



Molina Healthcare, Inc.

Q4 2025 Earnings Analysis

Earnings Insight Report for MA Payer Competitive Intelligence



Insights Summarized from February 6, 2026 Earnings Call

Prepared by
HealthWorksAI

Table of Contents

S.No	Section Name	Page No.
1	Executive Summary	1
2	Key Leadership Quotes	2
3	FY 2025 Financial Performace	4
4	2026 Outlook & Strategic Priorities	5
5	Key Risk and Consideration	6
6	Bottom Line Assessment	7

EXECUTIVE SUMMARY

Molina Healthcare reported a Q4 2025 adjusted loss of \$2.75 per share versus expectations of \$0.34 EPS, a 909% miss that triggered a 30% premarket stock decline. The miss was driven by \$2.00/share of unexpected California retroactive premium adjustments and persistent medical cost trend pressure across Medicare and Marketplace. Full year 2025 adjusted EPS of \$11.03 (down 51% YoY) reflects a tale of two halves: \$11+ earned in H1, followed by deterioration in Q3-Q4 as trend pressures accelerated.

For 2026, management guided at least \$5.00 adjusted EPS on ~\$42B revenue (down 2%), burdened by \$2.50/share from Florida CMS implementation (\$1.50) and MAPD underperformance (\$1.00). The company will exit traditional MAPD for 2027 to focus on dual-eligible Medicare. CEO Zubretsky frames 2026 as a “trough year” for Medicaid margins, projecting 1.6% pretax margin despite 300-400 bps industry underfunding. Embedded earnings exceeding \$11/share from new contracts and acquisitions create significant upside as the cycle turns.

KEY LEADERSHIP QUOTES

Trough Year Thesis: Industry Underfunding Despite Molina Margin Resilience



Joe Zubretsky

Chief Executive Officer

“We believe our 2026 forecast for Medicaid is the trough for managed Medicaid margins. In this margin trough, we expect that Molina Medicaid will produce a low single-digit margin, not losses, and that the market is underfunded by 300-400 basis points. We are confident in the outlook for this business and that rates and trend will eventually reach equilibrium.”

Strategic Implication: Frames 2026 as the cyclical bottom. Molina maintains positive margins while competitors run losses, creating competitive advantage through operational discipline. The 300-400 bps underfunding quantification sets expectations for multi-year recovery.

Medical Cost Trend as Anomaly



Joe Zubretsky

Chief Executive Officer

“We believe the medical cost trend in 2025 was an aberration, an anomaly by historical standards. The unprecedented inflection from 4.5% trend in initial guidance to 7.5% for the year, with 250 basis points attributable to the acuity shift from membership declines related to the final stages of redeterminations. That 250-basis point impact will not recur in 2026.”

Strategic Implication: High-conviction bet that the 250-bps redetermination acuity shift is non-recurring. If correct, the rate-trend gap narrows as states use elevated 2025 cost baselines for future rate setting. The “anomaly” framing prevents permanent de-rating of investor expectations.

Every 100 Basis Points Worth \$5/Share: Leverage Quantified



Joe Zubretsky

CEO

“Recall that every 100 basis points on the Medicaid MCR from this current rate and trend relationship is worth nearly \$5 per share.

Imagine an environment where the entire platform across all geographies improves by 50, 75, 100 basis points a year for the next two or three. In the trough, we're earning a 1.6% pretax margin, not a loss."

Strategic Implication: The core bull case: from \$5/share 2026 guidance, each 100 bps MCR improvement adds ~\$5/share. With 300-400 bps needed for the industry to reach "respectability," the earnings leverage is asymmetric. Combined with \$11+/share embedded earnings, this creates dual paths to growth.

Embedded Earnings: \$11+/Share Pipeline



Mark Keim

CFO

"Embedded earnings now exceed \$11 per share and form a compelling view of long-term future earnings power on top of our legacy business rate recovery. Updates include the addition of the new Florida CMS contract of \$4.50 and a reduction for the MAPD exit. We will outline the components and expected realization timeline at our May Investor Day."

Strategic Implication: Bridge: \$8.65 prior + \$4.50 Florida CMS - MAPD/Virginia adjustments = \$11+/share. This is incremental to base business margin recovery. May Investor Day will detail realization timeline (likely 2027-2029). The key question is whether the market credits these future earnings in current valuation.

Marketplace: Capital Discipline Over Growth



Joe Zubretsky

CFO

"A conscious effort, as we will not allocate capital to an unstable risk pool. Marketplace contributed half of 2025 EPS miss despite being only 10% of total premium—a very disproportionate outcome. We made the conscious decision to reduce our exposure and stabilize margins in this highly volatile risk pool."

Strategic Implication: Signals governance discipline to avoid chasing unprofitable revenue, contrasting with competitors doubling down on Marketplace as Medicaid declines. This is a bet on margin stability over volume, requiring Medicaid/Medicare growth to offset.

