

Magellan Health Reports Third Quarter 2015 Financial Results

Revises Guidance; Authorizes New Share Repurchase Plan

SCOTTSDALE, Ariz.--(BUSINESS WIRE)-- [Magellan Health, Inc.](#) (NASDAQ: MGLN) today reported financial results for the third quarter of 2015, as summarized below. The company reported net revenue of \$1.2 billion, segment profit of \$55.3 million, and a net loss of \$7.8 million, or a loss of \$0.31 per diluted share. In addition, the company reported adjusted net income of \$18.9 million and adjusted earnings per share of \$0.76. As of September 30, 2015, the company had unrestricted cash and investments of \$197.8 million.

Third Quarter Financial Results*

(Millions, except per share results)	Three Months Ended			Nine Months Ended		
	September 30			September 30		
	2015	2014	Increase/ (Decrease)	2015	2014	Increase/ (Decrease)
Net Revenue	\$1,190.1	\$923.2	28.9 %	\$3,328.7	\$2,777.7	19.8 %
Segment Profit*	55.3	62.2	(11.1 %)	173.4	183.7	(5.6 %)
Adjusted Net Income*	18.9	36.4	(48.1 %)	58.0	75.4	(23.1 %)
Net Income (Loss)	(7.8)	27.1	(128.8 %)	4.1	57.8	(92.9 %)
Per Share Results:						
Adjusted Earnings per Share*	0.76	1.34	(43.3 %)	2.20	2.73	(19.4 %)
Earnings per Share	(0.31)	1.00	(131.0 %)	0.16	2.09	(92.3 %)

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

- The increase in revenue between periods resulted primarily from the inclusion of revenues from acquired entities, the impact of new business, same store growth and rate increases, which were partially offset by the loss of revenues associated with contract terminations.
- The decrease in segment profit between periods was primarily due to unfavorable Medical Loss Ratios in the Healthcare segment, including the impact of unfavorable year-over-year medical claims development, as well as contract terminations.
- The decrease in adjusted net income between periods was mainly due to more significant reversals of tax contingencies in the prior year quarter, as well as the decrease in segment profit.
- The decrease in net income was primarily due to lower adjusted net income and higher changes in the fair value of contingent consideration of \$27.8 million, which was partially offset by the tax impact of this item. The majority of the increase in the fair value of contingent consideration was due to an improved outlook for CDMI, which resulted in increased estimates of the performance-related earn-outs.

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

"The results in our Pharmacy Management segment have been very strong, and we continue to grow both the top and bottom line, while maintaining our focus on key initiatives to further expand our services and capabilities as a full-service pharmacy benefit manager," said Barry M. Smith, chairman and chief executive officer of Magellan Health. "However, with cost-of-care pressures in the government sector, Healthcare's financial results did not meet our expectations.

"We have strengthened our multi-pronged plan to improve performance in the Healthcare business, focusing on network recontracting, fraud, waste and abuse, and increased care management initiatives. I am confident that we have the appropriate plan in place to address the underlying issues."

Share Repurchase Program

The company recently completed its previous \$200 million share repurchase authorization, reflecting an acceleration in the pace of repurchase activity over the last three months. The board of directors authorized a new share repurchase program

of up to \$200 million over a two-year period until October 26, 2017. The shares may be purchased from time-to-time on the open market, under 10b5-1 plans, or in privately negotiated transactions. There are a number of factors that impact the timing and pace of purchases, such as stock price, capital needs, acquisitions and determination of open and closed trading windows.

Results and Outlook

"While our Healthcare results this quarter reflected cost-of-care pressures in government markets, we had very strong results in our Pharmacy Management segment," said Jonathan N. Rubin, chief financial officer of Magellan. "Our full service PBM now is on a pace to exceed \$1.7 billion of annual revenue this year, with segment profit of approximately \$125 million. This continues to be a high-growth market segment, as reflected in current valuations for PBMs, and we are quite pleased with our growth in this segment and the long-term value it creates for shareholders.

