

Magellan Health, Inc. (MGLN)

\$60.01 (As of 03/02/20)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/31/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: A

Summary

Magellan Health's earnings per share of \$1.24 beat the Zacks Consensus Estimate by 29.2%. The company had reported loss of 77 cents per share in the year-ago quarter. Its shares have underperformed its industry in a year's time. Strategic acquisitions and alliances over the years in both its segments namely Healthcare and Pharmacy Management have led to inorganic growth by expanding its business in different markets, products and service verticals. Nevertheless, its revenues are under pressure due to underperforming Behavioral & Specialty Healthcare and Pharmacy Management businesses. It expects 2019 revenues to suffer due to poor contribution by its Behavioral and Specialty Healthcare business. The company's low return on equity compared with the industry average makes the stock look unattractive.

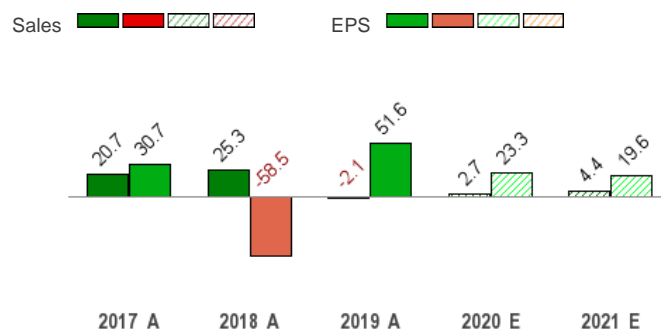
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.04 - \$56.89
20 Day Average Volume (sh)	148,560
Market Cap	\$1.5 B
YTD Price Change	-24.6%
Beta	0.82
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - HMOs
Zacks Industry Rank	Top 33% (84 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	29.2%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	2.9%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	15.8
P/E F1	13.1
PEG F1	0.6
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					7,677 E
2020	1,797 E	1,852 E	1,896 E	1,860 E	7,352 E
2019	1,739 A	1,788 A	1,829 A	1,803 A	7,159 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$5.50 E
2020	\$0.64 E				\$4.60 E
2019	\$0.40 A	\$0.86 A	\$1.23 A	\$1.24 A	\$3.73 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/02/2020. The reports text is as of 03/03/2020.

Overview

Founded in 1969, Magellan Health offers healthcare management services in the United States. It is headquartered in Scottsdale, AZ.

The company has two segments, namely, **Healthcare** (contributed 71% of the company's total 2019 revenues) and **Pharmacy Management** segments (39%).

The Healthcare segment is further broken into two reporting units — Behavioral & Specialty Health and Magellan Complete Care (MCC)

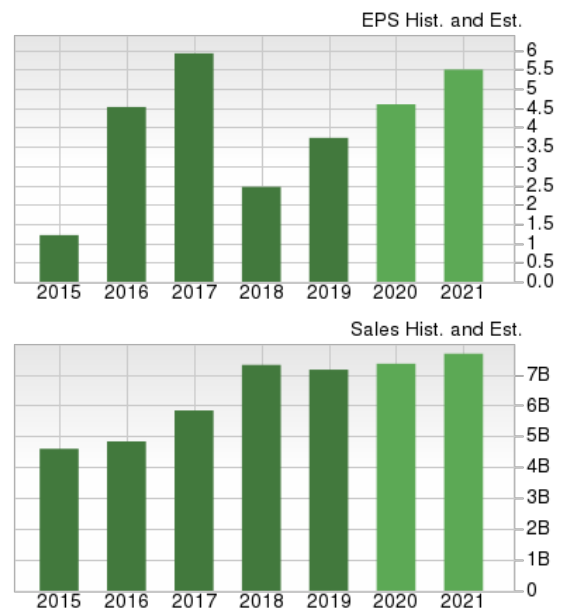
The **Behavioral & Specialty Health** reporting unit's customers include health plans, accountable care organizations, employers, state Medicaid agencies, the United States military and various federal government agencies for which Magellan provides carve-out management services for behavioral health, employee assistance plans (EAPs) and other areas of specialty healthcare including diagnostic imaging, musculoskeletal management, cardiac and physical medicine.

