

Initiated 2026-10-18 · Price \$428.26 (as of 2026-10-16, stockanalysis.com) · Mkt cap \$93.3bn (217.9mm diluted shares) · Health care / managed care (Commercial, Medicaid, Medicare Advantage, ACA; CarelonRx and Carelon Services) · Model: verified

Rating: Buy — Conviction: Low

2026 looks like the trough year. Medicaid margins are at about -1.75% and Medicare Advantage at about 2%. Management has raised its adjusted EPS guide twice, from $\geq \$25.50$ to $\geq \$27$, and is aiming for $\geq 12\%$ growth in 2027 off a $\geq \$26$ baseline. At $\sim 14.7\times$ that 2027 figure, the stock prices a slow recovery, not a return to 2023–24's 6–6.5% margins, and Carelon and an A-rated balance sheet support it. Conviction is Low because the upside depends on the discount rate and on the Gordon method, and Medicare and Medicaid funding are still policy decisions.

Conviction tests (3a-v-c): T1 fail (Buy $\rightarrow$ Hold at +1pp: Base +8.5%; +51.5% at -1pp) · T2 fail (Gordon alone +40.7% reads Buy; exit-multiple alone +11.7% reads Hold) · T3 pass · T4 pass (no pending deal, ruling or single-contract event worth $>25\%$: the \$115mm star-ratings suit and the CMS risk-adjustment matter are small against a \$93bn equity; the 2026-10-21 Q3 print sits inside the cases)

MODEL VALUE RANGE VS PRICE



Business overview

Elevance, the largest Blue Cross Blue Shield licensee, has two halves. Health Benefits covers 44.9mm medical members (June 2026): 27.5mm commercial fee-based, 4.7mm commercial risk, 8.4mm Medicaid, 1.9mm Medicare Advantage, plus a growing ACA book. Carelon combines CarelonRx, the PBM, with Carelon Services, which covers behavioral health, home care and risk-based services. Carelon generated \$71.7bn of FY2025 operating revenue (+33%) and \$3.4bn of adjusted operating gain (+10%). Health Benefits' adjusted operating gain fell to \$4.2bn from \$6.3bn. FY2025 total revenue was \$199.1bn, and model-basis margin, which includes investment income on the float, slid from 6.5% (FY2023) to 5.2%. Three variables drive earnings: Medicaid rates against acuity, MA funding against cost trend, and Carelon growth.

Competition

Elevance is #2 in Medicaid managed care with 10.7% of HMAIS-tracked enrollment (June 2026). Centene has 17.9%, UnitedHealth 8.0% and Molina 6.0%, and the market shrank 5.5% year on year to 59.2mm (HMA, Q2 2026). In Medicare Advantage the pressure is on quality bonuses. Elevance's unweighted average star rating slipped from 3.59 to 3.51 for 2027, behind UnitedHealthcare and Humana (Becker's, October 2026). CarelonRx competes with Optum Rx, Express Scripts and CVS Caremark. UnitedHealth, the closest diversified comparable, trades at 17.7x forward earnings and Cigna at 9.5x, against Elevance's 15.8x (stockanalysis.com, 2026-10-16).

Bull case

1. **Government margins repair from the trough** — July Medicaid rate updates came in at the upper end of mid-single digits with "no new stepwise acuity reset", and MA is repositioned to a $\geq 2\%$ margin after a $\sim 16\%$ membership cut. Plays out if January 2027 Medicaid rates beat trend and MA margin holds $\geq 2\%$ under the 2027 bids. *Model: ebitda_margin*
2. **Carelon compounds** — PBM product growth, risk-based services and CareBridge keep Carelon growing double digits. Plays out if Carelon earnings keep growing $\geq 10\%$ while the Services platform investment rolls off. *Model: rev_growth, ebitda_margin*
3. **Re-rating on resumed growth** — if $12\%+$ EPS growth shows up in 2027 and holds, a 12x exit and 3% terminal growth follow. *Model: exit_ev_ebitda, terminal_growth*

