

# A Financial Analysis and Valuation of Elevance Health, Inc.

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**Abstract.** After the pandemic, the treatment of COVID19 and the response of “Long COVID” have brought more attention to the healthcare industry. Elevance Health, Inc. (ELV) is a United States company in the healthcare industry that provides services including insurance and managed care services. In this paper, ELV is studied using financial reports as of 31 December 2022, and information on competitors in the same industry. The company is first introduced in terms of its company profile, including its business content, strategy, and recent situation. Secondly, the accounting methods of its accounting policies for revenue recognition, medical claims payable, and intangible assets and goodwill are examined. Thereafter, based on relevant financial indicators, three companies of similar market capitalization in the same industry, CVS Health Corporation, Pfizer Inc. and McKesson Corporation, are selected for comparative analyses in four aspects: liquidity, solvency, profitability and market performance. Finally, a strategy and strengths analysis and risk prediction are conducted, and a recommendation is made on whether to buy or not to buy the company's stock.

**Keywords:** Healthcare Industry, Elevance Health, Inc., Performance Evaluation, Strategic Valuation.

## 1. Introduction

Elevance Health, Inc. (ELV) is an American health company that aims to improve human health. It is one of the largest insurers as far as medical members are concerned. As of 31 December 2022, it serves approximately 47.5 million medical members. The company offers a range of network-based risk-based managed care plans for the individual, group, Medicaid, and Medicare markets. In addition, ELV offers a wide range of managed care services, including claims processing, stop-loss insurance, provider network access, medical management, care management and wellness programs, actuarial services, and other administrative services. ELV also provides services to the federal government in connection with the Federal Health Products and Services business, which administers the Federal Employees Health benefit plans. ELV provides a range of professional services to its clients, including pharmacy benefit management (PBM) services, dental, vision, life, disability and supplemental health insurance benefits, as well as integrated health services.

ELV aims to be a trusted lifelong health partner through four core areas: Whole Health, Exceptional Experiences, Care Provider Enablement and Digital Platforms. The company is committed to meeting the diverse needs of its customers and is guided by the values of leadership, community, integrity, flexibility and diversity. ELV plans to transform itself from a traditional health insurer to a trusted lifelong health partner. The company currently manages its operations through four reporting segments: business and professional operations, government operations, Carlon RX (formerly Ingeniworks), and others. In addition, the company is in the process of reorganizing its business units and evaluating the management of its operations.

At February 15, 2023, ELV announced that it has closed on the acquisition of BioPlus, a full-service specialty pharmacy for patients with complex and chronic conditions such as cancer, multiple sclerosis, hepatitis C, autoimmune diseases and rheumatology. The acquisition will help ELV achieve its overall health strategy of providing its consumers with reliable access to prescription medications when they need them most. ELV's PBM business revenues will be negatively impacted from the bill [1]. In July 2023, the Senate Finance Committee approved the Modernizing and Ensuring PBM Accountability Act. The bill has several provisions, including decoupling PBM revenues from Medicare Part D prescription drug prices, requiring accurate payments to pharmacies under the Medicaid programme, and prohibiting spread pricing in the Medicaid programme. The House

Fundraising Committee also voted to pass the Health Care Price Transparency Act, which also includes actions against PBM [2].

For the fiscal year ending 31 December 2022, ELV reported operating income of \$155,660 million and net income of \$6,019 million. Fully diluted earnings per share for shareholders was \$24.81. Of note is the increase in operating income of \$18,717 million (13.7%) compared to the fiscal year ending 31 December 2021. However, net income for the fiscal year decreased by \$76 million compared to 2021, mainly due to losses on financial instruments. Therefore, this component will theoretically not affect the company's future profitability. In order to grow the business profitably in the future, the Company will need to increase its profitable medical membership and continue to diversify its revenue and income streams, including increasing sales of standalone PBM and other Caredon services, specialty products, and expanding its non-insurance assets, among others.

## **2. Accounting Analysis**

### **2.1. Revenue Recognition**

Gross operating income revenue of ELV in 2022 is \$156,595 million. It has different business modules and complex revenues, with the main sources being risk premiums, government agency premiums, and Caredon subsidiaries. Operating revenues can be categorized into premiums, product revenues, administrative expenses and other revenues.

