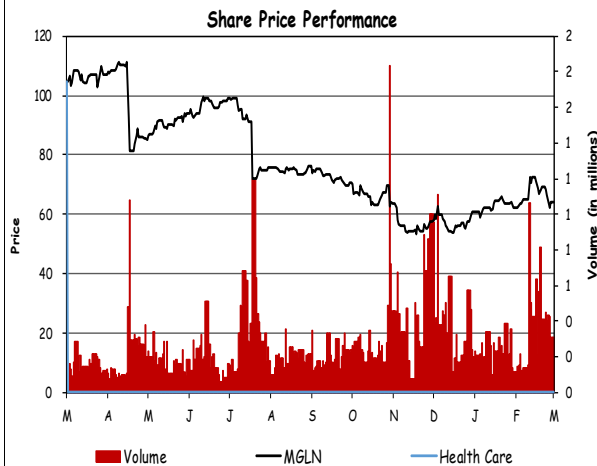


|                               |              |
|-------------------------------|--------------|
| Magellan Health, Inc.         | Symbol: MGLN |
| Analyst                       | Victor       |
| Buy below                     | \$57.03      |
| Sell above                    | \$81.78      |
| Probability of Price Increase | 7%           |
| Last Price                    | \$64.23      |
| Intrinsic Value               | \$65.42      |
| Target Dividends              | \$0.00       |
| Target Price                  | \$71.28      |



**Description**  
Magellan Health, Inc. provides healthcare management services in the United States.

|                    |                                    |
|--------------------|------------------------------------|
| Sector             | Health Care                        |
| Industry           | Health Care Providers and Services |
| Last Guidance      | December 11, 2018                  |
| Next earnings date | NM                                 |

|   |
|---|
| <b>People</b>   |
| Smith, Barry, Chairman, CEO & CEO of Magellan Healthcare        |
| Rubin, Jonathan, Chief Financial Officer                        |
| Gregoire, Daniel, General Counsel & Secretary                   |
| Kamal, Mostafa, Chief Executive Officer of Magellan Rx Managene |
| Silver, Renie, SVP - Corporate Finance                          |
| Koushik, Srinii; Chief Technology Officer                       |

| Top Competitors                 |                                 |
|---------------------------------|---------------------------------|
| Molina Healthcare, Inc.         | Centene Corporation             |
| WellCare Health Plans, Inc.     | Humana Inc.                     |
| Anthem, Inc.                    | Aetna Inc.                      |
| Cigna Corporation               | Triple-S Management Corporation |
| UnitedHealth Group Incorporated | --                              |

| Market Statistics            |            |
|------------------------------|------------|
| Market Capitalization (mil)  | \$1,537.35 |
| Last Price per share         | \$64.23    |
| 52 week high                 | \$112.25   |
| 52-week low                  | \$51.88    |
| Volatility                   | 34.94%     |
| Daily volume (mil)           | 0.31       |
| Short interest               | 3.35%      |
| Days to cover short interest | 2.30       |
| Beta                         | 0.34       |

### Investment Thesis

#### MAGELLAN IS SKINKING AND IT IS TIME TO LEAVE THE BOAT.

I am continuing coverage of Magellan Health, Inc. (MGLN) with a SELL at \$64 and a 7% chance of reaching a \$71.26 price target. MGLN is providing healthcare solution aiming to improve healthcare experience for patients from publicly hospital, military or individuals. While the company evolve in a super competitive type of industry, having a competitive advantage into their selling proposition is the key to grow in the industry. Magellan is offering management solutions for management of complex areas of healthcare services. Given the super specialized nature of their business I do not believe that the company shows enough competitive advantage to generate an growth in value sufficient to cover the losses we are facing on our current position.

#### For the liquidation:

##### 1. Lack of competitive advantage:

Magellan is evolving in a very competitive market as the number of competitors, from various sizes, is very high. The criteria for an effective competitive advantage is very subjective (ergonomy of the interface, tailorisation of the software to the clients needs, how effectively the solution proposed match the needs of the clients...). The subjectivity of these criterion makes it very hard for the company to propose an unique selling proposition or a product which solves the issue for the largest portion of demand. Given the large spectrum of the profile of their customers, Magellan is not likely to achieve this in the future.