Bear case

1. **Cost trend keeps outrunning funding** — management says MA cost trend still outpaces program funding. Behavioral, specialty pharmacy and outpatient use stay elevated, and work requirements hit $\sim 20\%$ of the Medicaid book from 2027. Plays out if Q4 2026 or 2027 guidance misses the 12% growth target. *Model: ebitda_margin*
2. **Shrinking government book and regulatory drag** — more Medicaid exits are planned, the 2027 stars slipped, and a \$935mm accrual (\$4.27 a share) covers CMS risk-adjustment exposure. Growth falls to 1–3% and margin stalls near 4.5%. Plays out if Medicaid exits or MA losses outrun Carelon growth. *Model: rev_growth, ebitda_margin*
3. **Policy risk premium** — after two years of misses, the market keeps a higher discount rate (8.5%) and an 8.5x exit, toward Cigna. *Model: wacc, exit_ev_ebitda*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, model basis (EV \$122.4bn = mkt cap \$93.3bn – parent cash \$2.1bn + debt \$31.0bn + NCI \$0.1bn; EBITDA incl. investment income)	11.9x FY2025; $\sim 13.7x$ 2026E	$\sim 11.2x$ on the FY2023–24 average (\$10.96bn) at today's EV	CI 8.2x · CNC 5.7x · UNH 14.1x · HUM 16.0x (aggregator TTM, all cash netted)	model-inputs.json ; stockanalysis.com 2026-10-16
P/E	15.8x forward (consensus); $\sim 15.9x$ on the $\geq \$27$ 2026 adjusted guide; $\sim 14.7x$ on $\geq \$29.12$ (2027 $\geq 12\%$ off \$26)	17.0x / 16.7x / 17.0x at today's price on GAAP EPS of \$25.22 / \$25.68 / \$25.21 (FY2023–25)	CI 9.5x · CNC 14.9x · UNH 17.7x · HUM 33.3x (forward)	stockanalysis.com 2026-10-16; Q2 release and call; FY2025 10-K
P/B	2.07x	n/a (unverified)	CI 1.87x · CNC 1.51x · UNH 3.48x · HUM 2.58x	stockanalysis.com 2026-10-16
FCF yield (aggregator TTM)	6.8%	n/a (unverified)	CI 11.4% · CNC 26.2% · UNH 6.3% · HUM 3.9%	stockanalysis.com 2026-10-16

The aggregator's 13.7x EV/EBITDA nets $\sim \$37.5$ bn of mostly regulated cash against debt.

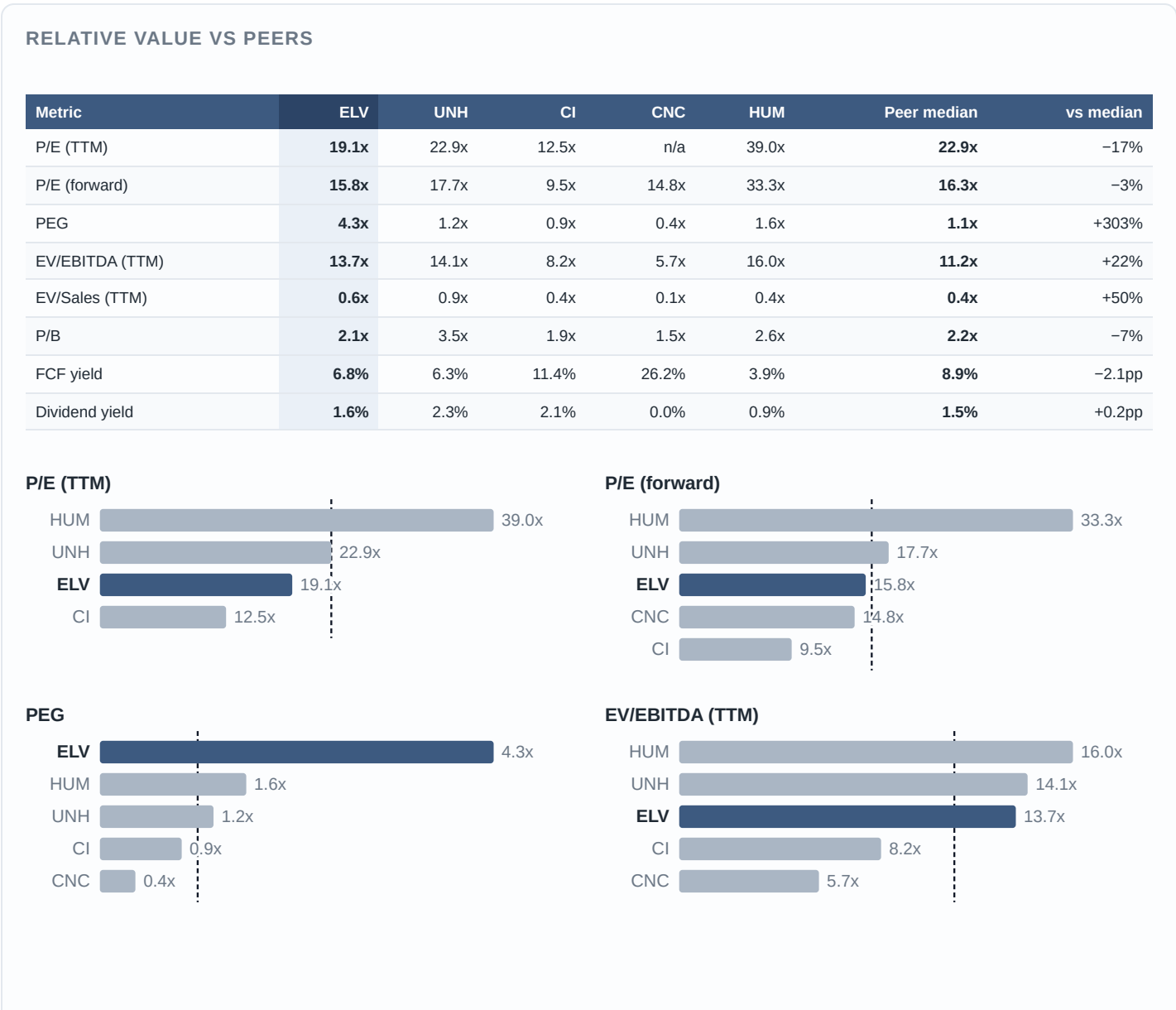
Model-implied value range (from model-summary.json ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$246.70 · Base \$540.50 · Bull \$817.16 per share, i.e. implied returns of -42.4% / $+26.2\%$ / $+90.8\%$ vs \$428.26. *These ranges show how the bull and bear drivers translate into value; they are not price targets.*

