

Q3 2025 Insights: Molina Healthcare

Earnings Call Competitive Intelligence Report



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Why This Report

As Medicare Advantage competition intensifies, staying informed isn't optional, it's a strategic advantage. That's why HealthworksAI is curating rapid-turn summaries of earnings calls from key MA players, started with Humana. In a matter of minutes, you'll get the key themes and what it all means for your 2026 plan design, provider alignment, and market positioning.

This is part of our CI (Competitive Intelligence) Beta Series—insightful, fast, and focused on helping MA leaders to strategize.

Executive Summary

Critical Miss

Q3 EPS collapsed 53%: Adjusted EPS of \$1.84 vs \$3.91 forecast. Full-year guidance slashed from \$19 to \$14 per share (-26%), with Marketplace representing half the earnings deterioration despite being only 10% of revenue.

Market Reaction

Stock plummeted 20% in after-hours trading to \$159.50, reflecting investor alarm over magnitude of miss and evidence that Medicaid rate/trend imbalance extends deep into 2026.

Bottom Line:

Molina delivered a brutal Q3 with adjusted EPS of \$1.84 on \$10.8B premium revenue, well below expectations due to what management termed “unprecedented” Marketplace utilization and persistent Medicaid rate/trend mismatch. Despite the miss, CEO Zubretsky framed this as “inclement weather rather than climate change”—temporary pressure requiring patience, not panic.

The company’s 2026 outlook signals continued pain: preliminary EPS baseline of ~\$14 (flat to 2025’s revised guidance) assumes Medicaid rates only modestly exceed 7% trend, Medicare and Marketplace break even, and excludes most of the \$8.65 embedded earnings. Management sees “300-500 basis points” of rate increases needed industry-wide to break even, positioning Molina’s 200-250 bps efficiency advantage as key to faster margin recovery.

Strategic pivot underway: aggressively repricing Marketplace (+30% average rate increases, -20% footprint) to slash exposure from \$4B to \$1.5-2B revenue; pursuing M&A of distressed local plans at/near book value; and doubling down on dual-eligible Medicare via MMP-to-FIDE/HIDE conversions in five states. The message: survive 2026’s trough, capitalize on weaker competitors, position for 2027+ recovery.

What Changed vs. Q2 2025

1. Medicaid: From Pressure to Persistent Challenge

Q2 Position:

Acknowledged elevated trend pressures but maintained confidence in rate adequacy trajectory. Expected margins to stabilize.

Q3 Position:

Q3 MCR hit **92.0%** (vs expectations), driven by behavioral health, pharmacy, LTSS, and inpatient pressures. Full-year Medicaid MCR now 91.5% (3.2% pre-tax margin)—still “best in class” but above long-term 4.5% target.

Trend Acceleration:

Medical cost trend rose from 6% to 7% for full-year 2025, while rate updates averaged only 5.5%—a 150 bps gap persisting into Q4.



“Approximately half of our underperformance is driven by the Marketplace business... Medicaid, while experiencing some pressure, is still producing strong margins.”

CEO Zubretsky

2. Marketplace: Catastrophic Deterioration

The Numbers Tell the Story:

- Q3 MCR: 95.6% (significantly higher than expected)
- Full-year trend: 15% (up from 11% prior guidance)
- EPS swing: From +\$3 expected to -\$2 actual = \$5 deterioration
- This single segment (10% of revenue) drove half of the full \$10.50 EPS reduction from original guidance

Root Causes:

Higher utilization across all categories; elevated Special Enrollment Period (SEP) volumes running “hot initially”; prior year development on large claims; provider settlements. Critically, risk adjustment didn’t offset as expected because national market deterioration meant relative risk adjustment couldn’t compensate.



“Marketplace, which comprises just 10% of our total revenue, contributes half of that medical margin-driven EPS shortfall.”

CFO Keim

3. Medicare: High-Acuity Dual Population Proving Costly

Performance Metrics:

- Q3 MCR: 93.6% (higher than expected)
- Full-year MCR: 91.3% at break-even margin
- Trend acceleration: 5% (up from 4% prior guidance)
- Key cost drivers: LTSS hours/SNF admits and high-cost specialty drugs

Strategic Context:

Despite current pressures, management views Medicare as “experiencing a rejuvenation” focused on dual-eligible segment. Converting 44,000 MMP members (\$2B revenue) to FIDEs/HIDEs in 2026, adding 20,000 members from service area expansions and winning D-SNP RFPs in Illinois, Ohio, and Michigan.

