MOSCHOVAKIS CAPITAL

Wealth Preservation Equity Research

MOH — MOLINA HEALTHCARE, INC.

Post-Q4 2025 Earnings Analysis

Metric	Value
Current Price (Post-Earnings)	$118.00
52-Week Range	$115.00 – $359.97
Market Capitalization	~$6.1 Billion
Recommendation	BUY ON WEAKNESS — Scale In Below $120
Wealth Preservation Score	57 / 100
Expected Total Return (Base, 5Y)	~18.3% CAGR
Bear Case Total Return (5Y)	~1.2% CAGR (Capital Preserved)
Report Date	February 6, 2026

Analyst: Moschovakis Capital Research

EXECUTIVE SUMMARY

Recommendation: BUY ON WEAKNESS — Scale In Below $120

Metric	Value
Current Price (Feb 6, 2026)	$118.00
Fair Value (Base Case, Normalized)	$185 – $210
Margin of Safety to Fair Value	~43–57%
Dividend Yield	0% (No Dividend)
FY2025 Adjusted EPS	$11.03
FY2026 Guided Adjusted EPS	≥ $5.00 (Trough Year)
Embedded Earnings (2027–2029)	>$11.00/share Incremental
Normalized EPS Power (2028E)	$18 – $22
5-Year Base Case Target Price	$275
5-Year Base Case Total CAGR	~18.3%
5-Year Bear Case Total CAGR	~1.2%
Probability-Weighted 5Y CAGR	~15.3%

One-Line Thesis: *Molina Healthcare is a high-quality government managed care operator experiencing a cyclical trough in medical cost ratios and earnings, now priced at a severe discount to normalized earnings power with >$11/share of embedded earnings from new contract wins providing a visible multi-year recovery catalyst and asymmetric risk/reward.*

INVESTMENT THESIS

Molina Healthcare represents a compelling asymmetric opportunity born from a sector-wide cyclical dislocation in medical cost ratios. The stock has declined approximately 72% from its March 2024 all-time high of $424 and 33% overnight following Q4 2025 earnings, creating a potential generational entry point for a company with a 45-year operating history in government-sponsored healthcare programs.

The core thesis rests on three pillars. First, 2026 is explicitly described by management as a trough year for Medicaid industry margins, with the rate-to-trend imbalance expected to normalize as states implement actuarially sound premium rate adjustments. Even at this cyclical trough, Molina continues to produce positive pretax margins in its Medicaid business, demonstrating the durability of its operating platform. Second, Molina has over $11 per diluted share of new store embedded earnings from recently won but not yet commenced Medicaid and Medicare Duals contracts across California, Iowa, Nebraska, New Mexico, Texas, Georgia, Florida, Idaho, Illinois, Massachusetts, Michigan, and Ohio, plus the California Medicare Health Plans and ConnectiCare acquisitions. These represent contractually visible future revenue and earnings streams that provide a clear pathway from the 2026 trough EPS of ~$5 back toward normalized earnings power of $18–$22 per share by 2028–2029. Third, at $118, the stock trades at approximately 6.6x its 2028 estimated normalized earnings, representing an extraordinary discount to its historical 15–18x multiple and providing a substantial margin of safety even under conservative assumptions.

The primary risk to the thesis is that the medical cost trend persists longer than expected or intensifies, potentially requiring additional guidance revisions. However, the regulatory structure of Medicaid (which mandates actuarially sound rates) provides a natural floor on margins over time, distinguishing this from a permanent competitive impairment. Additionally, the MAPD exit for 2027 removes $1.00 per share of identified drag, and corrective pricing on Marketplace plans should address the elevated ACA MCR. Michael Burry, the investor known for identifying asymmetric opportunities, has publicly flagged Molina as a potential takeover target, further validating the value thesis.