- **What's priced in.** The price sits $\sim 62\%$ of the way from Bear to Base: a partial recovery.
- **Re-rating.** The Base exit of 10.5x is a $\sim 12\%$ de-rating from today's 11.9x FY2025 multiple. The two methods differ by 26% (Gordon \$602.71, exit \$478.30). Gordon embeds the higher terminal multiple, so most of the base upside sits in that method.
- **Why Buy despite T2.** Even the exit method, after a de-rating, leaves $+12\%$. The bear case needs margins to stall ~ 1.5 pp below FY2024 for good.
- **Tail.** Revenue flat to -2% through 2029, margin 4.0%, NWC 3%, 9% WACC, a 7.5x exit and 1% terminal growth give \$130.06 (-69.6%).

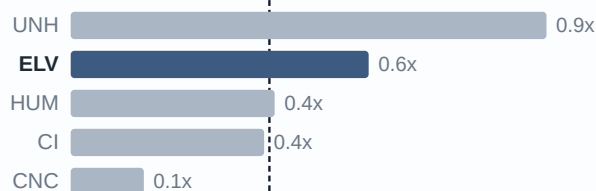
Balance sheet: net leverage 2.8x model-basis FY2025 EBITDA (gross 3.0x). Coverage 7.4x. Liquidity: ~\$2.1bn parent cash and investments; ~\$5.3bn of buyback authorization remains. Debt-to-capital ~41% at 2026-06-30. Nearest maturity: \$375mm current portion, including the 4.500% notes due October 2026. Ratings: Moody's Baa2, S&P A, Fitch BBB+.

Model note: tier `full` , status `built` , verification `verified` (3,207 formula cells matched in LibreOffice). No unverified inputs and no assumptions without a basis. Scenario consistency is `OK` on all 14 rows.