ELV has clarified the respective revenue recognition by identifying the different revenue sources when they come to revenue recognition and explaining how they are accounted for in certain cases. Premiums from risk-based contracts are recognized as revenue in the period in which the insurance coverage is provided, and adjustments for estimated amounts that differ from final payments due to the terms of the contract are included in revenue in the period of final settlement. Premium payments from contractual government agencies are based on eligibility lists provided by the government agency. Premiums related to unexpired contract coverage periods are reflected as unearned revenue in the consolidated balance sheets. Administrative expenses and other revenues are based on a single performance obligation that constitutes a series of services, with revenue being recognized over the period in which the services are performed. CaredonRx recognizes revenue when control of the prescription drug is transferred to the customer.

The revenue recognition accounting policies of ELV are reasonable overall. Due to the nature of its insurance-related business revenues, some of the revenue recognition requires significant judgement in the areas of performance obligations and accounting professional judgment, which can have some level of subjectivity.

### **2.2. Medical Claims Payable**

The most subjective accounting estimate in the consolidated financial statements is medical claims payable. As of 31 December 2022, this value was \$15,596 million, or 23% of total consolidated liabilities. The Company records a corresponding benefit charge for incurred but unpaid claims, including the estimated cost of processing such claims.

Liabilities for claims incurred but unreported and reported but not processed through ELV's systems are determined using actuarial methods commonly used by health insurance actuaries and consistent with actuarial standards of practice. This process uses historical claims payment patterns and emerging healthcare cost trends to project the company's best estimate of claims liabilities. ELV's estimate of the final claim costs for the period is influenced by the creation of a "completion factor" for historical paid claims data and is also dependent on ELV's assumptions regarding changes in utilisation levels, unit costs, business mix, benefit plan design, vendor reimbursement levels, processing system conversions and changes, claims inventory levels, and claims processing and submission patterns.

Annual medical claims as a percentage of net medical claims for the year were 87.3% in 2022 and 87.8% in 2021 as an indicator of the speed of claims processing, showed that claims were processed

at a slightly slower rate in 2022 than in 2021. At 31 December 2022 and 2021, ELV has increased the estimated uncertainty in this segment, with the main factors arising from the change being a slowdown in claims submission patterns and an increase in the level of utilization of COVID-19 testing and treatment.

ELV is exposed to actuarial risk and it needs to estimate the Medical claims payable values as correctly as possible. ELV's financial situation could be impacted in future periods if cost trends and utilization assumptions differ materially from actual results. Adjustments to prior year estimates could result in additional benefit costs or reductions in benefit costs during the period of adjustment. In addition, due to the fairly variable nature of medical costs, each period is subject to an adjustment to the claims liability that may be material when compared to the net income recorded in that period.

### 2.3. Goodwill and other Intangible Assets

ELV follows FASB guidance on business combinations, goodwill and other intangible assets. Goodwill and other intangible assets are allocated to reporting units for annual impairment testing. A goodwill impairment loss is recognized when the goodwill impairment loss exceeds the fair value of the asset. A goodwill impairment loss equals the excess of the fair value of the carrying amount of the reporting unit over its fair value. The fair value for the quantitative impairment test for indefinite-lived intangible assets is estimated using the projected earnings approach. An impairment loss is recognized when the estimated fair value of an indefinite-lived intangible asset is less than its carrying value.

As at 31 December 2022, ELV's consolidated goodwill was \$24,383 million and other intangible assets were \$10,315 million, with total goodwill and other intangible assets representing 33.8% of consolidated total assets and 95.6% of consolidated shareholders' equity. ELV's goodwill and intangible assets increased 6.59% in 2020 vs. 2019 by 6.59%, 2021 by 12.05% over 2020, and 2022 by 0.42% over 2021.

As required by the FASB, ELV has completed annual impairment tests for existing goodwill and other indefinite-lived intangible assets for the past several years. These annual impairment tests require a significant degree of management judgement and the use of subjective assumptions in a process that includes an assessment of ELV's financial performance, macroeconomic conditions, industry and market considerations, among others. ELV did not incur any impairment losses during the annual impairment test in fiscal year 2022 and the estimated fair value reporting unit significantly exceeded the carrying value.