Risk Assessment	Value
Wealth Preservation Score	57 / 100
Downside Protection Score	55 / 100
Return Adequacy Score	100 / 100
Quality Score	58 / 100
Risk Level	ELEVATED (Cyclical Trough)
Probability of >50% Permanent Loss	<8%
Recession Profile	SENSITIVE

STAGE 1: SECTOR & THEME IDENTIFICATION

Screening Question	Assessment	Result
Is the sector understandable?	Government managed care (Medicaid/Medicare)	PASS
Is the sector in secular decline?	Healthcare demand is structurally growing	PASS
Defensive or Cyclical?	Defensive with moderate cyclicality (MCR cycles)	CONTINUE
Sector-level tailwinds?	Aging population, Medicaid expansion, dual-eligible growth	FAVORABLE
Sector valuation vs. history?	MCO P/E compressed ~50% below 5Y avg	FAVORABLE

The managed care sector serves government-funded healthcare programs that provide essential services to approximately 90 million Medicaid beneficiaries and 65 million Medicare enrollees. While the sector experiences cyclical margin pressure from medical cost ratio fluctuations, the fundamental demand driver (government-mandated healthcare coverage for low-income and elderly populations) is structurally secure and growing. Molina operates exclusively in government-sponsored programs, making it a pure-play on this secular trend.

The sector is currently experiencing its most challenging medical cost environment in over a decade, driven by elevated utilization post-pandemic, GLP-1 drug costs, behavioral health demand, and the adverse selection effects of Medicaid redeterminations. However, this represents a cyclical trough, not a structural impairment, as state Medicaid programs are required by federal law to set actuarially sound premium rates, creating a natural margin recovery mechanism.

Sector Verdict: **CONTINUE** — Defensive, understandable sector with cyclical headwinds creating potential entry opportunity.

STAGE 2: FUNDAMENTAL GATEKEEPING

2.1 Solvency Check

Metric	Value	Threshold	Assessment
Debt-to-Equity	0.93x	<1.0x	PASS (Marginal)
Interest Coverage (EBIT/Interest)	4.1x (FY2025)	>5.0x	MONITOR
Current Ratio	1.69x	>1.5x	PASS
Free Cash Flow (5Y)	3 of 5 Positive	4 of 5	MONITOR
Cash + Investments	$8.26B	N/A	STRONG
Cash as % of Total Debt	~113%	>20%	PASS
Long-term Debt	$3.77B	N/A	ADEQUATE

Molina's balance sheet presents a mixed picture. Cash and investments of $8.26 billion significantly exceed total long-term debt of $3.77 billion, providing substantial liquidity. However, the company's operating cash flow turned negative in 2025 (-$535 million) due to Medicaid risk corridor settlements, tax payment timing, and lower operating performance. Interest coverage has declined from historical levels due to both higher debt ($850M senior notes issued November 2025 at 6.5%) and lower operating income. The current ratio remains healthy at 1.69x.

The key nuance for managed care companies is that their balance sheets contain substantial regulatory capital within subsidiaries. Molina's regulated health plans hold most of the cash and investments, with parent company cash declining to $223 million at year-end 2025 from $445 million at year-end 2024. The recently issued $850M in senior notes provides additional financial flexibility.

Solvency Assessment: **ADEQUATE** — Significant liquidity cushion from cash/investments, but FCF deterioration and higher debt levels require monitoring. The company can comfortably survive a severe recession given its government-funded revenue base.

2.2 Earnings Quality Check

Metric	Assessment
OCF vs. Net Income Consistency	Negative OCF in 2025 is anomalous; driven by working capital timing
Receivables Growth vs. Revenue	Receivables grew 7% vs. 12% revenue growth — Acceptable
Unusual Items	~$2.00/sh retroactive CA Medicaid rate adjustment in Q4
Financial Restatements (5Y)	None
Revenue Quality	~95% from government contracts — Highly predictable

Molina's revenue is overwhelmingly derived from government premium payments, making it among the most predictable revenue streams in healthcare. The quality concern is not revenue manipulation but rather the volatility of medical care costs relative to premium rates. The Q4

2025 loss was heavily influenced by ~$2.00 per share of unfavorable retroactive revenue items related to California Medicaid, which management is disputing. While earnings quality has been high historically, the 2025 deterioration reflects real operational challenges rather than accounting manipulation.

Earnings Quality: ACCEPTABLE — Government-funded revenue base provides high visibility, but medical cost volatility creates earnings unpredictability in the near term.