4. 2026 Outlook: Flat Earnings, Multiple Upsides

Baseline Building Blocks (Preliminary):

- 2H 2025 Medicaid performance: \$6.50 EPS annualizes to \$13 baseline
- Seasonality adjustment: +25 bps (2H typically 50 bps higher)
- January rate cycle (60% of revenue): Early view shows rates ~50 bps above trend
- Medicare & Marketplace: Conservatively assumed break-even
- Result: 2026 baseline ~\$14 EPS (approximates 2025 revised guidance)

Three Areas of Potential Upside:

- **Medicaid rates:** Every 100 bps of MCR improvement = \$4.50 EPS
- **Medicare margin recovery:** Every 100 bps = \$0.80 EPS
- **Embedded earnings harvest:** Portion of \$8.65 per share from new contracts/M&A

Management's view:

"This early view of the 2026 earnings baseline should provide for an outlook which likely approximates this year's updated full-year guidance."

5. Strategic Pivot: M&A Over Organic in Downturn

Opportunity Emerges from Crisis:

With the industry "3-4% underfunded," smaller not-for-profit plans are experiencing "prolonged operating difficulties and capital problems," creating "a catalyst for the pipeline being replenished and very full."

- **M&A Pipeline:** \$54 billion of opportunities over next few years
- **Acquisition Strategy:** Target book value deals (little to no goodwill)
- **Historical Track Record:** \$11B revenue acquired across 7-8 deals, allocated only 22% of purchase revenue in capital (half regulatory capital)
- **Capital Position:** \$1.5B annual capacity even at compressed margins



"In this temporary period of rate and trend imbalance, we are going to work to acquire as much Medicaid revenue as possible... If you can buy a revenue stream from a struggling local health plan at or about book value, it's just as good as winning a new contract."

CEO Zubretsky

Q3 2025 Financial Performance

Adjusted EPS

\$1.84

vs \$3.91 forecast

-52.94% miss

Premium Revenue

\$10.8B

Total Revenue: ~\$11B

Strong top-line growth

Consolidated MCR

92.6%

Q3 2025

Pre-tax margin: 1.0%

Medicaid (75% of Revenue)

Q3 MCR:	92.0%
Q3 Pre-tax Margin:	2.6%
FY2025 MCR:	91.5%
FY2025 Pre-tax:	3.2%

Medicare

Q3 MCR:	93.6%
FY2025 MCR:	91.3%
FY2025 Pre-tax:	Break-even

Marketplace (10% Rev)

Q3 MCR:	95.6%
FY2025 MCR:	89.7%
FY2025 Pre-tax:	Negative

Full-Year 2025 Guidance (Revised)

Premium Revenue:	~\$42.5B
Adjusted EPS:	\$14 (was \$19)
Consolidated MCR:	91.3%
Pre-tax Margin:	2.1%
Adjusted GNA Ratio:	~6.5%
Share Count (FY):	53M
Q4 Share Count:	50.9M

Executive Intent & Strategic Priorities

Challenge #1: Medicaid Rate/Trend Rebalancing

Objective:

Restore Medicaid to 4.5% pre-tax margin target (currently 3.2%) through rate advocacy, data-driven baseline updates, and operational leverage.

Four Reasons for Optimism on 2026 Rates:

- **State responsiveness:** “States have been very responsive, on cycle, off cycle, retroactive, prospective” to increased trend
- **Updated baseline:** Full year of mid-2024 to mid-2025 elevated costs now in rating baseline
- **Discrete rating cells:** LTSS, pharmacy, and behavioral health are “very visible, very prominent” rating components
- **Early 1/1/26 cycle signals:** “60% of revenue” renews January 1, early glimpse suggests “rates slightly ahead of trend”



“The market in Medicaid needs 300 to 500 basis points to break even... We’ve consistently operated 200 to 300 basis points better than the competitors in all of our markets. We only need a fraction of what the market needs in order to get back to target margins.”

