time to mature, but we need the data, we need the infrastructure in place this year, and we expect to see that next year. And it's not just going to be in our cost structure, our expense cost structure, we expect to see it in our medical cost structure. That's what these investments in medical management are about.

And then I'll just conclude on two things. On provider connectivity, we've shared with you Health OS and the related tools. Those really are about reducing the documentation requests. Improving prior authorization, getting us to 80% real-time, improving payment accuracy and reducing friction. Those are all, I think, really important components of what we're doing.

And finally, Carelon, which is an important strategic asset for us, scaling those value-based solutions in the complex areas of spending. CareBridge has been very successful for us. We're looking to continue to accelerate the deployment of CareBridge. Behavioral health and oncology are two other areas.

So we expect those benefits to be embedded and built over time. But I think the objective is straightforward. Use this non-recurring opportunity to accelerate capabilities that manage how we manage costs and simplify our experience for our long-term goals. So thanks very much for the question.

Next question, please.

Operator

Kevin Fischbeck, Bank of America.

Kevin Fischbeck - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Great, thanks. I just I'm having a little difficulty reconciling some of the commentary that you've made on the Medicaid side. You talked a lot about the volatility of things there, but I guess when we think about how you've talked about things, you said rates are coming in better, and it seems like everything else is coming in line, but you haven't improved your outlook for margins. So why isn't there a lift if rates are coming in better? And then if rates are coming in better, why are we talking more about exiting potential states today than we have a couple of years ago? It seems like it's the opposite of an improving rate outlook. Thanks.

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

Good morning, and really appreciate the question, the opportunity to talk through this a little bit more. Let me start off by saying that our second-half Medicaid trend outlook is very consistent with our first half experience, and in a sense, quite prudent. And there are three important points I wanted to make here.

First, the July rate activity was favorable. And as we've mentioned earlier, that does confirm that the rate environment is moving in the right direction. Though the full-year benefit is obviously naturally moderated by the timing and the portion of the book that's affected.

Second, membership and acuity are broadly aligned with the assumptions embedded in our initial outlook, and that's encouraging.

And third, we continue to see elevated utilization, but in the categories we've been discussing. And that pressure is increasingly driven by those identifiable utilization patterns, which allows us to respond more effectively. When we think about the rate update as of July 1, you could think about it still being in that mid-single-digit percent range, but maybe towards the upper end of mid-single-digits as opposed to the lower end when we originally started the year, and that should give you enough for modeling purposes.

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

Yeah, and Kevin, specifically to your question around exits for markets, as Felicia shared, we're taking a portfolio look at all of our states, quite frankly. We did this in Medicare last year. We made, I think very disciplined decisions around long-term profitability as well as long-term fit for the company. We've been doing the same thing in Medicaid and have made those same kind of decisions. So it's not just about what 2026 or 2027 look like, this is really about the long-term sustainability of those markets, how they align to our dual footprint and some of the other considerations we have.

So we actually feel that this is the right time to be very disciplined about these actions and look at where the long-term trajectory is for the places that we want to participate. So thanks very much for the question and the opportunity to explain that more.

Next question, please.

Operator

Scott Fidel, Goldman Sachs.

Scott Fidel - *Goldman Sachs Group Inc - Analyst*

Hi, thanks. Good morning. Sorry, I'm going to tick on the Medicaid topic as well. But I thought it might be helpful just maybe looking out, two to three years and you talked about how you continue to view 2026 as the trough year for Medicaid. Clearly, you're not going to sort of continue to sort of sustain a negative 1.75%, and we'll look to change on that.

What I'm curious about, though, is how you would frame the sort of the macro around Medicaid, as we look out to what's a pretty substantial package of regulations that will be coming from the OBBBA with the SDP reform and work requirements and the 1115 waivers moving budget neutral, I mean, that could all have implications for funding for Medicaid, but then also you're talking about these proactive initiatives you're doing, including activity markets and clearly doing what you can from the company level.

So, I guess, Mark, Felicia, how would you frame that in terms of thinking about Medicaid as withdrawal, but trying to reconcile that with the headwinds at the sector level, at the macro level, but then the company having sort of doing all it can to improve the margin performance?

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

Yeah, thanks for the question. I will ask both Mark and Felicia's comments on that. But I guess you mentioned a lot of very specific discrete things. I mean, our overall framing is that many -- those are manageable things within the framework that we've laid out and the experience we've had to date. And quite frankly, the maturation of what we're seeing on rates aligning, as well as our actions aligning and then being very disciplined in our portfolio. But let me turn it over to Mark first, and then I'll have Felicia to comment as well.

