# Molina Healthcare

## 3Q26 results largely in line; Focus remains on 2027; Maintain UW

**Underweight**
**MOH**

**North America Corporate Credit - Healthcare (HY)**

**Rishi S Parekh** [AC]
(1-212) 622-2379
rishi.parekh@jpmorgan.com
J.P. Morgan Securities LLC

**Recommendation:** We are maintaining our UW recommendation on MOH and the entire structure. Premium revenue and MCR across all segments were in line with expectations and cost trends appear to remain elevated but stable across the industry, indicating that current margins may have troughed. Management reiterated its prior FY26 guidance, but we are more interested in their FY27 commentary. Despite expectations of a rate increase as states prepare for a potential acuity shift following work requirements, we remain cautious. Both the FY26 rate and medical cost trend were raised by 50bp, signaling that utilization and acuity pressures could persist even with rate updates. Further, the FL CMS contract is an earnings drag that will require meaningful improvement in FY27 to neutralize (management expects 99% MCR in 4Q26), and it could take several quarters for management to prove that the contract won't compress margins due to the complex nature of the patients. Finally, there seem to be a number of state-level challenges that warrant exploring whether MOH's outsized exposure to Medicaid (post exit) may become problematic. While there may be excitement in the probability of higher Medicaid margins and rate improvement, we see very few compelling reasons to own MOH bonds at current levels and the structure only trades <30bps wide to CNC but also trades 70bp inside of the BB index. Risks to our recommendation include improved MCR, more favorable/accelerated state rate actions ahead of work requirements, delayed or lower-than-feared disenrollment, increased market share, and ability to achieve long-term goals.

Table 1: Pricing

| | | | | | RATINGS | | PRICING | |
|---|---|---|---|---|---|---|---|---|
| CREDIT | RATE | RANKING | MATURITY | SIZE ($mn) | M / S&P | Px | YTW | SPREAD |
| MOH | 4.375% | Unsecured | 6/15/2028 | 800 | Ba2 / BB- | 97.625 | 5.900% | 124 |
| MOH | 3.875% | Unsecured | 11/15/2030 | 650 | Ba2 / BB- | 91.125 | 6.385% | 151 |
| MOH | 6.500% | Unsecured | 2/15/2031 | 850 | Ba2 / BB- | 100.000 | 6.497% | 161 |
| MOH | 3.875% | Unsecured | 5/15/2032 | 750 | Ba2 / BB- | 88.250 | 6.417% | 148 |
| MOH | 6.250% | Unsecured | 1/15/2033 | 750 | Ba2 / BB- | 97.875 | 6.670% | 170 |
| CNC | 4.250% | Unsecured | 12/15/2027 | 568 | Ba1 / BB+ | 100.000 | 4.188% | 17 |
| CNC | 2.450% | Unsecured | 7/15/2028 | 2,159 | Ba1 / BB+ | 94.625 | 5.745% | 106 |
| CNC | 4.625% | Unsecured | 12/15/2029 | 3,277 | Ba1 / BB+ | 96.000 | 6.035% | 119 |
| CNC | 3.375% | Unsecured | 2/15/2030 | 1,997 | Ba1 / BB+ | 91.875 | 6.115% | 126 |
| CNC | 3.000% | Unsecured | 10/15/2030 | 2,200 | Ba1 / BB+ | 89.125 | 6.115% | 124 |
| CNC | 2.500% | Unsecured | 3/1/2031 | 2,200 | Ba1 / BB+ | 86.125 | 6.175% | 129 |
| CNC | 2.625% | Unsecured | 8/1/2031 | 1,300 | Ba1 / BB+ | 85.750 | 6.106% | 120 |