##### 2. Missed earnings and declining earning forecasted:

The company have been missing its earnings estimates over 4 consecutive quarters. The company might face an issue in their cost estimates as they run a 100% loss ratio on their segment in Virginia. For the full year, the company reported 2018 health care segment profit of \$149.1 million compared to \$202.7 million in 2017 which is attributed to cost of care pressure in MCC Virginia. On the top of this, bloomberg forecasts a decrease in value for the following quarters compared to 2018 Q4.

##### 3. Decline in Volume:

Volume exchanged on the stock is declining, reducing the volatility and thus, the probability of major upside on the price to cover our loss.

#### For the Hold:

##### 1. Hedge Funds are increasing their positions:

The ownership is showing an increase in value for hedge funds, investment advisors and individuals investors. By taking a deeper look to hedgefunds position, most of them bought around \$55 and increase fraction of their current holding which could let us believe that they expect a slight increase in price (allowing them to regain the unrealize gain from a \$100 stock price).

##### 2. Decline of short interest:

It appears that 614,811 of share which were short sold have been covered indicating that the stock might have reached support and investors do not see a downside probability sufficient enough to expect a further decline in price. However, it doesn't necessarily mean that a future increase in price can be expected neither.

#### Key Catalysts for price change

- Innovation to match pending demand.
- Increase in earnings and market share.
- Improvement on cost management.

#### Valuation

My \$71.26 price target is derived from Discounted Unlevered Free Cash Flow estimates.

| Ownership                                | Change in Ownership ("Input" month) |        |
|--|-------------------------------------|--------|
| Shares outstanding (mil)                 | 23.94                               |        |
| Diluted shares outstanding (mil)         | 25.04                               |        |
| Options and Warrants (Shares equivalent) | 0.81                                |        |
| % shares held by institutions            | 104%                                | -0.64% |
| % shares held by investments Managers    | 83%                                 | 0.16%  |
| % shares held by hedge funds             | 22.89%                              | 0.06%  |
| % shares held by VC/PE firms             | 0.136%                              |        |
| % shares held by insiders                | 1.19%                               | 7.14%  |
| Poison Pill Type                         | NONE                                |        |

