

Magellan Health, Inc. (MGLN)

\$71.69 (As of 02/03/20)

Price Target (6-12 Months): **\$75.00**

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: A

Momentum: B

Summary

Magellan Health's shares have outperformed 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 its 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. The company has witnessed its 2019 and 2020 earnings estimates move south over the past 90 days.

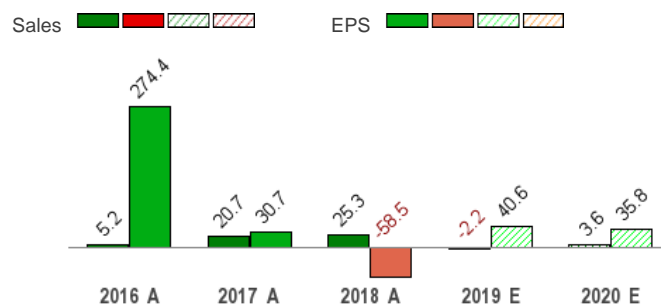
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.04 - \$57.79
20 Day Average Volume (sh)	126,921
Market Cap	\$1.8 B
YTD Price Change	-8.4%
Beta	0.68
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - HMOs
Zacks Industry Rank	Top 17% (42 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.2%
Last Sales Surprise	2.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/27/2020
Earnings ESP	0.0%
P/E TTM	41.7
P/E F1	15.3
PEG F1	0.6
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,797 E	1,852 E	1,896 E	1,860 E	7,405 E
2019	1,739 A	1,788 A	1,829 A	1,794 E	7,151 E
2018	1,805 A	1,811 A	1,854 A	1,845 A	7,314 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.62 E	\$1.28 E	\$1.41 E	\$1.63 E	\$4.70 E
2019	\$0.40 A	\$0.86 A	\$1.23 A	\$0.96 E	\$3.46 E
2018	\$0.81 A	\$0.92 A	\$1.45 A	-\$0.77 A	\$2.46 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 02/03/2020. The reports text is as of 02/04/2020.

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 60% of the company's total 2018 revenues) and **Pharmacy Management** segments (40%).

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

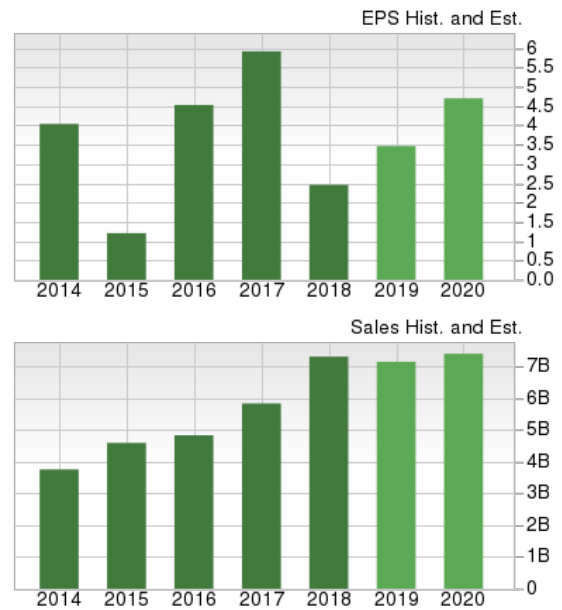
The Behavioral & Specialty Health reporting unit's customers include health plans, accountable care organizations, employers, state Medicaid agencies, the United States military and various federal government agencies for which Magellan provides carve-out management services for behavioral health, employee 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 2013-2016 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.

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

▲ **Operational Efficiency Improve:** The company continues to progress well on its operational efficiency improvements. In the fourth quarter of 2018, the company incurred additional severance cost associated with headcount reductions. These actions, combined with previously identified reductions, are expected to have a favorable segment profit run rate benefit of \$25 million for 2019. The company is seeking additional opportunities for a more industry competitive administrative cost structure in 2020 and beyond. These initiatives are expected to result in cost improvement of \$30 million to \$40 million in the next two to three years. 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 51% is lower than the industry average of 84%, which reduces financial risk.

