

UnitedHealth Group Inc (UNH)

\$319.10 (As of 08/10/20)

Price Target (6-12 Months): **\$338.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/17/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

Summary

Shares of UnitedHealth have outperformed its industry in a year's time. It has been benefiting from higher segmental contributions, which helped it counter the coronavirus-led fund crunch. Its numerous acquisitions bolstered its inorganic growth profile. Its solid balance sheet and consistent cash flow generation encourage investment in business. By retaining its 2020 earnings guidance, the company restores investor confidence. However, it is witnessing a slowdown in its international operations. Commercial membership may also see attrition due to increased joblessness. The company's earnings of \$7.12 per share beat estimates by 37.45% and also soared 98% year over year. Strong earnings were driven by an unprecedented, temporary deferral of care in the company's risk-based businesses.

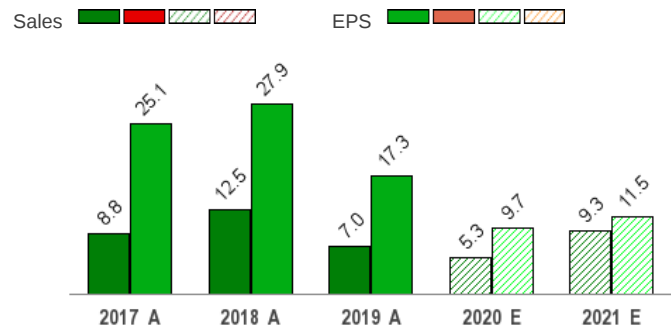
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$324.57 - \$187.72
20 Day Average Volume (sh)	2,923,347
Market Cap	\$303.3 B
YTD Price Change	8.5%
Beta	0.71
Dividend / Div Yld	\$5.00 / 1.6%
Industry	Medical - HMOs
Zacks Industry Rank	Top 21% (52 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	37.5%
Last Sales Surprise	-2.6%
EPS F1 Est- 4 week change	1.5%
Expected Report Date	10/20/2020
Earnings ESP	0.0%
P/E TTM	17.1
P/E F1	19.3
PEG F1	1.5
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	69,155 E	69,168 E	69,511 E	70,731 E	278,760 E
2020	64,421 A	62,138 A	63,734 E	65,174 E	255,055 E
2019	60,308 A	60,595 A	60,351 A	60,901 A	242,155 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$4.27 E	\$4.24 E	\$4.90 E	\$5.04 E	\$18.47 E
2020	\$3.72 A	\$7.12 A	\$2.98 E	\$2.81 E	\$16.57 E
2019	\$3.73 A	\$3.60 A	\$3.88 A	\$3.90 A	\$15.11 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

Overview

UnitedHealth Group, Inc. is the largest health care services company in the world, serving over 50 million individuals in the United States as of 2019 and over 5 million internationally.

The company provides a wide range of health care products and services, such as health maintenance organizations (HMOs), point of service plans (POS), preferred provider organizations (PPOs), and managed fee-for-service programs.

UnitedHealth has the largest and most diverse membership base within the managed-care organization market, which gives it significant competitive advantages. It also has built its prescription drug business through OptumRx division, with the acquisition of Catamaran in 2015.

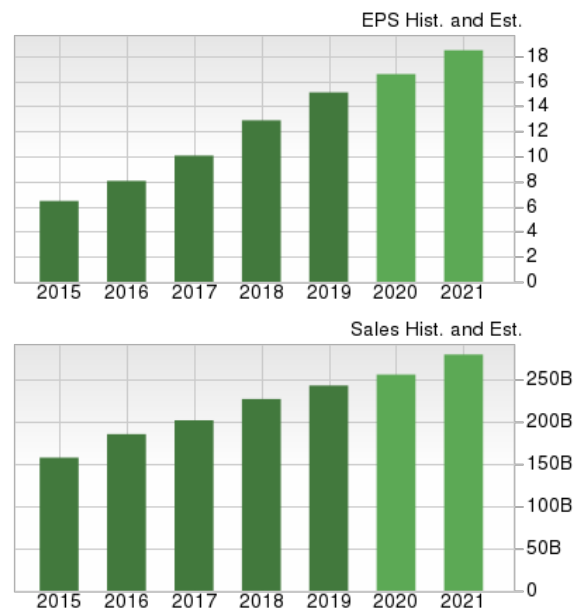
UnitedHealth Group was the top ranking company in the Healthcare: Insurance and Managed Care category in Fortune magazine's 2019 list of the "World's Most Admired Companies."

