Apr 17, 2020

UnitedHealth Group Inc (UNH)

$298.43 (As of 04/16/20)

Price Target (6-12 Months): **$313.00**

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

Summary

UnitedHealth's first-quarter earnings gain traction from higher segmental contributions, which helped it escape the fallout from the coronavirus-led crunch. It stands out from the rest in its industry by virtue of healthcare services, technology and innovations offered by its unit, Optum. Its numerous acquisitions bolstered its inorganic growth profile. Its revenues should continue to grow, driven by a strong market position and an attractive core business. Its solid balance sheet and consistent cash flow generation encourage investment in business. By retaining its 2020 earnings guidance, the company restores investor confidence. The stock has outperformed its industry in a year's time. However, the company is witnessing a slowdown in its international operations. Commercial membership may also suffer due to increased joblessness.

Price, Consensus & Surprise

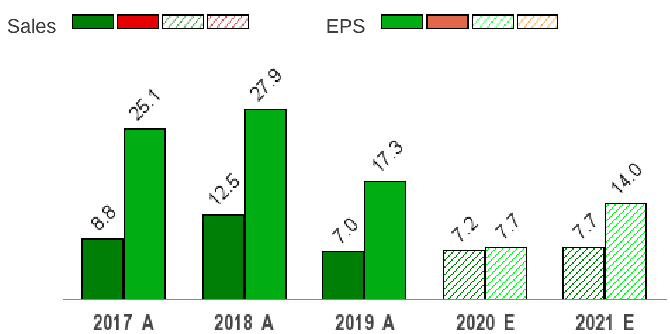
Data Overview

52 Week High-Low	**$306.72 - $187.72**
20 Day Average Volume (sh)	**6,096,793**
Market Cap	**$283.1 B**
YTD Price Change	**1.5%**
Beta	**0.63**
Dividend / Div Yld	**$4.32 / 1.4%**
Industry	**Medical - HMOs**
Zacks Industry Rank	**Top 33% (83 out of 253)**

Last EPS Surprise	**2.2%**
Last Sales Surprise	**-0.4%**
EPS F1 Est- 4 week change	**-1.2%**
Expected Report Date	**07/16/2020**
Earnings ESP	**5.3%**

P/E TTM	**19.8**
P/E F1	**18.3**
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*
2021	69,923 E	70,946 E	71,210 E	72,335 E	279,716 E
2020	64,421 A	64,183 E	64,736 E	65,629 E	259,710 E
2019	60,308 A	60,595 A	60,351 A	60,901 A	242,155 A

EPS Estimates

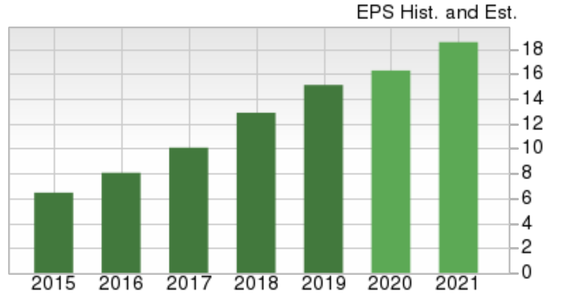
	Q1	Q2	Q3	Q4	Annual*
2021	$4.27 E	$4.77 E	$4.83 E	$4.77 E	$18.55 E
2020	$3.72 A	$4.54 E	$4.16 E	$4.00 E	$16.27 E
2019	$3.73 A	$3.60 A	$3.88 A	$3.90 A	$15.11 A

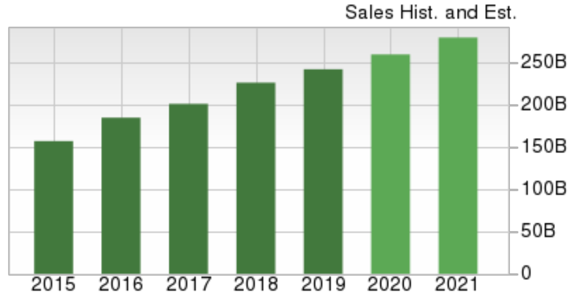
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/16/2020. The reports text is as of 04/17/2020.

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:

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.

- **Favorably Placed With Respect to COVID-19:** The company's first-quarter 2020 results reflected minimal or no negative impact from COVID-19 as various factors including the rising U.S. incidence and response initiatives; multiple investment efforts including coverage expansions and increased access to critical care and pharmacy services; other funding and support measures; and lower elective care demand were seen late in March. Also, the company maintained its full-year guidance. However, it will continue to evaluate the prevalent crisis situation going forward.

