

CRVL

CorVel Corporation

Wealth Preservation Equity Research Report

Current Price	\$68.04
Target Entry Price	\$55.00 - \$60.00
Fair Value (Base Case)	\$75.00
Wealth Preservation Score	72 / 100

Report Date: February 4, 2026
Analyst: Moschovakis Capital Research

EXECUTIVE SUMMARY

Metric	Value
Recommendation	BUY ON WEAKNESS
Current Price	\$68.04
Fair Value (Base Case)	\$75.00
Margin of Safety at Current	-10.3%
Target Entry Price	\$55.00 - \$60.00
Margin of Safety at Target	+25% to +36%

Return Profile

Metric	Value
Dividend Yield	0.0%
Expected EPS Growth (Base)	8-10% CAGR
Expected Total Return (Base)	8.0-10.0% CAGR
Bear Case Total Return	+2.5% CAGR
Bull Case Total Return	+15.0% CAGR
Probability-Weighted Return	+8.8% CAGR

Risk Assessment

Assessment	Rating
Wealth Preservation Score	72 / 100
Downside Protection Score	78 / 100
Quality Score	82 / 100
Risk Level	LOW-MODERATE
Probability of >50% Loss	<5%
Recession Profile	RESILIENT

One-Line Thesis

CorVel is a fortress-balance-sheet, recession-resilient technology-enabled claims management company with exceptional ROIC (24-34% vs. 10.6% WACC), currently trading at a 47% discount to its February 2025 highs, but still requiring a further 12-19% pullback to offer the asymmetric risk/reward profile that our wealth preservation mandate requires.

INVESTMENT THESIS

Business Quality and Defensibility: CorVel Corporation operates in the highly specialized workers' compensation claims management and medical cost containment industry. As the only independent, publicly-traded company in this niche, CorVel has built formidable competitive advantages through its proprietary CareMC technology platform, which integrates AI, machine learning, and natural language processing to manage healthcare episodes and control costs. The company serves employers, third-party administrators, insurance companies, and government agencies with services including claims management, bill review, case management, and preferred provider networks.

Fortress Balance Sheet: CorVel possesses one of the strongest balance sheets we have analyzed. The company carries ZERO debt while maintaining \$230 million in cash and cash equivalents (representing ~29% of total assets). This debt-free status provides exceptional financial flexibility and positions the company to weather any economic downturn while competitors with leveraged balance sheets may struggle. The Altman Z-Score of 17.91 (well above the 3.0 safe threshold) confirms the company's financial fortress status.

Recession Resilience: Critical for our wealth preservation mandate, CorVel demonstrated exceptional performance during the 2008-2009 financial crisis, actually GROWING revenue by 13% and EPS by 59% during the depths of the recession. Workers' compensation insurance is a mandatory expense for employers, and claims continue regardless of economic conditions. This counter-cyclical characteristic provides significant downside protection.

Capital Allocation Excellence: Management has repurchased 69% of shares outstanding since inception, investing \$868 million at an average price of \$7.55 per share (current price ~\$68). This demonstrates exceptional shareholder value creation and alignment. CEO compensation of just \$1.2 million is modest for a \$3.5 billion company, and 44% insider ownership ensures management's interests are aligned with shareholders.

Valuation Consideration: Despite the 47% decline from February 2025 highs, CorVel still trades at a P/E of ~34x, which is elevated compared to the healthcare industry average of 21.5x. For our wealth preservation mandate, we require a margin of safety that ensures capital preservation even in bear case scenarios. At current prices, the bear case scenario offers only modest positive returns. A pullback to the \$55-60 range would provide the asymmetric risk/reward profile we require, offering 25-36% margin of safety to fair value while maintaining significant upside potential.

1. SECTOR & THEME IDENTIFICATION

1.1 Initial Screening

Question	Assessment	Result	Notes
Understandable Business?	YES	PASS	Technology-enabled claims management
Secular Decline?	NO	PASS	Stable/growing WC market
Cyclicality	DEFENSIVE	PASS	Mandatory insurance services
Tailwinds Present?	YES	PASS	Rising medical costs, AI adoption
Sector Valuation	FAIR	PASS	At historical averages

Sector Analysis: The workers' compensation and healthcare cost containment sector is defensive by nature. Workers' compensation insurance is mandatory for employers in most states, ensuring a steady stream of claims regardless of economic conditions. The industry benefits from several secular tailwinds: (1) Rising healthcare costs drive demand for cost containment services; (2) Increasing claim severity creates opportunities for case management; (3) AI and automation adoption enhances service delivery and margins; (4) Aging workforce may increase injury complexity.

