

## Molina Healthcare, Inc.

**Modest beat, despite MLR miss. 2024 EPS guide in-line**

Reiterate Rating: NEUTRAL | PO: 405.00 USD | Price: 362.10 USD

**Modest beat but MLR missed**

MOH delivered a modest EPS beat (+0.8% vs consensus) on much better revs. However, MLR missed consensus by 20bps. The MLR miss was driven by Medicaid and Medicare, while Marketplace outperformed. With Medicaid MLR missing, it is unclear if redeterminations are causing incremental pressure on margins or whether it is new business drag (mgmt. noted that FY23 Medicaid MLR was in line with its expectations). MOH guided to 2024 EPS roughly in line with consensus, while revenues, MLR, and SG&A guidance was better vs the Street. Following the quarter, we are raising our 2024/25E EPS ests and roll out 2026. Our \$405 PO represents 17.2x 2024E EPS vs 17.3x prior. Overall, given the MLR pressure, and the possibility redeterminations could lead to higher than expected acuity and higher MLR, we reiterate Neutral. See variance table on page 3.

**EPS guide in line, revs and MLR better**

2024 guidance came in without major surprises as MOH guided to >\$23.50 adj EPS, 0.6% below consensus at the low end and up 13% y/y (vs +15-18% LT target). Premium revenues are expected to be up 17% y/y and are 3% better than consensus. When comparing to consensus, total revenue was 4% higher, MLR was 10bps lower, and SG&A ratio was 10bps lower. Meanwhile, Medicaid is expected to end the year with 5.1m members, which is 3% below consensus, but represents a 12% increase y/y as redeterminations are offset by recent RFP wins. Marketplace membership is expected to end the year at 370k, an increase of 32% y/y and 29% above consensus. Finally, Medicare membership is expected to end the year with 270k lives, up 57% y/y (driven by the Bright acquisition) and is 11% above consensus.

**Medicaid & Medicare pressured, Exchanges outperformed**

Consolidated MLR was 20bps higher than consensus, driven by a 60bps miss in Medicaid, as well as a 120bps miss in Medicare MLR. The Medicaid miss was surprising as CNC's Medicaid MLR was in line. In a positive, Marketplace MLR beat consensus by 580bps. For context, MOH's FY23 exchange MLR is was 75.3% vs its LT target of 78-80%. Reserves were mixed as DCPs were down 1 day q/q but up 3 days y/y.

Estimates(Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	17.93	20.90	23.50	26.35	30.04
GAAP EPS	13.54	18.80	21.99	24.80	28.48
EPS Change (YoY)	32.4%	16.6%	12.4%	12.1%	14.0%
Consensus EPS (Bloomberg)	17.81	20.85	23.67	26.83	29.86
Valuation (Dec)					
P/E	20.2x	17.3x	15.4x	13.7x	12.1x
GAAP P/E	26.7x	19.3x	16.5x	14.6x	12.7x

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Timestamp: 08 February 2024 12:19AM EST

08 February 2024

## Equity

**Key Changes**

(US\$)	Previous	Current
2024E Rev (m)	37,248.7	39,136.5
2025E Rev (m)	39,938.6	42,111.9
2026E Rev (m)	NA	45,756.1
2024E EPS	23.35	23.50
2025E EPS	26.20	26.35
2026E EPS	NA	30.04

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**Stock Data**

Price	362.10 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
Mrkt Val (mn) / Shares Out (mn)	21,074 USD / 58.2
Free Float	98.9%
Average Daily Value (mn)	137.74 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

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

MOH = Molina; MLR = Medical loss ratio; CNC = Centene; DCP = Days in claims payable

# iQprofile<sup>SM</sup> Molina Healthcare, Inc.

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	31,756	33,598	39,137	42,112	45,756
Net Investment Income	NA	NA	NA	NA	NA
<b>Total Revenue</b>	<b>31,831</b>	<b>33,678</b>	<b>39,137</b>	<b>42,112</b>	<b>45,756</b>
Total Cost of Benefits and Claims	(27,175)	(28,670)	(33,351)	(35,926)	(39,085)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
<b>Total Operating Expenses</b>	<b>(30,801)</b>	<b>(32,500)</b>	<b>(37,725)</b>	<b>(40,500)</b>	<b>(43,875)</b>
<b>Pre-Tax Operating Earnings</b>	<b>1,030</b>	<b>1,178</b>	<b>1,411</b>	<b>1,612</b>	<b>1,881</b>
Income Tax Expense	(271)	(372)	(442)	(489)	(554)
<b>Operating Earnings After Tax</b>	<b>1,048</b>	<b>1,213</b>	<b>1,365</b>	<b>1,502</b>	<b>1,690</b>
<b>Net Income (Reported)</b>	<b>792</b>	<b>1,091</b>	<b>1,277</b>	<b>1,414</b>	<b>1,602</b>
Diluted Shares	58	58	58	57	56
Operating Earnings Per Share	17.93	20.90	23.50	26.35	30.04
Net Income (Reported) Per Share	13.54	18.80	21.99	24.80	28.48

