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Jan 13, 2020

UnitedHealth Group Inc (UNH)

$295.13 (As of 01/10/20)

Price Target (6-12 Months): **$310.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/17/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: B | Growth: C | Momentum: D	**3-Hold** VGM:C

Summary

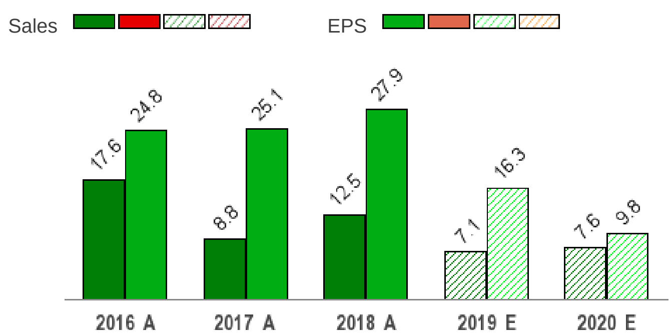
UnitedHealth Group stands apart in the industry by virtue of healthcare services, technology and innovations offered by its unit, Optum. Numerous acquisitions made by the company have led to inorganic growth. Its solid balance sheet and consistent cash flow generation enable investment in business. Also, capital management by dividend payout and share buyback is another positive. Strong earnings guidance by the company instills investors' confidence. The stock has seen the Zacks Consensus Estimate for current-year earnings being revised 0.8% upward over the last 60 days. The stock has underperformed its industry year to date. The slowdown of growth in international operations and underperformance in Medicaid business are some concerns.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$300.00 - $208.07
20 Day Average Volume (sh)	2,609,549
Market Cap	$279.6 B
YTD Price Change	0.4%
Beta	0.65
Dividend / Div Yld	$4.32 / 1.5%
Industry	Medical - HMOs
Zacks Industry Rank	Top 15% (38 out of 254)
Last EPS Surprise	3.5%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/15/2020
Earnings ESP	0.4%
P/E TTM	20.4
P/E F1	17.9
PEG F1	1.4
P/S TTM	1.2

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	63,971 E	64,641 E	65,105 E	65,826 E	260,742 E
2019	60,308 A	60,595 A	60,351 A	60,976 E	242,230 E
2018	55,188 A	56,086 A	56,556 A	58,417 A	226,247 A

EPS Estimates

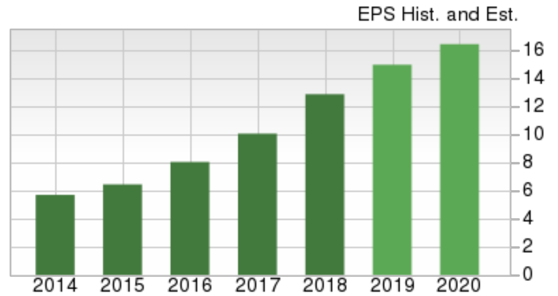
	Q1	Q2	Q3	Q4	Annual*
2020	$4.05 E	$3.97 E	$4.23 E	$4.19 E	$16.45 E
2019	$3.73 A	$3.60 A	$3.88 A	$3.77 E	$14.98 E
2018	$3.04 A	$3.14 A	$3.41 A	$3.28 A	$12.88 A

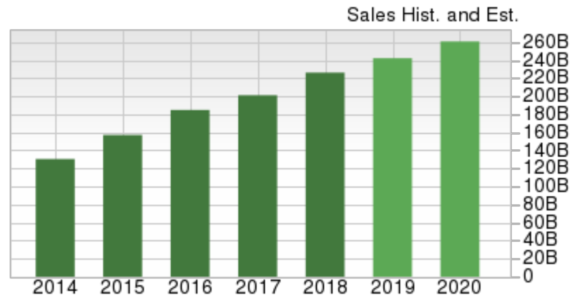
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/10/2020. The reports text is as of 01/13/2020.

Overview

Incorporated in Jan 1977 and headquartered in Minnetonka, MN, UnitedHealth Group Inc. is a diversified health and well-being company. Through its diversified businesses, the company leverages core competencies in advanced technology-based transactional capabilities; health care data, knowledge and information; and health care resource organization and care facilitation. The company reports through two segments:





UnitedHealthcare (contributed approximately 53% of operating earnings 2018) is divided into UnitedHealthcare Employer & Individual that serves employers ranging from sole proprietorships to large, multi-site and national employers, public sector employers and individual consumers; UnitedHealthcare Medicare & Retirement delivers health and well-being benefits for Medicare beneficiaries and retirees; UnitedHealthcare Community & State manages health care benefit programs on behalf of state Medicaid and community programs and their participants; UnitedHealthcare Global includes the provision of health and dental benefits, hospital and clinical services to employer groups and individuals in South America, and other diversified global health businesses.

