Modern Healthcare

Molina Healthcare fires CEO and CFO amid 'disappointing' finances

By Shelby Livingston | May 2, 2017
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Molina Healthcare on Tuesday ousted politically outspoken CEO Dr. J. Mario Molina and his brother CFO John Molina after the company's recent "disappointing financial performance," the company said Tuesday.

The Long Beach, Calif.-based insurer's shares spiked by almost 18% in the wake of the announcement.

Dale Wolf, Molina's newly appointed chairman of the board, blamed poor financial results as the reason for kicking the Molina brothers out of the eponymous company their father built.

But Molina's first quarter 2017 earnings released later on Tuesday seem at odds with Wolf's stated reason.

Molina delivered a strong quarter. Its profit more than doubled to $77 million compared with $24 million at the same time in 2016. Revenue grew by 12.9% to $4.9 billion in the first quarter year over year.

Premium revenue jumped more than 16.3%. Molina added 539,000 members during quarter, bringing total membership to 4.8 million. The medical care ratio came down to 88.4% compared with 89.8% a year ago.

During a late afternoon conference call with investors on Tuesday, Wolf said leadership changes stemmed from "our sense that we were not keeping up with our competitors in terms of creating value for our shareholders."

Still, earlier in the call he said, "Molina's business remains strong."

Molina's fourth quarter 2016 financial results were not as rosy. The company recorded a loss in the fourth quarter of $47 million, compared with a profit of $30 million during the same period in 2015. The company's full year 2016 profit totaled $52 million, down from $143 million in 2015.

But at the time, Molina blamed the ACA's risk programs for the big drop in profit. Namely, Molina said it had to pay about $325 million into the ACA's risk-adjustment program, which requires plans with healthier enrollees to funnel money to insurers with seemingly sicker enrollees.

Molina also said unpaid funds from the ACA's risk corridor program exacerbated the poor results. The insurer filed a lawsuit in January demanding payment of the $52 million it says it is owed.

But now just quarter later, Molina executives say the company is doing better in the exchange business, also known as the ACA marketplace, where it insures more than 1 million members.

The new leadership said Molina's first quarter performance in the marketplace was in line with expectations, and that the company now has a better understanding of the health conditions of its membership to better predict risk.

"So far, so good as far as marketplace for 2017," said Joseph White, the company's longtime chief accounting officer who is taking over as interim president and CEO until permanent replacements are found. White will become the permanent chief financial officer.

It's unclear if Molina will remain in the exchanges in 2018, however. Dr. Molina last week in a letter to Congressional leaders said the company would continue to participate in the exchanges if the cost-sharing reduction subsidies continue to be funded. Those subsidies, which GOP lawmakers have labeled a "bailout," help low-income Americans afford insurance.

He warned them that Molina would drop out of the exchanges immediately if the subsidies go unfunded. But White walked back that position, saying the subsidies are just one requirement for Molina's participation. He said Molina is still evaluating its options regarding the exchanges.

Molina Healthcare has always been a family-run business. Emergency medicine physician Dr. C. David Molina began the company in 1980 as a network of medical clinics. In 1994, the company ventured into the insurance business.

Dr. Mario Molina took over from his father as chairman and CEO in 1996. His brother John became the CFO at the same time.

The company will remain somewhat in the family. Both Molina brothers will continue to serve as directors on the company board, according to the announcement. Dr. Molina remains a candidate for re-election as a director.

The Molina family owns about 20-25% of the insurer's shares, according to a research note from Piper Jaffray analyst Sarah James. Dr. Molina and John Molina are the largest shareholders, owning 3% and 2% of the stock, respectively, James wrote.

Dr. Molina is well-known for being one of the most outspoken health insurance company CEOs on health policy matters.

While most CEOs of large publicly traded insurers have kept quiet about the ACA repeal-and-replace efforts, Dr. Molina hasn't held back.

In addition to the warning he sent Congressional leaders over the cost-sharing subsidies, he has worried publicly over the future of Medicaid expansion. Molina Healthcare took in about $3 billion in Medicaid expansion premium revenue last year.

The GOP's ACA repeal bill, known as the American Health Care Act, introduced in March would have essentially rolled back Medicaid expansion by phasing out the enhanced federal contribution that finances the expansion starting in 2020.

Dr. Molina told Modern Healthcare in March that states are not in a position to take on more costs and predicted many would drop expansion.

He also said the repeal bill as it was written would increase premiums and further destabilize the marketplace.