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

Thanks very much. I think this is a very interesting question and certainly one that we've been exploring internally for a while now is how is the macro environment changing and how are we expecting things to ultimately develop over time. And maybe let me cover one specific area, given the specificity of your questions, Scott. Let me talk a little bit about 2027 One Big Beautiful Bill Act implications in acuity, and then we can go from there.

So if I think about 2027, you know, we do expect to continue to see some incremental acuity pressure as those eligibility dynamics continue. And that's really going to include specifically that One Big Beautiful Act related community engagements and the verification requirements. But importantly, from our perspective, we don't view that as a broad-based reset, anything comparable to the post-PHE unwind. And that's really significant because I would say that means the acuity shift to a large degree is behind us.

And so as you think about those macro factors, OBBBA is important, but it's not something that's going to be a defining moment, at least as we see 2027 at this point.

Felicia Norwood - *Elevance Health Inc - Executive Vice President and Chief Health Benefits Officer*

Yeah. The other thing I will say is that when we take a look at 2027 and the work requirements that we're going to be working on. When we look at the interim final rule, it doesn't give us much pause or concern. I think the things that we see there are things that we anticipated, and we believe that the changes will be very phased, state-specific, and they will be very manageable.

The rule sets a framework, but states continue to have significant flexibility as they work through this process. So as we step back and think about what this means overall, we are going to be working closely with our state partners to make sure that what we are doing is helping our members manage what can be the operational complexity that goes along with work requirements.

But in terms of the overall impact, we think that these will be very manageable in the framework of the broader Medicaid environment and certainly are very much unlike what happened during the redetermination process. The members that are going to be impacted are only the Medicaid expansion members and some waiver members. That represents roughly 20% of our overall book.

But we take a look at this in the context that this will be a very phased implementation process with a lot of collaboration between us, our state partners, and our members. So, thank you for the question.

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

Thank you, Felicia and Mark. And just, I think it's helpful to take a Zoom out for a moment because I know there's a lot of interest in Medicaid. Hopefully, we've been able to answer your questions. But I think as you think about the overall company again, our confidence in '27 is really about the broad enterprise and the breadth of our portfolio and the operating actions we've taken.

So it's not dependent on any single line of business, quite frankly, and that's what gives us so much confidence and really does reflect the diversity of the contributions across health benefits, Carelton, the efficiency and capital deployment.

And again, I just want to remind people, we have several very visible drivers, and we're showing that already in 2026. Commercial is performing quite well with pricing discipline. We feel very good about MA, benefiting from the actions we took as well as the positioning we have for 2027. And the individual ACA is developing consistently, and as you heard from Mark and others, we've been very prudent in how we've thought about that business to ensure that it performs as planned.

Medicaid does remain an important part of our broader framework, but we continue to view it, '26 is a trough. And we do see the improvement supported by the rate alignment and the maturation of the actions that we've taken this year. And again, I want to emphasize that we are being prudent because we want those actions to mature before we take full credit for them.

So our broad earnings path, quite frankly, is not dependent on any outsized improvement in any single business. So that's why we see it as manageable. And again, accelerating investments, as I shared before. So thank you very much for the question. Appreciate the focus.

Next question, please.

Operator

Dave Windley, Jefferies.

David Windley - *Jefferies LLC - Equity Analyst*

Hi. Thanks for taking my question. I wanted to ask a question still on kind of utilization, but the shape of your experience in the first half, I think Elevance did not call out quite as much flu and weather in the first quarter as some of your peers did. And I wondered if what we're hearing from you on 2Q is perhaps a reflection of bounce-back activity more so than maybe you might have anticipated from 1Q. And again, I'm suggesting maybe flu weather-related in retrospect.

And then if I could ask, on the non-recurrence of the investments, Gail, I want to make sure I understand, does that mean the dollars come out next year, i.e. \$0.80 worth of EPS comes back to the bottomline next year or you just don't grow those investments next year and they fall into the baseline? I want to make sure I understand that. Thank you.

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

Sure. We'll clarify. I'll have Mark go through the numbers with you.

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

I appreciate the two questions. Let me maybe take the first one. I'll focus again on Medicaid here, just given it's the topic for the call. We did not see second quarter really as an acceleration in Medicaid cost trend beyond our expectations. And the way I'd

probably frame this is the second quarter cost trend was consistent with our first quarter experience when adjusting for blue activity and the prior development from the first quarter. In other words, core utilization is consistent.

On the investment spend here, the 2026 outlook from the first quarter already included approximately \$0.75 of EPS tied to those targeted investment spending that we spoke about at the beginning of the year. Those investments should be viewed as part of the ongoing run rate of the business, and that will support areas like AI adoption and workforce enablement, Carelon scaling, et cetera.