MCC largely focuses on managing care for special populations including individuals with serious mental illness (SMI), dual eligibles, the aged, blind and the disabled (ABD) and other populations with unique and often complex healthcare needs.

The **Pharmacy Management** segment consists of products and solutions, which provide financial and clinical management of pharmaceuticals. It offers pharmacy benefit management services, pharmacy benefit administration for state Medicaid and other government sponsored programs, pharmaceutical dispensing services, clinical and formulary management programs, medical pharmacy management programs and programs for the integrated management of specialty drugs that treat complex conditions.

These services are available individually, in combination or on a fully integrated manner. The company markets its pharmacy management services to health plans, employers, third-party administrators, state governments, Medicare Part D beneficiaries, government agencies, exchanges, brokers and consultants.

Pharmacy Management enter into contracts with its customers for services using risk-based, gain share or ASO arrangements. In addition, the Pharmacy Management segment provides services to the MCC reporting unit within the Healthcare segment.



Reasons To Buy:

- ▲ **Strategic Acquisitions:** Over the years, the company has expanded its capabilities through a series of acquisitions. In Healthcare segment, a number of acquisition from 2013-2017 expanded the company's MCC reporting unit. Magellan also increased its presence within the federal marketplace through the acquisition of Armed Forces Services Corporation ("AFSC") in 2016, which falls under the Behavioral & Specialty Health reporting unit. Notably, in pharmacy management, buyouts from 2013-2016 expanded the company's presence in the Pharmacy benefit management market. These transactions expanded its business portfolio, leading to long-term growth.
- ▲ **Operational Efficiency Improve:** The company continues to progress well on its operational efficiency improvements. It is working to achieve a more industry competitive administrative cost structure in 2020 and beyond. These initiatives are expected to result in cost improvement of nearly \$30 million by 2021 and nearly \$75 million by 2022. We believe these initiatives will drive margin recovery. The company targets a long-term goal of at least 2% adjusted net income margin (by 2021).
- ▲ **Low Debt:** The company's debt-to-equity ratio has declined in 2018, strengthening its balance sheet. Its debt-to-equity ratio of 49% is lower than the industry average of 64%, which reduces financial risk.
- ▲ **Share Price Performance:** In a year's time, the stock has underperformed its industry. Nevertheless, the company's progress on fundamentals should further aid its stock price. The company's long-term earnings growth rate of 33.8% is higher than the industry's growth rate of 15.7%.

Magellan Health growth initiatives and strategic buyouts poise the company well for long-term growth.

Reasons To Sell:

- ▼ **Decline in Revenue Growth:** The company witnessed steady top-line improvement over the years, which is evident from its six-year CAGR of 14.7% (2012-2018). However, for 2019, the same was down 2% year over year. Revenues suffered decline led by loss of a health plan PBM customer due to an acquisition and the planned reduction in the geographic scope of the Company's PartD pharmacy plan. The company expects total revenues in the band of \$7 billion to \$7.4 billion for 2020, implying that revenues will remain at levels consistent with the figure reported in 2019.
- ▼ **Profitability:** The company's return on equity (ROE) undermines its growth potential. Its trailing 12-month ROE of 6.8% compares unfavorably with the industry average of 24%, suggesting that it is less efficient in using shareholders' funds.
- ▼ **Tepid Guidance:** Adjusted earnings per share of \$3.34 to \$4.14 are expected. The mid-point of the guidance indicates that earnings will remain unchanged year over year. The company also anticipates 2020 segment profit in the range of \$250 million to \$280 million, and revenues for the year in the range of \$7 billion to \$7.4 billion. The mid-point of revenue guidance also suggests that it will remain constant year over year.

Declining revenues, decline in earnings in Pharmacy business, low profitability makes the stock look unattractive.

Last Earnings Report

Magellan Health Q4 Earnings Beat Estimates, Rise Y/Y

Magellan Health's fourth-quarter 2019 earnings per share of \$1.24 beat the Zacks Consensus Estimate by 29.2%. Moreover, the bottom line came in against the year-ago reported loss of 77 cents per share.

Revenues of \$1.81 billion were down 2.3% year over year due to lower contribution from Managed Care and other. However, the top line beat the Zacks Consensus Estimate by 0.5%.

Segment profit of the company soared 354.4% year over year. Total costs and expenses rose 5.6% year over year due to higher cost of goods sold, and depreciation and amortization.