"CDMI's performance has contributed to our strong Pharmacy Management results, particularly in our specialty pharmacy business. Our improved outlook for CDMI results in increased estimates of the performance-related earn-outs for this acquisition. Accordingly, results for the third quarter included \$29.7 million of expense related to an increase to the fair value of contingent consideration.

"Relative to full year 2015, we are reducing our guidance to reflect care pressures in our government healthcare contracts, and lower rates in Florida, partially offset by stronger Pharmacy performance. For the full-year, we now estimate adjusted net income of \$73 million to \$86 million, segment profit of \$250 million to \$265 million, and cash flow from operations of \$155 million to \$175 million. We also are revising our 2015 guidance range for full-year net income of \$11 million to \$24 million. We now expect fully diluted adjusted EPS to be between \$2.82 and \$3.32, and fully diluted EPS to be between \$0.42 and \$0.93, based on average fully diluted shares of 25.9 million. This updated fully diluted share count reflects share repurchases and option exercises through October 22, 2015, but excludes any potential future activity.

"Looking ahead, after adjusting the current 2015 segment profit guidance range for approximately \$18 million of net favorable, out-of-period adjustments, primarily pertaining to prior period care development, we currently expect that we will have solid segment profit growth in 2016. We will provide detailed 2016 guidance during our December call."

Earnings Conference Call

Management will host a conference call at 10 a.m. Eastern on Tuesday, October 27, 2015. To participate in the conference call, interested parties should call 1-800-857-1812 and reference the pass code *Third 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 and third-party administrators. 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 estimates of 2015 net income, adjusted net income, earnings per share, adjusted earnings per share, segment profit, average fully diluted shares, and cash flow from operations; 2016 segment profit; and 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 Form 10-K and on subsequent Form 10-Qs.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015 (1)	2014	2015 (1)
Net revenue:				
Managed care and other	\$ 703,020	\$ 809,249	\$ 2,214,885	\$ 2,334,139
PBM and dispensing	220,150	380,833	562,774	994,518
Total net revenue	923,170	1,190,082	2,777,659	3,328,657
Costs and expenses:				
Cost of care	495,180	596,323	1,582,505	1,686,939
Cost of goods sold	202,180	360,444	520,044	940,060
Direct service costs and other operating expenses (2)(3)	176,928	220,586	520,684	616,491
Depreciation and amortization	23,956	26,721	66,665	75,239
Interest expense	2,879	1,654	5,719	4,933
Interest income	(241)	(631)	(827)	(1,597)
Total costs and expenses	900,882	1,205,097	2,694,790	3,322,065
Income (loss) before income taxes	22,288	(15,015)	82,869	6,592
(Benefit) Provision for income taxes	(3,490)	(7,254)	28,384	2,866
Net income (loss)	25,778	(7,761)	54,485	3,726
Less: net income (loss) attributable to non-controlling interest	(1,355)	47	(3,354)	(397)
Net income (loss) attributable to Magellan Health, Inc.	\$ 27,133	\$ (7,808)	\$ 57,839	\$ 4,123
Weighted average number of common shares outstanding — basic	26,703	24,892	27,070	25,297
Weighted average number of common shares outstanding — diluted	27,242	24,892	27,684	26,372

Net income (loss) per common share attributable to Magellan Health, Inc. - basic	\$ 1.02	\$ (0.31	) \$ 2.14	\$ 0.16
Net income (loss) per common share attributable to Magellan Health, Inc. - diluted	\$ 1.00	\$ (0.31	) \$ 2.09	\$ 0.16
Net income (loss)	\$ 25,778	\$ (7,761	) \$ 54,485	\$ 3,726
Other comprehensive income (loss):				
Unrealized (losses) gains on available-for-sale securities (4)	(111	) 53	2	29
Comprehensive income (loss)	25,667	(7,708	) 54,487	3,755
Less: comprehensive income (loss) attributable to non-controlling interest	(1,355	) 47	(3,354	) (397
Comprehensive income (loss) attributable to Magellan Health, Inc.	\$ 27,022	\$ (7,755	) \$ 57,841	\$ 4,152