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	7,505	9,107	13,220	14,501	16,509
<b>Total Assets</b>	<b>12,314</b>	<b>14,892</b>	<b>17,828</b>	<b>19,254</b>	<b>21,521</b>
Reserves	3,528	4,204	5,154	5,143	0
LT Debt	2,176	2,180	2,180	2,180	2,180
<b>Total Liabilities</b>	<b>9,350</b>	<b>10,677</b>	<b>12,336</b>	<b>12,347</b>	<b>13,012</b>
<b>Total Equity</b>	<b>2,964</b>	<b>4,215</b>	<b>5,492</b>	<b>6,907</b>	<b>8,509</b>
<b>Total Equity (Ex FAS 115)</b>	<b>2,964</b>	<b>4,215</b>	<b>5,492</b>	<b>6,907</b>	<b>8,509</b>
Book Value per Share (Reported)	72.11	101.46	133.85	0	0
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

## Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	0%	0%	0%	0%	0%
Loss Ratio	85.6%	85.3%	85.2%	85.3%	85.4%
<b>Combined Ratio</b>	<b>85.6%</b>	<b>85.3%</b>	<b>85.2%</b>	<b>85.3%</b>	<b>85.4%</b>
Avg Assets / Avg Eq (Ex FAS 115) Ratio	4.4x	3.8x	3.4x	3.0x	2.6x

## Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	14.9%	5.8%	16.5%	7.6%	8.7%
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	14.8%	5.8%	16.2%	7.6%	8.7%
Operating Earnings per Share	32.4%	16.6%	12.4%	12.1%	14.0%
Asset	0.9%	20.9%	19.7%	8.0%	11.8%
Reported Book Value per Share	38.8%	40.7%	31.9%	NA	NA

## Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	37.5%	33.8%	28.1%	24.2%	21.9%
Operating ROE (Ex FAS 115)	37.5%	33.8%	28.1%	24.2%	21.9%
Operating Return on Average Assets	8.5%	8.9%	8.3%	8.1%	8.3%
Operating Margin	3.3%	3.6%	3.5%	3.6%	3.7%
Long Term Debt to Cap Ratio (Ex FAS 115)	42.3%	34.1%	28.4%	24.0%	20.4%
Net Income % Operating Income	75.6%	89.9%	93.6%	94.2%	94.8%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

## Company Sector

Managed Health Care

## Company Description

MOH is one of the largest Medicaid managed care plans in the U.S., administering programs in over a dozen states. Additionally, MOH targets low income beneficiaries in Medicare Advantage as well as the public exchanges.

## Investment Rationale

Our Neutral rating is based on our view that the company should grow well above historical averages with a high teens EPS CAGR through 2025 due to a number of identified tailwinds, pending M&A and recent major RFP wins such as in California. However we remain cautious on redeterminations causing industry wide enrollment shifts which could create pricing uncertainty and therefore margin compression.

## Stock Data

Average Daily Volume 391,323

## Quarterly Earnings Estimates

	2023	2024
Q1	5.81A	6.48E
Q2	5.65A	6.19E
Q3	5.06A	5.64E
Q4	4.38A	5.19E

# Earnings Analyzer

Below we show key quarterly results vs. our estimates, consensus, and prior historical results.

## Exhibit 1: MOH Earnings Analyzer

\$ values in millions except for per share data, membership in thousands; Δ, y/y and q/q growth metrics are differences for ratios and DCPs