The company has acquired a number of competing healthcare providers. These acquisitions have transformed it from a pure health insurer to a comprehensive healthcare provider.

UnitedHealth Group primarily generates revenues through its premiums, fees for various medical and consulting services, and sales of medical products and services. The company reports through two segments: UnitedHealthcare and Optum. Its strategy is to meld the provision of medical care from its Optum unit with UnitedHealthcare brand insurance products, which help in cross selling of products and services.

UnitedHealthcare (contributed approximately 63% of revenues in 2019) is divided into UnitedHealthcare Employer & Individual; UnitedHealthcare Medicare & Retirement; UnitedHealthcare Community & State and UnitedHealthcare Global.

Optum (47%) is a technology-enabled health services business serving the broad health care marketplace, including those who need care: the consumers who need the right support, information, resources and products; those who provide care: pharmacies, hospitals, physicians, practices and other health care facilities.



Reasons To Buy:

- ▲ **Favorable Earnings Guidance:** For 2020, the company expects revenues to gross \$262 billion, up 8.3% from the level recorded in 2019, and adjusted net earnings per share to range from \$16.25 to \$16.55 (up 8.5% at midpoint from 2019 reported earnings). Guidance was kept intact by the company despite the coronavirus-triggered uncertainty, which in turn, instills investor confidence in the stock.
- ▲ **Consistent Top-Line Growth:** The company's revenues have grown consistently over the past years. It has witnessed a CAGR of 11% from 2010 to 2019. In the first half of 2020, the same was up 4.7% year over year. We believe the company should retain its revenue momentum in the years ahead on the back of its strong market position and attractive core business that continues to be driven by new deals, renewed agreements and expansion of service offerings. Its expansion of the health services segment and international business provides significant diversification benefits and shields it from stringent regulation in the United States.
- ▲ **Fast Growing Health Service Segment:** UnitedHealth's health service business, branded as Optum, is becoming increasingly valuable. It is also crucial to the company's diversification strategy. The primary growth drivers for Optum are pharmacy care services, care delivery, technology, government services, and international. The segment expanded to contribute 48% of operating earnings in 2019 compared with 25% in 2014. From 2010 to 2019, the segment's compounded revenues and earnings witnessed a CAGR of 19%. In first-half 2020, revenues and earnings grew 20% and 9%, respectively. A number of acquisitions made in this segment, use of advanced technology, market leading health analytics, modern care delivery and data-driven population health approaches lend Optum a long runway for growth. Each sub-segment is expected to deliver a solid performance, driving the overall segment's growth in turn.
- ▲ **Healthy Balance Sheet:** UnitedHealth has a healthy balance sheet with strong financial flexibility, marked by consistent cash generated from operations over the years. This also allows investment in business. The company's total debt to total capital of 38.5% is comparable with industry average. Also, its times interest earned ratio of 13.9 has remained almost flat sequentially and is higher than the industry's figure of 10.3, implying that the company's earnings are sufficient to cover interest obligations. The company has also been aggressively repurchasing shares. The company favors share buybacks and mergers over dividend payout as ways to deploy capital. In June, the company increased the quarterly dividend by 20%. Its dividend yield of 1.65% is higher than the industry average of 1.31%. The dividend has advanced at or above 20% each year since initiated about a decade ago. The payout ratio has been about 30%, which is in line with the market-level objective set by the company. Moreover, its long-term earnings growth potential provides ample capacity to increase the dividend for the years to come.
- ▲ **Favorable Cash Flows:** The company has been generating positive cash flow from operations from the past many years, which reflects its consistently favorable operating performance. In the first six months, cash from operations surged 42% year over year. The company's ability to generate positive cash flows also enables investment in business.
- ▲ **Growing Government Business:** The company's government business, which consists of Medicaid and Medicare Advantage, is expected to witness huge growth. The company's Medicaid business should get an impetus from the recent key Medicaid contract wins in Kentucky, Indiana, the onboarding of North Carolina expected in 2021. Following a lull in membership growth during April/May, MA sales were revived later and this robust trend is expected to remain given the aging population, potential growth in patient complexity (an area of expertise for UnitedHealth). For the first half of 2020, revenues from Medicare were up 10% year over year.
- ▲ **Share Price Performance:** In a year's time, shares of the company have outperformed its industry's growth. Moreover, factors like an improving top line and solid capital deployment are likely to help the stock continue performing well going forward.