- (1) For a more detailed discussion of Magellan Health's results for the quarterly period ended September 30, 2015, refer to the Company's Quarterly Report on Form 10-Q, which will be filed with the SEC on, or shortly after, Tuesday, October 27, 2015, and the live broadcast or taped replay of the Company's earnings conference call on Tuesday, October 27, 2015, which will be available at MagellanHealth.com.
- (2) Includes stock compensation expense of \$11,961 and \$12,897 for the three months ended September 30, 2014 and 2015, respectively, and \$25,983 and \$40,593 for the nine months ended September 30, 2014 and 2015, respectively.
- (3) Includes changes in fair value of contingent consideration of \$29,738 and \$47,274 for the three and nine months ended September 30, 2015, respectively.
- (4) Net of income tax (benefit) provision of \$(74) and \$27 for the three months ended September 30, 2014 and 2015, respectively, and \$1 and \$25 for the nine months ended September 30, 2014 and 2015, respectively.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES

NON-GAAP MEASURES

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015 (1)	2014	2015 (1)
Adjusted net income	\$ 36,368	\$ 18,898	\$ 75,360	\$ 58,004
Adjusted for acquisitions starting in 2013				
Stock compensation relating to acquisitions	(8,885	) (8,923	) (16,196	) (25,759
Changes in fair value of contingent consideration	(1,928	) (29,738	) (3,132	) (47,274
Amortization of acquired intangibles	(4,317	) (5,988	) (9,376	) (15,631
Tax impact	5,895	17,943	11,183	34,783
Net income (loss) attributable to Magellan Health, Inc.	\$ 27,133	\$ (7,808	) \$ 57,839	\$ 4,123
Adjusted EPS	\$ 1.34	\$ 0.76	\$ 2.73	\$ 2.20
Adjusted for acquisitions starting in 2013				
Stock compensation relating to acquisitions	(0.33	) (0.36	) (0.59	) (0.98
Changes in fair value of contingent consideration	(0.07	) (1.19	) (0.11	) (1.79
Amortization of acquired intangibles	(0.16	) (0.24	) (0.34	) (0.59
Tax impact	0.22	0.72	0.40	1.32
Net income (loss) per common share attributable to Magellan Health, Inc. - diluted	\$ 1.00	\$ (0.31	) \$ 2.09	\$ 0.16

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

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2014	2015 (1)
Cash flows from operating activities:		
Net income	\$ 54,485	\$ 3,726
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	66,665	75,239
Non-cash interest expense	3,888	297
Non-cash stock compensation expense	25,983	40,593
Non-cash income tax expense (benefit)	813	(1,018)
Non-cash amortization on investments	3,620	5,106
Cash flows from changes in assets and liabilities, net of effects from acquisitions of businesses:		
Restricted cash (2)	71,530	79,959
Accounts receivable, net	(19,492)	(41,428)
Pharmaceutical inventory	8,710	(5,277)
Other assets	(22,378)	(48,653)
Accounts payable and accrued liabilities	(28,461)	1,230
Medical claims payable and other medical liabilities	39,940	59,819
Tax contingencies	(15,179)	(2,290)
Deferred credits and other long-term liabilities	3,940	10,848
Other	178	(26)
Net cash provided by operating activities	194,242	178,125
Cash flows from investing activities:		
Capital expenditures	(50,597)	(54,604)
Acquisitions and investments in businesses, net of cash acquired	(132,210)	(55,818)
Purchase of investments	(216,958)	(391,785)
Maturity of investments	220,191	283,619
Net cash used in investing activities	(179,574)	(218,588)
Cash flows from financing activities:		
Proceeds from issuance of debt	250,000	-
Payments to acquire treasury stock	(139,316)	(150,763)
Proceeds from exercise of stock options and warrants	41,685	50,074
Payments on long-term debt and capital lease obligations	(2,606)	(12,665)
Payments on contingent consideration	-	(8,932)
Tax benefit from exercise of stock options and vesting of stock awards	2,805	3,887
Other	(2,150)	408
Net cash provided by (used in) financing activities	150,418	(117,991)
Net increase (decrease) provided by cash and cash equivalents	165,086	(158,454)
Cash and cash equivalents at beginning of period	203,187	255,303
Cash and cash equivalents at end of period	\$ 368,273	\$ 96,849