- **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 quarter of 2020, the same was up 6.8% 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 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-quarter 2020, revenues and earnings grew 24.6% and 12.2%, 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. Revenues from this business are expected in the range of $127-$128 billion for 2020, which indicate growth of nearly 13% from revenues reported in 2019 (calculated at the mid-point).

- **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 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 1.45% is higher than the industry average of 1.25%. 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:** 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.

Reasons To Sell:

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

- **Slow Down 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 quarter of 2020, membership in this segment was down 8.5% year over year. For 2020, the company expects membership to grow by 75000-125000 and revenues to increase by 1.4% from figures reported in 2019. This growth rate is slower than the increase of 25% and 27% reported in 2017 and 2018, respectively.

- **Risk to Medical Membership:** Given the coronavirus-induced weakness in the U.S. economy, many employers have already and will further furlough employees, resulting in worseninglevels of unemployment. This may cause membership declines in Commercial business, which constitutes nearly 50-55% of the company's total medical membership.

- **Overvalued:** The company's valuation seems a little expensive at current level with its 12-month forward price-to-earnings multiple of 19.75x compared with 17.19x for the industry.

Last Earnings Report

UnitedHeath's Q1 Earnings Beat

Quarter Ending	03/2020
Report Date	Apr 15, 2020
Sales Surprise	-0.38%
EPS Surprise	2.20%
Quarterly EPS	3.72
Annual EPS (TTM)	15.10

UnitedHealth Group Inc.'s first-quarter 2020 earnings of $3.72 per share surpassed the Zacks Consensus Estimate by 1.92% and were also up a penny year over year.

Higher revenues and strength in both segments, namely UnitedHealthcare and Optum led to this outperformance.

UnitedHealth's revenues of $64.4 billion missed the Zacks Consensus Estimate by 0.3%. However, the top line was up 6.8% year over year, aided by broad-based revenue growth across Optum and UnitedHealthcare.

Medical care ratio of 81% improved 100 basis points year over year, mainly owing to return of the health insurance tax, partly offset by extra calendar this quarter.

The operating cost ratio of 15.5% increased 140 basis points due to return of the health insurance tax and business mix, partially offset by productivity improvements.

Total operating cost of $55.8 billion was up 3.5% year over year, thanks to higher medical costs and operating cost.

Segmental Perfromances

In the reported quarter, the company's health benefits segment, UnitedHealthcare, generated revenues worth $51.1 billion, up 4.4% year over year. Revenue growth was driven by strong Medicare Advantage and dual special needs plans.

The company's business groups, namely Employer and Individual, Medicare and Retirement, Community and State contributed to growth, partly offset by lower contribution from Global . Earnings from operations were flat year over year at $2.9 billion, led by revenue growth.

Revenues from Optum improved 24.6% year over year to $32.8 billion, reflecting robust contributions from the sub-segments, OptumHealth (up 36.9%), OptumInsight (13.9%) and OptumRx (up 21%). Earnings from operations jumped 12.2% year over year to $2.1 billion.

Membership Enrollment

The company served 48.54 million people in the quarter, down 2.4% year over year. this downside was induced by decline in members served in the Commercial and Medicaid and International business.

Capital Position Update

During the year, cash flow from operations of $2.94 billion decreased 9% from the level at 2019 end.

Cash and short-term investments at quarter-end were $24.44 billion, up 71.6% from the level as of Dec 31, 2019.

2020 Guidance

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 to earnings will depend on how the COVID-19 pandemic unleashes it effect on the company's business.

Recent News

UnitedHealth to Offer Financial Aid to Healthcare Providers — Apr 8, 2020

The company through its two distinct platforms — UnitedHealthcare and Optum, has decided to extend financial assistance toward its healthcare providers across the United States. Healthcare providers offering medical and behavioral care services in UnitedHealthcare's fully insured commercial, Medicare Advantage and Medicaid plans during the crisis are likely to gain traction from the latest announcement.

UnitedHealth Announces Dividend Payment — Feb 17,2020

The company has authorized payment of a cash dividend of $1.08 per share, to be paid on Mar 24, 2020, to all shareholders of record of as of the Mar 16, 2020.

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.

Valuation

UnitedHealth's shares are up 1.5% and 37.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are down 4.9% and 6.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 28.6% and 1.7%, respectively.

The S&P 500 index is down 13.1% in the year-to-date period and 3.9% in the past year.

The stock is currently trading at 17.41x forward 12-month price to earnings, which compares to 15.03x for the Zacks sub-industry, 20.43x for the Zacks sector and 18.65x for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.45x and as low as 12.76x, with a 5-year median of 17.09x. Our Neutral recommendation indicates that the stock will perform in-line with than the market. Our $313 price target reflects 18.26x forward 12-month earnings.