FY 2025 FINANCIAL PERFORMANCE

Segment Revenue & Performance Summary

Metric	Q4 2025	Full Year 2025
Premium Revenue	\$10.7B	\$43.1B (+11% YoY)
Adjusted EPS	(\$2.75) loss	\$11.03 (-51% YoY)
Consolidated MCR	94.6%	91.7% (+260 bps YoY)

Segment	Premium Revenue	MCR	YoY Change	% Mix
Medicaid	\$32.2B	91.8%	+150 bps	75%
Medicaid	\$6.2B	92.4%	+330 bps	14%
Marketplace	\$4.5B	90.6%	+1,520 bps	10%
Consolidated	\$43.1B	91.7%	+260 bps	100%

Medicaid Margin Compression Despite Rate Increases: 91.8% MCR reflects 7.5% medical cost trend overwhelming 6% rate increases. Key cost drivers: behavioral health (9% prevalence growth, 18% cost trend), pharmacy (13% trend, top 10 classes +36%), LTSS hours/SNF admits, and professional visits (+16%). Q4 MCR of 93.5% included 160 bps California retro hit; normalized to 92.3%.

Medicare Margin Deterioration: 92.4% MCR driven by elevated LTSS and pharmacy utilization among high-acuity dual-eligible members. MAPD product contributed \$1/share drag from slower margin recovery. Member transitions to new MMP products created typical first-year margin pressure.

Marketplace Disproportionate EPS Impact: 90.6% MCR from trend and acuity pressures as enhanced subsidy expiration and program integrity destabilized the risk pool. Contributed approximately half of the full-year EPS underperformance despite representing only 10% of premium.

G&A Discipline at 6.5%: Adjusted G&A ratio down 20 bps YoY despite implementation costs for multiple new contracts (Nebraska, Iowa). Guides to 6.4% for 2026 as fixed cost leverage offsets Florida CMS ramp and restored incentive compensation.

Operating Cash Flow Turned Negative: (\$535M) operating cash outflow versus \$644M inflow in 2024, driven by \$591M Medicaid risk corridor settlements. Balance sheet remains strong: RBC ratios 305%, \$850M senior notes completed, DCP stable at 47 days. Cash flow should normalize in 2026 as risk corridors resolve.

Prior Year Reserves: Favorable development of (\$98M) versus (\$675M) in 2024—appropriate given the elevated trend environment requiring more conservative current year reserves. Consistent reserving methodology maintained with additional reserves for moderately adverse conditions.

2026 OUTLOOK & STRATEGIC PRIORITIES

2026 Guidance Summary

Metric	2026 Guidance	YoY Change
Premium Revenue	~\$42.2B	-2.0%
Premium Revenue	≥\$5.00	-54.7%
Consolidated MCR	92.6%	+90 bps
Adjusted G&A Ratio	6.4%	-10 bps
Adjusted Pretax Margin	0.8%	-80 bps

Segment MCR & Membership Outlook

Segment	2026 MCR Guide	vs. 2025	2026 YE Membership	Membership Δ
Medicaid	92.9%	+110 bps	4.6M	Flat (2% organic decline offset by FL CMS)
Medicare	94.0%	+160 bps	230K	(-12%) - MAPD runoff, MMP transitions
Marketplace	85.5%	-510 bps	220K	(-66%) - intentional shrinkage
Total			5.1M	(-7.1%)

Strategic Priorities

Navigate Medicaid Margin Trough: Target 1.2% Medicaid pretax margin while advocating for actuarial soundness. Pursue mid-cycle adjustments and leverage elevated 2025 cost baselines for 2027 rate setting.

Complete MAPD Exit and Transition to Dual Products: Wind down MAPD for 2027 exit, redirecting resources to the dual-eligible business. Accept first-year margin pressure with line of sight to breakeven by 2027 and target margins thereafter.

Stabilize Marketplace Through Repricing: Execute on 85.5% MCR and 1.7% pretax margin on the smaller \$2.2B book. Monitor the 70% renewal mix for risk pool improvement through Q1 effectuation.

Pursue M&A Opportunistically: Deploy capital to acquire distressed single-state plans at book value, targeting underrepresented geographies. Apply proven playbook of integrating at ~20% of revenue and bringing to target margins in 2-3 years.

Manage Cash Flow Through Subsidiary Dividends: Generate \$337M+ quarterly subsidiary dividends to offset negative operating cash flow from risk corridor settlements. Maintain RBC ratios 50%+ above minimums while preserving M&A and growth optionality.

KEY RISKS & CONSIDERATIONS

Downside Risks

Medical Cost Trend Persistence: The 5% core trend assumption rests on stabilization of behavioural health, pharmacy (13%), LTSS, and office visits. If provider coding intensity continues accelerating or structural demand factors persist, the “anomaly” characterization may prove optimistic. Every 100-bps trend miss = ~\$5/share.

State Budget Pressures and Retroactive Actions: California’s retroactive corridor signals willingness to claw back premiums on state-funded programs. If other budget-stressed states adopt similar mechanisms or delay rate adequacy corrections, margin trough could extend beyond 2026.

Membership Attrition Beyond 2% Assumption: The 2% Medicaid organic decline assumes redeterminations are largely complete, but OB3 provisions (work requirements, semi-annual redetermination) begin impacting 2027-2029. If states implement program integrity more aggressively pre-OB3, volume declines create revenue headwinds. Medicaid expansion population is most vulnerable.