- (1) The Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 will be filed with the SEC on, or shortly after, Tuesday, October 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 nine months ended September 30, 2014 and 2015, restricted cash of \$28,806 and \$93,785, 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 September 30,		Nine Months Ended September 30,	
	2014	2015 (1)	2014	2015 (1)
Healthcare				
Managed care and other net revenue	\$ 653,747	\$ 748,297	\$ 2,083,320	\$ 2,170,361
Cost of care	495,179	596,323	1,584,264	1,686,944
Direct service costs	101,145	106,675	305,338	324,695
Stock compensation expense (3)	(658)	(469)	(2,242)	(1,952)
Changes in fair value of contingent consideration (3)	-	809	-	638
Non-controlling interest - segment profit (4)	(1,323)	75	(3,301)	(318)
Healthcare segment profit	59,404	44,884	199,261	160,354
Pharmacy Management				
Managed Care and other net revenue	49,273	60,978	149,620	163,828
PBM and dispensing revenue	241,226	409,371	590,115	1,077,088
Cost of care	1	-	16,296	(5)
Cost of goods sold	223,251	387,834	547,362	1,019,200
Direct service costs	45,535	87,252	122,691	207,230
Stock compensation expense (3)	(8,122)	(9,410)	(13,981)	(28,282)
Changes in fair value of contingent consideration (3)	-	(30,547)	-	(47,912)
Pharmacy Management segment profit	29,834	35,220	67,367	90,685
Corporate and Other				
Corporate and Other	30,253	27,833	92,678	88,046
Stock compensation expense (3)	(3,181)	(3,018)	(9,760)	(10,359)
Non-controlling interest - segment profit (4)	-	(28)	-	(79)
Corporate and Other (excluding eliminations)	(27,072)	(24,787)	(82,918)	(77,608)
Eliminations (2)				
Managed Care and other net revenue	-	(26)	(18,055)	(50)
PBM and dispensing revenue	(21,076)	(28,538)	(27,341)	(82,570)
Cost of care	-	-	(18,055)	-
Cost of goods sold	(21,071)	(27,390)	(27,318)	(79,140)
Corporate and other	(5)	(1,174)	(23)	(3,480)
Eliminations	-	-	-	-
Consolidated				
Managed care and other net revenue	703,020	809,249	2,214,885	2,334,139
PBM and dispensing revenue	220,150	380,833	562,774	994,518
Cost of care	495,180	596,323	1,582,505	1,686,939
Cost of goods sold	202,180	360,444	520,044	940,060
Direct service costs	176,928	220,586	520,684	616,491

Stock compensation expense (3)	(11,961)	(12,897)	(25,983)	(40,593)
Changes in fair value of contingent consideration (3)	-	(29,738)	-	(47,274)
Non-controlling interest - segment profit (4)	(1,323)	47	(3,301)	(397)
Consolidated segment profit	\$ 62,166	\$ 55,317	\$ 183,710	\$ 173,431

Reconciliation of segment profit to income before income taxes:

Segment profit	\$ 62,166	\$ 55,317	\$ 183,710	\$ 173,431
Stock compensation expense	(11,961)	(12,897)	(25,983)	(40,593)
Changes in fair value of contingent consideration	-	(29,738)	-	(47,274)
Non-controlling interest segment profit (loss)	(1,323)	47	(3,301)	(397)
Depreciation and amortization	(23,956)	(26,721)	(66,665)	(75,239)
Interest expense	(2,879)	(1,654)	(5,719)	(4,933)
Interest income	241	631	827	1,597
Income before income taxes	\$ 22,288	\$ (15,015)	\$ 82,869	\$ 6,592

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

- (2) Healthcare subcontracts with Pharmacy Management to provide pharmacy benefits management services for certain of Healthcare'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 goods sold and direct service costs and other 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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