

Fund Information	
Fund	OSU SIM
Analyst	Tarush Suri
Phone	(443)-682-0629
Email	Suri.54@osu.edu
Report Generated	March 26, 2024

Elevance Health ELV (NASDAQ)

Stock Price	Target Price	Upside	Recommendation
\$514.67 (As of 3/21/24)	\$737.41	43.23%	Strong Buy

Business Summary

Elevance Health is a health company focused on providing a wide range of services such as medical, behavioral, dental, pharmaceutical, long-term care, and disability plans. Consumers are served across the entirety of their health journey with an emphasis on integrating whole health. Elevance Health is one of the largest health insurers with approximately 47 million medical customers and achieved their highest revenue till date in 2023 of \$171.34 B.

Company/Market Data	
Industry	Healthcare Plans
Shares Outstanding	235,300,000
Market Capitalization	\$111.63 B
Average Daily Volume	1,090,117
Beta	0.82

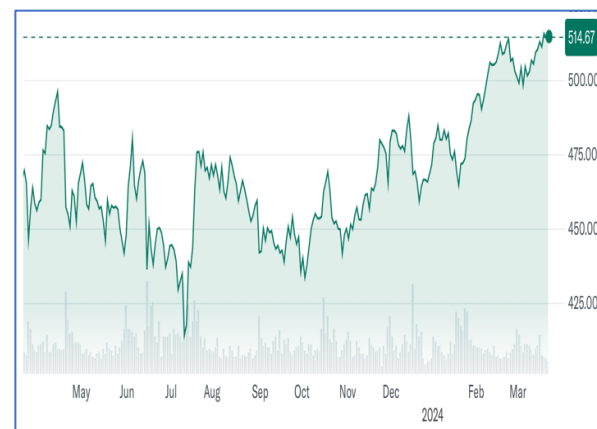
Investment Thesis

Despite being in a defensive industry, Elevance Health continues to aggressively expand its business with acquisitions, services offered, and customer base/geographical growth. I recommend a strong buy given the 43.23% upside from the current stock price of \$514.67 to the target price of \$737.41. Elevance Health recently surpassed expectations by 1.7% in Q4 of 2023 with sales of \$42.5 B and had strong revenue growth YOY of 9.44%.

Financials/Performance History	
Revenue (2023)	\$171.34 B
Revenue Growth YOY	9.44%
Earnings Per Share	\$25.71
PE Ratio	20.26
52 Week High	\$515.85
52 Week Low	\$412.00
Dividend Yield	1.25%

Risks

Although Elevance Health finished the 2023 year with higher costs than expected due to an increase in medical services offered, the company predicts that costs in 2024 will remain flat. However, cost increases may still arise from medical cost inflation, increased labor costs, increased cost of prescription drugs, and new mandates. Additionally, Elevance Health operates in a fiercely competitive industry that is at risk of changing market practices such as new market entrants and alliances. Despite these potential challenges to the strong buy recommendation, I believe Elevance Health is poised for growth and successful strategic expansion.



ELV 12 Month Graph

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Company Overview

○ General Overview

Elevance Health was formerly known as Anthem, Inc prior to July 2022. The company began in 1946 with two separate entities named Mutual Hospital Insurance and Mutual Medical Insurance. Eventually, in 1972, through a joint operating agreement, the two separate entities grew into Blue Cross of Indiana and Blue Shield of Indiana. In the late 20th century, Elevance Health indulged in strategic acquisitions and expansions with an effort to diversify offerings. Acquisitions include General Insurance Co. and The Shelby Insurance Co. Further expansion continued in the 2010s with acquisitions of CareMore and Amerigroup and eventually the company rebranded themselves to Elevance Health. The purpose was to show their desire to provide services beyond what traditional insurance companies do such as in health and wellness.

Currently, Elevance Health successfully serves approximately 119 million people throughout the entire health care journey in 26 states. Additionally, operating revenue was \$171.34 B, which is a 9.44% increase due to higher premium revenue generated in the Health Benefits segment and revenue growth in pharmacy product revenue. Elevance Health stands as one of the market leaders in the healthcare industry by focusing on whole health, care provider enablement, and providing outstanding experiences and digital solutions.

○ Business Segments

Elevance Health consists of four business segments: Commercial and Specialty Business, Government Business, CaredonRx, and Other.

Commercial and Specialty Business: The Commercial and Specialty Business provides goods and services to Group risk-based, Group fee-based, BlueCard, and Individual members. Offerings include health products, diverse managed care services, and a wide array of insurance products and services. Examples of insurance products and services provided are disability, vision, life, dental, stop loss, and supplemental health insurance benefits.

Government Business: The Government Business comprises of 3 main components, which include the National Government Services, Medicare & Medicaid businesses, and Federal Employees Health Benefits related services that are provided to the Federal Government. For reporting purposes, the Commercial & Specialty Business and the Government Business are grouped together and named as Health Benefits.

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Carelon Rx: The Carelon Rx segment includes Carelon Rx and Carelon Services. The Carelon Rx segment offers pharmacy services, which consist of pharmacy benefit management services to external customers and internal customers apart of health plans Elevance Health owns.

Furthermore, other pharmacy services include prescription drug database and member services, specialty pharmacy, formulary management, rebate management, and home delivery. Carelon Services is focused on whole health by providing behavioral, social, physical, and pharmacy services such as palliative care and health & wellness programs. Recently, at the end of 2023, Carelon Global Solutions was formed to provide data management, business operations, and information technology related services.