UnitedHealth's continued strong growth at Optum as well as UnitedHealthcare segments are driving revenues. Its favorable government business and strong capital position are other positives.

Reasons To Sell:

- ▼ **Slowdown in Global Business:** UnitedHealth's international business spans over four of the six largest countries in Latin America, as well as in Europe and over 130 countries around the world. It is one of the few companies in the health insurance space having an expanding overseas business. However, in 2019, membership from international business declined 8% year over year and revenues remained almost unchanged. In the first half of 2020, revenues declined 22% while membership was down 12%.
- ▼ **Commercial Health Insurance Under Pressure:** Given the coronavirus-induced weakness in the U.S. economy, many employers have already and will further furlough employees, resulting in worsening levels of unemployment. This may cause membership declines in Commercial business, which constitutes nearly 50-55% of the company's total medical membership. Revenues and membership from the Commercial business were down 3% and 2%, respectively, in the first six months of 2020.
- ▼ **Overvalued:** The company's valuation seems a little expensive at current level with its 12-month forward price-to-earnings multiple of 17.16x compared with 15.38x for the industry.

The company is facing a slowdown in its international business. The stock also looks overvalued at current levels.

Last Earnings Report

UnitedHealth's Earnings in Q2 Beat on Lower Payouts

UnitedHealth Group Inc.'s second-quarter 2020 earnings of \$7.12 per share surpassed the Zacks Consensus Estimate by 37.45%. This also compares favorably with earnings of \$3.60 per share a year ago.

Better-than-expected earnings were driven lower by an unprecedented, temporary deferral of care in the company's risk-based businesses, as hospital elective payouts were put on hold due to the coronavirus outbreak.

UnitedHealth's revenues of \$62.1 billion missed the Zacks Consensus Estimate by 2.7%. However, the top line improved 2.5% year over year, aided by broad-based revenue growth at Optum and UnitedHealthcare.

Medical care ratio of 70.2% improved 1290 basis points year over year, mainly owing to the temporary deferral of care amid the pandemic.

Operating cost ratio of 16.1% increased 220 basis points due to the health insurance tax, COVID-19 response efforts and business mix.

Total operating cost of \$52.9 billion was down 5.3% year over year, mainly on account of lower medical costs.

Quarter Ending 06/2020

Report Date	Jul 15, 2020
Sales Surprise	-2.62%
EPS Surprise	37.45%
Quarterly EPS	7.12
Annual EPS (TTM)	18.62

Strong Segmental Performances

In the reported quarter, the company's health benefits segment, UnitedHealthcare, generated revenues worth \$49.1 billion, up 1% year over year. Revenue growth was attributable to strong Medicare Advantage and dual special needs plans, partly offset by a decline in commercial enrollment.

The company's business groups, namely Medicare and Retirement plus Community and State contributed to growth, partly offset by lower contribution from Employer and individual and Global segments. Earnings from operations worth \$7 billion were up from \$2.6 billion last year, backed by the temporary impact of deferred care, net of COVID-19 treatment costs and the initial impact of a decelerating economy.

Revenues from another segment, Optum, improved 16.8% year over year to \$32.7 billion, reflecting robust contributions from the sub-segments of OptumHealth (up 27.8%), OptumInsight (12.6%) and OptumRx (up 13%). Earnings from operations rose 6.3% year over year to \$2.2 billion.

The segment gained from the company's efforts in different areas, which included extending geographic presence and adding distinctive capabilities through strategic acquisitions in infusion services (Diplomat Pharmacy), post-acute care (NaviHealth) and digital behavioral health (AbleTo); launching the Boulder Community Health partnership; providing testing services in California, Indiana and Florida and introducing digital-at-home and rare-disease pharmacy programs.