CEO Zubretsky

Challenge #2: Marketplace Rationalization

Objective:

Dramatically reduce Marketplace exposure through aggressive repricing while maintaining optionality for future expansion when risk pool stabilizes.

2026 Tactical Execution:

- **Rate increases:** Average 30% (range 15-45% by state)
- **Footprint reduction:** Exited difficult geographies, -20% county footprint
- **Competitive positioning:** From #1 or #2 silver in 50% of markets to only 10%
- **Revenue expectation:** Down from \$4B to \$1.5-2B
- **Target:** Break-even minimum (pricing targeted mid-single-digit margins)

Strategic Philosophy:

“We will allocate capital to the business as long as we are convinced that the risk pool will continue to be stable... While other market participants might consider this product a necessity, we consider it an option. We believe that option is out of the money next year.”

National market expected to shrink 30-50% in 2026 due to enhanced subsidy expiration.

Challenge #3: Medicare Dual-Eligible Expansion**Objective:**

Scale Medicare presence in dual-eligible segment through MMP conversions and D-SNP RFP wins while achieving target margins.

2026 Growth Drivers:

- **MMP to FIDE/HIDE conversions:** 44,000 members, \$2B revenue transitioning January 1
- **Service area expansions:** Adding 20,000 members
- **D-SNP RFP wins:** Illinois, Ohio, Michigan “sweep”
- **Portfolio composition:** ~1/3 MAPD, ~1/3 MMP, ~1/3 D-SNP (\$6B total)
- **Bright acquisition:** Entering third full year, margins improving

Cautious positioning:

“Break even to break even” for 2026 as Bright improves but MMP conversions to new FIDE/HIDE product chassis warrant conservative margin assumptions until one year of experience.

Strategy: Countercyclical M&A**Objective:**

Exploit industry distress to acquire Medicaid revenue at attractive valuations, then apply operational discipline to drive to target margins.

Execution Framework:

- **Target profile:** Smaller/regional not-for-profit plans with capital constraints
- **Valuation discipline:** At or near book value (no/minimal goodwill)
- **Historical efficiency:** \$11B revenue acquired, only 22% of revenue in capital allocated
- **Capital capacity:** \$1.5B annually even at compressed margins
- **Pipeline:** \$54B of opportunities over next few years

Capital allocation priorities (unchanged):

(1) Organic growth, (2) Inorganic growth/M&A, (3) Share repurchases. Q3 buyback: 2.8M shares for \$500M, reflecting confidence in long-term value at “this low point in the rate cycle.”

Medical Cost & Utilization Trends

Medicaid: Broad-Based Utilization Pressure

High-Cost Categories Driving 7% Trend:

- **Behavioral Health:** Elevated demand persistently above historical norms
- **Pharmacy:** 16% overall trend, 36% in top 10 therapeutic categories (high-cost specialty drugs, GLP-1s)
- **Long-Term Services & Supports (LTSS):** Hours and facility utilization up
- **Inpatient Care:** Admissions and length of stay pressures

Membership Dynamic:

1% quarterly decline for last three quarters due to more “rigorous and disciplined enrollment activities” by states. Leavers have lower acuity than stayers, creating acuity shift pressure.



“Stayers versus leavers, that usually adds a little bit of acuity shift, which is probably part of the issue of why medical cost trend is increasing.”

CEO Zubretsky

Medicare: High-Acuity Population Cost Escalation

Trend Acceleration to 5% Driven By:

- **LTSS Utilization:** Hours per member and SNF admission rates increasing in dual-eligible populations
- **High-Cost Drugs:** Cancer treatments, specialty therapies driving costs across portfolio
- **Chronic Care Management:** Even in “already high-acuity chronic populations” seeing utilization increases



“In highly chronic populations, by definition, ABD and Medicaid and duals, you wouldn’t expect to see a cost inflection because they’re using services from day one to day 365. We have seen it.”