Other: This segment comprises of smaller scale businesses that fail to meet the quantitative operating segment reporting measure.

Financial Highlights: At the end of 2023, the Health Benefits section witnessed an increase of approximately \$10 B, Carelon of \$6 B, and Corporate & Other of \$80 M in operating revenue. Operating gain also increased slightly by \$216 M. Furthermore, through increased contribution in federal government programs, Elevance Health was able to gain 1% in total revenues from U.S. government agencies at the end of 2023 relative to 2022. The growth in operating revenue was caused by growth in pharmacy product revenue in the Carelon segment and higher premium revenue in the Health Benefits segment. Within CarelonRx, Elevance Health observed greater prescriptions served, increase in external customers, and more overall demand and operating revenue derived from the acquisition of Bio plus specialty pharmacy. In 2023 Carelon segments witnessed 16% growth and Health Benefits of 7% in operating revenue from the prior year.

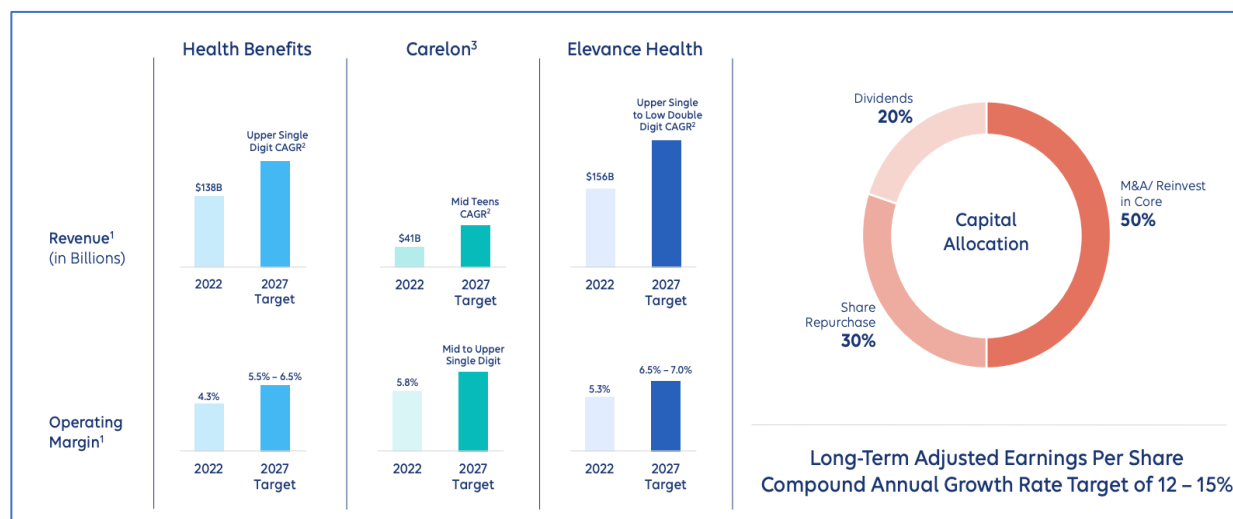


Figure 1

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○ Sustained Competitive Advantages

Strategic Mergers and Acquisitions: With an emphasis on providing whole health related services and being a market differentiator, Elevance Health continues to aggressively acquire unique companies. In 2023, Elevance Health acquired Bio Plus, who specializes in providing specialty pharmacy services to people with rare health conditions. Recently, in 2024, Elevance Health finalized a deal to acquire Paragon Healthcare to provide affordable and accessible specialty medications/services. Paragon Healthcare focuses on providing lifesaving injectable therapies for rare health conditions. Furthermore in 2024, pending regulatory approval, Elevance Health is slated to acquire Kroger Specialty Pharmacy with the goal of expanding services provided for complex conditions such as therapy programs and counseling. While other competitors such as CVS Health and Cigna have previously invested in other healthcare companies, their investments have not addressed or focused on whole health. In the past 3 years, there have been 6 major acquisitions.

Diversification: Elevance Health is a leader in providing high quality, affordable, and accessible healthcare to its customers. According to the 2023 Elevance Strategy, Governance, and Whole Health Presentation, the company became the first in the nation to earn the complete 3-year health equity accreditation. This was made possible through the wide array of offerings provided by Elevance Health. Examples of services in behavioral health include crisis solutions, substance use disorder, and employee assistance programs. Elevance Health currently serves 80% of the population in 75 major markets throughout the whole health journey.

Digital Technology: According to the 2023 Elevance Strategy, Governance, and Whole Health Presentation, 80% of Elevance Health's consumer and care provider interactions are digital. As a result, the company has continued to work on improving accessibility of healthcare by focusing on telehealth and digital care. Sydney Health, which is Elevance Health's digital engagement platform has over 17 million registered users. Additional use of digital technology includes depression screening and decision support tools.

○ Market Landscape/Stock News

Market Share: Elevance Health is currently the second largest healthcare company after UnitedHealth with a market capitalization of \$111.63 B in the health care plans industry, according to Yahoo Finance. Other healthcare companies with lower market capitalizations include Cigna, CVS Health, and HCA Healthcare. According to the American Medical Association, In the commercial markets, Elevance Health is the leader and largest health insurer by market share in 22% of MSA's. In Medicare Advantage markets, Elevance Health is the fifth largest insurer by market share (6%) and in Public Health exchange markets the company is the 2nd largest health insurer by market share (6%).