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; those who pay for care: employers, health plans, and state, federal and municipal agencies; those who innovate for care: global life sciences organizations.

Optum operates three business segments. OptumHealth provides behavioral benefit solutions, clinical care management and financial services. OptumInsight provides database and data management services, software products, publications, consulting services, outsourced services, and pharmaceutical consulting and research services. OptumRx offers a comprehensive suite of integrated pharmacy benefit management services, including retail network pharmacy management, mail order pharmacy services, specialty pharmacy services, benefit design consultation, drug utilization review, formulary management programs etc.

Reasons To Buy:

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.

▲ **Increase in Earnings Guidance:** Following strong first nine months performance, UnitedHealth moved up its 2019 adjusted earnings per share guidance to the range of $14.90-$15 from $14.70-$14.90 stated earlier. This increase in earnings estimates for the third time this year instills investors' confidence in the company.

▲ **Consistent Top-line Growth:** The company's revenues have grown consistently over the past years. It has witnessed a CAGR of 12% from 2006 to 2018. The trend continued in the first nine months of 2019, with revenues up 8% 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 building up 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 has expanded to contribute 47% of operating earnings in 2018 compared with 25% in 2014. From 2013 to 2018, the segment's compounded revenues and earnings witnessed a CAGR of 22%. 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. Revenues from this business are expected in the range of $111-$112 billion for 2019, which indicates year-over-year growth of nearly 10%.

▲ **Strong Membership Growth:** UnitedHealth's membership in the public and senior business has been growing consistently over the years and the trend continued in the first nine months of 2019. Going forward, Medicare business will further fuel membership growth. In Medicare business, a combination of premium and benefit stability, rising stars rating performance, and improved service and clinical performance, would lead to record retention rates that will drive membership growth. The company's relationship with American Association of Retired Persons (AARP) also drives growth by enhancing recognition of its Medicare products.

▲ **Healthy Balance Sheet:** UnitedHealth has a healthy balance sheet with unparalleled financial flexibility, which allows investment in business. The company has also been aggressively repurchasing shares. Earlier, it favored 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 1.46% is higher than the industry average of 1.12%. 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.

▲ **Share Price Performance:** Year to date, shares of the company have underperformed its industry's growth. The stock has seen the Zacks Consensus Estimate for current-year earnings being revised 0.8% upward over the last 90 days.

Reasons To Sell:

▼ **Medicaid Business Under Pressure:** The company's Medicaid business has been under pressure in some of the markets, which led to a decline in Medicaid membership in the recent quarters. In the first nine months of 2019, Medicaid membership declined by 7.5%. Despite latest initiatives taken for growth, management confessed that the business is still underperforming and probably by 2020 they will be able to achieve their desired margin of 3–5%.

Pressure on Medicaid business, slowdown in global business are some of the headwinds faced by the company.

▼ **Slow Growth 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, revenues and membership growth from this business are expected to slow down in 2019. In the first nine months, membership from international business declined 6% year over year.

Last Earnings Report

UnitedHealth Q3 Earnings and Revenues Beat, Guidance Up

Quarter Ending	09/2019
Report Date	Oct 15, 2019
Sales Surprise	1.22%
EPS Surprise	3.47%
Quarterly EPS	3.88
Annual EPS (TTM)	14.49

UnitedHealth Group Inc.'s third-quarter 2019 earnings of $3.88 per share surpassed the Zacks Consensus Estimate by 3.5%. The same was up 13.8% year over year.

Higher revenues, strength in both segments — UnitedHealthcare and Optum — plus membership growth led to this outperformance.

Strong Operating Performance

UnitedHealth posted revenues of $60.4 billion, beating the Zacks Consensus Estimate by 1.3%.
The same was up 7% year over year, led by double-digit growth at UnitedHealthcare Medicare & Retirement, OptumRx and OptumHealth.

Total operating cost of $55.3 billion was up 6.3% year over year, led by higher medical costs and operating cost.

The operating cost ratio of 14.8% improved 20 basis points year over year due to the deferral of the health insurance tax and continued effect of operating cost productivity improvements.