Florida CMS Implementation Complexity: The sole-source \$6B contract serves high-acuity pediatric populations requiring specialized networks and care management. Operational challenges could extend the new-store margin ramp and delay the \$3/share embedded earnings realization to 2028-2029.

Marketplace Risk Pool Volatility: Despite repricing, if the 70% renewal mix skews toward higher-acuity members (adverse selection), margins may not fully stabilize. Effectuation and retention dynamics (60% new, 30% renewal retention) create volume uncertainty.

Front-Loaded Earnings Seasonality: Management guides two-thirds of earnings, creating Q3-Q4 vulnerability like the 2025 pattern. Any adverse second-half developments have limited time for course correction.

Upside Scenarios

Accelerated Rate Restoration: If states use elevated 2025 cost baselines for rate setting and provide mid-cycle relief, the rate-trend gap narrows faster than projected. 150-200 bps of rate improvement would push 2026 EPS to \$7.50-\$10.00.

Trend Moderation Below 5%: If provider capacity expands and utilization management tightens (12 of 15 states now requiring diabetes diagnosis for GLP-1s), each 50 bps of trend favourability = ~\$2.50/share benefit.

Marketplace/Medicare Beat Conservative Guidance: Marketplace priced conservatively at 85.5% MCR (versus 90.6% in 2025). Excluding MAPD drag, the underlying dual-eligible Medicare business is near breakeven. Combined upside of \$1-2/share possible.

Embedded Earnings Realization Pulls Forward: The \$11+/share bridges to 2027-2029 as new contracts reach target margins. Faster-than-expected ramps, particularly on Florida CMS, would pull realization forward. May Investor Day detail will be a catalyst.

BOTTOM LINE ASSESSMENT

Strategic Direction

Molina is betting that 2026 represents the Medicaid industry margin trough—a cyclical bottom where operational discipline separates winners from losers. The strategic thesis rests on three pillars:

- (1) rate restoration as states recognize 300-400 bps underfunding;
- (2) \$11+/share embedded earnings from \$9B+ new contracts reaching target margins by 2027-2029; and
- (3) portfolio optimization through MAPD exit and Marketplace shrinkage.

The \$5.00/share 2026 guidance is burdened by \$2.50/share from Florida CMS and MAPD, implying ~\$7.50 underlying earnings capability.

Bull Case

States provide aggressive mid-cycle rate relief (200+ bps), medical cost trend moderates below 5%, and Florida CMS launches smoothly with faster-than-expected margin ramp. Marketplace repricing proves adequate. Result: 2026 EPS reaches \$7-8 (versus \$5 guide), 2027 approaches \$15/share as embedded earnings realize and Medicaid returns to 4-5% margins. Molina emerges as consolidator, gaining share from struggling competitors.

Bear Case

Medical cost trend persists above 5% as structural factors prove more durable than the “anomaly” characterization suggests. States defer rate corrections and expand retroactive clawbacks. Florida CMS encounters operational complexity, pushing margin ramp to 2028-2029.

Marketplace risk pool remains volatile despite repricing. Front-loaded earnings seasonality masks deteriorating H2 trends. Result: 2026 EPS falls short of \$5.00 (lands \$3-4), and stock remains depressed as market questions the trough thesis.

MA Payer Competitive Intelligence Implications

Molina’s results validate 2025-2026 as an industry margin trough driven by rate-trend imbalance, not structural Medicaid economics deterioration. Key intelligence for MA payer positioning:

Industry Margin Trough Validated: Management’s underfunding quantification provides a benchmark for MA payers to assess their own portfolios. If Molina’s thesis proves correct—that rates will restore using elevated 2025 baselines—payers positioning for 2027-2028 recovery can build confidence.

Specialized Population RFPs Emerging: The Florida CMS win demonstrates states are carving out high-acuity populations to payers with demonstrated competency. MA payers should evaluate specialized RFPs (LTSS, I/DD, foster care) versus defending mainstream Medicaid positions—single specialized contracts can be more valuable than incremental mainstream wins.

Marketplace Rationalization Signal: Molina’s radical repricing and intentional shrinkage contrasts with competitors doubling down on ACA. If the smaller, repriced book demonstrates margin stability in 2026, it validates selective participation over maintaining share.

Dual-Eligible as Strategic Anchor: The MAPD exit to concentrate on the dual-eligible business highlights the strategic shift toward integrated Medicaid-Medicare products. MA payers should evaluate whether dual-eligible scale justifies near-term margin compression for long-term positioning.

M&A Consolidation Window Open: The distressed environment creates motivated sellers among smaller plans. MA payers with fortress balance sheets can deploy capital at trough valuations to add geography and position for margin expansion when the cycle turns.

REAL-TIME INTELLIGENCE WITH STRATEGIC ADVANTAGE

It's earnings season and while others wait for industry roundups, our clients already have the insights.



Key executive quotes



Market movements



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For support with your **2027 bid strategy**, contact **Dan Paladino** (dan.paladino@healthworksai.com) or your **Client Success Manager**.