▲ **Share Price Performance:** Year to date, the stock has outperformed its industry. The company's progress on fundamentals should further aid its stock price.

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 the first nine months of 2019, the same was down 2.1% year over year. The company expects total revenues in the band of \$7 billion to \$7.2 billion for 2019, implying year-over-year decline of 3% (calculated at the mid-point). This year-over-year decline in revenue growth can be attributed to pressure in Behavioral and Specialty Healthcare business.
- ▼ **Pharmacy Management Earnings Under Pressure:** This segment's profit declined 25% year over year in 2018 and further down 5.8% in the first nine months of 2019, due to specialty formulary management contract losses, non-recurring items, and lower PBM membership. Though the company has lowered cost of goods sold and added new business, we choose to remain on the sidelines till the efforts are reflected in numbers.
- ▼ **Profitability:** The company's return on equity (ROE) undermines its growth potential. Its trailing 12-month ROE of 3.2% compares unfavorably with the industry average of 24%, suggesting that it is less efficient in using shareholders' funds.
- ▼ **Share Price performance:** In a year's time, the stock has outperformed its industry. The stock has seen the Zacks Consensus Estimate for 2019 and 2020 being revised 3.4% and 2.1% downward over the last 60 days. The headwinds facing the company might exert pressure on its shares.

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

Last Earnings Report

Magellan Health Q3 Earnings Miss Estimates, Down Y/Y

Magellan Health, Inc.'s earnings per share of \$1.23 missed the Zacks Consensus Estimate by 3.15% and declined 15.2% year over year.

Revenues of \$1.83 billion were down 1.3% year over year due to reduction in Magellan Complete Care Florida and Medicare Part D footprint and PBM health plan contract loss. This was partly offset by growth in MCC of Virginia and new PBM employer business. Revenues beat the Zacks Consensus Estimate by 2.8%.

Segment profit of \$72.2 million was down 18.3% year over year due to a decline in contribution from its Healthcare segment, partly offset by a slight increase in profit from Pharmacy Management segment.

Total cost and expense of \$1.8 billion inched up 0.7% year over year due to higher cost of goods sold.

Capital Position

Cash flow from operations for the nine months ended Sep 30, 2019 was \$34 million, down 76% year over year.

As of Sep 30, 2019, the company's cash and cash equivalents totaled \$376.7 million, up 38% from year-end 2018 level.

Guidance Update

For 2019, the company narrowed its earnings per share guidance range to \$3.35-\$4.00 from the earlier provided expectation of \$3.70-4.69. Revenues are estimated between \$7 billion and \$7.2 billion, segment profit range has been narrowed to \$245-\$260 million from \$270-\$290 million, guided earlier.

Quarter Ending 09/2019

Report Date	Nov 01, 2019
Sales Surprise	2.78%
EPS Surprise	-3.15%
Quarterly EPS	1.23
Annual EPS (TTM)	1.72

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 up 13.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry is down 0.25% but the sector are up 6.6%.

The S&P 500 index is up 17.8% in the past year.

The stock is currently trading at 14.69X trailing a forward 12-month price-to-earnings, which compares with 14.93X for the Zacks sub-industry, 20.82X for the Zacks sector and 18.61X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 44.59X and as low as 10.97X with a 5-year median of 17.27X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$75 price target reflects 15.37X 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	14.69	14.93	20.82	18.61
	5-Year High	44.59	20.58	21.25	19.34
	5-Year Low	10.97	12.48	15.84	15.18
	5-Year Median	17.27	16.22	18.9	17.46
P/S F12M	Current	0.24	0.73	2.79	3.45
	5-Year High	0.41	0.86	3.82	3.45
	5-Year Low	0.18	0.48	2.44	2.54
	5-Year Median	0.26	0.67	2.95	3
P/B TTM	Current	1.39	3.44	4.49	4.44
	5-Year High	2.1	4.07	5.03	4.54
	5-Year Low	0.97	2.46	3.43	2.85
	5-Year Median	1.47	3.1	4.29	3.62