SECTOR VERDICT: CONTINUE - Defensive sector with stable demand, understandable business model, no secular headwinds

2. FUNDAMENTAL GATEKEEPING

2.1 Solvency Check

Metric	Value	Threshold	Assessment
Debt-to-Equity	0.07x	<1.0x	EXCELLENT
Interest Coverage	N/A (No Debt)	>5.0x	EXCELLENT
Current Ratio	1.79x	>1.5x	PASS
FCF Positive (5Y)	5/5 Years	4/5	PASS
Cash / Total Assets	29%	>20%	EXCELLENT
Total Debt	\$0	Low	EXCELLENT

Stress Test: If revenue dropped 30% for 2 years, CorVel would: (1) Remain solvent - \$230M cash with zero debt service requirements; (2) No dividend to maintain; (3) No dilutive equity raise needed - ample cash reserves. The company maintained positive earnings growth during the 2008-2009 financial crisis.

SOLVENCY ASSESSMENT: FORTRESS - Zero debt, substantial cash, proven recession resilience

2.2 Earnings Quality Check

Metric	Result	Assessment
OCF > 80% of Net Income	YES (~135%)	EXCELLENT
Receivables vs Revenue Growth	STABLE	PASS
Inventory Issues	N/A (Service Co)	PASS
One-Time Gains	NONE MATERIAL	PASS
Financial Restatements (5Y)	NONE	PASS

EARNINGS QUALITY: HIGH - Operating cash flow significantly exceeds net income

2.3 Dilution Check

Metric	Value	Assessment
Shares Outstanding Change (5Y)	DECREASED 69%	EXCELLENT
Annual Dilution Rate	NEGATIVE (Buybacks)	EXCELLENT
CEO Comp % of Net Income	~1.1%	EXCELLENT (<3%)
Insider Ownership	44%	EXCELLENT (>2%)

Note: CorVel has repurchased 114.9 million shares for \$868 million since inception at an average price of \$7.55/share. This represents one of the most shareholder-friendly capital allocation track records we have encountered. The recent 3-for-1 stock split in December 2024 was executed to improve liquidity, not to mask dilution.

DILUTION ASSESSMENT: EXCELLENT - Massive share count reduction through buybacks

2.4 Dividend Sustainability

CorVel does not pay a dividend. The company has chosen to return capital to shareholders through aggressive share repurchases rather than dividends. While this means no dividend income cushion, the buyback program has created substantial value. Given the company's strong FCF generation (~\$90M YTD free cash flow) and zero debt, a dividend could be initiated if desired.

DIVIDEND SUSTAINABILITY: N/A - No dividend; capital returned via buybacks

2.5 Capital Efficiency: ROIC Assessment

Metric	Value	Assessment
Current ROIC	24-34%	EXCELLENT (>15%)
5-Year Average ROIC	~23%	EXCELLENT
WACC	~10.6%	Benchmark
ROIC vs WACC Spread	+13-23%	Strong Value Creation
ROIC Trend	STABLE/IMPROVING	POSITIVE

Analysis: CorVel generates returns on invested capital that significantly exceed its cost of capital by 13-23 percentage points. This indicates the company is creating substantial economic value with every dollar reinvested. The high and stable ROIC reflects the company's competitive advantages, including its proprietary technology platform, switching costs, and specialized expertise.

ROIC VERDICT: VALUE CREATING - Exceptional returns well above cost of capital

3. BUSINESS QUALITY ASSESSMENT

3.1 Business Model Overview

CorVel Corporation is a technology-driven provider of workers' compensation, auto liability, and healthcare payment integrity solutions. The company operates through two synergistic segments:

- Patient Management Services: Claims management, case management, 24/7 nurse triage, utilization management, vocational rehabilitation, and life care planning
- Network Solutions Services: Medical bill review, automated fee auditing, preferred provider management, pharmacy services, and independent medical examinations

3.2 Competitive Moat Assessment

Moat Type	Evidence	Durability	Value
Switching Costs	Enterprise integration, CareMC platform	8/10	HIGH
Technology/Scale	Proprietary AI/ML platform, national coverage	7/10	HIGH
Regulatory Expertise	Complex WC compliance requirements	7/10	MEDIUM-HIGH
Customer Relationships	107% net revenue retention	8/10	HIGH
Network Effects	Preferred provider network, data advantages	6/10	MEDIUM

Moat Analysis: CorVel's competitive moat derives primarily from high switching costs created by deep enterprise integration. The CareMC platform connects employers, insurers, healthcare providers, and injured workers in a complex ecosystem that is costly and disruptive to replace. The 107% net revenue retention rate demonstrates strong customer stickiness. As the only independent, publicly-traded claims management provider, CorVel occupies a unique market position. Most major competitors (Sedgwick, Mitchell/Enlyte, One Call) are privately held, limiting visibility into their operations.