|   |                 |                |                  |                  |               |                                   |  |                    |                     |                        |
|---|-----------------|----------------|------------------|------------------|---------------|-----------------------------------|--|--------------------|---------------------|------------------------|
| Magellan Health, Inc.                                     |                 |                | Symbol: MGLN     |                  |               | Financials                        |  |                    |                     |                        |
| Analyst   |                 |                | Victor           |                  |               | Profitability                     |  | MGLN (LTM)         | MGLN Historical     | Peers' Median (LTM)    |
| Buy below   |                 |                | \$57.03          |                  |               | Return on Capital                 |  | 4.2%               | 12.22%              | 13.97%                 |
| Sell above  |                 |                | \$81.78          |                  |               | Adjusted EBITDA Margin            |  | 2.6%               | 4.92%               | 3.17%                  |
| Probability of Price Increase                             |                 |                | 7%               |                  |               | Return on Equity                  |  | 2.6%               | 9.2%                | 20.3%                  |
| Last Price  |                 |                | \$64.23          |                  |               | Adjusted Net margin               |  | 0.5%               | 2.2%                | 3.8%                   |
| Intrinsic Value   |                 |                | \$65.42          |                  |               | Invested Funds                    |  | MGLN (LTM)         | MGLN Historical     | Peers' Median (LTM)    |
| Target Dividends  |                 |                | \$0.00           |                  |               | Cash/Capital                      |  | 6.4%               | 17.1%               | 34.9%                  |
| Target Price  |                 |                | \$71.28          |                  |               | NWC/Capital                       |  | 21.9%              | 13.5%               | -27.4%                 |
|   |                 |                |                  |                  |               | Operating Assets/Capital          |  | 23.6%              | 27.2%               | 45.2%                  |
|   |                 |                |                  |                  |               | Goodwill/Capital                  |  | 48.0%              | 39.8%               | 35.1%                  |
| Quarterly Earning Surprises (Actual Vs. Median Estimates) |                 |                |                  |                  |               | Capital Structure                 |  | MGLN (LTM)         | MGLN Historical     | Peers' Median (LTM)    |
| Revenue   |                 |                |                  |                  |               | Total Debt/Market Cap.            |  | 0.61               | 0.21                | 0.20                   |
| 12/31/2017  |                 |                |                  |                  |               | Reported Cost of Borrowing        |  | 4.4%               |                     | 6.1%                   |
| 3/31/2018   |                 |                |                  |                  |               | Cash Interest/Total Debt          |  | 4.5%               |                     | 6.4%                   |
| 6/30/2018   |                 |                |                  |                  |               | CGFS Credit Rating                |  | CC                 |                     | CCC                    |
| 9/30/2018   |                 |                |                  |                  |               | Credit Model Rating               |  | bb                 |                     | bbb to bbb+            |
| 12/31/2018  |                 |                |                  |                  |               | Probability of Default            |  | 0.99%              |                     | 0.07%                  |
| Mean (Standard Error)                                     |                 |                |                  |                  |               | Cost of Capital                   |  |                    |                     |                        |
| EBITDA  |                 |                |                  |                  |               | Implied Cost of Borrowing (MGLN)  |  | CGFS Credit Rating | Credit Model Rating | Probability of Default |
| 12/31/2017  |                 |                |                  |                  |               | Implied Cost of Borrowing (Peers) |  | 7.0%               | 6.4%                | 7.0%                   |
| 3/31/2018   |                 |                |                  |                  |               | Cost of New Debt Estimate         |  | 6.4%               | 5.7%                | 6.7%                   |
| 6/30/2018   |                 |                |                  |                  |               | Market Risk Premium Estimate      |  |                    |                     |                        |
| 9/30/2018   |                 |                |                  |                  |               | Cost of Equity Estimate           |  |                    |                     |                        |
| 12/31/2018  |                 |                |                  |                  |               | WACC Estimate                     |  |                    |                     |                        |
| Mean (Standard Error)                                     |                 |                |                  |                  |               |                                   |  |                    |                     |                        |
|   |                 |                |                  |                  |               |                                   |  |                    |                     |                        |
| Valuation   |                 |                |                  |                  |               |                                   |  |                    |                     |                        |
| DCF Valuation   |                 |                |                  |                  |               |                                   |  |                    |                     |                        |
|   | Revenues        | Net Margin     | LFCF             | Ke               | ROE           | Price Per Share                   |  |                    |                     |                        |
| Base Year (Actual)  | \$7,314.15      | 0%             | -\$42.55         | 10.91%           | 2.61%         | \$63.00                           |  |                    |                     |                        |