In addition, as we've spoken about this morning, we now expect to deploy approximately \$0.80 of net below-the-line favorability from the second quarter into one-time accelerated investments in the second half. You should not see that \$0.80 of net below-the-line favorability as a recurring part. Those are one-time for this year, not part of 2027.

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

And as a reminder, our jumping-off point for the adjusted 12% growth is the \$26 that we shared.

Next question, please.

Operator

Ryan Langston, TD Cowen.

Ryan Langston - *Cowen and Company LLC - Analyst*

Thanks. So, based on some of the commentary from the hospitals, surgical volumes appear to be broadly lower in the second quarter versus last year. In the prepared remarks, you mentioned outpatient surgery is a continued source of cost pressure. So, I'm wondering if that pressure is related more towards higher volumes or higher acuity procedures. And is there any risk that you see of any catch-up from those procedures in the back half of the year? Thank you.

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

We would say that outpatient surgery is not a universal trend driver for us, but it doesn't matter in certain lines of business. For example, Medicaid outpatient surgery trend is more utilization-driven. Local group is more unit cost mix-driven. In Medicare and individual ACA, we are seeing moderately, actually lower surgery trends.

On ACA, we do look at utilization per member, and we did expect per member utilization to be higher because we priced for that higher expected morbidity. And so overall, I would say that, again, not really a universal trend driver for us relative to the other categories we've called out. Thank you.

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

Next question, please.

Operator

Elizabeth Anderson, Evercore ISI.

Elizabeth Anderson - *Evercore Inc - Analyst*

Hi, guys. Good morning. You talked a lot about the prudence of the outlook in terms of margins and your expectations for the year, which makes sense given the volatility in many of the business lines. Can you talk about any change in, like, prudence regarding your reserve posturing for the quarter -- starting in the second quarter for any of your businesses?

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

I appreciate the question. We remain confident in our reserving levels and that the reserving posture we have maintained is consistent and prudent. Both relative to our membership base and claims inventory and claims experience, but also consistent and prudent relative to prior practice here. We ended the quarter with a days in claims payable, as you saw in our published results of 45.4 days, and that is up 2.9 days year-over-year. And so we feel good in the reserving posture as we ended the second quarter. Thank you.

Operator

Erin Wright, Morgan Stanley.

Erin Wright - *Morgan Stanley - Analyst*

Great. Thanks. I know there's a lot of questions on Medicaid, so I'll ask something a little bit different. But I want to dig in a little bit more in terms of what you're seeing across Medicare Advantage in terms of just underlying utilization trends. There just seems to be a narrative out there that underlying utilization trends are more favorable here.

And what are your expectations that that continues? And you talked about your bid process already on that front, but just curious how you're thinking about that going forward? And then I know it's really early to even remotely talk about [STARS], but if I throw that out there just in the context of the evolution in this administration, how you think about STARS, generally speaking. Thanks.

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

Sure. Why don't I have Aimee Dailey comment on Medicare?

Aimee Dailey - *Elevance Health Inc - President of Government Business*

Sure. So, appreciate all the questions there, and I'll try and cover as many as I can. Maybe I'll start more broadly at our bid approach. Our bid approach in 2027 was very consistent with the discipline strategy we've been executing over the past several years. And while we're encouraged by the final rate notice, which I know is a few months past now, we do continue to believe underlining medical cost trend is still outpacing program funding.

So, we submitted our bids with a prudent view of trend and a continued focus on sustainable margin improvement. The actions we took in '26 are performing as we expected, and I know we've talked about the favorability just in the second quarter, ahead of our expectations, which reflect the deliberate portfolio actions we took, a favorable membership mix and better claims experience. And so we remain on track to achieve at least 2% margin for Medicare Advantage this year, and that gives us a fair amount of confidence that the strategy is working and has informed how we approach our '27 bids.

And maybe take a minute then to go to STARS. It's really still early to comment on the next payment year, and so I wouldn't want to get ahead of the CMS process. But as you know, STARS remains one of our core enterprise priorities. We've made significant

investments that we believe will continue to improve performance over time. We've enhanced our CAHPS infrastructure with AI-powered personalized member engagement, omnichannel outreach, and rewards programs, and we've also invested in clinical data on interoperability, strengthening provider engagement, and expanding programs focusing on closing gaps in care, which is obviously very important.

So while we're not prepared or should not be making predictions about payment year '28 in the future, we feel really good about the trajectory of the business. And we view STARS as a multi-year journey and are executing against that discipline roadmap. Thank you.

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

Thank you, Aimee. Next question, please.

Operator

Jason Cassorla, Guggenheim Securities.

