

Magellan Health Reports Second Quarter 2015 Financial Results

SCOTTSDALE, Ariz.--(BUSINESS WIRE)-- Magellan Health, Inc. (NASDAQ:MGLN) today reported financial results for the second quarter of 2015, as summarized below. The company reported net revenue of \$1,157.6 million, segment profit of \$53.2 million, and net income of \$4.6 million, or \$0.17 per diluted share. In addition, the company reported adjusted net income of \$14.7 million and adjusted earnings per share of \$0.56.

Second Quarter Financial Results*

(Millions, except per share results)	Three Months Ended June 30			Six Months Ended June 30		
	2015	2014	Increase/ (Decrease)	2015	2014	Increase/ (Decrease)
Net Revenue	\$1,157.6	\$888.0	30.4 %	\$2,138.6	\$1,854.5	15.3 %
Segment Profit*	53.2	45.0	18.2 %	118.1	121.5	(2.8)%
Adjusted Net Income*	14.7	11.8	24.6 %	39.1	39.1	0.0 %
Net Income	4.6	5.0	(8.0)%	11.9	30.7	(61.2)%
Per Share Results:						
Adjusted Earnings per Share*	0.56	0.42	33.3 %	1.47	1.39	5.8 %
Earnings per Share	0.17	0.18	(5.6)%	0.45	1.10	(59.1)%

*Refer to the Basis of Presentation for a discussion of non-GAAP financial measures.

Variances for three months ended June 30, 2015 vs. June 30, 2014:

- The increase in revenue between periods resulted primarily from the inclusion of revenues from acquired entities, the impact of new business, and same store growth and rate increases, which were partially offset by the loss of revenues associated with previously announced contract terminations.
- The increase in segment profit between periods is primarily due to new business, same store growth, and the impact of acquisitions, which were partially offset by previously announced contract terminations.
- The increase in adjusted net income between periods is mainly due to increased segment profit.
- The decrease in net income between periods is primarily due to higher non-cash expenses relating to acquisitions, partially offset by higher segment profit.

As of June 30, 2015, the company had unrestricted cash and investments of \$270.6 million.

"Our results for this quarter reflect strong performance from our Pharmacy segment, solid results in Specialty Solutions, and some weakness in care results in the Commercial and Public Sector segments. We have plans in place to address these issues, and expect that the results will improve in the second half of the year," said Barry M. Smith, chairman and chief executive officer of Magellan Health.

"The recent reorganization of the company into two business units -Magellan Healthcare and Magellan Rx Management - provides a unified approach to customers for our entire suite of healthcare products. This improved alignment will help drive enhanced services and solutions, as well as administrative efficiencies. This enables us to better align our resources across the enterprise in support of our health plan, employer and government clients."

Results and Outlook

"Relative to full year 2015, we are maintaining our guidance, with the exception of updating our EPS guidance to reflect the impact of recent share repurchase activity. We now expect fully diluted EPS to be between \$1.69 and \$2.28, and fully diluted adjusted EPS between \$3.45 and \$3.90, based on average fully diluted shares of 26.7 million. This updated fully diluted share count reflects share repurchases and option exercises through July 22, 2015, but excludes any potential future activity.

"Compared to the first half of 2015, we expect the second half of the year to produce stronger earnings due to improved results in Magellan Complete Care, mainly driven by care management initiatives, network recontracting, and rates; the impact of business growth, primarily in our Pharmacy Management segment; and the seasonality and timing of care results and customer settlements across our businesses. We expect an increasing pattern of earnings over each of the last two quarters of the year."

Earnings Conference Call

Management will host a conference call at 10 a.m. Eastern on Monday, July 27, 2015. To participate in the conference call, interested parties should call 1-800-857-1812 and reference the pass code *Second Quarter 2015 Earnings Call* approximately 15 minutes before the start of the call. The conference call will also be available live via webcast at Magellan's investor relations page at MagellanHealth.com.

About Magellan Health: Headquartered in Scottsdale, Ariz., [Magellan Health, Inc.](http://MagellanHealth.com) is a leader in managing the fastest growing, most complex areas of health, including special populations, complete pharmacy benefits and other specialty areas of healthcare. Magellan develops innovative solutions that combine advanced analytics, agile technology and clinical excellence to drive better decision making, positively impact health outcomes and optimize the cost of care for the members we serve — all within a customer-first culture. Magellan's customers include health plans and other managed care organizations, employers, labor unions, various military and governmental agencies, third party administrators, consultants and brokers. For more information, visit MagellanHealth.com.

Basis of Presentation

In addition to results determined under GAAP, Magellan provides certain non-GAAP financial measures that management believes are useful in assessing the Company's performance. Following is a description of these important non-GAAP measures.