2.3 Dilution Check

Metric	Value
Shares Outstanding (Dec 2025)	51.0 million
Shares Outstanding (Dec 2024)	56.0 million
Shares Outstanding (Dec 2022)	~58.0 million
3-Year Change	~-12% (Accretive Buybacks)
Annual Dilution Rate	Negative (Net Buybacks)
FY2025 Share Repurchases	$1.0 Billion
FY2024 Share Repurchases	$1.0 Billion
CEO Total Comp (FY2024)	$21.9M (~1.9% of Net Income)
CEO Insider Ownership	~298,910 shares (~$35M at $118)

Molina is a significant net repurchaser of shares, having reduced its share count by approximately 12% over three years through $2 billion in buyback programs. This is highly accretive to per-share earnings and demonstrates strong capital return commitment. CEO Zubretsky has meaningful skin in the game with approximately 299,000 shares and recently made a $19.4 million open-market purchase in March 2025 at ~$309, demonstrating confidence (though this position is now significantly underwater). CEO compensation at $21.9M is within acceptable bounds for a Fortune 500 company, with 93% tied to performance-based stock awards.

Dilution Assessment: EXCELLENT — Consistent, aggressive buyback program with meaningful insider ownership.

2.4 Dividend Sustainability

Molina Healthcare does not pay a dividend. The company has historically prioritized share repurchases and acquisitive growth over dividend distributions. For a wealth preservation mandate, this is a notable gap: there is no income floor from dividends. However, the aggressive buyback program serves a similar capital return function by enhancing per-share value.

Dividend Sustainability: N/A — No dividend. Capital returned through buybacks.

2.5 Capital Efficiency: ROIC Assessment

Metric	Value	Assessment
ROIC (TTM as of Q3 2025)	10.8%	GOOD
ROIC (FY2024)	~20%+	EXCELLENT

ROIC (Historical Avg)	~25–32%	EXCELLENT
WACC	~5.0%	Baseline
ROIC vs. WACC Spread	+5.8% (current); +15–27% (normalized)	VALUE CREATING
5-Year Trend	Declining due to cyclical trough	Monitor

Molina has historically generated exceptional returns on invested capital, routinely exceeding 25–32% in normalized years, far above its estimated WACC of ~5%. The current TTM ROIC of ~10.8% reflects the 2025 earnings compression but remains well above the cost of capital. This is a company that has demonstrated strong value creation through disciplined capital allocation over multiple cycles. The ROIC decline is cyclical, not structural.

ROIC: 10.8% (cyclical low) | vs. WACC: ~5.0% | Trend: Temporarily Declining | Verdict: Value Creating

2.6 Valuation Screening

Metric	Current (@$118)	5Y Average	vs. History
P/E (TTM, GAAP)	13.2x ($8.92 FY25)	~16x	Below Average
P/E (FY2026 Guided)	23.6x ($5.00 Adj.)	N/A	Trough Earnings
P/E (Normalized 2028E)	5.9–6.6x ($18–$20)	~16x	DEEPLY DISCOUNTED
EV/EBITDA (est.)	~6x	~10–12x	Below Average
P/Revenue (TTM)	0.14x	~0.3–0.5x	DEEPLY DISCOUNTED
Price/Book	~1.5x	~4–5x	DEEPLY DISCOUNTED

At $118, Molina trades at a dramatic discount to virtually every historical valuation metric. The P/Revenue ratio of 0.14x is near all-time lows. The key question is what earnings base to use: on trough 2026 guided earnings of $5, the stock looks expensive at 23.6x. On normalized 2028 earnings of $18–$20, it trades at an extraordinary 5.9–6.6x. The market is pricing in permanent impairment, while the embedded earnings pipeline suggests this is a cyclical trough. This disconnect creates the asymmetric opportunity.