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Largest Companies in This Industry

Name	Last Price	1Y Target Est.	Market Weight
UNH UnitedHealth Group...	490.07	594.94	51.31%
ELV Elevance Health, Inc.	513.85	577.17	13.58%
CI The Cigna Group	351.78	380.38	11.33%
CVS CVS Health Corpora...	78.48	87.85	11.22%
HUM Humana Inc.	348.54	408.44	4.77%
CNC Centene Corporation	76.93	90.20	4.67%
MOH Molina Healthcare, I...	414.72	419.34	2.75%
OSCR Oscar Health, Inc.	13.50	17.17	0.35%

Figure 2

Addressable Market: The healthcare industry is a defensive and less economically sensitive sector, which leads to outperformance in recessionary periods. Although the sector is defensive, Elevance Health has shown aggressive growth reflective of strong revenue, membership, and acquisition growth. According to Fidelity, despite in 2023 witnessing great innovation and health care utilization, the sector underperformed relative to the S&P with healthcare achieving a 7.3% 1-year price return and the S&P garnering 19.5%. Additionally, according to Yahoo Finance, the YTD return for the Healthcare Plans industry was -2.74%. In spite of challenges, the subsector of healthcare that performed the best in 2023 was pharmaceuticals with weight loss treatments experiencing more demand.

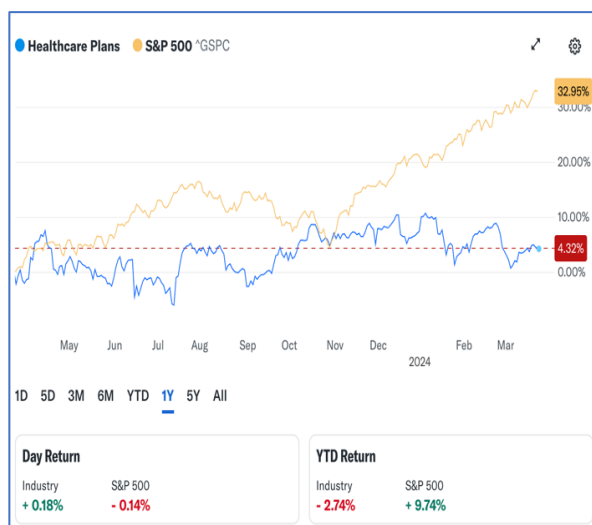


Figure 3



Figure 4

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Growth Drivers: Elevance Health continues to focus on expanding their pharmaceutical business, which is a part of their Carelon Services business line. As mentioned in the Addressable Market section, the pharmaceuticals subsector of healthcare achieved superior returns relative to other subsectors and is expected to outperform in 2024. Recent acquisitions of Paragon Healthcare and Bio Plus specialty pharmacy will help capitalize on this trend. More importantly, integrating these businesses into their Carelon Services unit will help achieve economies of scale by lowering costs of providing care and diversifying product/service offerings. This is an important driver, as numerous healthcare companies such as UnitedHealth Group have struggled to maintain and lower their input costs. In 2023, Humana reported increased medical costs and United Health Group reported medical costs that were the highest since COVID-19 had started. On the other hand, Elevance Health was able to maintain costs with increase in premiums in their Health business and membership growth. Evidently, Elevance Health's medical loss ratio, which indicates the cost of patient care, has seen an improvement in 2023 at 87%.

Through premium increases in the Commercial Risk and Medicaid businesses, operating revenue has consistently increased, while still experiencing organic and strategic membership growth. In the Government business, the acquisitions of Ohio Medicaid members, Integra, and MMM has aided in receiving more Medicaid contracts and memberships. While regulatory changes to promote price transparency and control are pending approval, even if prices were forced to reduce, Elevance health would not be greatly affected due to high diversification and costs that are already flat relative to competitors.

Recent Stock News: Elevance Health stock has continued to outperform competitors in 2024 with shares gaining 11.9% in 2023 and beating the Healthcare industry's 7.6% YOY growth and the medical sector's 10.7% YOY gain, according to Yahoo Finance. Moreover, Elevance Health continues to divest assets nonessential to their core businesses to increase profitability, amongst rising healthcare costs. As a result, Elevance Health's return on invested capital is 11%, which is greater than the Healthcare industry average of 8.2%. As mentioned previously, further expectations of stock price increases are due to membership growth, especially in Blue Card (5%) and Individual businesses (16%) YOY as well as increases in product and administrative revenues.

On March 6, 2024, Elevance Health announced a \$1.63 dividend per share that is payable on March 22, 2024.

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On March 11, 2024, Elevance Health officially announces the closing of the Paragon Healthcare Acquisition with the goal of providing customers with infused medications, increasing medication adherence, and lowering costs of care.