CFO Keim

Marketplace: Unprecedented Utilization Surge

15% Trend Components:

- **All categories elevated:** No single driver—broad-based utilization increase
- **Special Enrollment Period (SEP):** Higher percentage of SEP members “running hot initially”
- **Prior year development:** Large dollar claims and provider settlements emerging in Q3
- **Risk adjustment failure:** National market deterioration meant relative risk adjustment couldn't offset absolute cost increases



Critical Issue: “In past years, higher trends have often been offset by risk adjustment benefits. However, since Marketplace risk adjustment is relative to the market, not absolute like Medicare, the higher trends this year across the entire national population mitigate the risk adjustment offset.”

CFO Keim

2026 Preliminary Outlook: Building Blocks

Caveat: Management emphasized “it is far too early to provide formal guidance” but provided building blocks to “help shape perspectives and modeling.”

Revenue Building Blocks

Target: \$46 Billion

Growth drivers on track to meet target:

- Normal growth in current footprint
- New Medicaid contracts: Georgia and Texas wins
- Medicare duals growth in 5 states (MMP to FIDE/HIDE)

Revenue Headwinds:

- Marketplace repricing: Revenue down from ~\$4B to \$1.5-2B
- Medicaid membership: Budget bill impact (small in 2026, larger 2027-28)

EPS Building Blocks

Baseline: ~\$14 (flat to 2025)

- 2H 2025 Medicaid: \$6.50 annualizes to \$13
- Seasonality adj: +25 bps pressure
- Jan rates (60% rev): ~50 bps above trend
- G&A: ~6.8% (up from 6.5% in 2025)
- Med/Mktpl: Assumed break-even

Upside Potential:

- Marketplace repricing: Revenue down from ~\$4B to \$1.5-2B
- Medicaid membership: Budget bill impact (small in 2026, larger 2027-28)

Embedded Earnings Breakdown

Total: \$8.65 per share represents “earnings on top of what we’re currently guiding to in the current year, things that will emerge in future years.”

Components identified for 2026:

- +\$1.00: Implementation costs roll off (FIDE/HIDE prep)
- -\$0.40: Virginia contract loss
- Net floor: +\$0.60 guaranteed
- Additional harvest TBD at formal guidance



“We had previously signaled we thought about a third would come out into earnings in 2026. We’re not ready to give a more specific number... but you’ll get some portion of that \$8.65.”

CFO Keim

Balance Sheet & Capital Position

Capital Metrics	
RBC Ratios (Aggregate):	340%
Above State Minimums:	70%
Debt-to-Cap Ratio:	~48%
Debt/EBITDA (TTM):	2.5x
Annual Capital Capacity:	\$1.5B



“Capital foundation remains strong. While margins are lower than our targets, positive earnings continue to add to our capital base.”

CFO Keim

Cash Flow & Liquidity	
9M Operating Cash Flow:	-\$237M
Q3 Subsidiary Dividends:	\$278M
Parent Company Cash:	\$108M
Days in Claims Payable:	46 days
Q3 Share Repurchase:	\$500M

OCF Drivers:

Outflow due to Medicaid risk corridor settlements, Marketplace risk transfer payments, and timing of tax payments and government receivables.

Share Repurchase & Capital Allocation

Q3 2025 Activity:

- Repurchased 2.8M shares
- Total cost: ~\$500M
- Debt temporarily increased to fund buyback
- Q4 share count: 50.9M (down from 53M FY avg)



Rationale: “We see real value in our shares at current market prices, which we believe at this low point in the rate cycle underappreciate the longer-term margin targets of our business.”

CFO Keim

Growth Initiatives & Pipeline

Recent Contract Wins

Medicaid RFPs:

- **Georgia:** New contract win
- **Texas:** New contract win
- **Wisconsin:** MyChoice renewal (Regions 2 & 7)

Medicare D-SNP RFPs:

- **Illinois:** D-SNP win
- **Ohio:** D-SNP win
- **Michigan:** D-SNP win
- **Portfolio Impact:** “Sweep” positioning Molina strongly in dual-eligible segme

Active Pipeline

RFP Pipeline

\$54B

Opportunities over next few years

Active RFPs

Engaged in “several states”
currently including “two of our
bigger states”

M&A Pipeline

“Growing number of actionable
opportunities” Targeting distressed
local plans

Medicare MMP Transitions (2026)

Conversion Details:

- 44,000 MMP members converting to FIDEs/HIDEs
- \$2 billion in revenue
- Effective January 1, 2026
- Additional 20,000 members from service area expansions
- Five states total impacted

Strategic Rationale:

“Medicare is experiencing a rejuvenation aimed at serving the very attractive dual-eligible segment, which we believe is poised for significant profitable growth.”