Valuation Multiples - UNH

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.41	15.03	20.43	18.65
	5-Year High	22.45	20.58	21.07	19.34
	5-Year Low	12.76	12.48	15.81	15.19
	5-Year Median	17.09	16.14	18.81	17.45
P/S F12M	Current	1.05	0.73	2.59	3.09
	5-Year High	1.15	0.86	3.84	3.44
	5-Year Low	0.57	0.48	2.25	2.54
	5-Year Median	0.87	0.67	2.96	3.01
P/B TTM	Current	4.68	3.38	3.54	3.69
	5-Year High	5.24	4.07	5.05	4.55
	5-Year Low	3.06	2.3	2.9	2.84
	5-Year Median	4.08	3.13	4.29	3.64

As of 04/16/2020

Industry Analysis Zacks Industry Rank: Top 33% (83 out of 253)

Top Peers

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

Industry Comparison Industry: Medical - Hmos

				Industry Peers		
	UNH Neutral	**X Industry**	**S&P 500**	**ANTM** Neutral	**CNC** Neutral	**HUM** Neutral
VGM Score	A	-	-	A	C	D
Market Cap	283.08 B	2.08 B	19.06 B	68.54 B	42.75 B	49.85 B
# of Analysts	12	4.5	14	10	11	11
Dividend Yield	1.45%	0.00%	2.26%	1.40%	0.00%	0.66%
Value Score	C	-	-	B	B	C
Cash/Price	0.06	0.33	0.06	0.43	0.33	0.33
EV/EBITDA	13.60	8.20	11.49	7.67	13.96	9.31
PEG Ratio	1.41	0.94	2.09	0.84	1.04	1.65
Price/Book (P/B)	4.73	2.32	2.55	2.17	2.39	4.15
Price/Cash Flow (P/CF)	16.33	11.13	10.06	11.13	10.91	16.76
P/E (F1)	17.87	14.39	17.56	12.31	15.26	20.37
Price/Sales (P/S)	1.15	0.62	1.94	0.66	0.57	0.77
Earnings Yield	5.45%	6.75%	5.57%	8.13%	6.55%	4.91%
Debt/Equity	0.60	0.58	0.70	0.56	1.08	0.41
Cash Flow ($/share)	18.28	6.68	7.01	24.42	6.68	22.51
Growth Score	A	-	-	A	D	D
Hist. EPS Growth (3-5 yrs)	24.05%	19.46%	10.92%	14.87%	31.44%	24.18%
Proj. EPS Growth (F1/F0)	7.70%	8.01%	-3.36%	13.64%	8.02%	3.65%
Curr. Cash Flow Growth	14.76%	14.42%	5.93%	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	0.75	1.61	1.24	1.65	1.57	1.82
Debt/Capital	38.53%	37.22%	42.78%	35.92%	51.92%	29.21%
Net Margin	5.59%	4.17%	11.64%	4.61%	1.77%	4.17%
Return on Equity	24.86%	16.89%	16.74%	16.34%	15.18%	20.89%
Sales/Assets	1.40	1.40	0.54	1.36	2.09	2.25
Proj. Sales Growth (F1/F0)	7.25%	12.17%	-0.14%	12.88%	44.30%	13.40%
Momentum Score	B	-	-	D	B	C
Daily Price Chg	5.95%	1.95%	-0.20%	8.53%	5.55%	6.72%
1 Week Price Chg	15.09%	18.25%	16.01%	19.26%	21.65%	17.24%
4 Week Price Chg	35.77%	26.57%	14.56%	35.33%	35.91%	47.28%
12 Week Price Chg	-0.34%	-9.87%	-22.94%	-10.70%	7.10%	3.78%
52 Week Price Chg	34.58%	-7.20%	-15.02%	13.45%	51.14%	56.76%
20 Day Average Volume	6,096,793	310,992	3,220,598	2,483,484	5,427,915	1,916,400
(F1) EPS Est 1 week change	-0.83%	-0.11%	0.00%	-1.90%	-0.23%	-1.27%
(F1) EPS Est 4 week change	-1.17%	-0.31%	-7.09%	-2.45%	1.13%	-0.63%
(F1) EPS Est 12 week change	-1.13%	-0.87%	-9.32%	-4.15%	-0.68%	-0.87%
(Q1) EPS Est Mthly Chg	8.07%	5.86%	-10.68%	3.65%	23.06%	13.62%

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	C
Growth Score	A
Momentum Score	B
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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