Valuation: ATTRACTIVE | Margin of Safety to Normalized Fair Value (~$200): ~43%

STAGE 3: PEER COMPARISON & QUALITY RANKING

Dimension	MOH	CNC (Centene)	ELV (Elevance)	HUM (Humana)	Best for Preservation
Market Cap	~$6B	~$28B	~$81B	~$28B	ELV (Scale)
Gov't Program Focus	~100%	~70%	~50%	~80%	MOH/CNC (Pure Play)
D/E Ratio	0.93x	~0.7x	~0.9x	~0.8x	CNC
FY2025 MCR	91.7%	~92%+	~88–89%	~90%	ELV
G&A Ratio	6.5%	~8.5%	~12%	~12%	MOH
ROIC (Normalized)	25–32%	~10–15%	~15–20%	~10–15%	MOH
5Y Share Reduction	~12%	~15%	~8%	~5%	CNC
P/E (Normalized)	5.9–6.6x	~7–8x	~10–12x	~12–15x	MOH (Cheapest)
Embedded Earnings	>$11/sh	N/A	N/A	N/A	MOH (Unique)

Molina's key competitive advantages among peers are its industry-leading G&A ratio (~6.5% vs. 8–12% for peers), its normalized ROIC that far exceeds competitors, and most importantly, its >$11 per share of embedded earnings from new contract wins that provide unprecedented visibility into future earnings recovery. Molina is the most discounted name in the group on a normalized earnings basis, trading at approximately half the multiple of larger peers.

Wealth Preservation Quality Score

Component	Points Available	Points Awarded	Rationale
Balance Sheet Fortress	40	22	D/E 0.93x (10pts), Int. Cov. 4.1x (5pts), FCF 3/5 (3pts), Cash position (4pts)
Income Reliability	30	6	No dividend (0pts), N/A growth (0pts), SBC strong (3pts), buybacks (3pts)
Capital Efficiency	15	10	ROIC >15% normalized (10pts), trend declining (0pts)
Valuation	15	15	Trading well below 25th percentile of 5Y range (15pts)
TOTAL QUALITY SCORE	100	53	Below ideal for wealth preservation

The quality score of 53/100 reflects two key factors penalizing Molina under the wealth preservation framework: the absence of a dividend (which eliminates 30 points of income reliability scoring) and the cyclically depressed balance sheet metrics. On a normalized basis, Molina would score significantly higher (estimated 72–78) when FCF normalizes and ROIC returns to historical levels. The framework's structural bias toward dividend-paying companies is a limitation when evaluating high-quality growth compounders like Molina that return capital through buybacks.

STAGE 4: QUALITATIVE DEEP DIVE

4.1 Competitive Moat Assessment

Moat Type	Evidence	Durability (1–10)	Preservation Value
Regulated Barriers	State Medicaid contracts require lengthy procurement	9	Excellent
Switching Costs	States rarely switch MCOs mid-contract; multi-year terms	8	Excellent
Cost Advantage	Industry-leading 6.5% G&A ratio	7	Good
Scale/Relationships	Deep state agency relationships in 21 states	8	Excellent
Expertise/Specialization	45-year Medicaid-first operating history	8	Excellent

Molina's primary moat is the regulated nature of the Medicaid managed care market. State contracts are awarded through multi-year procurement cycles (typically 3–5 year terms with extension options), creating high barriers to entry. Molina has never lost a major Medicaid contract re-procurement. The company's Medicaid-first expertise and 45-year track record provide deep institutional knowledge and state agency relationships that are difficult for new entrants to replicate.

The operational moat is further reinforced by Molina's industry-leading cost efficiency. At a 6.5% G&A ratio, Molina spends roughly 30–45% less on administration than larger competitors, enabling competitive pricing while maintaining margins. This cost advantage is structural, derived from a lean organizational model with centralized functions and local market execution.

Primary Moat: Regulated Barriers + Switching Costs — Durability: 8.5/10

Moat Erosion Risk: LOW — Government program participation creates structural defensibility.

4.2 Management Quality & Capital Allocation

CEO Joseph Zubretsky has served since November 2017 (8+ years), bringing 35+ years of insurance and financial services experience from Aetna and Hanover Insurance Group. Under his leadership, Molina's stock increased over 500% from early 2017 to its 2024 peak, the company expanded from serving ~4.5M members to ~5.5M, and it built a substantial embedded earnings pipeline through disciplined contract wins and acquisitions.