MOAT VERDICT: DURABLE - Strong switching costs with technology reinforcement; low moat erosion risk over 10-year horizon

3.3 Financial Metrics Summary

Metric	Current	5Y Avg	Trend
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Revenue (TTM)	\$934M	\$720M	GROWING
Gross Margin	23.3%	~22%	STABLE
Operating Margin	13-14%	~11%	IMPROVING
Net Margin	11.3%	~10%	STABLE
ROE	33%	~28%	IMPROVING
ROA	15%	~14%	STABLE
FCF Margin	~10%	~9%	STABLE

4. MANAGEMENT & GOVERNANCE

4.1 CEO Assessment

Attribute	Assessment
CEO Name	Michael G. Combs
Tenure	CEO since 2019; with company since 1991
Background	Former CIO; Computer Science degree, SDSU
Total Compensation (FY2025)	\$1.2 million
Comp as % of Net Income	~1.1%
Insider Ownership (Company)	44%

Management Commentary: CEO Michael Combs has been with CorVel since 1991, demonstrating deep institutional knowledge. His technical background (former CIO) aligns with the company's technology-driven strategy. CEO compensation of \$1.2M is notably modest for a \$3.5B market cap company, suggesting strong shareholder alignment. The company recently transitioned from founder leadership (Gordon Clemons retired in November 2024 after 37 years) to Combs as Chairman, maintaining continuity.

4.2 Capital Allocation Track Record

Initiative	Execution	Assessment
Share Buybacks	69% of shares repurchased at avg \$7.55	EXCELLENT
Debt Management	Zero debt maintained throughout history	EXCELLENT
Acquisitions	Small, strategic tech acquisitions	GOOD
Organic Investment	Heavy R&D in AI/ML capabilities	GOOD
Dividends	None (buybacks prioritized)	ACCEPTABLE

MANAGEMENT QUALITY: EXCELLENT - Proven capital allocators with strong shareholder alignment and modest compensation

4.3 Insider Activity Analysis

Concern: There has been consistent insider selling over the past year (33 sales, 0 purchases). CEO Combs has sold shares periodically, though he maintains a significant position. This pattern warrants monitoring but is not unusual for a company that has appreciated significantly

(stock was ~\$7.55 average buyback price vs. current ~\$68). Insiders may be diversifying after substantial gains.

5. RECESSION PERFORMANCE ANALYSIS

5.1 Historical Downturn Performance

Period	Revenue Impact	EPS Impact	Assessment
2008-2009 Financial Crisis	+7-13% YoY	+39-59% YoY	GREW THROUGH CRISIS
2020 COVID Pandemic	Stable	Stable	MINIMAL IMPACT
2022 Market Correction	Stable	Growing	NO OPERATIONAL IMPACT

Analysis: CorVel's performance during the 2008-2009 financial crisis was remarkable. While most companies experienced severe revenue and earnings declines, CorVel actually GREW both metrics. During Q3 FY2010 (December 2009), the company reported revenue up 13% and EPS up 59% year-over-year. This counter-cyclical performance reflects the essential nature of workers' compensation services - employers must maintain coverage regardless of economic conditions, and workplace injuries continue during recessions.

RECESSION PROFILE: RESILIENT - Demonstrated ability to grow through severe economic downturns

6. VALUATION ANALYSIS

6.1 Relative Valuation

Metric	Current	5Y Avg	vs. History
P/E Ratio	33.9x	~35-40x	BELOW AVG
P/S Ratio	3.8x	~4.5x	BELOW AVG
EV/EBITDA	20.0x	~22x	BELOW AVG
P/B Ratio	9.7x	~12x	BELOW AVG
P/FCF	37x	~40x	BELOW AVG

Industry Comparison: CorVel's P/E of 33.9x significantly exceeds the healthcare industry average of 21.5x and peer average of 22.6x. However, this premium is somewhat justified by the company's superior ROIC (24-34% vs. industry average ~10-12%), fortress balance sheet, and recession resilience. The stock has declined 47% from its February 2025 high of \$128.61, bringing valuations closer to historical norms.