	December 31,					
	2017	2018	2019	2020	2021	2022
Elevance Health, Inc.	\$ 100	\$ 118	\$ 137	\$ 148	\$ 216	\$ 242
S&P 500 Index	100	96	126	149	192	157
S&P 500 Health Care Index	100	106	129	146	184	180
S&P Managed Health Care Index	100	111	133	154	218	234

Figure 5: Based on an initial investment of \$100

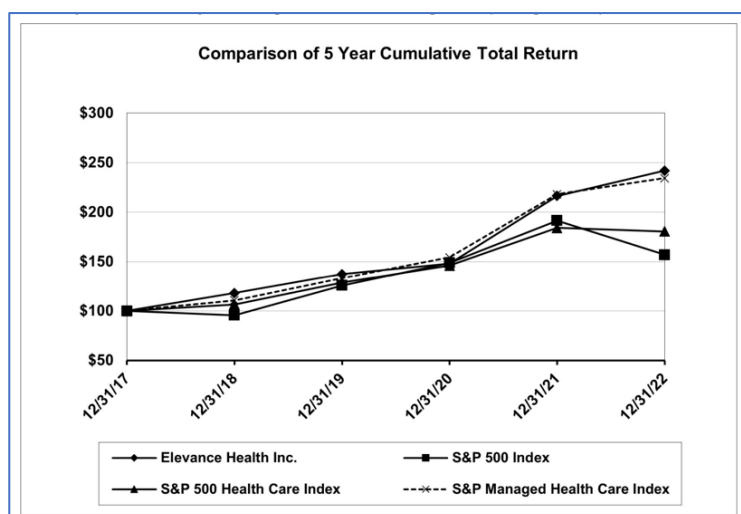


Figure 6

Investment Thesis

○ Fundamental Drivers

1. Investing in High Growth Opportunities

The 2024 outlook for healthcare looks favorable. As mentioned previously, the pharmaceuticals subsector is poised for significant growth in the years to come with obesity medications being at the forefront. According to BlackRock, only 2% of the obese population are using prescription drug treatments, which indicates the potential this subsector has. Elevance Health has already proved that they are a forward-looking company by making significant investments in the pharmaceuticals space, with their most recent announcement of acquiring Kroger's specialty

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pharmacy. For example, Elevance Health's Carelon Services has recently announced a weight management program for their self-insured customers. One of their main goals in 2024 is to increase service offerings in their Carelon business line. Additionally, other high growth opportunities in the industry include technology/digitization and value-based care, which Elevance Health specializes and strong believes in.

2. Focus on Value Based Care and Health Equity

An important trend the healthcare industry has witnessed is the transition from fee-based to value-based service models. According to Fidelity, a value-based service model is when a provider gets paid based on the outcome of the service rather than receiving a fixed fee. One of Elevance Health's key component to its business model is to provide integrated care (focus on behavioral, mental, and physical health) to its customers, instead of focusing on one health related issue the patient might have a concern with. While many healthcare companies are riding on this trend now, Elevance Health has incorporated this system for years now, which has led to greater customer satisfaction and growth. One of their targets for 2027, according to the 2023 Investor Conference, is to achieve 80% of medical spend towards value-based care. Furthermore, through focusing on health equity and being fully accredited from the NCQA, Elevance Health can service more than 8 million Medicaid members.

3. Positioned as a Lifetime Trusted Health Partner

By providing services that help with the full spectrum of health, Elevance Health can achieve high retention from its customers who do not have to find alternatives. Being one of the only companies focused on whole health is an important competitive advantage.

○ Economic Drivers

According to Medical Economics, Health spending is projected to grow 5.4% annually until 2031 and will contribute to nearly 20% of the U.S. economy. Another important factor is that according to the Population Reference Bureau, the number of Americans that are older than 65 is expected to increase by 47% by 2050, which will lead to higher healthcare utilization.

COVID-19 continues to have an impact on the healthcare industry. Major problems include labor & raw material shortage and an increase in input costs. Furthermore, supply chain disruptions from the Russia-Ukraine war such as the inability to source vital metals and raw materials from Russia has become a problem to manufacture key medical equipment. If COVID-19 worsens in the future, Elevance Health could experience increased pharmaceutical, healthcare, labor costs, and unpredictability in Medicare and Medicaid rates due to volatile disruptions to medical facilities and services consumption.

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Financials

Income Statement, Balance Sheet, and Financial Metrics

For the past 5 years, Elevance Health's topline revenue has been growing aggressively with an average YOY increase of approximately 13%. However, I decided to take a more conservative approach with my assumptions and forecasting due to rising regulations and costs in the Healthcare Industry.