Capital allocation has been strong: the company has repurchased $2 billion in shares over 2024–2025 (reducing share count ~12%), executed value-accretive acquisitions (Bright Health Medicare, ConnectiCare, Passport Health), and maintained a manageable debt profile. Zubretsky's $19.4M personal stock purchase at ~$309 in March 2025 demonstrates genuine conviction, even though the stock has since declined significantly.

The primary concern is the repeated earnings guidance cuts in 2025 (three downward revisions), which damaged credibility. However, the medical cost trend was an industry-wide phenomenon affecting all managed care companies, not a Molina-specific operational failure. The 2026 guidance of $5 EPS appears conservatively set to rebuild credibility.

Management Quality: GOOD

Capital Allocation Track Record: STRONG (Accretive buybacks, disciplined acquisitions, cost efficiency)

4.3 Recession Performance History

Period	Revenue Impact	EPS Impact	Dividend Action	Stock Decline (Peak-Trough)	Recovery
2008–2009	Revenue grew (counter-cyclical)	EPS positive	N/A (No Div)	~75% (pre-turnaround era)	~24 months
2020 COVID	Revenue grew 9%	EPS grew 28%	N/A (No Div)	~35% (brief)	~3 months
2022–2023 Rate Pressure	Revenue grew 7–19%	EPS +38% (2023)	N/A	~25% drawdown	~6 months
2024–2025 MCR Crisis	Revenue grew 11–19%	EPS -51% (trough)	N/A	~72% from peak	TBD

Molina's government-funded business model is inherently counter-cyclical: during recessions, Medicaid enrollment increases as more people fall below income thresholds, driving revenue growth. The COVID-19 pandemic illustrated this dynamic perfectly, with Molina's revenue and earnings growing strongly while many companies suffered. The current 2024–2025 crisis is unique in that it reflects medical cost pressure rather than economic recession, and is the most severe challenge Molina has faced under Zubretsky's leadership.

Recession Profile: RESILIENT for economic recessions | **SENSITIVE** for medical cost cycles

STAGE 5: VALUATION & SCENARIO ANALYSIS

5.1 Total Return Model (5-Year Horizon)

Given the absence of a dividend and the trough nature of current earnings, we model total returns over a 5-year horizon (to 2031) rather than the standard 10-year, as the normalization pathway is more visible within this timeframe.

Component	Estimate	Contribution to CAGR
Current Price	$118	Starting Point
Normalized EPS (2028E)	$18–$20	Earnings Recovery
EPS Growth 2028–2031	8–12% CAGR	Organic + Embedded
Terminal EPS (2031E)	$23–$27	
Fair Terminal P/E	13–16x (below historical avg)	Multiple Assumption
Terminal Price Range	$300–$430	
5Y Price CAGR (Base)	~18.3%	Primary Return Driver
Dividend Yield	0%	No Contribution
Total Expected Return (Base)	~18.3% CAGR	Well Above Hurdle

5.2 Scenario Analysis

Scenario	2028E EPS	Terminal P/E	5Y Price Target	5Y Total CAGR	Weight
BEAR	$12–$14	10x	$120–$140	0.3–3.5%	25%
BASE	$18–$20	14x	$250–$280	16–19%	50%
BULL	$24–$28	16x	$380–$450	26–31%	25%

Bear Case Assumptions: Medical cost trend persists through 2027; Medicaid rates fail to keep pace; Marketplace losses continue; MAPD exit creates earnings hole; only partial realization of embedded earnings (~60%); multiple compresses to 10x reflecting permanent margin impairment.

Base Case Assumptions: 2026 is trough year as guided; rates catch up to trend in 2027; embedded earnings realize at ~80% of management estimates; MAPD exit removes drag for 2027; Marketplace MCR normalizes with corrective pricing; company returns to $18–$20 EPS by 2028 and resumes historical 8–12% growth.

Bull Case Assumptions: Rapid rate recovery; full embedded earnings realization; acquisition-driven growth acceleration; share repurchases at depressed prices highly accretive; potential takeover premium (Burry thesis); multiple re-rates to 16x+ as earnings normalize.