Source: Bloomberg Finance, L.P., company filings

## Observations

**Work requirements and reverifications.** 2027 will be the first year that MOH and its peers will be impacted by work requirements and biannual reverifications. States continue to prepare for the implementation of these requirements, but most appear to be selecting policies that encourage enrollment rather than disenrollment through the use of ex parte reviews, flexible medical or hardship exemptions, and allowing self-attestation. For instance, Nebraska, an early adopter of work requirements, has interpreted CMS's guidance in a way that leans toward enrollment over disenrollment, with a lengthy list of medical frailty exemption codes and a deliberate effort to find ex parte information to keep members enrolled. Further, 90% of renewing members re-enrolled, with 20% of them for frailty, which is larger than management anticipated. The timing and impact on

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membership for Molina will vary by state, with some states taking a phased approach that could delay some disenrollments to 2028. Management expects membership reductions to emerge gradually and to produce a minor acuity impact, which is baked into 2027 guidance and 2029 targets presented at the company's Investor Day. Management anticipates that work requirements are expected to lead to a cumulative 9%-10% loss over the next few years.

**Medicaid:** Medicaid premium revenue was $8.2bn, Medicaid margin was $577mm, and Medicaid MCR was 93%, up 30bp sequentially and in line with expectations as rate updates largely offset a slight increase in medical costs. The segment saw a 4.5% YTD decline in membership during the quarter, which currently sits at ~4.3 million members, and is consistent with management's FY26 expected 6% decline before the addition of members from the FL CMS contract. Cost trend saw the most pressure from outpatient and high-cost drugs, while LTSS and behavioral health remained stable but elevated. Management noted that while some of these cost categories remain high, they appear to have plateaued, which sets the stage for improvement in 2027.

**Medicare:** Medicare premium revenue was $1.6bn, Medicare margin was $113mm, and Medicare MCR was 93%, up 230bp sequentially and in-line with expectations. The segment was bolstered by favorable Duals performance, which remains core to MOH's Medicare strategy going forward. Conversely, the company remains on track to exit its MAPD segment in 2027. Membership declined 3.1% sequentially to 222k.

**Marketplace:** Marketplace premium revenue was $642mm, Marketplace margin was $48mm, and Marketplace MCR was 92.5%, up 350bp sequentially and in line with expectations. Segment results included the impact of CMS integrity initiatives, which were immaterial to results. MOH continues to reduce its footprint to 7 states and implement its pricing strategy, leading to reduced profitability. Membership was down 59.2% YTD at 267k.

**Cash:** ParentCo cash was $608mm as of 9/30/26, in line with its previously mentioned target of $600mm in ParentCo cash at year end. Management did not clarify what this cash would be used for.

**Debt-to-Cap:** Debt-to-cap was 45% as of 9/30/26, approaching its previously stated target of 44% by year end.

**4Q26 and FY26 guidance.** MOH reiterated its FY26 premium revenue guidance of $42bn, implying 4Q26 premium revenue expectations of $11.1bn, which is notably higher than any other quarter this year. The company also left its consolidated MCR and adjusted G&A ratio guidance for the year unchanged at 92.6% and 6.4%, respectively. However, rate and trend guidance both increased 50bp, with the former being updated to 4.5% from 4% and the latter climbing to 5.5% from 5%, to account for slightly elevated utilization and acuity shift throughout the year. The stability between rates and trend indicates that Medicaid margins represent a trough in a cycle spanning 3 years, and Molina believes this current balance will gradually correct from here on out. Medicaid, Medicare, and Marketplace MCR guidance for FY26 remained at 92.9% (92.6% excluding the impact of FL CMS), 92.2%, and 90% respectively.

Molina anticipates normal seasonality and a slight drag from the FL CMS contract. Excluding this contract, 4Q26 Medicaid, Medicare, and Marketplace MCR are expected to be 92.5%, 94.7%, and 96.1%, respectively. Excluding the impact of the FL CMS contract, Medicaid MCR is expected to benefit from a 50bp improvement in the legacy book of business during the quarter, which is a function of recent rate updates offset by normal seasonality. Fourth quarter adjusted G&A ratio is expected to fall below 6% due to the impact of operating on additional FL CMS revenue and cost management actions. 4Q26 guidance assumes $1.5bn

revenue ($6bn full year run rate) with a 99% MCR and a 5% pretax loss. This means that management has to find at least 500bp to breakeven, 200bp of which comes from one-time PFAD and LAE reserves that MOH has to put up as a result of putting on new revenue. The remaining 300bp will largely come from MCR and the remainder from adjusted G&A ratio.