ELV In Millions \$	FY 2026 Proj	FY 2025 Proj	FY 2024 Proj	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019
Consensus	206,200	186,300	177,000					
Revenues								
Premiums	174,088	155,450	153,086	142,854	133,229	117,373	104,109	94,173
Product Revenue	22,518	21,446	20,425	19,452	14,978	12,657	10,384	8,968
Service Fees	8,142	8,062	7,982	7,903	7,453	6,913	6,315	0
Total Operating Revenue	204,748	184,958	175,315	170,209	155,660	136,943	120,808	103,141
Net Investment Income	1,937	1,899	1,862	1,825	1,485	1,378	877	1,005
Net Losses/Gains on Financial Instruments	-576	-670	-697	-694	-550	318	182	114
Total Revenues	206,109	186,187	176,480	171,340	156,595	138,639	121,867	104,260
Expenses								
Benefit Expense	152,520	137,778	130,595	124,330	116,642	102,645	88,045	81,786
Cost of Products Sold	16,489	14,895	14,118	17,293	13,035	10,895	8,953	1,992
Operating Expense	23,187	20,946	19,854	20,087	17,700	15,914	17,450	13,364
Interest Expense	1,443	1,303	1,235	1,030	851	798	784	746
Amortization of Other Intangible Assets	824	745	706	885	767	441	361	338
Loss on extinguishment of debt	-	-	-	0	0	21	36	2
Total Expenses	194,463	175,667	166,509	163,625	148,995	130,714	115,629	98,228
Income Before Income Tax Expense	11,645	10,520	9,971	7,715	7,600	7,925	6,238	5,985
Income Tax Expense	1,443	1,303	1,235	1,724	1,712	1,830	1,666	1,178
Net Income	10,202	9,216	8,736	5,991	5,888	6,095	4,572	4,807
Less: Net Income Attributable to Noncontrolling Interests	0	0	0	-4	6	9	0	0
Shareholders' Net Income	10,202	9,216	8,736	5,987	5,894	6,104	4,572	4,807
EPS								
Basic	45.22	40.03	37.19	25.21	25.1	25.04	18.23	18.81
Diluted	44.92	39.76	36.94	25.22	24.81	24.73	17.98	18.47
Consensus	48.08	41.49	37.10					
Shares Outstanding								
Basic	225.61	230.21	234.91	235.30	240.00	244.00	251.00	260.00
Diluted	227.13	231.77	236.50	237.80	242.80	246.80	254.30	260.30
% of buyback from prior year	-2%	-2%	-0.55%	-2.06%	-1.62%	-2.95%	-2.31%	
Sales	10.70%	5.50%	3.00%	9.42%	12.95%	13.76%	16.89%	
Expenses as % of Sales								
Gross Margin	18.00%	18.00%	18.00%	17.34%	17.19%	18.10%	20.41%	19.65%
Benefit Expense	74%	74%	74%	72.56%	74.49%	74.04%	72.25%	78.44%
Operating Expense	11.25%	11.25%	11.25%	11.72%	11.30%	11.48%	14.32%	12.82%
Interest Expense	0.70%	0.70%	0.70%	0.60%	0.54%	0.58%	0.64%	0.72%
Amortization of Other Intangible Assets	0.40%	0.40%	0.40%	0.52%	0.49%	0.32%	0.30%	0.32%
Loss on extinguishment of debt	0.00%	0.00%	0.00%	0.00%	0.00%	0.02%	0.03%	0.00%
Operating Margin	6.35%	6.35%	6.35%	5.10%	5.40%	6.31%	5.79%	6.50%
Net Income Attributable to Noncontrolling Interests % of Sales	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%
Tax Rate	24.00%	24.00%	24.00%	22.35%	22.53%	23.09%	26.71%	19.68%
D & A	5,153	4,655	4,412	1,745	1,675	1,302	1,154	1,133
% of Sales	2.50%	2.50%	2.50%	1.02%	1.07%	0.94%	0.95%	1.09%
CapEx	5,153	4,655	4,412	4,359	4,920	4,547	4,129	3,708
% of Sales	2.50%	2.50%	2.50%	2.54%	3.14%	3.28%	3.39%	3.56%
Receivables	14,428	13,033	12,354	17,865	11,746	9,691	8,128	7,584
% of Sales	7.00%	7.00%	7.00%	10.43%	7.50%	6.99%	6.67%	7.27%
Inventory	7,008	6,330	6,000	5,795	5,281	4,654	4,603	2,319
% of Sales	3.40%	3.40%	3.40%	3.38%	3.37%	3.36%	3.78%	2.22%
Payables	51,527	46,547	44,120	41,791	39,696	34,885	29,453	23,617
% of Sales	25.00%	25.00%	25.00%	24.39%	25.35%	25.16%	24.17%	22.65%
Change in WC	2,909	1,417	7,635	-4,538	2,129	3,818	3,008	13,714

Figure 7: Income Statement Projection

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In 2024, I used a low 3% growth in sales to arrive at a projected total revenue of \$176,480 M. This was done to justify Elevance Health's long-term strategy, which comes with shortcomings in the short run. For example, operating gain in Q4 of 2023 declined by 2% YOY to \$767 M because of long term investments the company made. Additionally, medical membership decreased 1% YOY in 2023 due to temporary redeterminations of Medicaid membership. Furthermore, Elevance Health's acquisition of Paragon Health was recently officially announced, so I accounted for post-acquisition challenges such as lack of synergy and integration. Also, it takes time for the acquisition to realize its benefits. In 2025 and 2026, I used higher growth rates of 5.50% and 10.70% respectively due to clear momentum that will arise from acquisitions of Kroger's specialty pharmacy chain and Paragon Healthcare, membership growth, and decrease in costs. Through increasing service and product offerings, Elevance Health will be able to address customer needs across the full spectrum of health. Already, CarelRx has seen improved performance due to growth in external pharmacy members, so these acquisitions mentioned should continue to do the same. I expect basic EPS to increase substantially from \$25.21 in 2023 to \$37.19 in 2024 due to economies of scale Elevance Health will achieve in its Carelon Business, which is its fastest growing business line. With a conscious effort to expand their pharmaceutical operations, Elevance Health will be able to maintain or potentially lower their labor costs, unlike their competitors. As mentioned above, my projections are slightly conservative or in line with consensus, especially as I wanted to account for a potential slow run in performance due to past performance that was highly aggressive.

At the end of 2023, Elevance Health has \$6,526 M in cash available. In 2024, Elevance Health has \$1,649 M in long-term debt that is due, which is on par with the amount of debt the company paid off in 2023 around this time. The debt amount that is payable relative to the cash available is sufficient. Although cash available decreased by 15.31% YOY IN 2023, Elevance Health repurchased 5.8 million shares of common stock for \$2.7 B in 2023 signaling an undervalued stock. Total inventory for Elevance Health has been relatively stable for several years, which is why I decided to project inventory as 3.40% of sales to reflect steady growth, especially as the company's cash available and ability to pay debt has been stable and non-volatile.

