

UnitedHealth Group Inc (UNH)

\$298.47 (As of 01/17/20)

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

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: A

Summary

UnitedHealth Group's earnings of \$3.90 per share best the Zacks Consensus Estimate by 3.4% and grew 19% year over year. Higher revenues, strength in both segments — UnitedHealthcare and Optum — and membership growth led to this outperformance. 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. Strong earnings guidance by the company instills investors' confidence. The stock has outperformed its industry in the past six months. The company is, however, witnessing a slowdown in its international operations. The stock's valuation also looks a bit expensive at current levels.

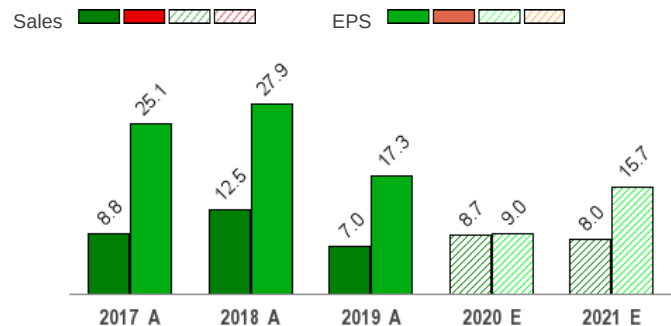
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$300.99 - \$208.07
20 Day Average Volume (sh)	2,907,061
Market Cap	\$282.8 B
YTD Price Change	1.5%
Beta	0.65
Dividend / Div Yld	\$4.32 / 1.4%
Industry	Medical - HMOs
Zacks Industry Rank	Top 18% (45 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.5%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	19.8
P/E F1	18.1
PEG F1	1.4
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	70,490 E	71,378 E	71,539 E	72,798 E	284,281 E
2020	64,669 E	65,439 E	66,107 E	67,101 E	263,115 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	\$4.45 E	\$4.80 E	\$5.04 E	\$4.97 E	\$19.05 E
2020	\$3.62 E	\$4.18 E	\$4.34 E	\$4.30 E	\$16.47 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 01/17/2020. The reports text is as of 01/21/2020.

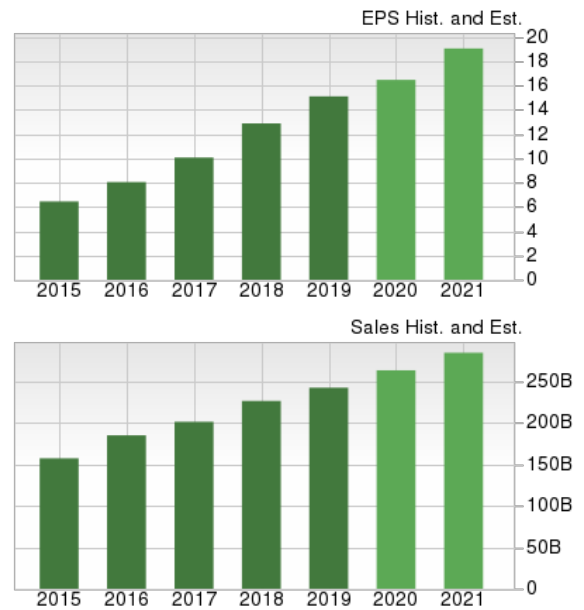
Overview

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:

- ▲ **Strong Earnings Guidance:** For full year 2020, the company expects revenues to approach \$262 billion, up 8.3% from 2019 reported revenues, and adjusted net earnings per share in the range of \$16.25 to \$16.55 (up 8.5% at mid-point from 2019 reported earnings per share). The company's favorable guidance 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 11% from 2010 to 2019. 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%. 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).
- ▲ **Strong Membership Growth:** UnitedHealth's membership in the public and senior business has been growing consistently over the years and the trend continued in 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 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 1.46% 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:** In six month's time, shares of the company have outperformed its industry's growth.

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:

▼ **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, in 2019, membership from international business declined 8% year over year and revenues remained almost unchanged. 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.

▼ **Overvalued:** The company's valuation seems a little expensive at current level with its 12-month forward price-to-earnings (F12M) ratio of 18 compared with 16.51 for the industry. It is also trading at a tad higher level than its 5-year median of 17.21X. Also, the company's growth rate of 9% for 2020 is higher than 20.2% 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 Q4 Earnings Beat on Revenue Growth

UnitedHealth Group Inc.'s fourth-quarter 2019 earnings of \$3.90 per share surpassed the Zacks Consensus Estimate by 3.4%. Earnings were up 19% 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 \$60.9 billion, which came in line with the Zacks Consensus Estimate. Revenues were up 3.8% year over year, led by double-digit growth at UnitedHealthcare Medicare & Retirement, OptumRx and OptumHealth.