Decline in Membership Enrollment

The company served 48.4 million people in the quarter, down 2.2% year over year, thanks to lower member enrollment in the Commercial and International business.

During the first six months of 2020, cash flow from operations of \$12.94 billion surged 42.1% year over year.

Mixed Capital Position

Cash and short-term investments as of June 30, 2020 were \$25.59 billion, up 79.7% from the level as of Dec 31, 2019.

Long-term debt of \$39.9 billion at June-end was up 8.4% from the level at 2019 end.

2020 Guidance Intact

The company reaffirmed its earlier-issued earnings outlook for 2020 including net earnings of \$15.45-\$15.75 per share and adjusted net earnings of \$16.25-\$16.55. Further revisions for earnings will depend on how the COVID-19 pandemic unleashes its effect on the company's business.

Recent News

UnitedHealthcare's Teledentistry Launch to Boost Oral Health — Jun 24, 2020

UnitedHealth Group's business, UnitedHealthcare, recently introduced teledentistry services in a bid to offer enhanced oral care to members. Enrollees of the company's fully insured employer-sponsored, Medicare Advantage and select Medicaid can have access to the teledentistry option. The move has been primarily initiated to curb emergency room (ER) visits related to dental issues, which can be avoided. Despite the fact that some dental care centres have opened again taking several precautionary measures, teledentistry will provide members with access to numerous dental personnel from the security of their home.

UnitedHealth to Aid Eligible Medicaid Members in Kentucky — Jun 8, 2020

UnitedHealth Group unveiled that its health service unit UnitedHealthcare Community Plan has been chosen by the Commonwealth of Kentucky for bringing about improved health outcomes in the state. The new agreement is likely to benefit eligible enrollees of the company's Medicaid programs in Kentucky. Per the new deal, eligible Kentuckians will be enlisted for the Medicaid program from Jan 1 of next year. The deal is likely to strengthen the company's presence further in Kentucky, where it already has an existing base of nearly 800 employees.

UnitedHealth, Microsoft's New Mobile App to Help Trace Coronavirus — May 15, 2020

UnitedHealth together with Microsoft will roll out the new ProtectWell protocol and Microsoft Azure-powered mobile application to help employees return to workplace in a safer way. This application will screen the returning-to-work employees for COVID-19 symptoms. It will thus assist their employers in simplifying the return-to-work strategy for the staff. The application uses Microsoft Azure, AI and analytics solutions combined with UnitedHealth Group's clinical and data analytics expertise. The app also leverages Microsoft's Healthcare Bot service.

UnitedHealth Collaborates to Provide Improved Patient Care — Apr 23, 2020

UnitedHealth has tied up with Boston Scientific, Medtronic and the University of Minnesota for developing innovative 'light' ventilators. Apart from meeting shortages of traditional ventilators, the new device is meant for supporting patients who require higher level of respiratory support. This announcement comes as a relief to the healthcare workers who are treating large number of patients during the COVID-19 pandemic.

Valuation

UnitedHealth's shares are up 3.3% in the year to date period and up 23.8% over the trailing 12-month period. Stocks in the Zacks sub-industry is down 4.2% but the Zacks Medical sector is up 1.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector is up 13.2% and the sector is up 11.5%, respectively.

The S&P 500 index is up 1.6% in the year-to-date period and up 15.5% in the past year.

The stock is currently trading at 18x forward 12-month price to earnings, which compares to 16.02x for the Zacks sub-industry, 22.12x for the Zacks sector and 22.81x for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.45x and as low as 11.43x, with a 5-year median of 16.97x. Our Neutral recommendation indicates that the stock will perform in-line with than the market. Our \$338 price target reflects 18.9x forward earnings.