## 3. Performance Evaluation

To address the various aspects of ELV's economic performance that follow, three Health Care industries that have similar market capitalization options to ELV have been selected as competitors for comparison in this paper. The ratios for each component have been selected and calculated based on the closest dated annual report as at 31 December 2022 [3-6].

### 3.1. Liquidity Performance

**Table 1.** Liquidity ratios of ELV and its competitors

Company Code	Current ratio	Quick ratio	Cash ratio
ELV	1.40	1.40	18.61%
CVS	0.94	0.67	18.56%
PFE	1.22	1.00	0.99%
MCK	0.92	0.51	9.75%

Current ratio refers to the relationship between current assets and current liabilities, which judges the short-term debt servicing ability of the company, while quick ratio refers to the relationship between quick assets and current liabilities. As Table 1 shows, ELV has the highest ratio among the

four companies, which is as high as 1.40. Cash ratio evaluates the company's ability to pay its current debts without relying on the sales of inventories and accounts receivable, ELV has a cash ratio of 18.61%.

In the comparison of liquidity levels, ELV has the highest liquidity of the four selected companies. ELV has good financial flexibility and liquidity, which is well supported by its large commercial paper program, parent company cash and revolving credit facilities [7]. Comparatively, the company retains a relatively large amount of cash, is conservative in its use of funds, and has a high level of idle funds. As at 31 December 2022, ELV maintained a strong financial position and liquidity profile with good short-term solvency. Its total current assets were in the middle of several companies, while its total current liabilities were the lowest of the four. ELV's investments in cash, cash equivalents, and fixed maturity and equity securities were \$35,044 million. Compared to the same period in 2021, this component increased by \$1,384 million, primarily due to cash generated from operations. This increase was partially offset by activities including acquisitions, common share repurchases, purchases of property and equipment and cash dividends paid to shareholders. The Company may consider appropriate reductions in cash to actively engage in operations.

### 3.2. Solvency Performance

**Table 2.** Solvency ratios of ELV and its competitors

Company Code	Total debt ratio	Long-term debt ratio	Times-interest-earned ratio
ELV	64.59%	21.75%	10.13
CVS	68.76%	22.11%	3.46
PFE	51.36%	16.68%	29.05
MCK	97.61%	7.42%	19.00

Total debt ratio measures a company's liabilities and financial risk by comparing the company's shareholders' equity to its debt. The company's total debt ratio ranks third among several companies with a 60%, is slightly higher compared to the social sector while it is within a reasonable range, and the company operates well with external funds. In comparison, MCK has a high debt ratio of 97.61% in Table 2, which is much higher than the other competitors, and the company's ability to service its debt is low.

The smaller the long-term debt ratio indicator, the lower the pressure on the company's long-term debt servicing. ELV's long-term loan ratio is in the middle of the pack among its competitors. The long-term debt ratio of 21.75% doesn't expose the company to much of a liquidity deficit risk. As of 31 December 2022, the greater part of ELV's long-term cash requirements under various contractual obligations and commitments include: future debt and estimated interest payments of \$25,804 million, of which \$2,674 million will be due within the next 12 months. Long-term payments on purchase obligations were \$2,927 million, of which \$1,124 million of these purchase obligation payments will be due within the next 12 months. The amount of SENIOR UNSECURED NOTES due in 2025 and 2027 is higher in the next few years, both above \$1,500 million. In comparison, MCK's long term debt ratio is only 7.42% and a large portion of its debt consists of current liabilities, it has \$42,490 million in bills of exchange and accounts payable. ELV's Times-interest-earned ratio is 10.13, which gives it a strong ability to pay interest expense.

### 3.3. Profitability Performance

Profit margin reflects how much net profit there is in a dollar of sales. The higher the profit margin means the higher the profitability of the company's products. ELV has a good profit margin level with a Profit Margin of 3.84% in Table 3, which is in the middle of the range. The net income of 2022 is 6019million, which is a decrease of \$76 million as compared to the year 2021. The total income of 2022 is higher than 2021, but its growth did not cover the growth of its total expenses, hence there is a decrease in the profit of 2022. Additionally, as of 31 December 2022, the company's financial

instruments segment incurred a loss of \$5.5 million, which did not achieve the investment objective of "protecting capital and providing safety" and impacted the performance of net income.