Jason Cassorla - *Guggenheim Securities LLC - Equity Analyst*

Great. Thanks. Good morning. Maybe just wanted to ask on commercial. You're still tracking to the high end of ASO or fee-based enrollment guidance. You're fairly in line with the employer group risk enrollment expectation. Just is there anything fundamental worth noting about what you're seeing on the commercial enrollment front?

And then with trend expected to remain elevated, I guess, how are you balancing pricing versus kind of the trend vendor opportunity for commercial books? And then lastly, if I could tack on, you've talked about the integrated model resonating. I guess, is there any way you can help frame for us the runway you have for the integrated model opportunity? Thanks.

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

Let me ask Morgan Kendrick to address on your questions.

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

Get off of mute here for a minute. No, sorry about that. I want to just address your conversation around the market in general. And as I think about it, you probably can see the bulk of the business fee-based are self-funded on the commercial side, which consists of both local market activity as well as national accounts, both of which are performing incredibly well right now.

I think about our persistency rate and our sale rate based on opportunity, and it's climbing from prior years, which tells me the market is -- our assets are resonating with the market nonetheless. And the market is maniacally focused on affordability and simplicity, and that's exactly what the organization is focused on as well.

We see that continuing. I think it's going to be a big driver for us continually right now. What I think is really an interesting new fact that's coming through is when we think about 2026 was a record year in our national account business. Our pipeline came back almost just as large this year for the '27 businesses we had in '26. And people vote with their feet as you certainly know, oddly or not oddly, interestingly, one of our big opportunities this year was customers that left us two or three years ago in the middle of their contract with an alternative payer have moved back to Anthem.

So that's something that says and speaks loudly, in my opinion, about the quality of the assets, how the whole organization works together to make healthcare more affordable and easier to navigate for our consumers.

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

And then just briefly on the pricing, we are pricing to our forward view of medical cost trends with the discipline needed to support sustainable margins over time.

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

Thank you. Couple of key takeaways. Hopefully, you heard on commercial one, affordability and experience really matter, very disciplined pricing, really strong fee-based growth we've seen with our assets resonating. And we continue to consolidate clients, and we continue to win back clients, which I think is a really strong forward view of how the market views us.

We have time for one more question.

Operator

George Hill, Deutsche Bank.

George Hill - *Deutsche Bank AG - Analyst*

Hey, good morning, guys, and thanks for squeezing me in. Mark, a simple question, and I just want to zoom out. You started to talk about kind of the outlook for '27 broadly. I thought, could you just quickly address kind of like where your early expectations and the puts and takes are for '27 foot against the long-term growth algorithm? I imagine you guys will lose less money in Medicaid next year, which will be a good thing, and they will continue to grow commercial probably flattish, Caelon's up cap deployment will be somewhere. We'd love if you could whatever you can take kind of broadly sketching out the '27 outlook versus the ultimate income growth outdoor. Thank you.

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

George, thanks very much for the last question here. I was really hoping to get a one on Caelon, but let me talk a little bit about financials for a second here. So our confidence in 2027, as Gail mentioned earlier, is really based on the breadth and the durability of our earnings base. It's not based on any one single line of business or one recovery assumption. And as we look toward next year, we do expect to enter '27 with pretty good visibility across the major drivers of the business.

So on Medicaid, certainly, our base case is not that the business remains flat. We do expect performance to improve, especially as rates increasingly reflect cost experience and as our care management actions mature. In Medicare Advantage, certainly, the portfolio actions we took for 2026, they're showing through, mix is developing favorably, and you heard from Aimee, sort of the discipline and intentionality with which they approach the 2027 bid cycle, so we do feel confident there.

You heard from Morgan on Commercial Group, very strong outlook for sales. And certainly on the individual ACA, you should have confidence that we are pricing and positioning our book of business as consistently for 2027 and as strongly for 2027 as we've done for 2026.

And then finally, just on a capital deployment, this obviously remains an important contributor to EPS growth over time, and we are executing our capital management very effectively. So key point here, just in closing, our path to at least 12% adjusted EPS growth in 2027, broad-based, balanced, and grounded in execution across our businesses. Thank you.

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

Thank you, Mark, and thank you to everyone who joined us on the call today. We're pleased with the strong second-quarter performance, and we're encouraged by the progress we're making across Elevance Health. We're raising our '26 adjusted EPS guidance, managing the business with discipline, and accelerating targeted investments in medical cost management, member experience, provider connectivity, operating efficiency, and Carelon's integrated capabilities. We're confident in the path ahead and committed to creating long-term value for our members, customers, partners, and shareholders.

Thank you for your 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 August 14, 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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