Segment profit is equal to net revenues less the sum of cost of care, cost of goods sold, direct service costs and other operating expenses, and includes income from unconsolidated subsidiaries, but excludes segment profit or loss from non-controlling interests held by other parties, stock compensation expense, as well as changes in the fair value of contingent consideration recorded in relation to acquisitions.

Adjusted net income and adjusted earnings per share reflect certain adjustments made for acquisitions completed after January 1, 2013 to exclude non-cash stock compensation expense resulting from restricted stock purchases by sellers, as well as amortization of identified acquisition intangibles and changes in the fair value of contingent consideration recorded in relation to acquisitions.

Included in the tables issued with this press release are the reconciliations from non-GAAP measures to the corresponding GAAP measures.

Cautionary Statement

This release contains forward-looking statements within the meaning of the Securities Exchange Act of 1934 and the Securities Act of 1933, as amended, which involve a number of risks and uncertainties. All statements, other than statements of historical information provided herein, may be deemed to be forward-looking statements including, without limitation, statements regarding 2015 guidance, estimates of 2015 earnings per share and adjusted earnings per share, anticipated stronger financial performance for the second half of 2015, growth and strategy. These statements are based on management's analysis, judgment, belief and expectation only as of the date hereof, and are subject to uncertainty and changes in circumstances. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "may," "should," "could," "estimate," "intend" and other similar expressions are intended to identify forward-looking statements. Actual results could differ materially due to, among other things, the possible election of certain of the company's customers to manage the healthcare services of their members directly; changes in rates paid to and/or by the company by customers and/or providers; higher utilization of health care services by the company's risk members; delays, higher costs or inability to implement new business or other company initiatives; the impact of changes in the contracting model for Medicaid contracts; termination or non-renewal of customer contracts; the impact of new or amended laws or regulations; governmental inquiries; litigation; competition; operational issues; health care reform; and general business conditions. Additional factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, the risks discussed in the "Risk Factors" section included within the company's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission on February 26, 2015, and the company's subsequent Quarterly Reports on Form 10-Q filed during 2015. Readers are cautioned not to place undue reliance on these forward-looking statements. The company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date of this release. Segment profit, adjusted net income and adjusted earnings per share information referred to herein may be considered to be non-GAAP financial measures. Further information regarding these measures, including the reasons management considers this information useful to investors, are included in the company's most recent Annual Report on

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2015 (1)	2014	2015 (1)
Net revenue:				
Managed care and other	\$682,274	\$776,240	\$1,511,865	\$1,524,890
PBM and dispensing	205,740	381,367	342,624	613,685
Total net revenue	888,014	1,157,607	1,854,489	2,138,575
Costs and expenses:				
Cost of care	481,617	568,288	1,087,325	1,090,616
Cost of goods sold	192,566	361,409	317,864	579,616
Direct service costs and other operating expenses (2)(3)	179,034	191,455	343,756	395,905
Depreciation and amortization	22,480	25,022	42,709	48,518
Interest expense	2,004	1,653	2,840	3,279
Interest income	(275)	(500)	(586)	(966)
Total costs and expenses	877,426	1,147,327	1,793,908	2,116,968
Income before income taxes	10,588	10,280	60,581	21,607
Provision for income taxes	6,261	5,987	31,874	10,120
Net income	4,327	4,293	28,707	11,487
Less: net income (loss) attributable to non-controlling interest	(659)	(350)	(1,999)	(444)
Net income attributable to Magellan Health, Inc.	\$4,986	\$4,643	\$30,706	\$11,931
Weighted average number of common shares outstanding — basic	27,144	25,684	27,257	25,502
Weighted average number of common shares outstanding — diluted	27,765	26,776	27,908	26,588
Net income per common share attributable to Magellan Health, Inc. - basic	\$0.18	\$0.18	\$1.13	\$0.47
Net income per common share attributable to Magellan Health, Inc. - diluted	\$0.18	\$0.17	\$1.10	\$0.45
Net income	\$4,327	\$4,293	\$28,707	\$11,487
Other comprehensive income:				
Unrealized gains (losses) on available-for-sale securities (4)	70	(93)	113	(24)
Comprehensive income	4,397	4,200	28,820	11,463
Less: comprehensive income (loss) attributable to non-controlling interest	(659)	(350)	(1,999)	(444)
Comprehensive income attributable to Magellan Health, Inc.	\$5,056	\$4,550	\$30,819	\$11,907

- (1) For a more detailed discussion of Magellan Health's results for the quarterly period ended June 30, 2015, refer to the Company's Quarterly Report on Form 10-Q, which will be filed with the SEC on, or shortly after, Monday, July 27, 2015, and the live broadcast or taped replay of the Company's earnings conference call on Monday, July 27, 2015, which will be available at www.MagellanHealth.com.
- (2) Includes stock compensation expense of \$9,550 and \$13,795 for the three months ended June 30, 2014 and 2015, respectively,

and \$14,022 and \$27,696 for the six months ended June 30, 2014 and 2015, respectively.