Probability-Weighted Expected 5Y CAGR: ~15.3%

5.3 Downside Protection Analysis

Metric	Value
Bear Case 5Y CAGR	~1.2% (Capital Preserved)
Bear Case 5Y Price Target	$125–$140
Historical Max Drawdown (Peak to Current)	~72%
Additional Downside from $118	Est. 15–25% in severe scenario
Tangible Book Value per Share	~$37
Probability of >50% Permanent Loss	<8%
Downside Floor Rationale	Government revenue base, $8B+ cash/investments, essential service

The critical downside check for wealth preservation: even in the bear case, the 5-year total return is positive at approximately 1.2% CAGR. This means capital is preserved with modest positive returns even under pessimistic assumptions. The company's tangible book value of ~$37/share represents a hard floor well below current prices, and the government revenue base provides recession-resistant cash flows. The probability of permanent capital loss (>50% from here, i.e., stock below $59 and not recovering within 5 years) is estimated at less than 8%.

STAGE 6: INVESTMENT DECISION FRAMEWORK

6.1 Wealth Preservation Scoring

Input	Score	Weight	Weighted
Downside Protection Score	55	45%	24.8
Return Adequacy Score	100 (>12% CAGR)	30%	30.0
Quality Score	53	25%	13.3
COMPOSITE WP SCORE	57 / 100	100%	

The Downside Protection Score of 55 reflects: base of 50 +15 (bear case return positive) +0 (D/E not <0.5x) +0 (no dividend history) -10 (bear case could show >20% drawdown before recovery) +0 (no yield). The Return Adequacy Score is 100, reflecting a base case total return >12%. The Quality Score of 53 is suppressed by the no-dividend penalty inherent in the framework.

6.2 Decision Thresholds

Absolute Requirement	Result	Status
Bear case total return ≥ 0%	~1.2% CAGR	PASS
Base case total return ≥ 7%	~18.3% CAGR	PASS
Solvency: FORTRESS or ADEQUATE	ADEQUATE	PASS
Dividend sustainability: N/A (no dividend)	N/A	N/A
Probability of >50% permanent loss <10%	<8%	PASS

Molina passes all applicable absolute requirements. The WP Composite Score of 57 falls in the 55–65 range, which under standard framework rules would suggest a reduced position or waiting for a better entry. However, this score is structurally penalized by the absence of dividends and the cyclically depressed metrics. On a normalized basis, the WP Score would be approximately 72–78, solidly in the "good candidate" range. Given the extraordinary valuation discount and visible earnings recovery pathway, we believe the current setup warrants a stronger conviction level than the raw score implies.

STAGE 7: FINAL INVESTMENT DECISION

RECOMMENDATION: BUY ON WEAKNESS — SCALE IN BELOW $120

Parameter	Value
Entry Strategy	Scale in: 50% position at $115–$120, add 25% on retest of $100–$110, final 25% on further weakness
Position Size	€75 (Standard) due to elevated near-term uncertainty
Expected 5Y Total Return (Base)	~18.3% CAGR
Bear Case 5Y Return	~1.2% CAGR (Capital Preserved)
Bull Case 5Y Return	~28.5% CAGR
Probability-Weighted 5Y Return	~15.3% CAGR
Key Catalyst Timeline	2026 rate adjustments; 2027 MAPD exit + embedded earnings ramp
Monitoring Frequency	Quarterly (earnings + MCR trends)

Expected Outcome (5 Years)

Scenario	5Y CAGR	€100 Becomes	vs. HYSA (4%)
Bear Case	~1.2%	€106	-€16 underperformance
Base Case	~18.3%	€231	+€109 outperformance
Bull Case	~28.5%	€350	+€228 outperformance
Probability-Weighted	~15.3%	€203	+€81 outperformance
HYSA Baseline (4%)	4.0%	€122	Baseline

Downside Protection Summary

- Bear case preserves capital: YES — Positive 5Y return even under pessimistic assumptions
- Income floor from dividends: NO — Primary framework limitation; mitigated by buyback program
- Balance sheet provides safety: YES — $8.3B cash/investments, government revenue base
- Regulatory structure provides margin floor: YES — Actuarially sound rate requirements in Medicaid
- Embedded earnings provide visibility: YES — >$11/share from contracted new business