**2027 guidance.** Management anticipates FY27 premium revenue to reach at least $45bm. Tailwinds supporting this outlook include (1) modest growth in Molina's current Medicaid segment as rate expectations should more than offset management's initial view on Medicaid member attrition stemming from work requirements and semi-annual reverifications, (2) strong growth in Medicaid Duals such as state programs in OH, TX, and CA, and (3) the annualization of the FL CMS contract. We note that the new Medicaid contracts in GA and TX, representing $1.3bn in premium revenue, have been delayed from their previously expected 1/1/27 implementation date as a result of judicial proceedings surrounding these RFP awards. Management is confident these awards will be upheld and implementation will take place in late 2027 or ebm. Other headwinds include the MAPD exit, reduced Marketplace footprint, and the state's termination of the CA UIS program.

MOH has material visibility into the Medicaid rate and trend environment; Molina's January 1 renewal cohort represents 55% of FY27 premium revenue and the average draft rate of 80% of said cohort is ~7%. When these known January 1 rates are combined with carryover of rates from late 2026, this represents 70% of FY27 premium revenue, and indicates that overall 2027 rate increases may approximate 6%. Confidence in higher rates is supported by the expectation that states will likely grant prospective rate adjustments in anticipation of acuity shifts caused by implementation of work requirements. Favorable rate increases are expected to be mostly offset by medical cost trend increasing to 5.5%-6%, which includes 50bp of conservatism. At a minimum, rates should capture trend and legacy Medicaid MCR should be at least flat YoY with potential upside if trend is lower than expected. Management anticipates 6% YoY same-store membership attrition, in line with 2026 expectations and accounting for slower Medicaid enrollment due to work requirements.