- (3) Includes changes in fair value of contingent consideration of \$2,567 and \$17,536 for the three and six months ended June 30, 2015, respectively.
- (4) Net of income tax provision (benefit) of \$46 and \$(48) for the three months ended June 30, 2014 and 2015, respectively, and \$75 and \$(2) for the six months ended June 30, 2014 and 2015, respectively.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES

NON-GAAP MEASURES

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2015 (1)	2014	2015 (1)
Adjusted Net Income	\$ 11,773	\$ 14,722	\$ 39,078	\$ 39,106
Adjusted for acquisitions starting in 2013				
Stock compensation relating to acquisitions	(6,373)	(8,498)	(7,311)	(16,836)
Changes in fair value of contingent consideration	(1,204)	(2,567)	(1,204)	(17,536)
Amortization of acquired intangibles	(3,426)	(5,260)	(5,059)	(9,643)
Tax impact	4,216	6,246	5,202	16,840
Net income attributable to Magellan Health, Inc.	\$ 4,986	\$ 4,643	\$ 30,706	\$ 11,931
Adjusted EPS	\$ 0.42	\$ 0.56	\$ 1.39	\$ 1.47
Adjusted for acquisitions starting in 2013				
Stock compensation relating to acquisitions	(0.23)	(0.32)	(0.26)	(0.63)
Changes in fair value of contingent consideration	(0.04)	(0.10)	(0.04)	(0.66)
Amortization of acquired intangibles	(0.12)	(0.20)	(0.18)	(0.36)
Tax impact	0.15	0.23	0.19	0.63
Net income per common share attributable to Magellan Health, Inc. - diluted	\$ 0.18	\$ 0.17	\$ 1.10	\$ 0.45

- (1) The Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 will be filed with the SEC on, or shortly after, Monday, July 27, 2015.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2014	2015 (1)
Cash flows from operating activities:		
Net income	\$ 28,707	\$ 11,487
Adjustments to reconcile net income to net cash provided by operating activities:		

Depreciation and amortization	42,709	48,518
Non-cash interest expense	1,572	197
Non-cash stock compensation expense	14,022	27,696
Non-cash income tax benefit	(1,558)	(3,323)
Non-cash amortization on investments	2,653	2,966
Cash flows from changes in assets and liabilities, net of effects from acquisitions of businesses:		
Restricted cash (2)	69,383	84,004
Accounts receivable, net	(15,752)	(32,064)
Pharmaceutical inventory	5,332	(2,919)
Other assets	(27,675)	(31,551)
Accounts payable and accrued liabilities	(5,434)	(49,898)
Medical claims payable and other medical liabilities	18,657	45,544
Tax contingencies	1,164	(578)
Deferred credits and other long-term liabilities	3,366	12,645
Other	(95)	(48)
Net cash provided by operating activities	137,051	112,676
Cash flows from investing activities:		
Capital expenditures	(32,007)	(37,653)
Acquisitions and investments in businesses, net of cash acquired	(124,995)	(55,943)
Purchase of investments	(112,088)	(293,348)
Maturity of investments	146,532	215,984
Net cash used in investing activities	(122,558)	(170,960)
Cash flows from financing activities:		
Payments to acquire treasury stock	(65,254)	(68,783)
Proceeds from exercise of stock options and warrants	34,197	49,170
Payments on long-term debt and capital lease obligations	(2,087)	(8,299)
Payments on contingent consideration	-	(4,439)
Tax benefit from exercise of stock options and vesting of stock awards	2,384	3,774
Other	(1,143)	(616)
Net cash used in financing activities	(31,903)	(29,193)
Net decrease in cash and cash equivalents	(17,410)	(87,477)
Cash and cash equivalents at beginning of period	203,187	255,303
Cash and cash equivalents at end of period	\$ 185,777	\$ 167,826