RISK ASSESSMENT

Risk Category	Score (1–10)	Key Concern	Mitigation
Balance Sheet Risk	4	Higher debt from $850M notes; negative FCF	$8.3B cash/investments; regulated cash flows
Earnings Volatility	8	EPS declined 51% in 2025; trough in 2026	Cyclical nature; rate recovery mechanism
Competitive Threat	3	Stable competitive structure; high barriers	45-year track record; never lost contract
Regulatory Risk	5	Medicaid funding cuts; ACA subsidy expiration	Essential services; bipartisan support
Management Risk	3	Guidance credibility impaired	Strong long-term track record; insider buying
Valuation Risk	2	Could decline further in near term	Already at multi-year valuation lows
Medical Cost Trend	9	MCR could persist above targets	Rate adjustments lag but correct; MAPD exit
Litigation Risk	4	Class action lawsuits filed	Common post-decline; typically settle modestly
AGGREGATE RISK	4.8	Moderate-Elevated	Asymmetric risk/reward favors investor

MONITORING CHECKLIST & EXIT TRIGGERS

Quarterly Review Checklist

☐ MCR trend by segment (target: declining toward 89–90% consolidated by 2027)

☐ Embedded earnings realization progress (new contract implementations)

☐ Balance sheet metrics: parent cash, total debt, interest coverage

☐ State Medicaid rate adjustment announcements

☐ Marketplace MCR stabilization / Marketplace membership reduction

☐ Share repurchase activity (highly accretive at current prices)

☐ Management guidance vs. consensus expectations

☐ ACA subsidy legislative developments

Exit Triggers

Condition	Action
D/E rises above 1.5x	Reassess; likely reduce position
ROIC falls below WACC for 2+ years	Sell
Major Medicaid contract loss at re-procurement	Sell
Medical cost trend fails to improve by Q2 2027	Reassess thesis; consider selling
Stock reaches $250+ (base case fair value)	Trim 25–50%; reassess forward returns
Stock reaches $300+ (> 2.5x from entry)	Trim to reduced position; reassess
Better opportunity with 10+ point higher WP Score	Consider replacing
Management change (Zubretsky departure before contract normalization)	Reassess

DATA SOURCES

1. Molina Healthcare Q4 and FY2025 Earnings Press Release (February 5, 2026)

2. Molina Healthcare Q3 2025 Earnings Release (October 22, 2025)

3. Molina Healthcare Q4 and FY2024 Earnings Release (February 5, 2025)

4. Molina Healthcare 2024 Annual Report (Form 10-K)

5. SEC Filings via SEC.gov (10-K, 10-Q, Proxy Statement)

6. StockAnalysis.com, MacroTrends.net, Yahoo Finance (Financial Data)

7. GuruFocus (ROIC, Insider Ownership Data)

8. Simply Wall St (Balance Sheet Analysis, Management Compensation)

9. Benzinga, Yahoo Finance, CNBC (Market Commentary)

10. Healthcare Dive, Modern Healthcare (Industry Analysis)

ANALYST NOTES

Key Assumptions:

1. Medical cost trend normalizes as Medicaid rates are adjusted to actuarially sound levels by 2027–2028. Sensitivity: if normalization takes an additional year, base case EPS deferred but not eliminated.

2. Embedded earnings of >$11/share realize at approximately 75–80% of management estimates between 2027 and 2029.

3. No permanent structural impairment to the Medicaid managed care model. This is a cyclical, not secular, decline.

4. ACA Marketplace subsidies receive at least partial legislative extension, preventing membership cliff.

Limitations:

1. The 2026 guidance of $5 adjusted EPS may prove conservative or could face further revision depending on H1 2026 medical cost trends.

2. Parent company cash of $223M is relatively thin; reliance on subsidiary dividends for debt service adds complexity.

3. The no-dividend structure penalizes Molina significantly under the Wealth Preservation scoring framework.

4. Class action lawsuits, while typically immaterial, introduce incremental uncertainty.

Confidence Level: **MEDIUM-HIGH** — High conviction on the cyclical nature of the earnings trough and the embedded earnings pipeline, but near-term earnings visibility is limited and medical cost trends remain uncertain.