

Rating Action: Moody's rates Elevance's senior notes Baa2, outlook stable

30 January 2023

New York, January 30, 2023 – Moody's Investors Service, ("Moody's") has assigned a Baa2 senior unsecured debt rating to Elevance Health, Inc.'s (Elevance, NYSE: ELV) anticipated issuance of senior unsecured debt due in 2026, 2033 and 2053. Net proceeds from the offering will be used for general corporate purposes, including, but not limited to, repayment of debt, share repurchase and acquisitions. The notes are being issued under Elevance's shelf registration filed in November 2020. The outlook on Elevance is unchanged at stable.

RATINGS RATIONALE

Moody's Baa2 senior unsecured debt rating for Elevance and the A2 insurance financial strength (IFS) ratings of Anthem Insurance Companies, Inc. (AICI) and the five other rated health insurance operating subsidiaries, are based on the company's strong business profile including its national presence, the Blue Cross and Blue Shield (BCBS) brand name, and its leading market position in most of the states in which it operates. Furthermore, membership growth and EBITDA interest coverage have improved in recent years to above or near upgrade triggers and the launch of IngenioRx (which became CarelonRx in January 2023) in 2020 along with the Carelon Services businesses has substantially boosted non-regulated cash flows. These credit strengths are partly offset by lower risk-based capital ratios the past two years and increasing reliance on full-risk business along with a high level of goodwill and intangibles relative to equity.

We expect the proceeds from the issuance to be used, in part, to refinance the \$500 million of notes due in March 2023. With this issuance, Elevance's adjusted debt-to-capital ratio (adjusted for operating leases) will temporarily increase to roughly 42% - 43% (from 40.8% at December 31, 2022) which is at the high end of the recent range over the last 4 years. Furthermore, Moody's noted that the recently announced acquisition of Blue Cross Blue Shield of Louisiana, expected to close in 2023, could further increase leverage. Longer term, Moody's rating expectation is that leverage will be at or below 40%. Holding company liquidity remains strong and as of December 31, cash and short-term investments at the parent company totaled approximately \$1.2 billion.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The rating agency stated that the following would place upward pressure on the ratings: 1) a sustained improvement in leverage, 2) Annual membership growth of at least 2.5% per year, 3) An increasing contribution from the diversified businesses and IngenioRx, and/or 4) EBITDA coverage of interest of 13.0x or better. However, Moody's said that the ratings may be downgraded if: 1) Debt/Capital is sustained at 45% or above and debt/EBITDA is sustained above 3.0x, 2) Annual membership declines 5% or more in a year, 3) Consolidated risk-based capital ratio on a company action level falls below 200% and/or 4) EBITDA margin declines below 5% on a sustained basis.

The following rating was assigned:

Elevance Health, Inc.: senior unsecured notes at Baa2.

The outlook on Elevance Health, Inc. and its affiliates remain unchanged at stable.

Elevance Health, Inc., headquartered in Indianapolis, Indiana, is one of the largest health benefits companies in the United States in terms of medical membership. For full year 2022, Elevance reported total revenues of \$156.6 billion and net income of \$6.0 billion. At December 31, 2022, shareholders' equity was \$36.3 billion and total medical membership (excluding BlueCard and Medicare Part D membership) was approximately 41.1 million.

The principal methodology used in these ratings was US Health Insurance Companies Methodology published in November 2019 and available at <https://ratings.moody.com/api/rmc-documents/65387>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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