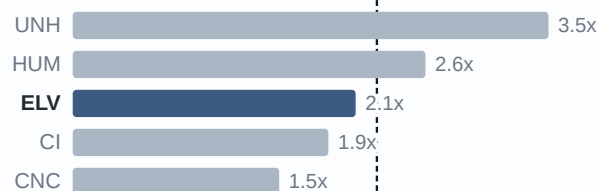
- **Sourcing.** Historicals from the FY2025/FY2024 10-Ks (EDGAR); debt, shares, parent cash and guidance from the Q2 2026 release and call.
- **Debt.** Long-term debt is one aggregated \$30.7bn tranche at the FY2025 average cost (4.5%) with a placeholder 2036 maturity; the ladder is not tranche-accurate.
- **EBITDA basis.** Includes investment income, adds back net losses on financial instruments, nets only parent cash; the \$935mm accrual stays in 2026 EBITDA.
- **EPS vs guidance.** Base Y1 EPS of \$21.76 is 8% above the ≥\$20.10 GAAP guide: model EPS excludes net losses on financial instruments (~\$270mm) and charges interest on net debt. Base Y2 of \$27.48, after ~\$2 a share of intangible amortization, is consistent with ≥\$29.12 adjusted.
- **WACC.** 7.5% = CAPM cost of equity 8.64% (10Y 5.09%, beta 0.71, 5% ERP, no premium) and 4.18% after-tax debt (est.) at a 25% market weight; computes to 7.53%. The low beta may flatter the cost of equity; T1 shows the call depends on it.



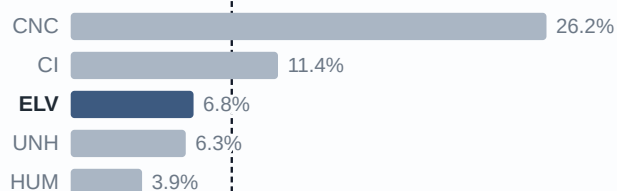
EV/Sales (TTM)



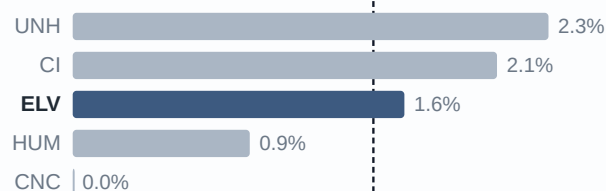
P/B



FCF yield



Dividend yield



As of 2026-10-18. One source and one definition for every company: aggregator TTM and consensus-forward multiples, EV netting all reported cash (for Elevance that includes ~\$37.5bn largely held in regulated subsidiaries). Not the model's own EV basis (see the report's valuation table). All figures at the 2026-10-16 close, fetched 2026-10-18 (Sunday). Dashed line = peer median. Source: stockanalysis.com/stocks/<ticker>/statistics/, fetched 2026-10-18.

Notes. Centene has negative trailing GAAP earnings (net loss \$5.10bn TTM), shown as n/a by the source. PEG as given by the source, resting on its consensus growth estimates; Elevance's 4.33 reflects low consensus growth off a 2025-26 base that includes margin compression. Elevance's 13.66x nets ~\$37.5bn of reported cash, most of it regulated; on the model's basis (parent cash only, investment income in EBITDA) it is 11.9x FY2025 and ~13.7x 2026E. Centene's 26.2% TTM FCF includes regulated-subsidiary operating cash flow and risk-adjustment timing; it is not parent-distributable cash. Centene pays no dividend (0).

