

## Molina Healthcare, Inc.

## Quick takes from the call

Maintain Rating: NEUTRAL | PO: 340.00 USD | Price: 275.57 USD

**Expects no impact from redeterminations on risk pool**

Molina Healthcare (MOH) expects to retain 50% of 800k members gained during COVID. This equates to a \$1.6B revenue headwind and at target margins would be \$1 of EPS. 1/3 of the impact in 2023 and the other 2/3 mostly in 2024. Beyond this, MOH doesn't expect redeterminations to be an impact on the risk pool, based on the limited acuity shift it saw on the membership growth. If there is an impact to the risk pool, it has some mitigants – acuity adjustments in the rate, a large risk corridor payable and the ability of states to implement rate adjustments (on cycle and off-cycle, prospective and retrospective-Has a large number of Jan 1 rate updates with 2 states committing to a mid-year rate cycle). MOH also doesn't include any offset from gaining enrollment on the exchanges from redeterminations. At the same time, the gradual drop in enrollment over time dilutes the impact before rates are updated. As a result, any mismatch in rate and cost would be “sporadic” and MOH believes that any acuity shift is built into the 88.5% Medicaid MLR target. Only one of MOH's states has begun redeterminations, with most starting in June/July, so the company doesn't have more data than it did earlier this year (Q3/Q4 will have more data). Although plausible, these assumptions appear somewhat aggressive to us as the potential that something goes wrong across at least a few of their 19 states seems likely. Maintain Neutral.

**Only raised for the beat, 2023 conservatism**

MOH only raised guidance for the beat to remain conservative. 1) Doesn't expect marketplace outperformance to persist, 2) short term interest rates likely to decline and 3) conservative view on medical costs. As noted above, MOH doesn't see meaningful impact to MLR from redeterminations. Expects slightly more than half of earnings in 1H.

**Line of sight into \$36B of 2024 revenue; \$6.50 EPS power**

MOH estimates that its recent IN LTSS contract win (starting mid-2024), will add 33k members and \$1B premiums. As a result, its 5 recent wins will add \$5B of incremental revenue, most coming on in 2024, fully in 2025, giving MOH line of sight into \$36B of premiums in 2024. Meanwhile, MOH sees \$4.50 of embedded earnings from “new store” (these new contracts + recent M&A) when they reach target margins. MOH also sees \$2 of EPS upside if COVID era risk corridors are repealed.

**Rates sound, medical costs well controlled**

MOH continues to believe that rates are actuarially sound and that core medical cost trend is stable (Flat in Medicaid, 2% in MA, 3% in exchanges) and well controlled. Favorable development in the quarter was largely reaccrued, or offset by higher rebates. Flu, COVID were minimal. There were increases in utilization but expensive inpatient was down and outpatient up, so mix was a positive tailwind. Finally, Medicaid had some negative prior period rate adjustments, so MLR would have been at the low end of the range without that, implying 40bps headwind.

27 April 2023

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## Stock Data

Price	275.57 USD
Price Objective	340.00 USD
Date Established	27-Apr-2023
Investment Opinion	B-2-9
52-Week Range	249.78 USD - 374.00 USD
Mrkt Val (mn) / Shares Out (mn)	16,093 USD / 58.4
Average Daily Value (mn)	146.54 USD
BofA Ticker / Exchange	MOH / NYS
Bloomberg / Reuters	MOH US / MOH.N
ROE (2023E)	32.8%
Net Dbt to Eqty (Dec-2022A)	-61.7%
ESGMeter™	Medium

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## Glossary

MOH = Molina; MLR = Medical loss ratio; LTSS = Long term support services

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Timestamp: 27 April 2023 09:27AM EDT

## Price objective basis & risk

### Molina Healthcare, Inc. (MOH)

Our \$340 PO is based on 16.8x 2023E EPS, or just below 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 2023 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.

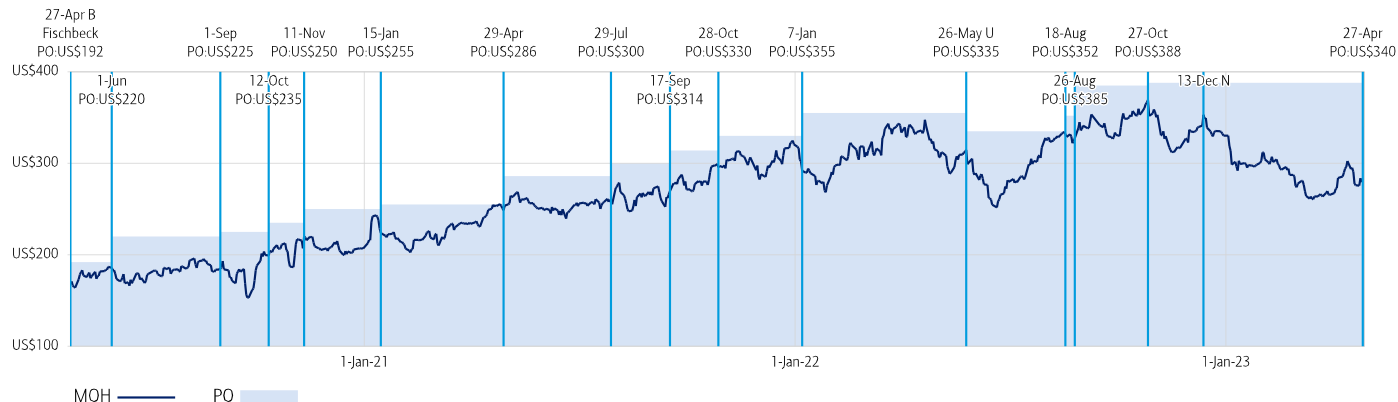
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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Hold	86	21.08%	Hold	44	51.16%
Sell	90	22.06%	Sell	23	25.56%

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Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

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