Strong Performance Across Segments

In the reported quarter, the company's health benefits segment, UnitedHealthcare, generated revenues of $48.1 billion, up 4.7% year over year. Revenue growth was driven by higher enrollment and increase in pricing.
Its business groups — Employer and Individual, Medicare and Retirement and Global — contributed to the growth. Earnings from operations were up 3.8% year over year to $2.7 billion, led by revenue growth and cost control.

Revenues from Optum improved 13.4% year over year to $28.8 billion, reflecting strong contributions from the sub-segments — OptumHealth (up 34.4%), OptumInsight (16.1%) and OptumRx (5.8%). Earnings from operations jumped 20% year over year to $2.4 billion. Steady focus on accelerating growth as well as improving margins and productivity through enhanced integration and business alignment led to the segment's overall improvement.

Increase in Membership Enrollment

The company served 49.39 million people in the quarter, up 0.8% year over year. It was led by growth in members, served in the Commercial and Medicare Advantage and partially offset by lower Medicaid and International membership.

Capital Position Update

Cash flow from operations declined 8% year over year to $12.2 billion in the first nine month of 2019.

Cash and short-term investments at quarter-end were $15.8 billion, up 10.4% year over year.

Share Buyback and Dividend Payout

During the third quarter, dividend payout grew 20% year over year to $1 billion and $600 million of shares were repurchased.

2019 Guidance Raised

Following a strong third-quarter 2019 performance, UnitedHealth raised its 2019 adjusted earnings per share guidance to $14.90-$15 from $14.7-14.9 guided earlier.

Recent News

UnitedHealth to Buy Diplomat, Expand Pharmacy Services - Dec 9, 2019

UnitedHealth Group's health service segment Optum's pharmacy care services, OptumRx will acquire Diplomat, a provider of specialty pharmacy and infusion services.

The agreement includes buying Diplomat's outstanding common stock for $4 per share through a cash tender offer and takeover of existing debt.

Diplomat is a perfect fit for OptumRx given the former company's niche in treating patients with complex diseases, such as oncology and immunology. It also provides specialized infusion therapies in convenient and clinically appropriate settings with a vast presence in all 50 states and Washington, D.C.

UnitedHealth Promotes Optum Unit Boss Witty To President Role - Nov 11, 2018

The company has promoted Optum unit head Andrew Witty to the role of group president. Andrew Witty became the chief executive of UnitedHealth's pharmaceutical and care services unit Optum in March 2018 after a nine-year stint as chief executive of London-based FTSE 100-listed pharmaceutical company Glaxo between 2008 and 2017.

UnitedHealth Group Board Authorizes Payment of Quarterly Dividend - Nov 8, 2019

The company's board of directors has authorized payment of a cash dividend of $1.08 per share, to be paid on Dec 17, 2019, to all shareholders of record on Dec 9, 2019.

UnitedHealthcare to Offer New Medicare Advantage Plan - Sep 19, 2019

UnitedHealthcare will offer a new Medicare Advantage plan in the Bay Area featuring Canopy Health care providers. The UnitedHealthcare Canopy Health Medicare Advantage plan will be available to more than 630,000 Medicare beneficiaries in Contra Costa, Alameda and San Francisco counties.

The new plan will offer access to a large, comprehensive, high-quality network of care providers in the Bay Area who are affiliated with Canopy Health. These care providers share UnitedHealthcare's commitment to improving health outcomes, lowering the cost of care and creating an exceptional patient experience.

Valuation

UnitedHealth shares are up 18.9% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector are up 19.3% and 1.1%, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 17.87X forward 12-month price to earnings, which compares to 16.48X for the Zacks sub-industry, 21.5X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.45X and as low as 13.32X, with a 5-year median of 17.19X. Our Neutral recommendation indicates that the stock will in-line with the market. Our $310 price target reflects 18.78X price to earnings.