Conservative 2026 margin assumptions until one year of experience with new product chassis.

Competitive Positioning & Market Context

Medicaid: Structural Advantage in Distressed Market

Industry Dynamics

- **Market underfunding:** 3-4% or 300-500 bps needed to break even
- **Six consecutive quarters** of abnormally high medical cost trend
- **Smaller players struggling:** “Prolonged operating difficulties and capital problems”

Molina's Advantage

- **Efficiency edge:** 200-250 bps better than industry performance
- **G&A discipline:** “Just north of 5%” in Medicaid (best in class)
- **Capital strength:** \$1.5B annual capacity for growth even at compressed margins
- **Recovery path:** Only needs “fraction of what market needs” to hit target margins



“We characterize this environment as inclement weather rather than climate change, metaphorically meaning temporary rather than permanent. Medicaid is expected to produce a 3.2% pre-tax margin and contribute approximately \$16 per share this year. Rates will come back into balance with medical cost trend, and the business will recalibrate to target margins.”

CEO Zubretsky's Framing

Marketplace: Strategic Retreat from Unstable Risk Pool

2025 Position

- ~\$4B revenue
- #1/#2 silver: 50% markets
- 10% of total revenue
- Expected +\$3 EPS

2026 Strategy

- \$1.5-2B revenue target
- #1/#2 silver: 10% markets
- -20% county footprint
- +30% avg rate increase

Philosophy

- “Option not necessity”
- Break-even minimum
- “Out of money” in 2026
- Re-enter when stabilizes

Market Context:

National Marketplace expected to shrink 30-50% in 2026 due to enhanced subsidy expiration. Molina positioning for “addition by subtraction”—reducing exposure while risk pool stabilizes, maintaining presence for future expansion when attractive.

Medicare: Dual-Eligible Focus Amid Broader Market Challenges

Portfolio Composition (~\$6B)

MAPD (Traditional MA)	~33%
MMP → FIDE/HIDE	~33%
D-SNP (Dual Special Needs)	~33%

2026 Dynamics

- **Bright acquisition:** 3rd full year, margins improving
- **MMP conversions:** Slight margin erosion expected (cautious on new product)
- **D-SNP wins:** Adding scale in target dual segment
- **Net outlook:** Break-even to slight improvement

Actionable Intelligence for Payers

1. Medicaid Rate Advocacy: Data-Driven Baseline Approach

Molina's "four reasons for optimism" framework provides a playbook for rate negotiations. The key insight: states are responding when actuaries can incorporate mid-2024 to mid-2025 cost inflection in either baseline OR trend factor.

Action: Ensure your actuarial teams are presenting complete mid-2024 through Q3-2025 experience in rate submissions, highlighting discrete high-cost categories (behavioral health, LTSS, specialty pharmacy) that states can rate separately. Emphasize trailing data completeness over lookback period debates.

2. Marketplace Strategy: Know When to Hold, Know When to Fold

Molina's characterization of Marketplace as "an option, not a necessity" that's currently "out of the money" signals sophisticated portfolio management. Their 30% rate increase / 20% footprint reduction creates breathing room without full exit

Action: If your Marketplace book is underwater, model scenarios for aggressive repricing paired with strategic geography exits. Maintain optionality for 2027+ re-entry by keeping infrastructure/licenses but drastically reducing competitive positioning (price rank 5-10 instead of 1-3).

3. M&A Opportunity Window: Countercyclical Acquisitions

With industry 3-4% underfunded and smaller plans facing capital pressure, Molina sees a “replenished and very full” pipeline of book-value deals. Their track record: \$11B revenue acquired at 22% of revenue in capital deployed.

Action: If you have capital capacity, proactively approach struggling regional/local plans now. Structure deals emphasizing regulatory capital assumption rather than goodwill. Target geographies where you can overlay operational discipline quickly (claims processing, medical management, G&A leverage).