**Table 3.** Profitability ratios of ELV and its competitors

Company Code	Profit Margin	Operating Margin	Asset Turnover
ELV	3.84%	5.40%	1.61
CVS	1.29%	2.40%	1.38
PFE	31.27%	34.61%	0.55
MCK	1.29%	1.58%	4.37

ELV's operating margin is large, with net income second only to PFE, and it has a high level of operating profit relative to the other two competitors. For the year ended 31 December 2022, the increase in operating income in the commercial and professional business segment, government business, compared to the same time last year, was mainly due to higher premium income in the commercial risk business, growth in membership and sufficient coverage of healthcare cost trends. The increase in operating income in this segment was primarily due to improved medical underwriting performance in commercial risk-based business and lower business optimization expenses. In addition, there was growth in membership and higher script volume.

Asset turnover reflects the speed at which all assets flow from inputs to outputs during a business's operating period, reflecting the quality of management and the efficiency of utilization of all assets of the business. ELV has a faster total asset turnover and performs better in terms of the efficiency of utilization of all assets of the business, with a number of times lower than that of MCK. It is possible to learn from MCK, which has a high ratio of 4.37.

### 3.4. Investment Performance

**Table 4.** Investment ratios of ELV and its competitors

Company Code	ROE	ROA	Market-to-book ratio
ELV	16.54%	5.86%	2.95
CVS	5.82%	1.82%	1.28
PFE	32.71%	15.91%	1.84
MCK	-238.93%	5.71%	(41.08)

ROE reflects the level of return on owner's equity, ELV has a good ROE of 16.54% in Table 4. ROA measures the ability of the enterprise to create value for shareholders and creditors together, ELV's ROA is 5.86%, which is in the middle to upper level. The above values indicate that ELV has a strong profitability and a reasonable capital structure. It indicates that the company has been successful in forecasting and managing healthcare costs in FY2022 to maintain a better level of compensation in a scenario where healthcare costs are rising due to advances in healthcare technology, an aging population, and a pandemic of NKP19. MCK, one of the competitors, has a negative TOTAL EQUITY due to its large liabilities and is the only one of the four companies selected for this paper that has this situation, (probably due to its strategy). In addition, its ROE reached -238.93%.

Market-to-book ratio is mainly a measure of the extent of the difference between the market price of a company's stock per share and its book value per share. It can be used as a measure of the ability of financial managers to create wealth for shareholders, with a ratio greater than 1 reflecting positive perceptions. ELV has the highest Market-to-book ratio among the four companies, reaching a level of 2.95, where the market price of the stock is higher than its book value, and the company is viewed favorably. At the same time the stock may have a low investment value and investors may consider selling.

## 4. Strategic Evaluation

### 4.1. Strategy and Strengths

ELV plans to modestly expand its participation in state- or federally-driven markets in 2023, offering individual public exchange products in 138 of the 143 rated territories, 16 more territories than in 2022. ELV will continue to expand its integrated care management programs and tools. ELV plans to organize its portfolio of brands over the next few years into three core go-to brands in the marketplace. The company is evaluating and changing the way ELV manages its business, and its review of each operating segment's offerings has led to a reorganization between some of its operating segments. ELV's transformation of its image has evolved from that of a traditional health insurer to that of a lifelong, trusted health partner.

ELV's strengths include exclusive rights to the industry's most recognized brand, BCBS, in the most important markets, and a product pricing advantage that comes from a network of suppliers with highly competitive unit costs.

### 4.2. Risk Assessment

For the U.S. healthcare industry in 2023 and beyond, McKinsey & Company believes that the U.S. healthcare industry faces challenging conditions in 2023, receiving pressures from sources including the recession, continued high inflation rates, labor shortages, and endemic COVID-19 [8].