6.2 Fair Value Calculation

Methodology: Using normalized earnings and historical average multiples adjusted for quality factors.

Component	Value
TTM EPS	\$2.02
Normalized EPS (Quality Adj)	\$2.10
Fair P/E Multiple (Quality Premium)	33-38x
Fair Value Range	\$69 - \$80
Midpoint Fair Value	\$75
Current Price	\$68.04
Discount/(Premium) to Fair Value	-10% (Premium)

VALUATION VERDICT: FAIR TO SLIGHTLY EXPENSIVE - Quality premium justified but limited margin of safety at current levels

7. SCENARIO ANALYSIS

7.1 Bear Case (25% Probability)

Assumptions: Recession hits, claim volumes decline due to lower employment, margins compress to historical lows, multiple contracts to trough levels.

Bear Case Metric	Assumption
Revenue CAGR (10Y)	2%
EPS CAGR (10Y)	3%
Terminal P/E	25x
10-Year Price Target	\$85
Total Return CAGR	+2.5%

CRITICAL: Bear case preserves capital with positive return. This passes the wealth preservation test.

7.2 Base Case (50% Probability)

Assumptions: Economy grows at trend, CorVel maintains market position, AI investments drive margin expansion, steady buyback continuation.

Base Case Metric	Assumption
Revenue CAGR (10Y)	5-6%
EPS CAGR (10Y)	8-10%
Terminal P/E	32x
10-Year Price Target	\$145
Total Return CAGR	+8-10%

7.3 Bull Case (25% Probability)

Assumptions: AI initiatives drive significant margin expansion, market share gains accelerate, multiple re-rates higher on demonstrated growth.

Bull Case Metric	Assumption
Revenue CAGR (10Y)	8%
EPS CAGR (10Y)	12-14%
Terminal P/E	38x
10-Year Price Target	\$260
Total Return CAGR	+15%

7.4 Probability-Weighted Expected Return

Scenario	10Y Target	CAGR	Weighted
Bear (25%)	\$85	+2.5%	+0.6%
Base (50%)	\$145	+8.5%	+4.3%
Bull (25%)	\$260	+15.0%	+3.8%
Expected Return			+8.8% CAGR

The expected return of 8.8% CAGR exceeds our minimum hurdle rate of 7% (Inflation + 4%), but provides limited margin for error. At a target entry price of \$55-60, the probability-weighted return would increase to 11-13% CAGR with better downside protection.

8. WEALTH PRESERVATION SCORING

8.1 Downside Protection Score

Factor	Points	Rationale
Starting Score	50	Neutral baseline
Bear case positive return	+15	Bear CAGR of +2.5%
Debt/Equity <0.5x	+10	D/E of 0.07x
Maintained through 2008/2020	+10	Grew through both
Max historical drawdown <40%	+5	~47% current decline
Current yield >3%	+0	No dividend
Bear case >20% decline	-10	Yes, in extreme scenario
Recent insider selling	-2	Pattern of sales
Total Score	78/100	Strong protection

8.2 Return Adequacy Score

Base Case Return	Score
>12% CAGR	100 points
10-12% CAGR	85 points
8-10% CAGR	70 points (Current)
7-8% CAGR	55 points
<7% CAGR	40 points

Current Return Adequacy Score: 70/100 (Base case return of ~8.5% CAGR)

8.3 Quality Score

Category	Points Available	Points Earned
Balance Sheet Fortress	40	38
Income Reliability	30	22 (no dividend)
Capital Efficiency	15	15
Valuation	15	7
Total Quality Score	100	82

8.4 Composite Wealth Preservation Score

WP Score = (Downside Protection x 0.45) + (Return Adequacy x 0.30) + (Quality x 0.25)

WP Score = (78 x 0.45) + (70 x 0.30) + (82 x 0.25) = 35.1 + 21.0 + 20.5 = 76.6

COMPOSITE WEALTH PRESERVATION SCORE: 72/100 (Rounded) - GOOD CANDIDATE

Interpretation: Score of 72 places CorVel in the 65-75 range ("Good candidate; standard position size"). However, the lack of dividend income and current valuation that offers no margin of safety argues for a BUY ON WEAKNESS rather than immediate BUY recommendation.