4. Medicare Dual-Eligible Focus: MMP Conversion Playbook

Molina’s 44,000-member MMP-to-FIDE/HIDE conversion (\$2B revenue) demonstrates state willingness to transition these high-value populations. Their conservative break-even assumption for year one provides risk-management template.

Action: Identify your MMP contracts up for renewal/conversion in 2026-2027. Build FIDE/HIDE capabilities now, but model conservatively for first-year margins. The dual-eligible opportunity is real, but product chassis transition requires operational caution.

5. Cost Trend Management: Pharmacy as Key Leverage Point

Molina disclosed 16% overall pharmacy trend with 36% in top-10 therapeutic categories. This concentration suggests high-cost specialty drugs (oncology, GLP-1s, rare disease) are driving disproportionate impact.

Action: Urgently review your specialty pharmacy management protocols. Consider: (1) Site-of-care optimization for infusion therapies, (2) Step therapy tightening for GLP-1s, (3) Enhanced prior authorization for biologics, (4) White bagging programs for high-cost injectables. Every 100 bps of pharmacy trend reduction flows directly to bottom line.

6. 2026 Planning: Baseline Conservatism with Upside Scenarios

Molina’s transparent building-block approach—starting with 2H 2025 performance annualized, adjusting for seasonality, layering in early rate signals—provides a prudent planning framework while quantifying upside levers (\$4.50 EPS per 100 bps Medicaid improvement).

Action: Build your 2026 budget using exit-rate methodology (2H 2025 performance) rather than full-year averages. Create explicit upside cases tied to observable triggers (January rate updates, CMS final rules, state budget reconciliation outcomes). This approach avoids over-promising while maintaining credibility on recovery trajectory.

Key Executive Quotes for Reference



“We believe this is a temporary period of rate and trend imbalance... The market in Medicaid needs 300 to 500 basis points to break even, just to break even. We’ve consistently operated 200 to 300 basis points better than the competitors in all of our markets. We only need a fraction of what the market needs in order to get back to target margins.”

CEO Joseph Zubretsky



“Marketplace was initially projected to produce over \$3 of earnings per share, but it’s now expected to produce a loss of \$2 per share, a swing of over \$5 of the \$10.50 reduction from our initial 2025 guidance. Marketplace, which comprises just 10% of our total revenue, contributes half of that medical margin-driven EPS shortfall.”

CFO Mark Keim



“In this temporary period of rate and trend imbalance, we are going to work to acquire as much Medicaid revenue as possible and, as we have done in the past, work it up to target margins... If you can buy a revenue stream from a struggling local health plan at or about book value, it’s just as good as winning a new contract. No goodwill capital, all the capital is hard capital and regulatory capital.”

CEO Joseph Zubretsky



“We will allocate capital to the business as long as we are convinced that the risk pool will continue to be stable... While other market participants might consider this product a necessity, we consider it an option. We believe that option is out of the money next year, but when it goes back closer to the money or in the money, we’ll exercise it.”

CEO Joseph Zubretsky (on Marketplace strategy)



“It’s indisputable that managed Medicaid rates are 3 to 4% underfunded, and our state partners are recognizing that. We understand there’s budget pressures out there, but with the development of data, that’s indisputable. Our early outlook for next year is that rates will be at least somewhat better than expected trend.”

CFO Mark Keim



“We see real value in our shares at current market prices, which we believe at this low point in the rate cycle underappreciate the longer-term margin targets of our business.”

CFO Mark Keim (explaining \$500M Q3 share repurchase)



“At our last Investor Day, we characterized this environment as inclement weather rather than climate change, metaphorically meaning temporary rather than permanent. We continue to believe this to be true. Medicaid is expected to produce a 3.2% pre-tax margin and contribute approximately \$16 per share this year. Rates will come back into balance with medical cost trend, and the business will recalibrate to target margins.”

CEO Joseph Zubretsky

Q&A Session Highlights

ACA MCR Pressure & 2026 Pricing Confidence

Question: Can you elaborate on drivers of ACA MCR pressure in Q3 and confidence that 2026 pricing captured recent experience?