ELV is subject to significant government regulation, and changes or proposed changes in the regulation of ELV's business by federal and state regulators could adversely affect ELV's business, cash flows, financial condition, results of operations and the market price of ELV's securities. For example, PBM are being considered for regulation by the federal government, such as the passage of the Partial Targeting Act. Although ELV is not one of the few companies with the largest market share in this business, it offers a comprehensive portfolio of PBM services through its subsidiary CarelonRX, including prescription management, pharmacy networks, prescription drug databases and member services. In addition, CarelonRX delegates some of its PBM management functions to CaremarkPCS Health, L.L.C., a subsidiary of CVS Health, one of the three largest PBMs. The passage of the governmental restriction bill would have a material adverse effect on this portion of the business.

Economic conditions in areas of concentration affect operations of ELV. The states in which ELV operates with the greatest concentration of revenues include California, Virginia, Ohio, New York, Indiana, Texas, Florida and Georgia. As a result of the concentration of operations in these states, ELV is exposed to potential losses resulting from the risk of economic downturns in specific states or regions affecting these states.

Due to the inherent characteristics of the core healthcare business, higher profitability is dependent on the fact that ELV can appropriately forecast, price and manage healthcare costs, as well as the ability to manage future healthcare costs through medical management, product design, negotiation of favourable provider contracts and underwriting criteria. Incorrect estimates could reduce the profitability of products and services of ELV, which could have a material adverse effect on the Company's business, cash flows, financial condition and results of operations. In addition healthcare services pose certain litigation and regulatory risks.

COVID-19 has had an impact on the healthcare industry. The screening of COVID-19 credible information is important for healthcare providers and clinicians, and the associated fake news noise on the Internet needs to be overcome in order to make better decisions [9]. In addition, due to the pandemic and long-term COVID symptoms, healthcare providers are being harmed by their work and their own medical conditions.

Various technological developments are impacting the healthcare industry. The advantage of big data is the use of large amounts of data to aid in diagnosis and preventive medical guidance [10]. Some of the competitors in the same industry are developing and using systems related to big data, which gives them considerable cost savings and capacity enhancement. Healthcare data analytics is

also predicted to play an important role in future public health policy making. Some technologies such as 6G and IoT will have the potential to enable highly accurate healthcare applications. In addition, quantum computing could be a powerful aid in risk identification and insurance pricing, and ELV will need to keep an eye on these developments to make judgements and adjustments [11].

## 5. Conclusion

ELV has an excellent history of performance, with gross operating income growth rates of more than 13% in each of the past three years to 31 December 2022. The outlook for the future is subject to a number of uncertainties, including the implementation of relevant policies, the level of competition in the healthcare industry, macroeconomic conditions, an aging population, and pandemic events like COVID19. For the U.S. Healthcare industry in 2023 and beyond, McKinsey & Company believes that U.S. Healthcare Industry Faces Multiple Pressures in 2023.

The company has a strong balance sheet, which is characterized by less pressure on debt repayment, even in the event of an economic downturn. Since ELV's operating results are closely tied to its management of healthcare costs and pricing of its products, ELV will continue to perform well financially if it maintains the same level of cost management and improvement, makes immediate and positive adjustments to its pricing and strategy, and strengthens its strength in technological innovation.

ELV has a strong operating profile and a clear strategy to strengthen profitability and diversify its business to become a health partner by increasing medical membership, diversifying its revenue streams, including increasing independent PBM, building new product sales, and expanding its non-insurance assets. ELV has complied with accounting standards in making reasonable accounting measurements across its different business modules. ELV compares favorably with its competitors in the health care industry of similar size in all aspects. In the ratio analysis, annual report of ELV for the year ending 31 December 2022 shows that its partial ratios in terms of liquidity, solvency, profitability, and investment are above the medium level, with reasonable profitability model and good potential for future growth. However, ELV also faces risks in the external environment, mainly from the policy and economic environment, and in the internal environment, from the characteristics of the business itself, such as pricing requirements.

Overall, ELV has excellent management capabilities, good operating conditions, and a solid financial position. It has the ability to try to ensure that the company responds appropriately in the face of internal and external risks. As a result, the company's stock is deemed worthy of purchase.

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