

## Molina Healthcare, Inc.

## Quick takes from call

Reiterate Rating: NEUTRAL | PO: 405.00 USD | Price: 376.00 USD

## Additional color on 2024 guidance

Revenue growth includes new contracts, acquisitions and core growth partially offset by redeterminations. EPS guide includes redetermination impact – acuity pressure is real but offset by rates and rate corridors with MLR within the LT range. Medicaid MLR of 89% (high end of LT target due to new business). MA to return to mid-single digit margin in 2024 due to bid strategy and operating improvements (MA at 88%, the high end of the LT range, but an improvement y/y). Marketplace mid/high single digit margins with revenue up 17%. Exchange MLR at 78% (low end of 78-80%). Earnings to be weighted to 2H (55%) as new business margin ramps up and exchanges continue to grow from redeterminations. Bullish on RFP pipeline (including FL) and M&A. Reaffirmed LT 13-15% premium and 15-18% EPS growth. Reiterate Neutral on redetermination pressures, regulatory risk to exchange growth and fair valuation.

## Line of sight into at least the low end of 2025 LT guide

\$4 of “new store embedded earnings” with the majority expected to in 2025, giving them visibility into hitting the low end of LT EPS growth in 2025, before “considering the execution of additional growth initiatives and driving growth from our current footprint.” This would put 2025 EPS at \$27 which is 1% above consensus of \$26.80.

## Medicaid MLR up on new store, core MLR stable

Redetermination acuity shift was “noticeable but not dramatic.” 88.7% MLR included some redetermination pressure, but MOH is looking for flat core MLR in the 88.5% range, but new business wins come in at higher MLR, pushing Medicaid MLR up to 89%. Medicaid rates covering 80% of 2024 premium locked in and all but 1 state have an acuity adjustment. MOH expects 40% retention from redeterminations. Enrollment for 2024 is +550k or 12% (+650k from wins - 100k from redeterminations). Seeing 3.5% Medicaid rate increases, in line with trend including the acuity shift.

## MA MLR above target, will improve in 2024

MA MLR was pressured by increased utilization of supplemental benefits, in home services and high-cost drugs, but biz was still slightly profitable. Expects benefit design changes to get it to target margins in 2024. Acquired Bright’s MA business, adding \$1.6B of premium, which came with a \$75m premium deficiency reserve (PDR), which will lower that MLR below MOH’s target. Even with the PDR, MOH will see a \$0.50 EPS drag in 2024 due to G&A costs. Still expects Bright add \$1 of accretion, creating \$1.50 swing over the next 3 years as 92% MLR goes to 88-89% and 14% G&A goes to 9-10%. Year 2 slightly profitable; Year 3 full accretion. MA proposal not sufficient, but would be +50bps for MOH (less risk score impact).

## Exchanges coming in well, no risk pool pressure

14% exchange growth from Dec to Jan and end the year +31%. No historical Special Enrollment Period MLR pressure because redetermined lives don’t have pent up demand.

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## Stock Data

Price	376.00 USD
Price Objective	405.00 USD
Date Established	13-Dec-2023
Investment Opinion	B-2-9
52-Week Range	256.19 USD - 391.21 USD
Mkt Val (mn) / Shares Out (mn)	21,883 USD / 58.2
Free Float	98.9%
Average Daily Value (mn)	147.14 USD
BofA Ticker / Exchange	MOH / NYS
Bloomberg / Reuters	MOH US / MOH.N
ROE (2024E)	28.1%
Net Dbt to Eqty (Dec-2023A)	-63.3%
ESGMeter™	Medium

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FL = Florida

MA = Medicare Advantage

MLR = Medical loss ratio

MOH = Molina

PDR = Premium deficiency reserve

RFP = Request for proposal

## Price objective basis & risk

### Molina Healthcare, Inc. (MOH)

Our \$405 PO is based on 17.2x 2024E EPS, or above its 5-year average FWD P/E. We see this as justified given there are a number of pending deals/contracts which could drive upside to numbers but we have a cautious view as there is a risk to 2024 MLR as the industry will face significant swings in enrollment and create a more difficult pricing environment. At near peak margins, MOH has few offsets, meanwhile M&A backdrop is more difficult (valuations, underwriting margin improvement) if industry is facing wide scale disruption.

Upside risks to our price objective are faster-than-expected profit margin expansion on either rate increases or lower cost trends, and a takeout that comes at a substantial premium.

Downside risks to our price objective are a slower pace of medical management savings, incremental investment spending to manage growth, rate cuts and higher than expected utilization.

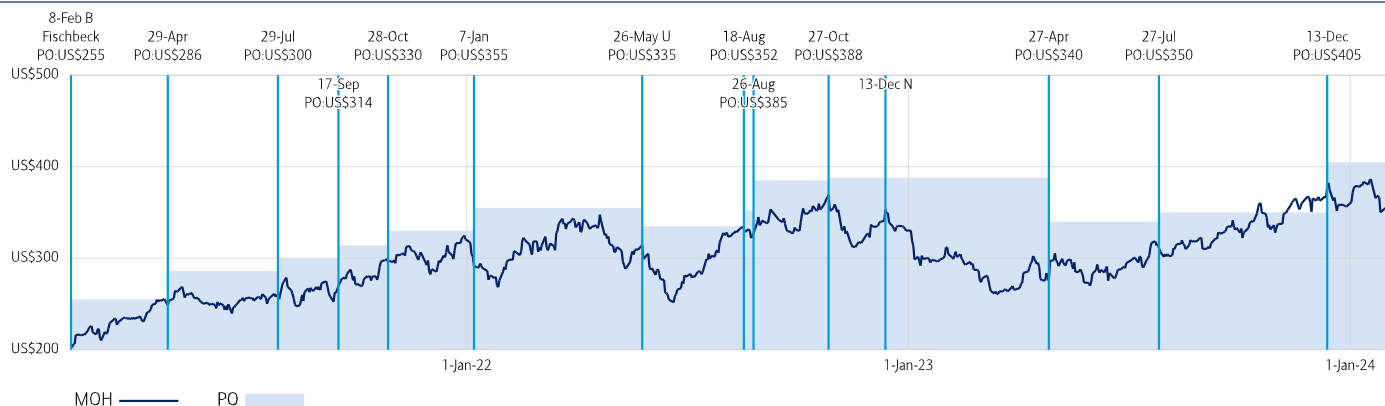
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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