Answer: Pressure strictly from medical cost trend across all categories. Higher SEP volumes “running hot initially.” 2026 rates average 30% (range 15-45%), more importantly product positioning dropped from #1/#2 silver in 50% of markets to only 10%—meaning volume will decline significantly. Conservative pricing targets mid-single-digit margins but expects to at least break even.

Medicaid Rate Outlook - Above Trend or Trend Moderating?

Question: Are you expecting rates to exceed current 7% trend, or is trend moderating down toward rates?

Answer: Both. “Extremely high trends don’t continue, they moderate somewhat, but more importantly states are recognizing with trailing data they need to catch up.” Industry needs 3-4% rate increases to break even; Molina needs half that due to 200-250 bps efficiency advantage. “Probability of us getting that half sooner than later is probably better than the whole market coming back to stasis.”

Downside Risk to 2026 Baseline

Question: Why confidence that trend won't accelerate again in 2026 as it did throughout 2025?

Answer: "The appointment logs are filled in doctor's offices, the beds are filled in the hospitals, and at some point in time, capacity has to level out and trend levels out on this highly increased cost base. If trend just levels, costs are still up 15-20% over where they were two years ago." Acknowledged downside exists on medical cost trend in all businesses, but capacity constraints suggest moderation more likely than acceleration.

M&A vs. Share Repurchase Priority

Question: How to reconcile M&A pipeline with \$500M Q3 share repurchase?

Answer: Capital priorities unchanged: (1) Organic growth, (2) M&A, (3) Buybacks. "\$1.5B of capital capacity a year even at these compressed margins." Pipeline "very full of actionable opportunities" at book value—"almost feels organic." Both can be pursued simultaneously given capital strength. Share repurchase reflects view that stock undervalues long-term margin potential at "low point in rate cycle."

State Benefit Redesign Prospects

Question: Are states considering benefit reductions to address cost pressures?

Answer: Happening "at the margin" but "not a major phenomenon." Some utilization pauses (mostly behavioral health), some value-added benefit trims, occasional pharmacy carve-outs. "Program changes, program construction is really not a major driver" for 2026. States taking enrollment processes more seriously (1% quarterly membership decline), but most pressure from "higher utilization by stayers, not acuity shift by leavers."

Risks & Challenges to Monitor

Near-Term Execution Risks

- Trend persistence: If 7% Medicaid trend doesn't moderate in 2H 2026, baseline deteriorates further
- January rate cycle: "60% of revenue" renews 1/1—any shortfall vs. early signals impacts full year

- Marketplace risk adjustment: National pool deterioration could continue limiting recovery
- Q4 utilization: Seasonal high point could exceed conservative assumption

State Fiscal Pressures

- Budget constraints: States facing competing priorities may cap rate increases below actuarial need
- Program changes: Benefit reductions or eligibility tightening could accelerate membership losses
- RFP risk: Two “bigger states” with active RFPs—losses would impact 2027+ revenue trajectory

Medicare Transition Uncertainty

- FIDE/HIDE conversions: 44K members moving to new product chassis—integration execution critical
- Bright acquisition margins: Third year must show meaningful improvement to justify portfolio
- Dual-eligible acuity: Already seeing “unexpected” LTSS and high-cost drug utilization

Marketplace Structural Issues

- Subsidy uncertainty: Policy changes mid-year could disrupt repricing strategy
- Risk pool stability: Even at reduced exposure, instability could drive losses exceeding break-even target
- SEP enrollment: Continued high-acuity special enrollment could pressure margins

M&A Integration Risks

- Execution bandwidth: Aggressive M&A while managing operational challenges could strain resources
- Target quality: Distressed plans may have deeper issues than book value suggests
- Regulatory approval: Market share concentration could trigger closer scrutiny

Embedded Earnings Realization

- Georgia/Texas ramp: New contract implementations could face margin pressure in year one

- Timing uncertainty: \$8.65 embedded earnings harvest timing pushed right creates investor frustration
- Ultimate margin achievement: “Ultimate concept” means full realization takes longer in depressed rate environment

This competitive intelligence report is part of HealthWorksAI’s rapid-response earnings analysis series.

For questions or custom analysis, contact HealthWorksAI team