Scenario stress test

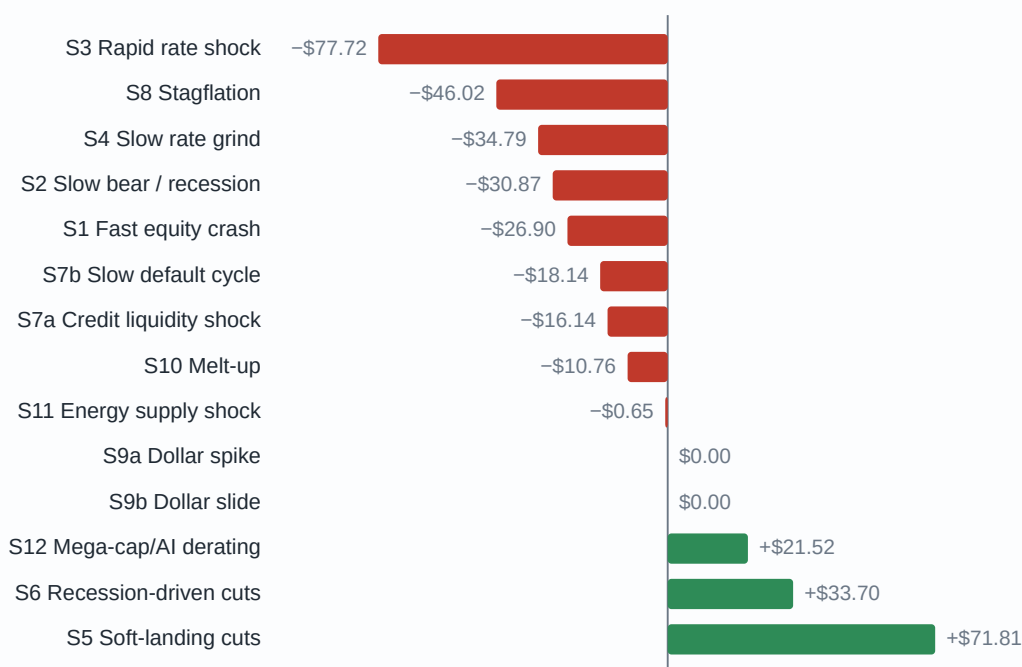
Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	-	Liquidity de-rating; claims demand unaffected	Med	-\$26.90
S2 Slow bear / recession	-	Job losses shrink commercial membership, partly offset by Medicaid enrollment gains; state budgets slow rate catch-up. Far milder than the bear case, which is a permanent margin plateau, not a cycle	Med	-\$30.87
S3 Rapid rate shock	-	Higher discount rate, partly offset by float reinvestment yield	High	-\$77.72
S4 Slow rate grind	-	Grinding discount-rate drag; float yield rises slowly	Med	-\$34.79
S5 Soft-landing cuts	+	Lower discount rate re-rates the equity; float income dips slightly	High	+\$71.81
S6 Recession-driven cuts	±	Rate relief vs commercial membership losses, state budget pressure and lower float yield	Med	+\$33.70
S7a Credit liquidity shock	-	Spreads gap; A/Baa2 issuer at ~41% debt-to-capital sold modestly	Med	-\$16.14
S7b Slow default cycle	-	Investment-portfolio credit losses and pricier refinancing	Med	-\$18.14
S8 Stagflation	-	Medical trend outruns annually reset premiums, MA funding and Medicaid rates	High	-\$46.02

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S9a Dollar spike	0	no material effect, not modeled	Low	\$0.00
S9b Dollar slide	0	no material effect, not modeled	Low	\$0.00
S10 Melt-up	–	Momentum leadership leaves defensive managed care behind	Low	–\$10.76
S11 Energy supply shock	–	Second-round provider wage and pharmacy inflation leaks into trend	Low	–\$0.65
S12 Mega-cap/AI derating	+	Rotation into domestic, non-AI defensives	Med	+\$21.52

Currently active/on watch per the playbook: S3 partially active (price-level leg only); S8, S10 and S11 on watch.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: Q4 2026 results and 2027 guidance (~January 2027) confirm $\geq 12\%$ adjusted EPS growth with Medicaid margin improving from -1.75% , and MA holds $\geq 2\%$ under the 2027 bids. **Downgrades if:** 2027 guidance falls short of $\geq 12\%$ growth off \$26, Medicaid margin stays negative into 2027, the CMS risk-adjustment exposure rises above the \$935mm accrual, or Carelon earnings growth drops below mid-single digits.

Watch items

- **W1:** Q3 2026 results — adjusted EPS $\geq \$27$ reaffirmed or raised, Q3 $\sim 17\%$ of the full year, benefit expense ratio in line — Q3 2026 release — 2026-10-21 — *Model: ebitda_margin*
- **W2:** 2027 outlook — adjusted EPS $\geq \$29.12$ ($\geq 12\%$ off \$26) — Q4 2026 release — ~January 2027 — *Model: ebitda_margin, rev_growth*
- **W3:** Medicaid January 2027 rate updates and exits — composite rates ahead of trend; exit revenue sized — Q4 2026 call / Q1 2027 10-Q — ~January–April 2027 — *Model: rev_growth, ebitda_margin*

- **W4:** CMS risk-adjustment matter — no increase to the \$935mm accrual — 10-Q/10-K contingencies note — quarterly — *Model: ebitda_margin*

Sources

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- Elevance XBRL Revenues, EDGAR — <https://data.sec.gov/api/xbrl/companyconcept/CIK0001156039/us-gaap/Revenues.json> — accessed 2026-10-18
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- 10Y Treasury 5.09% (2026-10-16) — logs/macro-2026-10.md (Treasury.gov par curve)

Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.