Rishi S Parekh AC
(1-212) 622-2379
rishi.parekh@jpmorgan.com



J.P.Morgan

## Table 2: 3Q26 Summary Model

| | FY 2024 | Q1:25 | Q2:25 | 3Q:25 | 4Q:25 | FY 2025 | Q1:26 | Q2:26 | Q3:26 |
|---|---|---|---|---|---|---|---|---|---|
| LTM EBITDA | 1,507 | 1,523 | 1,484 | 1,155 | 611 | 611 | 353 | 93 | 57 |
| LTM FCF | 544 | 525 | 427 | (198) | (636) | (636) | 251 | 271 | 238 |
| | | | | | | | | | |
| Cash (ParentCo) | 445 | 191 | 100 | 108 | 223 | 223 | 213 | 290 | 608 |
| Secured Debt | 195 | 192 | 188 | 188 | 184 | 184 | 180 | 184 | 179 |
| Total Debt | 3,145 | 3,792 | 3,588 | 3,878 | 3,984 | 3,984 | 3,980 | 3,984 | 3,979 |
| | | | | | | | | | |
| Secured leverage | 0.1x | 0.1x | 0.1x | 0.2x | 0.3x | 0.3x | 0.5x | 2.0x | 3.1x |
| Total leverage | 2.1x | 2.5x | 2.4x | 3.4x | 6.5x | 6.5x | 11.3x | 42.8x | 69.8x |
| Net leverage | 1.8x | 2.4x | 2.4x | 3.3x | 6.2x | 6.2x | 10.7x | 39.7x | 59.1x |
| | | | | | | | | | |
| Revenue | 40,198 | 11,039 | 11,321 | 11,369 | 11,277 | 45,006 | 10,698 | 10,773 | 10,980 |
| Medical care costs | (34,428) | (9,479) | (9,829) | (10,044) | (10,136) | (39,488) | (9,270) | (9,440) | (9,719) |
| *Percent of sales* | *85.6%* | *85.9%* | *86.8%* | *88.3%* | *89.9%* | *87.7%* | *86.7%* | *87.6%* | *88.5%* |
| G&A | (2,677) | (751) | (692) | (725) | (786) | (2,954) | (758) | (724) | (710) |
| *Percent of sales* | *6.7%* | *6.8%* | *6.1%* | *6.4%* | *7.0%* | *6.6%* | *7.1%* | *6.7%* | *6.5%* |
| Premium tax expenses | (1,486) | (388) | (431) | (506) | (538) | (1,863) | (504) | (505) | (500) |
| *Percent of sales* | *3.7%* | *3.5%* | *3.8%* | *4.5%* | *4.8%* | *4.1%* | *4.7%* | *4.7%* | *4.6%* |
| Other | (100) | (25) | (25) | (16) | (24) | (90) | (28) | (20) | (9) |
| **EBITDA before investment income** | **1,507** | **396** | **344** | **78** | **(207)** | **611** | **138** | **84** | **42** |
| ***EBITDA margin*** | ***3.7%*** | ***3.6%*** | ***3.0%*** | ***0.7%*** | ***-1.8%*** | ***1.4%*** | ***1.3%*** | ***0.8%*** | ***0.4%*** |
| | | | | | | | | | |
| Cash flow from ops | 644 | 190 | (302) | (125) | (298) | (535) | 1,082 | (294) | (159) |
| Less capex | (100) | (22) | (42) | (38) | 1 | (101) | (27) | (30) | (37) |
| *Percent of sales* | *0.2%* | *0.2%* | *0.4%* | *0.3%* | *0.0%* | *0.2%* | *0.3%* | *0.3%* | *0.3%* |
| **Free Cash Flow** | **544** | **168** | **(344)** | **(163)** | **(297)** | **(636)** | **1,055** | **(324)** | **(196)** |
| | | | | | | | | | |
| Medicaid MCR (adj) | 90.3% | 90.3% | 91.3% | 92.0% | 92.2% | 91.8% | 92.0% | 92.7% | 93.0% |
| Medicare MCR | 89.1% | 88.3% | 90.0% | 93.6% | 97.5% | 92.4% | 89.8% | 90.7% | 93.0% |
| Marketplace MCR | 75.4% | 81.7% | 85.4% | 95.6% | 99.0% | 90.6% | 79.5% | 88.9% | 92.5% |
| Consolidated MCR | 89.1% | 89.2% | 90.4% | 92.6% | 94.6% | 91.7% | 91.1% | 92.2% | 92.9% |

Source: Company filings, J.P. Morgan research



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|---|---|---|---|---|
| Issuer | 11 Jul 24 | Initiate | Neutral | MOH |
| Issuer | 06 Jan 25 | Downgrade | Underweight | MOH |
| 3.875% Unsec Nts '32 * | 11 Jul 24 | Initiate | Neutral | US60855RAL42 |
| 3.875% Unsec Nts '32 * | 06 Jan 25 | Downgrade | Underweight | US60855RAL42 |
| 3.875% Unsec Nts '30 | 11 Jul 24 | Initiate | Neutral | US60855RAK68 |
| 3.875% Unsec Nts '30 | 06 Jan 25 | Downgrade | Underweight | US60855RAK68 |
| 4.375% Unsec Nts '28 | 11 Jul 24 | Initiate | Neutral | US60855RAJ95 |
| 4.375% Unsec Nts '28 | 06 Jan 25 | Downgrade | Underweight | US60855RAJ95 |

| | | | | |
|---|---|---|---|---|
| 6.25% Unsec '33s | 06 Jan 25 | Initiate | Underweight | US60855RAM25 |
| 6.5% Unsec Nts '31 | 02 Dec 25 | Initiate | Underweight | US60855RAN08 |

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