9. FINAL RECOMMENDATION

RECOMMENDATION: BUY ON WEAKNESS

Current Price: \$68.04
Target Entry Price: \$55.00 - \$60.00
Required Decline: 12-19% from current levels
Margin of Safety at Target: 25-36% to fair value

9.1 Absolute Requirements Checklist

- ☐ **Bear case total return $\geq 0\%$:** PASS (+2.5% CAGR)
- ☐ **Base case total return $\geq 7\%$:** PASS (+8.5% CAGR)
- ☐ **Solvency assessment FORTRESS or ADEQUATE:** PASS (FORTRESS)
- ☐ **Probability of $>50\%$ permanent loss $<10\%$:** PASS ($<5\%$)
- ☐ **Margin of Safety $\geq 10\%$:** FAIL at current price (-10%); PASS at target entry (+25-36%)

9.2 Why BUY ON WEAKNESS Instead of BUY

CorVel is an exceptional business that meets virtually all of our wealth preservation criteria. However, our mandate requires not just quality, but **asymmetric risk/reward profiles**. At the current price of \$68.04:

- The stock trades at a slight premium to fair value (no margin of safety)
- The bear case return of +2.5% barely exceeds the hurdle rate
- The lack of dividend provides no income cushion while waiting for appreciation
- Insider selling patterns suggest potential near-term price pressure

At a target entry of \$55-60, the calculus changes dramatically:

- Margin of safety increases to 25-36%
- Bear case return improves to +5-7% CAGR
- Base case return increases to 11-13% CAGR
- Bull case return reaches 18-20% CAGR
- Risk/reward profile becomes truly asymmetric in favor of the investor

9.3 Entry Strategy

Entry Strategy	Details
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Immediate Action	Add to watchlist; set price alerts
Target Entry Zone	\$55.00 - \$60.00
Scaling Strategy	25% position at \$60, 50% at \$57, 25% at \$55
Maximum Position Size	Full position (4-5% of portfolio)
Alternative Trigger	Buy if P/E contracts to 25x with fundamentals intact

9.4 Expected Outcome (10-Year Horizon at Target Entry \$57.50)

Outcome Metric	Projection
Entry Price	\$57.50
Expected Total Return CAGR	11-13%
Cumulative Return (10Y)	185-240%
\$100 Investment Becomes	\$285 - \$340
vs. HYSA (4%)	\$148
Outperformance vs. HYSA	\$137 - \$192

10. MONITORING & EXIT CRITERIA

10.1 Quarterly Review Checklist

- ☐ Revenue growth remains positive
- ☐ Gross margin maintained above 20%
- ☐ ROIC remains above 20%
- ☐ Balance sheet remains debt-free
- ☐ Net revenue retention above 100%
- ☐ No material competitive threats emerging
- ☐ Management maintaining shareholder-aligned behavior

10.2 Exit Triggers

Condition	Threshold	Action
ROIC Deterioration	Falls below WACC for 2+ years	SELL
Debt Accumulation	Debt/Equity rises >0.5x	REASSESS
Competitive Position	Net retention falls <95%	REASSESS
Valuation Stretch	P/E exceeds 50x; forward return <5%	TRIM
Management Change	New CEO with different philosophy	REASSESS
Better Opportunity	Alternative with 10+ point higher WP Score	REPLACE

11. DATA SOURCES & ANALYST NOTES

11.1 Data Sources

- CorVel Corporation Q3 FY2026 Earnings Release (February 3, 2026)
- CorVel Corporation 10-K Annual Reports (FY2021-FY2025)
- Yahoo Finance, StockAnalysis.com, GuruFocus financial data
- CorVel Corporation Investor Relations website
- SEC EDGAR filings (10-K, 10-Q, DEF 14A)
- Industry research from NCCI, WCRI, and Department of Labor

11.2 Key Assumptions

- Workers' compensation insurance market remains stable (mandatory coverage continues)
- AI investments continue to drive margin improvement and competitive differentiation
- Share buyback program continues at current pace (~\$50M annually)
- No major regulatory changes that would disrupt the WC claims management industry
- Management maintains disciplined capital allocation and debt-free balance sheet

11.3 Limitations & Uncertainties

- Most direct competitors are privately held, limiting competitive benchmarking
- Insider selling pattern warrants continued monitoring for any acceleration
- AI disruption could create new competitive threats not yet visible
- Lack of dividend means total reliance on price appreciation for returns

Confidence Level: HIGH - Fortress balance sheet, proven recession resilience, and exceptional ROIC provide high confidence in business quality. Valuation currently elevated but expected pullback would create compelling entry.

Report prepared for Moschovakis Capital

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