- (1) The Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 will be filed with the SEC on, or shortly after, Monday, July 27, 2015.
- (2) Includes the net shift of restricted funds between cash and investments that results in an operating cash flow change that is directly offset by an investing cash flow change. During the six months ended June 30, 2014 and 2015, restricted cash of \$12,319 and \$63,167, respectively, was shifted to restricted investments that resulted in an operating cash flow source.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED OPERATING RESULTS BY BUSINESS SEGMENT
(Unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2015 (1)	2014	2015 (1)
Managed care and other revenue				
- Commercial	\$ 198,025	\$ 150,658	\$386,916	\$303,183
- Public Sector	319,954	439,858	817,897	862,835
- Specialty Solutions	119,326	132,227	224,760	256,569
- Pharmacy Management (2)	44,969	53,782	100,347	102,850
- Elimination (2)	-	(285)	(18,055)	(547)
Total managed care and other revenue	682,274	776,240	1,511,865	1,524,890
PBM and dispensing revenue				
- Pharmacy Management (2)	209,265	408,924	348,889	667,717
- Elimination (2)	(3,525)	(27,557)	(6,265)	(54,032)
Total PBM and dispensing revenue	205,740	381,367	342,624	613,685
Cost of care				
- Commercial	116,852	88,200	228,054	170,330
- Public Sector (2)	275,108	380,580	697,626	727,510
- Specialty Solutions	89,753	99,508	163,405	192,781
- Pharmacy Management	(96)	-	16,295	(5)
- Elimination (2)	-	-	(18,055)	-
Total cost of care	481,617	568,288	1,087,325	1,090,616
Cost of goods sold				
- Pharmacy Management (2)	196,080	387,828	324,111	631,366
- Elimination (2)	(3,514)	(26,419)	(6,247)	(51,750)
Total cost of goods sold	192,566	361,409	317,864	579,616
Direct service costs and other				
- Commercial	42,530	37,915	82,806	77,125
- Public Sector	45,391	49,944	88,349	101,331
- Specialty Solutions	17,897	19,913	33,038	40,087
- Pharmacy Management	41,605	56,430	77,156	119,978
- Corporate	31,622	28,676	62,425	60,213
- Elimination (2)	(11)	(1,423)	(18)	(2,829)
Total direct service costs and other	179,034	191,455	343,756	395,905
Stock compensation expense (3)				
- Commercial	(157)	(233)	(312)	(404)
- Public Sector	(230)	(240)	(504)	(549)
- Specialty Solutions	(354)	(21)	(768)	(530)
- Pharmacy Management	(5,556)	(10,016)	(5,859)	(18,872)
- Corporate	(3,253)	(3,285)	(6,579)	(7,341)
Total stock compensation expense	(9,550)	(13,795)	(14,022)	(27,696)
Changes in fair value of contingent consideration (3)				
- Commercial	-	(71)	-	(171)
- Pharmacy Management	-	(2,496)	-	(17,365)
Total changes in fair value of contingent consideration	-	(2,567)	-	(17,536)
Less: non-controlling interest segment profit (loss) (4)				
- Public Sector	(648)	(273)	(1,978)	(393)
- Corporate	-	(77)	-	(51)
Total non-controlling interest segment profit (loss)	(648)	(350)	(1,978)	(444)

Segment profit (loss)

- Commercial	38,800	24,847	76,368	56,303
- Public Sector	333	9,847	34,404	34,936
- Specialty Solutions	12,030	12,827	29,085	24,231
- Pharmacy Management	22,201	30,960	37,533	55,465
- Corporate and Elimination	(28,369)	(25,314)	(55,846)	(52,821)
Total segment profit	\$ 44,995	\$ 53,167	\$ 121,544	\$ 118,114

Reconciliation of segment profit to income
before income taxes:

Segment profit	\$ 44,995	\$ 53,167	\$ 121,544	\$ 118,114
Stock compensation expense	(9,550)	(13,795)	(14,022)	(27,696)
Changes in fair value of contingent consideration	-	(2,567)	-	(17,536)
Non-controlling interest segment profit (loss)	(648)	(350)	(1,978)	(444)
Depreciation and amortization	(22,480)	(25,022)	(42,709)	(48,518)
Interest expense	(2,004)	(1,653)	(2,840)	(3,279)
Interest income	275	500	586	966
Income before income taxes	\$ 10,588	\$ 10,280	\$ 60,581	\$ 21,607

- (1) The Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 will be filed with the SEC on, or shortly after, Monday, July 27, 2015.
- (2) Public Sector subcontracts with Pharmacy Management and Specialty Solutions to provide pharmacy benefits management services and radiology benefits management services for certain of Public Sector's customers. In addition, Pharmacy Management provides pharmacy benefits management for the Company's employees covered under its medical plan. As such, revenue, cost of care, cost of goods sold, direct service costs, and other costs related to these arrangements are eliminated.
- (3) Stock compensation expense, as well as changes in the fair value of contingent consideration recorded in relation to the acquisitions, are included in direct service costs and other operating expenses; however, these amounts are excluded from the computation of Segment Profit.
- (4) The non-controlling portion of AlphaCare's segment profit (loss) is excluded from the computation of segment profit.

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