Figure 8 below compares Elevance Health's financial ratios and growth to its major competitors in the Healthcare Plans subsector. Elevance Health is a leader in having the least debt to equity ratio and having the second highest operating & profit margin and return on equity. UnitedHealth Group has the highest market capitalization out of the companies below.

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Stock Price	\$511.28	\$486.57	\$78.83	\$346.50
P/E	20.26	20.38	12.18	17.31
Total Revenue	\$171.34 B	\$371.62 B	\$356.62 B	106.37 B
Return on Equity	15.82%	24.99%	11.28%	15.68%
Debt/Equity	65.90%	68.17%	103.59%	77.23%
Operating Margin	5.64%	8.14%	3.67%	0.21%
Profit Margin	3.49%	6.02%	2.34%	2.34%
Revenue Growth	9.00%	14.64%	10.95%	14.54%

Figure 8: As of 3/25/24

○ Valuation and Price Target

Relative Valuation Models

Figure 9 below shows the 10-year valuation history for the healthcare industry. It is important to note that all the ratios shown, especially P/E are near the high, which indicates that the healthcare industry is slightly overvalued. This matches what we saw in 2023, as healthcare stocks struggled and lagged other industries in terms of returns.

Absolute Basis	High	Low	Median	Current
P/E	24.44	16.08	20.67	23.47
P/B	5.48	2.98	4.29	4.93
P/S	2.08	1.30	1.75	1.74
P/EBITDA	17.33	10.13	13.47	15.70

Figure 9: As of 1/23/24

Figure 10 below shows the healthcare industry performance relative to the S&P 500. The ratios indicate that the industry is slightly undervalued relative to the S&P500, as they are below or at the median.

Relative to SP500	High	Low	Median	Current
P/E	1.36	0.67	1.02	1.02
P/B	1.57	1.00	1.26	1.10
P/S	1.16	0.62	0.85	0.68
P/EBITDA	1.53	0.79	1.17	1.17

Figure 10: As of 1/23/24

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Figure 11 below shows the 10-year stock valuation of Elevance Health from 2014-2024. As of 1/23/24, the stock's P/E ratio is above the median, but well below the high, indicating that the stock is in line on valuation, especially after recent acquisitions and expansions. Furthermore, as of 3/25/24, the P/E ratio has increased to 20.26, as the stock price has increased nearly \$50 during the 2-month period. Despite the growth, the P/E ratio is not at an all-time high.

Absolute Basis	High	Low	Median	Current
P/E	23.13	7.57	16.35	18.39
P/B	3.61	0.79	2.13	2.89
P/S	1.29	0.50	0.93	0.65
P/FCF*	84.94	6.57	13.19	13.59

Figure 11: As of 1/23/24

Figure 12 below shows Elevance Health's stock valuation relative to its competitors. Even though the stock's P/E ratio is the second highest behind UnitedHealth Group, this is justified due to Elevance Health being the second largest by market capitalization in Figure 12. Also, the P/E ratio was calculated below before the recent acquisition of Kroger's specialty pharmacy chain.

Ticker	P/E	P/S	P/B	EV/Revenue	EV/EBITDA
ELV	18.39	0.65	2.89	0.73	9.62
United Health Group	21.45	1.27	4.93	1.34	13.73
CVS Health	11.21	0.27	1.27	0.45	8.68
Cigna	17.04	0.48	1.93	0.58	10.08
Humana	16.61	0.49	2.92	0.45	5.96
Centene	16.44	0.27	1.57	0.26	6.62
Average	16.86	0.57	2.59	0.64	9.12

Figure 12: As of 1/23/24

Figure 13 below shows my calculations behind generating a target price for Elevance Health. At the current stock price (\$514.67 as of 3/21/24), based on the P/E ratio, the stock is still undervalued. According to Market Watch, analysts set an average target price of \$576.16, with a low of \$537 and high of \$629 by the end of 2024. I took a conservative calculation approach, without aggressive assumptions used, and as mentioned above the stock has nearly increased by \$50 and is still undervalued relative to my calculations and analysts' projections.

Absolute Valuation	Current Stock Price	Current Multiple	Your Target Multiple	Target/Current	Target Price *	Implied Return #
P/E	471.84	18.39	21.75	1.18	556.77	18.00%
P/B	471.84	2.89	2.95	1.02	481.28	1.99%
P/S	471.84	0.65	0.75	1.15	542.62	15.00%
P/FCF*	471.84	13.59	14.00	1.03	486.00	3.00%

Figure 13: As of 1/23/24

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Analyst	Tarush Suri
Phone	(443)-682-0629
Email	Suri.54@osu.edu
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○ DCF Model

