



## Rating Action: Moody's affirms MMM Holdings, LLC's senior debt ratings; Outlook changed to Positive

Global Credit Research - 21 Jun 2017

New York, June 21, 2017 -- Moody's Investors Service has affirmed the B3 senior debt rating and corporate family rating (CFR) of MMM Holdings, LLC (MMM). The Ba3 insurance financial strength (IFS) rating of MMM's regulated insurance subsidiary, MMM Healthcare, LLC. (MMM Healthcare) has also been affirmed. The outlook on the ratings of MMM and MMM Healthcare have been changed to positive from stable.

### RATINGS RATIONALE

The change to a positive outlook reflects MMM's success in exceeding the requirements of its amended credit agreement, improving its profitability and maintaining adequate risk-based capital. Furthermore, it also reflects the 4.9% increase in Federal Medicare Advantage (MA) reimbursement rates for 2018, and MA membership growth in 2017, an improvement after three years of declines. MA membership growth is driven by improved benefits made possible by higher reimbursement rates and MMM's status as the only 4-star MA plan in Puerto Rico for the 2017 payment year. These positive trends are tempered by the uncertainty regarding health care reform and the financial challenges in Puerto Rico (Commonwealth of) (Caa3 negative), where a federal oversight board created to resolve the country's fiscal crisis recently chose to enter a bankruptcy-like process.

The Ba3 insurance financial strength and the B3 senior debt rating reflect MMM's relatively weak business and financial profiles. The company has a small membership level relative to other Moody's rated health insurers and is largely concentrated in MA, with smaller exposure to Medicaid. The focused membership base, which is also geographically concentrated in Puerto Rico, is more risky than peers, many of whom also have commercial exposure, including non-risk business. Because of negative equity due to a goodwill writedown, MMM has a debt/capital ratio above 100% and its risk-based capital is lowest among Moody's rated health insurers.

MMM's credit strengths include its leading MA market share in Puerto Rico and its status as the only 4-star plan for the 2017 payment year in the Commonwealth. It also has exclusive physician contracting arrangements, which helps attract and retain membership.

### RATINGS DRIVERS

Moody's could upgrade MMM within the next 18 months if the company continues to meet the following drivers: 1) risk-based capital ratio (RBC) at or above 100% of company action level (112% as of 31 December 2016); 2) EBITDA profit margins of at least 2% (4.8% as of 31 December 2016); and 3) favorable MA reimbursement rates that result in increased membership (MA membership up 5% 2017 YTD).

A downgrade is unlikely while Moody's maintains a positive outlook for MMM. Factors that could lead to a removal of the positive outlook include the following: 1) Any anticipated breach of the amended credit facility; 2) RBC capital ratio anticipated to fall below 100% of company action level; 3) an annual loss in 2017; and 4) a decline in Medicare Advantage membership during 2017.

The following ratings were affirmed:

MMM Holdings, LLC -- senior secured bank credit facility rating at B3; long-term corporate family at B3

MMM Healthcare, LLC -- insurance financial strength rating at Ba3

Outlook Actions:

..Issuer: MMM Holdings, LLC

....Outlook Changed To Positive From Stable

.. Issuer MMM Healthcare, LLC

....Outlook Changed To Positive From Stable

The principal methodology used in these ratings was U.S. Health Insurance Companies published in May 2016. Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology

Innovacare, Inc., the parent company of MMM Holdings, is a privately-owned company incorporated in Puerto Rico and headquartered in Fort Lee, New Jersey. As of March 31, 2017, Innovacare Inc. reported a stockholders' deficit of approximately \$91 million. Innovacare Inc.'s total revenues for the first three months of 2017 were \$588 million with approximately 477,000 Medicare and Medicaid members in Puerto Rico.

Moody's insurance financial strength ratings are opinions of the ability of insurance companies to pay punctually senior policyholder claims and obligations.

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Dean Ungar  
Vice President - Senior Analyst  
Financial Institutions Group  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Marc R. Pinto, CFA  
MD - Financial Institutions  
Financial Institutions Group  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653



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