4QFY-2023	Actual	Consensus	BofA	Δ vs Consensus	Δ vs Consensus	Δ vs BofA	Δ vs BofA	Growth Y/y	Growth Q/q	4QFY-2022	3QFY-2023
<b>Key Metrics:</b>											
Revenue (ex-investment income)	\$8,934	\$8,244	\$8,348	8.4%	BEAT	7.0%	BEAT	9.7%	6.2%	\$8,144	\$8,416
Adj. EPS	\$4.38	\$4.34	\$4.24	0.8%	IN-LINE	3.3%	BEAT	6.8%	-13.3%	\$4.10	\$5.05
Medical Loss Ratio	89.1%	88.9%	89.7%	0.2%	IN-LINE	-0.6%	BEAT	0.8%	0.4%	88.3%	88.7%
SG&A Ratio	7.2%	7.6%	6.8%	-0.3%	BEAT	0.4%	MISS	-0.5%	0.0%	7.7%	7.2%
Investment Income	\$114	\$124	\$112	-8.1%	MISS	1.8%	BEAT	44.3%	-13.6%	\$79	\$132
Pre-tax Income	\$289	\$313	\$307	-7.8%	MISS	-5.9%	MISS	270.5%	-13.0%	\$78	\$332
Provision for income tax	\$73	\$82	\$79	-11.1%	BEAT	-7.4%	BEAT	231.8%	-16.1%	\$22	\$87
Tax Rate	25.3%	26.2%	25.7%	-0.9%	BEAT	-0.4%	BEAT	-2.9%	-0.9%	28.2%	26.2%
Shares	58,200	58,084	58,100	0.2%	IN-LINE	0.2%	IN-LINE	-0.3%	0.2%	58,400	58,100
DCPs	50.0	N/A	N/A		RESERVES MIXED			3.0	-1.0	47.0	51.0
<b>Premium Revenues:</b>											
Medicaid	\$6,782	\$6,509	\$6,547	4.2%	BEAT	3.6%	BEAT	5.6%	1.1%	\$6,421	\$6,711
Marketplace	\$523	\$489	\$480	7.0%	BEAT	9.0%	BEAT	-4.6%	5.2%	\$548	\$497
Medicare	\$1,057	\$1,053	\$1,039	0.4%	IN-LINE	1.8%	BEAT	11.5%	2.4%	\$948	\$1,032
Total Premiums	\$8,362	\$8,051	\$8,066	3.9%	BEAT	3.7%	BEAT	5.6%	1.5%	\$7,917	\$8,240
<b>MLR</b>											
Medicaid	89.2%	88.6%	89.2%	0.6%	MISS	0.0%	IN-LINE	1.9%	0.4%	87.3%	88.8%
Marketplace	79.8%	85.6%	86.8%	-5.8%	BEAT	-7.0%	BEAT	-14.0%	0.9%	93.8%	78.9%
Medicare	93.3%	92.1%	94.0%	1.2%	MISS	-0.7%	BEAT	1.5%	0.9%	91.8%	92.4%
<b>Membership:</b>											
Medicaid	4,542	4,617	4,661	-1.6%	MISS	-2.5%	MISS	-4.5%	-4.5%	4,754	4,757
Marketplace	281	278	282	1.1%	BEAT	-0.3%	IN-LINE	-19.3%	1.8%	348	276
Medicare	172	176	175	-2.3%	MISS	-1.6%	MISS	10.3%	-0.6%	156	173
Total Membership	4,995	5,071	5,117	-1.5%	MISS	-2.4%	MISS	-5.0%	-4.1%	5,258	5,206

Source: BofA Global Research, Company Filings, Visible Alpha

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## 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.

## Analyst Certification

I, Kevin Fischbeck, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Chemed Corporation	CHE	CHE US	Joanna Gajuk
	Elevance Health Inc	ELV	ELV US	Kevin Fischbeck, CFA
	Encompass Health	EHC	EHC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Option Care Health	OPCH	OPCH US	Joanna Gajuk
	Oscar Health	OSCR	OSCR US	Adam Ron
	Privia Health	PRVA	PRVA US	Adam Ron
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Service Corp.	SCI	SCI US	Joanna Gajuk
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
<b>NEUTRAL</b>				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
<b>UNDERPERFORM</b>				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agility Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA

## US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatrix Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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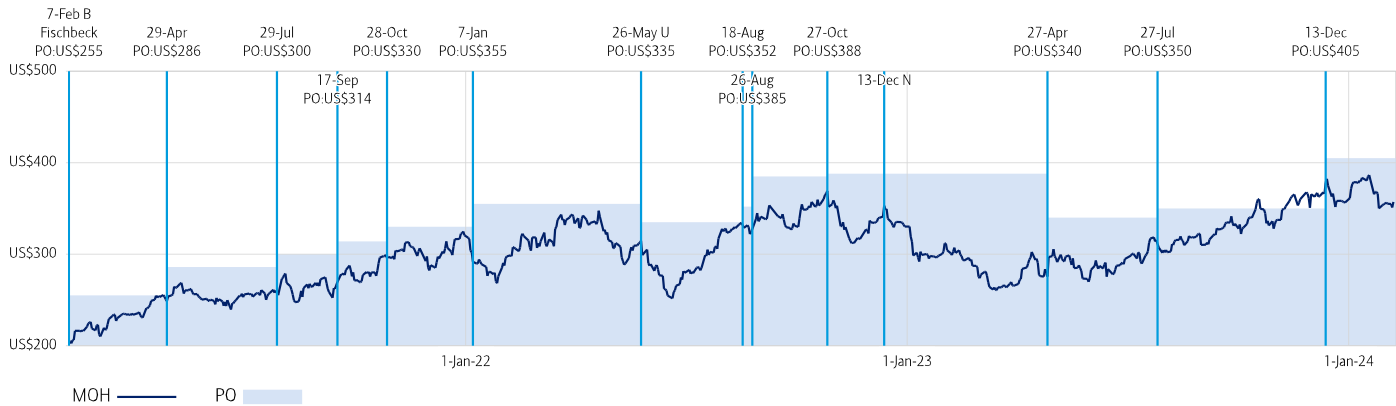
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# Disclosures

## Important Disclosures

### Molina (MOH) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

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%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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