Elevance Health (ELV)											
				Terminal Discount Rate =	11.00%						
In Millions \$				Terminal FCF Growth =	4.00%						
Year	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Revenue	176,480	186,187	206,109	214,353	222,927	231,844	241,118	250,763	260,793	271,225	282,074
% Growth		5.50%	10.70%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Operating Income	10,747	11,339	12,552	13,504	14,044	14,606	15,190	15,798	16,430	17,087	17,771
Operating Margin	6.09%	6.09%	6.09%	6.30%	6.30%	6.30%	6.30%	6.30%	6.30%	6.30%	6.30%
Interest Expense (Income)	70	74	82	85	88	92	95	99	103	107	112
Interest % of Sales	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%
Income Before Taxes	9,971	10,520	11,645	13,419	13,956	14,514	15,095	15,699	16,327	16,980	17,659
Taxes	2,393	2,525	2,795	3,221	3,349	3,483	3,623	3,768	3,918	4,075	4,238
Tax Rate	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%
Net Income from Cont Ops	7,578	7,995	8,850	10,199	10,607	11,031	11,472	11,931	12,408	12,905	13,421
Less: Net inc attributable to noncont interests	0	0	0	2.14	2.23	2.32	2.41	2.51	2.61	2.71	2.82
% of Revs	-	-	-	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%	0.001%
Net Income	8,736	9,216	10,202	10,197	10,607	11,031	11,472	11,931	12,408	12,905	13,421
% Growth		5.5%	10.7%	-0.1%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Add Depreciation/Amort	4,412	4,655	5,153	5,359	5,573	5,796	7,234	7,523	7,172	7,459	7,757
% of Sales	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	3.00%	3.00%	2.75%	2.75%	2.75%
Plus/(minus) Changes WC	7,635	1,417	2,909	3,022	3,143	3,269	3,400	3,536	3,677	3,824	3,977
% of Sales	4.33%	0.76%	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%	1.41%
Subtract Cap Ex	4,412	4,655	5,153	5,359	5,573	5,796	7,234	7,523	7,172	7,459	7,757
Capex % of sales	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	3.00%	3.00%	2.75%	2.75%	2.75%
Free Cash Flow	16,371	10,633	13,111	13,219	13,750	14,300	14,872	15,467	16,086	16,729	17,398
% Growth		-35.05%	23.30%	0.82%	4.02%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
NPV of Cash Flows	82,478	48%									
NPV of terminal value	91,035	52%									
Projected Equity Value	173,513	100%								Terminal Value	258,487
Free Cash Flow Yield	13.52%									Free Cash Yield	6.73%
Current P/E	13.9	13.1	11.9								
Projected P/E	19.9	18.8	17.0								
Current EV/EBITDA	9.2	8.7	7.9							Terminal EV/EBITDA	10.9
Projected EV/EBITDA	12.7	12.0	10.8								
Shares Outstanding	235.3										
Current Price	\$ 514.67										
Implied equity value/share	\$ 737.41										
Upside/(Downside) to DCF	43%										
Debt	25,100										
Cash	6,526										
Cash/share	27.73										

Figure 14: As of 3/25/24

Sensitivity Analysis		Terminal Discount Rate						
		9.0%	9.5%	10.0%	10.5%	11.0%	11.5%	12.0%
Terminal FCF Growth	1.0%	\$ 662.46	\$ 623.15	\$ 588.21	\$ 556.95	\$ 528.81	\$ 503.36	\$ 480.23
	1.5%	\$ 703.76	\$ 659.43	\$ 620.31	\$ 585.54	\$ 554.43	\$ 526.44	\$ 501.11
	2.0%	\$ 750.97	\$ 700.54	\$ 656.42	\$ 617.50	\$ 582.90	\$ 551.94	\$ 524.08
	2.5%	\$ 805.44	\$ 747.53	\$ 697.35	\$ 653.45	\$ 614.71	\$ 580.28	\$ 549.47
	3.0%	\$ 868.98	\$ 801.75	\$ 744.13	\$ 694.19	\$ 650.50	\$ 611.95	\$ 577.68
	3.5%	\$ 944.09	\$ 865.01	\$ 798.10	\$ 740.76	\$ 691.06	\$ 647.57	\$ 609.21
	4.0%	\$ 1,034.21	\$ 939.77	\$ 861.07	\$ 794.49	\$ 737.41	\$ 687.95	\$ 644.68
	4.5%	\$ 1,144.35	\$ 1,029.48	\$ 935.49	\$ 857.17	\$ 790.90	\$ 734.10	\$ 684.88
	5.0%	\$ 1,282.04	\$ 1,139.12	\$ 1,024.79	\$ 931.25	\$ 853.30	\$ 787.35	\$ 730.82
	5.5%	\$ 1,459.06	\$ 1,276.18	\$ 1,133.94	\$ 1,020.15	\$ 927.05	\$ 849.47	\$ 783.83
	6.0%	\$ 1,695.09	\$ 1,452.39	\$ 1,270.37	\$ 1,128.80	\$ 1,015.55	\$ 922.89	\$ 845.67

Figure 15

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Analyst	Tarush Suri
Phone	(443)-682-0629
Email	Suri.54@osu.edu
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In the DCF model (Figure 14), for my assumptions, I used a terminal discount rate of 11% and a terminal FCF growth rate of 4%. I chose 11% because I see Elevance Health as a riskier stock than the S&P 500. This is mainly due to the company's aggressive growth strategy and post-acquisition risk they will potentially incur along with supply chain and rising costs issues the Healthcare industry is facing today. Additionally, I chose a conservative 4% FCF growth, even though Elevance Health is forecasting a 5% FCF and revenue growth to account for failures to maintain costs, as membership increases.