Full-Year Highlights

For 2019, net revenues came in at \$7.3 billion, up 2.2% year over year. Adjusted net income for the year was \$91.7 per share, surging 48.7% year over year.

Segmental profit increased 10.8% year over year to \$252.7 million. This upside can be attributable to solid contributions by Healthcare segment and Pharmacy Management segment.

For the entire year, unrestricted cash and investments totaled \$195.4 million, up 49.8% from the level at 2018 end.

Capital Position

Cash flow from operations for the year ended 2019 was \$164.8 million, up 42.3% year over year.

As of Dec 31, 2019, the company's cash and cash equivalents totaled \$272.3 million, down 16.3% from the level on Dec 31, 2018.

As of Dec 31 2019, total assets of the company dipped 3.7% to \$2.9 billion from the figure at 2018 end.

Total stockholder's equity decreased 8% year over year to \$1.3 billion at 2019 end.

2020 Guidance

For 2020, the company expects its net revenues in the band of \$7-\$7.4 billion. While adjusted net income is anticipated in the range of \$83-\$103 million, segment profit for the full year is projected from \$250 million to \$280 million.

Quarter Ending 12/2019

Report Date	Feb 28, 2020
Sales Surprise	0.50%
EPS Surprise	29.17%
Quarterly EPS	1.24
Annual EPS (TTM)	3.73

Recent News

Magellan Health's Arizona Unit Provides Medicare Advantage D-SNP Plan — Jan 7, 2020

Magellan Health's unit Magellan Complete Care of Arizona has enhanced its current offerings and now provides a new Medicare Advantage Dual Special Needs Plan (D-SNP) for 2020.

Magellan Health's Virginia Arm Offers Medicare Advantage D-SNP Plan — Jan 2, 2020

Magellan Health's subsidiary Magellan Complete Care of Virginia has expanded its range of current offerings and now renders a Medicare Advantage Dual Special Needs Plan (D-SNP) for 2020.

Magellan Rx Management's New Launch Provides Integrated Care Management — Nov 25, 2019

Magellan Rx Management has launched MRx Navigate, a comprehensive care management program that provides comprehensive, high-touch and high-tech solutions catering to patient wellness and simplifying member healthcare experience.

Valuation

Magellan Health's shares are down 14.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry is up 9.5% but the sector are down 4.4%.

The S&P 500 index is up 9.6% in the past year.

The stock is currently trading at 11.7 X trailing a forward 12-month price-to-earnings, which compares with 13.8X for the Zacks sub-industry, 18.9X for the Zacks sector and 16.9X for the S&P 500 Index.

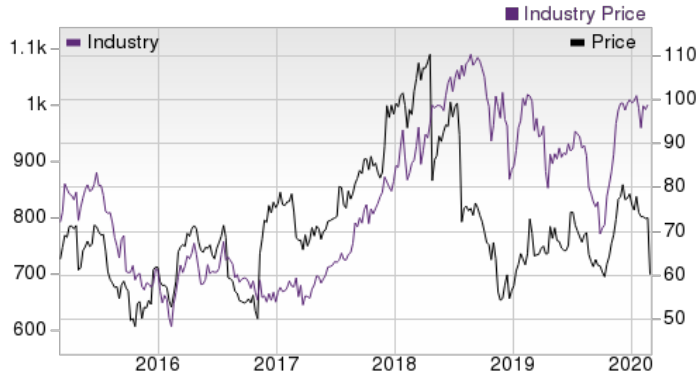
Over the past five years, the stock has traded as high as 44.6X and as low as 10.9X with a 5-year median of 17.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$62 price target reflects 12.3X earnings.