| year 1  | \$7,214.90      | 1%             | \$81.52          | 10.90%           | 6.23%         | \$66.57                           |  |                    |                     |                        |
| year 2  | \$7,417.11      | 2%             | \$116.16         | 10.90%           | 8.06%         | \$69.43                           |  |                    |                     |                        |
| year 3  | \$7,864.50      | 2%             | \$121.28         | 10.90%           | 7.77%         | \$72.38                           |  |                    |                     |                        |
| year 4  | \$8,247.70      | 2%             | \$130.64         | 10.90%           | 7.77%         | \$75.36                           |  |                    |                     |                        |
| year 5  | \$8,553.97      | 2%             | \$132.74         | 10.90%           | 7.35%         | \$78.62                           |  |                    |                     |                        |
| year 6  | \$8,772.44      | 1%             | \$129.23         | 10.90%           | 6.69%         | \$82.29                           |  |                    |                     |                        |
| year 7  | \$8,996.48      | 1%             | \$136.33         | 10.90%           | 6.63%         | \$86.10                           |  |                    |                     |                        |
| year 8  | \$9,226.26      | 2%             | \$142.02         | 10.90%           | 6.50%         | \$90.12                           |  |                    |                     |                        |
| year 9  | \$9,461.90      | 2%             | \$147.48         | 10.90%           | 6.36%         | \$94.37                           |  |                    |                     |                        |
| year 10   | \$9,703.55      | 2%             | \$153.11         | 10.90%           | 6.23%         | \$98.88                           |  |                    |                     |                        |
| year 11   | \$9,951.38      | 2%             | \$158.92         | 10.90%           | 6.10%         | \$103.66                          |  |                    |                     |                        |
| year 12   | \$10,205.54     | 2%             | \$164.22         | 10.90%           | 5.96%         | \$108.76                          |  |                    |                     |                        |
| year 13   | \$10,466.19     | 2%             | \$169.32         | 10.90%           | 5.82%         | \$114.22                          |  |                    |                     |                        |
| year 14   | \$10,733.50     | 2%             | \$174.56         | 10.90%           | 5.68%         | \$120.09                          |  |                    |                     |                        |
| year 15   | \$11,007.64     | 2%             | \$179.57         | 10.90%           | 5.55%         | \$133.18                          |  |                    |                     |                        |
| Continuing Period   | \$11,288.77     | 3%             | \$278.43         | 10.90%           | 10.90%        |                                   |  |                    |                     |                        |
| Relative Valuation  |                 |                |                  |                  |               | Asset Based Valuation             |  |                    |                     |                        |
| Multiple  | EV/Rev (FW)     | EV/EBITDA (FW) | P/BV (TTM)       | P/E (FW)         | Recovery Rate | 100%                              |  |                    |                     |                        |
| Median (Peers)  | 0.5x            | 9.0x           | 2.7x             | 15.4x            | Capital       | \$2,214.14                        |  |                    |                     |                        |
| Base  | Revenue (NTM)   | EBITDA (NTM)   | Book Value (LTM) | Net Income (NTM) | Intangibles   | \$1,321.74                        |  |                    |                     |                        |
| MGLN  | \$7,252.57      | \$88.82        | \$1,308.74       | \$88.82          | Claims        | \$887.80                          |  |                    |                     |                        |
| Implied EV  | \$3,552.53      | \$799.79       |                  |                  |               |                                   |  |                    |                     |                        |
| Total Net Claims  | \$772.61        | \$772.61       |                  |                  |               |                                   |  |                    |                     |                        |
| Implied EQ  | \$2,779.92      | \$27.18        | \$3,482.31       | \$1,367.53       |               | \$4.59                            |  |                    |                     |                        |
| Valuation Summary   |                 |                |                  |                  |               |                                   |  |                    |                     |                        |
| Model   | Intrinsic Value |                |                  | Target Price     |               | Weight                            |  |                    |                     |                        |
| DCF Valuation   | \$63.00         |                |                  | \$66.57          |               | 50.00%                            |  |                    |                     |                        |
| EV/Rev (FW)   | \$107.56        |                |                  | \$119.28         |               | 20.00%                            |  |                    |                     |                        |
| EV/EBITDA (FW)  | \$1.05          |                |                  | \$1.17           |               | 0.00%                             |  |                    |                     |                        |
| P/BV (TTM)  | \$134.74        |                |                  | \$149.42         |               | 0.00%                             |  |                    |                     |                        |
| P/E (FW)  | \$52.91         |                |                  | \$58.68          |               | 30.00%                            |  |                    |                     |                        |
| Asset Based Valuation                                     | \$0.18          |                |                  | \$0.20           |               | 0.00%                             |  |                    |                     |                        |
| Price per Share   | \$68.89         |                |                  | \$74.75          |               | 100%                              |  |                    |                     |                        |

Sensitivity Attribution Analysis

Revenue

EBITDA

CAPEX

Discount Rate

1.7%

92.2%

4.7%

1.3%

Intrinsic Value Distribution--Probability (Upside)=7%

\$4.88

\$9.26

\$13.65

\$18.03

\$22.41

\$26.80

\$31.18

\$35.56

\$39.95

\$44.33

\$48.72

\$53.10

\$57.48

\$61.87

\$66.25

\$70.63

\$75.02

\$79.40

\$83.79

\$88.17