The table below shows summary valuation data for UNH

Valuation Multiples - UNH

		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	17.87	16.48	21.5	18.88
	5-Year High	22.45	20.68	21.5	19.32
	5-Year Low	13.32	12.59	15.91	15.15
	5-Year Median	17.19	16.33	18.98	17.42
P/S F12M	Current	0.99	0.76	3.28	3
	5-Year High	1.14	0.87	3.41	3.19
	5-Year Low	0.57	0.48	2.55	2.34
	5-Year Median	0.82	0.66	2.99	2.81
P/B TTM	Current	4.42	3.5	3.5	4.35
	5-Year High	5.24	4.09	5.07	4.35
	5-Year Low	2.86	2.34	3.46	2.85
	5-Year Median	3.99	3.06	4.29	3.58

As of 01/10/2020

Industry Analysis **Zacks Industry Rank:** Top 15% (38 out of 254)

Top Peers

WellCare Health Plans, Inc. **(WCG)**	Outperform
Anthem, Inc. **(ANTM)**	Neutral
Cigna Corporation **(CI)**	Neutral
Centene Corporation **(CNC)**	Neutral
Humana Inc. **(HUM)**	Neutral
Molina Healthcare, Inc **(MOH)**	Neutral
Select Medical Holdings Corporation **(SEM)**	Neutral
Magellan Health, Inc. **(MGLN)**	Underperform

Industry Comparison Industry: Medical - Hmos

Industry Peers

	UNH Neutral	X Industry	S&P 500	ANTM Neutral	CNC Neutral	HUM Neutral
VGM Score	C	-	-	A	B	A
Market Cap	279.61 B	2.47 B	24.03 B	78.03 B	26.68 B	48.22 B
# of Analysts	12	4	13	10	11	11
Dividend Yield	1.46%	0.00%	1.78%	1.04%	0.00%	0.60%
Value Score	B	-	-	A	A	A
Cash/Price	0.06	0.28	0.04	0.36	0.28	0.33
EV/EBITDA	15.29	11.03	14.04	10.06	12.08	13.37
PEG Ratio	1.41	1.26	2.02	0.86	0.94	1.40
Price/Book (P/B)	4.84	3.49	3.32	2.49	2.15	4.16
Price/Cash Flow (P/CF)	18.82	14.41	13.52	14.93	13.89	19.37
P/E (F1)	17.94	17.21	18.82	13.57	13.41	19.48
Price/Sales (P/S)	1.17	0.61	2.63	0.78	0.37	0.77
Earnings Yield	5.57%	5.69%	5.31%	7.37%	7.46%	5.13%
Debt/Equity	0.67	0.60	0.72	0.60	0.56	0.46
Cash Flow ($/share)	15.68	6.35	6.94	20.61	4.64	18.79
Growth Score	C	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	23.72%	23.12%	10.56%	14.19%	32.24%	23.12%
Proj. EPS Growth (F1/F0)	9.79%	9.36%	7.49%	16.73%	8.74%	5.19%
Curr. Cash Flow Growth	24.00%	16.31%	14.83%	29.54%	52.48%	16.31%
Hist. Cash Flow Growth (3-5 yrs)	16.60%	14.42%	9.00%	8.80%	52.29%	7.02%
Current Ratio	0.70	1.16	1.23	1.70	1.01	1.83
Debt/Capital	41.22%	37.53%	42.99%	37.53%	36.09%	31.62%
Net Margin	5.57%	3.34%	11.08%	4.29%	1.87%	4.06%
Return on Equity	25.30%	15.97%	17.16%	15.59%	15.54%	22.32%
Sales/Assets	1.47	1.77	0.55	1.34	2.17	2.24
Proj. Sales Growth (F1/F0)	7.22%	8.91%	4.20%	11.80%	7.54%	10.29%
Momentum Score	D	-	-	D	F	C
Daily Price Chg	0.31%	0.00%	-0.33%	0.43%	0.50%	-0.11%
1 Week Price Chg	-2.17%	-1.36%	-0.30%	-3.11%	-3.91%	-1.66%
4 Week Price Chg	4.06%	3.04%	1.71%	8.20%	10.18%	4.92%
12 Week Price Chg	21.12%	19.66%	6.05%	23.47%	36.67%	27.54%
52 Week Price Chg	20.53%	14.71%	22.39%	21.99%	8.90%	32.40%
20 Day Average Volume	2,609,549	283,448	1,580,816	1,133,858	3,488,456	834,865
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.01%
(F1) EPS Est 4 week change	0.02%	0.00%	0.00%	0.00%	-0.84%	-0.01%
(F1) EPS Est 12 week change	-0.82%	-1.03%	-0.50%	-0.80%	-2.65%	-0.57%
(Q1) EPS Est Mthly Chg	-0.46%	0.00%	0.00%	0.00%	-8.10%	0.00%

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	C
Momentum Score	D
VGM Score	C

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.

Disclosures

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