The table below shows summary valuation data for MGLN

Valuation Multiples - MGLN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	11.73	13.86	18.97	16.87
	5-Year High	44.59	20.58	21.09	19.34
	5-Year Low	10.97	12.48	15.82	15.18
	5-Year Median	17.05	16.2	18.87	17.44
P/S F12M	Current	0.19	0.69	2.57	3.12
	5-Year High	0.41	0.86	3.84	3.43
	5-Year Low	0.18	0.48	2.45	2.54
	5-Year Median	0.29	0.67	2.97	3.01
P/B TTM	Current	1.03	3.04	4.21	3.96
	5-Year High	2.1	4.07	5.05	4.54
	5-Year Low	0.97	2.46	3.44	2.85
	5-Year Median	1.43	3.11	4.32	3.62

As of 03/02/2020

Industry Analysis Zacks Industry Rank: Top 33% (84 out of 255)



Top Peers

The Joint Corp. (JYNT)	Outperform
Select Medical Holdings Corporation (SEM)	Outperform
Anthem, Inc. (ANTM)	Neutral
Cigna Corporation (CI)	Neutral
Centene Corporation (CNC)	Neutral
Humana Inc. (HUM)	Neutral
Molina Healthcare, Inc (MOH)	Neutral
UnitedHealth Group Incorporated (UNH)	Neutral

Industry Comparison Industry: Medical - Hmos				Industry Peers		
	MGLN Neutral	X Industry	S&P 500	CI Neutral	CNC Neutral	UNH Neutral
VGM Score	A	-	-	A	B	A
Market Cap	1.46 B	2.38 B	22.14 B	72.30 B	32.53 B	259.06 B
# of Analysts	2	4.5	13	13	11	12
Dividend Yield	0.00%	0.00%	1.98%	0.02%	0.00%	1.58%
Value Score	A	-	-	B	B	B
Cash/Price	0.45	0.31	0.05	0.08	0.42	0.06
EV/EBITDA	5.95	7.99	12.79	8.29	10.68	12.57
PEG Ratio	0.53	0.92	1.92	0.93	0.79	1.30
Price/Book (P/B)	1.03	3.45	3.00	1.60	1.82	4.28
Price/Cash Flow (P/CF)	6.48	9.54	11.97	7.17	8.30	14.94
P/E (F1)	12.58	12.84	17.43	10.50	11.53	16.58
Price/Sales (P/S)	0.20	0.61	2.48	0.47	0.44	1.07
Earnings Yield	7.78%	7.78%	5.74%	9.52%	8.68%	6.03%
Debt/Equity	0.49	0.58	0.70	0.70	1.08	0.61
Cash Flow (\$/share)	9.10	6.68	6.94	27.12	6.68	18.28
Growth Score	C	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	-0.44%	19.46%	10.85%	18.21%	31.44%	24.05%
Proj. EPS Growth (F1/F0)	23.19%	9.95%	6.48%	8.59%	8.74%	9.01%
Curr. Cash Flow Growth	14.08%	13.01%	6.03%	138.17%	45.38%	14.76%
Hist. Cash Flow Growth (3-5 yrs)	3.37%	14.27%	8.52%	31.41%	49.67%	19.53%
Current Ratio	1.84	1.61	1.23	0.64	1.57	0.69
Debt/Capital	32.70%	37.43%	42.57%	41.32%	51.92%	38.94%
Net Margin	0.78%	4.17%	11.57%	3.32%	1.77%	5.71%
Return on Equity	6.81%	16.89%	16.66%	14.69%	15.18%	25.55%
Sales/Assets	2.31	1.43	0.54	0.99	2.09	1.43
Proj. Sales Growth (F1/F0)	3.43%	11.13%	4.07%	10.61%	43.60%	8.66%
Momentum Score	A	-	-	C	A	C
Daily Price Chg	-1.67%	0.00%	3.82%	6.23%	4.56%	7.12%
1 Week Price Chg	-17.74%	-13.14%	-12.06%	-15.77%	-19.04%	-15.42%
4 Week Price Chg	-17.69%	-2.31%	-6.43%	1.34%	-11.83%	-0.33%
12 Week Price Chg	-24.67%	-2.00%	-5.15%	-0.82%	-6.30%	-1.60%
52 Week Price Chg	-13.64%	-5.48%	4.77%	13.20%	-5.33%	15.72%
20 Day Average Volume	148,560	407,041	2,363,047	2,421,305	6,083,546	4,887,855
(F1) EPS Est 1 week change	2.91%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.91%	-0.01%	-0.04%	-0.55%	0.05%	0.03%
(F1) EPS Est 12 week change	2.91%	-0.50%	-0.33%	-0.50%	-0.75%	0.19%
(Q1) EPS Est Mthly Chg	3.23%	-1.66%	-0.38%	-5.62%	-3.50%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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