Valuation Multiples - UNH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18	16.02	22.12	22.81
	5-Year High	22.45	20.58	23.17	22.81
	5-Year Low	11.43	12.48	15.89	15.25
	5-Year Median	16.97	16.05	18.97	17.58
P/S F12M	Current	1.07	0.77	2.84	3.59
	5-Year High	1.15	0.86	3.41	3.59
	5-Year Low	0.57	0.48	2.22	2.53
	5-Year Median	0.9	0.69	2.9	3.04
P/B TTM	Current	4.33	3.53	4.42	4.5
	5-Year High	5.24	4.07	5.07	4.56
	5-Year Low	3.06	2.3	2.94	2.83
	5-Year Median	4.16	3.21	4.3	3.72

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Top 21% (52 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Select Medical Holdings Corporation (SEM)	Outperform	1
Anthem, Inc. (ANTM)	Neutral	3
Cigna Corporation (CI)	Neutral	3
Centene Corporation (CNC)	Neutral	3
CVS Health Corporation (CVS)	Neutral	3
Humana Inc. (HUM)	Neutral	3
Magellan Health, Inc. (MGLN)	Neutral	3
Molina Healthcare, Inc (MOH)	Neutral	3

Industry Comparison Industry: Medical - Hmos				Industry Peers		
	UNH	X Industry	S&P 500	ANTM	CNC	HUM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	A	A
Market Cap	303.25 B	2.34 B	23.56 B	70.13 B	36.51 B	55.53 B
# of Analysts	13	8	14	11	12	11
Dividend Yield	1.57%	0.00%	1.71%	1.36%	0.00%	0.60%
Value Score	B	-	-	A	A	A
Cash/Price	0.08	0.30	0.07	0.45	0.39	0.36
EV/EBITDA	14.17	9.40	13.39	7.44	12.50	9.73
PEG Ratio	1.53	1.52	2.92	0.85	0.92	1.81
Price/Book (P/B)	4.56	2.21	3.18	2.04	1.45	3.85
Price/Cash Flow (P/CF)	17.46	11.42	12.69	11.42	9.44	18.64
P/E (F1)	19.45	15.93	22.16	12.44	12.91	22.29
Price/Sales (P/S)	1.22	0.62	2.55	0.62	0.40	0.79
Earnings Yield	5.19%	5.73%	4.33%	8.04%	7.75%	4.49%
Debt/Equity	0.60	0.59	0.77	0.58	0.66	0.42
Cash Flow (\$/share)	18.28	6.68	6.94	24.42	6.68	22.51
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	25.29%	26.09%	10.41%	18.14%	28.45%	26.89%
Proj. EPS Growth (F1/F0)	9.68%	10.32%	-6.51%	15.32%	10.37%	5.37%
Curr. Cash Flow Growth	14.76%	14.42%	5.26%	16.15%	45.38%	17.03%
Hist. Cash Flow Growth (3-5 yrs)	19.53%	13.62%	8.55%	12.87%	49.67%	12.98%
Current Ratio	0.84	1.46	1.34	1.64	1.22	1.69
Debt/Capital	38.56%	37.57%	44.59%	36.58%	39.94%	29.59%
Net Margin	6.90%	4.51%	10.13%	5.24%	1.70%	4.96%
Return on Equity	29.28%	19.01%	14.59%	19.44%	14.07%	26.70%
Sales/Assets	1.36	1.39	0.51	1.39	1.74	2.15
Proj. Sales Growth (F1/F0)	5.33%	8.58%	-1.54%	14.93%	48.27%	15.38%
Momentum Score	C	-	-	B	F	C
Daily Price Chg	0.65%	0.67%	0.91%	0.79%	-1.99%	0.44%
1 Week Price Chg	4.71%	2.88%	2.30%	1.04%	-1.49%	6.50%
4 Week Price Chg	6.47%	7.78%	8.54%	8.26%	-0.83%	9.92%
12 Week Price Chg	8.77%	7.88%	13.68%	-0.40%	-7.00%	6.98%
52 Week Price Chg	31.21%	2.27%	3.71%	-1.11%	31.31%	42.43%
20 Day Average Volume	2,923,347	238,689	2,015,804	1,214,398	3,011,970	673,976
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.24%
(F1) EPS Est 4 week change	1.54%	0.00%	1.67%	0.18%	-0.87%	-0.24%
(F1) EPS Est 12 week change	1.93%	1.41%	2.27%	0.89%	2.67%	0.78%
(Q1) EPS Est Mthly Chg	-22.95%	-3.63%	0.67%	-5.73%	-9.11%	5.20%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	C
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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