As of 02/03/2019

Industry Analysis Zacks Industry Rank: Top 17% (42 out of 254)



Top Peers

The Joint Corp. (JYNT)	Outperform
Anthem, Inc. (ANTM)	Neutral
Cigna Corporation (CI)	Neutral
Centene Corporation (CNC)	Neutral
Humana Inc. (HUM)	Neutral
Molina Healthcare, Inc (MOH)	Neutral
Select Medical Holdings Corporation (SEM)	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	A	A
Market Cap	1.75 B	2.43 B	23.66 B	71.61 B	26.02 B	259.61 B
# of Analysts	3	4.5	13	13	11	12
Dividend Yield	0.00%	0.00%	1.82%	0.02%	0.00%	1.58%
Value Score	A	-	-	B	A	B
Cash/Price	0.40	0.25	0.04	0.07	0.27	0.06
EV/EBITDA	8.17	9.59	13.87	21.13	11.77	12.59
PEG Ratio	0.65	1.11	1.97	0.88	0.92	1.34
Price/Book (P/B)	1.29	3.64	3.24	1.60	2.10	4.30
Price/Cash Flow (P/CF)	8.90	12.23	13.40	17.18	13.55	14.99
P/E (F1)	15.34	15.94	18.48	10.30	13.09	16.64
Price/Sales (P/S)	0.24	0.58	2.60	0.55	0.36	1.07
Earnings Yield	6.56%	6.01%	5.40%	9.71%	7.63%	6.01%
Debt/Equity	0.51	0.59	0.72	0.76	0.56	0.61
Cash Flow (\$/share)	8.05	4.64	6.92	11.16	4.64	18.28
Growth Score	A	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	-1.22%	19.00%	10.80%	17.05%	32.24%	24.05%
Proj. EPS Growth (F1/F0)	35.80%	9.92%	7.46%	9.89%	8.58%	8.99%
Curr. Cash Flow Growth	-23.15%	15.46%	10.59%	31.48%	52.48%	14.76%
Hist. Cash Flow Growth (3-5 yrs)	-1.10%	12.87%	8.55%	10.93%	52.29%	19.53%
Current Ratio	1.70	1.11	1.21	0.63	1.01	0.69
Debt/Capital	33.78%	37.51%	42.91%	43.26%	36.09%	38.94%
Net Margin	0.10%	4.06%	11.76%	3.30%	1.87%	5.71%
Return on Equity	3.21%	16.16%	17.24%	12.79%	15.54%	25.55%
Sales/Assets	2.35	1.43	0.55	0.84	2.17	1.43
Proj. Sales Growth (F1/F0)	3.56%	8.66%	4.22%	6.08%	7.68%	8.66%
Momentum Score	B	-	-	B	F	B
Daily Price Chg	-2.08%	0.00%	0.67%	-0.32%	0.11%	0.58%
1 Week Price Chg	-1.36%	-2.90%	-2.60%	-6.62%	-5.70%	-6.95%
4 Week Price Chg	-5.03%	-0.95%	-0.76%	-7.32%	-0.24%	-6.01%
12 Week Price Chg	3.51%	3.55%	2.84%	2.46%	16.53%	7.84%
52 Week Price Chg	12.91%	-5.80%	13.93%	-0.16%	-3.24%	2.17%
20 Day Average Volume	126,921	236,434	1,915,782	1,699,709	5,565,370	4,085,380
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.12%	0.12%
(F1) EPS Est 12 week change	-2.08%	-0.69%	-0.13%	0.07%	-0.69%	0.17%
(Q1) EPS Est Mthly Chg	0.00%	-1.31%	0.00%	0.03%	-2.68%	-11.09%

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	A
Momentum Score	B
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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