The DCF model projected a 173,513 M equity value with an implied \$737.41 share price (43% upside) based off 235.3 M shares outstanding. Furthermore, the model calculated a terminal P/E of 19.3 along with a free cash yield of 6.73%. Figure 15 shows different combinations of FCF growth and discount rates to achieve a certain stock price. If I had used a lower discount rate, which would imply lower risk, the implied stock price would have been higher. For example, a 10% discount rate with a 4% growth rate equates to \$861.07 stock price. This is more likely, as a 11% discount rate is high even relative to typical performers in the healthcare industry but is justifiable due to the potential to encounter higher risk. Based off the projections, Elevance Health stock is heavily undervalued and has substantial potential to grow, especially if the company can lower their costs, while increasing membership, which is one of their main goals. Even if Elevance Health were to lag in revenue growth, miss expectations, and sustain a 2.5% growth rate at a 11% discount rate, the stock price would still have upside at \$614.71. This worst-case scenario is highly unlikely, as according to Market Watch analysts already predict the stock price to increase to around \$600 by the end of 2024. Additionally, favorable growth prospects of the stock and industry make the worst-case scenario look unlikely.

Risks to Recommendation

Government Regulation: Currently the healthcare industry is witnessing rising costs, which is causing companies to increase their product/service offerings price. Consumers are also becoming more cautious of price increases in prescriptions especially. The government is attempting to lower the cost of prescription drugs and promote price transparency. Additionally, it is likely that state legislatures will lower increases to premium payments and provider billing protections, which can negatively affect Elevance Health's business lines and decrease cash flows.

Strong Competition: All the business lines, which Elevance Health operates are subject to strong competition. The pharmaceuticals subsector especially is competitive due to competition from pharmacy chains, supermarkets, health plans, specialty pharmacies, national and regional pharmacy service providers, and retail stores that have integrated pharmacy into its operations. With a competitive market, it becomes increasingly important to provide your offerings at

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prices that are affordable, since many of the market participants will be focused on lowering their prices to stay competitive. As a result, with more participants entering the specialty pharmacy sector, Elevance Health may be forced to lower their prices to levels that are not ideal.

Post Strategic Investments: As mentioned in previous sections of this report, there is risk post strategic mergers, acquisitions, and investments. Some risks include not reaching growth prospects, legal challenges, loss of key resources, culture change, technology vulnerabilities, and dilution of existing shareholders. These risks would negatively impact Elevance Health's stock price.

Diversification: Diversification is considered a positive when expanding product/service offerings. However, for Elevance Health diversification of healthcare products and services can lead to increasing litigation outside of its main business. Litigation from behavioral and pharmacy services, can cause Elevance Health to expose itself to more risks outside of traditional insurance. For example, the behavioral health sub sector is considered a sensitive business.

Conclusion

I recommend buying Elevance Health stock with a target price of \$737.41, which implies a 43.23% upside. As of 3/21/24, the stock price is \$514.67. Though the stock has recently had a run up in stock price from \$471.84 on 1/23/24 due to exceeding expectations in its Q4 2023 reporting and announcement of further acquisitions, there is still unlocked potential and growth in the coming years, which will cause the stock price to substantially increase, as mentioned in previous sections of this report.

In addition to acquisitions, membership & strategic growth, cost flatness, a unique approach to whole health, and sophisticated technology integration, the healthcare industry is poised to make a strong comeback in 2024. This comeback is strongly based off growth in the pharmaceuticals sub sector, changes in the insurance market, and attractive valuations. Also, relative to competitors, Elevance Health has shown a strong balance sheet, operating & profit margin, and the ability to focus on innovation and improving service, which is highly appreciated by customers.

Lastly, Elevance Health has shown consistent strong growth in revenue for the past 5 years, with a slight slowdown in the coming years due to large increases in operating revenue. Historically, they have not had a problem fulfilling debt obligations, due to ample cash

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Email	Suri.54@osu.edu
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available. Overall, strong financial performance, large market presence, and ambitious growth outlook, make Elevance Health stock a strong buy.

Appendix

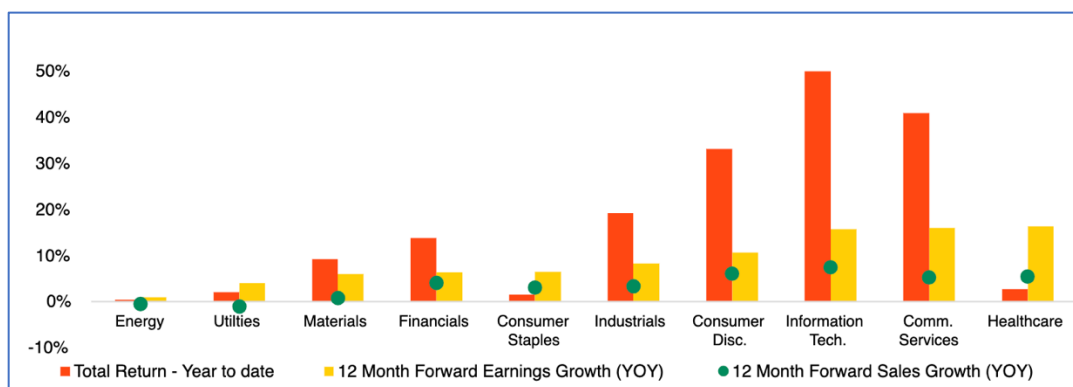


Figure 16 - BlackRock

Figure 16 (Data from BlackRock) shows the healthcare industry performance in 2023, with 12-month forward sales growth outpacing all industries shown in this graph, besides information technology and consumer discretionary.

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