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

2019 Results

Revenues of \$242 billion grew 7% year over year. Earnings per share of \$15.11 grew 17.3% year over year and came in ahead of the company's earlier provided guidance of \$14.90-\$15.

Strong Performance Across Segments

In the reported quarter, the company's health benefits segment, UnitedHealthcare, generated revenues of \$48.2 billion, up 4.3% year over year. Revenue growth was driven by higher enrollment and increase in pricing.

The company's business groups — Employer and Individual, Medicare and Retirement — contributed to the growth. Earnings from operations were up 15.5% year over year to \$2.1 billion, led by revenue growth.

Revenues from Optum improved 8.3% year over year to \$29.8 billion, reflecting strong contributions from the sub-segments, OptumHealth (up 30.2%) and OptumInsight (14.4%). Earnings from operations jumped 12% year over year to \$3 billion.

Increase in Membership Enrollment

The company served 49.15 million people in the quarter, up 0.2% 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

During the year, cash flow from operations increased 17.5% year over year to \$18.46 billion.

Cash and short-term investments at quarter-end were \$14.24 billion, down 0.6% year over year.

2020 Guidance Update

The company affirmed its recently issued earnings outlook for 2020, including net earnings of \$15.45 to \$15.75 per share and adjusted net earnings of \$16.25 to \$16.55 per share.

Quarter Ending 12/2019

Report Date	Jan 15, 2020
Sales Surprise	-0.12%
EPS Surprise	3.45%
Quarterly EPS	3.90
Annual EPS (TTM)	15.11

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 12.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector are up 13.3% and 5.5%, respectively.

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

The stock is currently trading at 17.97X forward 12-month price to earnings, which compares to 16.5X for the Zacks sub-industry, 21.78X for the Zacks sector and 19.19X 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 17.21X. Our Neutral recommendation indicates that the stock will in-line with the market. Our \$313 price target reflects 18.86X 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	17.97	16.5	21.78	19.19
	5-Year High	22.45	20.68	21.78	19.32
	5-Year Low	13.32	12.59	15.85	15.15
	5-Year Median	17.21	16.33	18.91	17.44
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 01/20/2020

Industry Analysis Zacks Industry Rank: Top 18% (45 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	A	-	-	A	A	A
Market Cap	282.77 B	2.56 B	24.65 B	77.44 B	26.71 B	48.54 B
# of Analysts	12	6	13	10	11	11
Dividend Yield	1.45%	0.00%	1.73%	1.05%	0.00%	0.60%
Value Score	B	-	-	A	A	A
Cash/Price	0.06	0.26	0.04	0.35	0.26	0.33
EV/EBITDA	15.36	11.17	14.11	9.97	12.09	13.48
PEG Ratio	1.43	1.24	2.08	0.85	0.94	1.41
Price/Book (P/B)	4.68	3.58	3.39	2.47	2.15	4.18
Price/Cash Flow (P/CF)	16.33	14.36	13.81	14.82	13.91	19.50
P/E (F1)	18.12	17.70	19.19	13.46	13.43	19.62
Price/Sales (P/S)	1.17	0.62	2.69	0.77	0.37	0.77
Earnings Yield	5.52%	5.58%	5.21%	7.43%	7.45%	5.10%
Debt/Equity	0.61	0.60	0.72	0.60	0.56	0.46
Cash Flow (\$/share)	18.28	6.35	6.94	20.61	4.64	18.79
Growth Score	A	-	-	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)	8.97%	9.36%	7.57%	16.82%	8.65%	5.14%
Curr. Cash Flow Growth	14.76%	16.18%	14.73%	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	0.69	1.16	1.24	1.70	1.01	1.83
Debt/Capital	38.94%	37.53%	42.99%	37.53%	36.09%	31.62%
Net Margin	5.71%	3.34%	11.14%	4.29%	1.87%	4.06%
Return on Equity	25.55%	15.97%	17.16%	15.59%	15.54%	22.32%
Sales/Assets	1.43	1.75	0.55	1.34	2.17	2.24
Proj. Sales Growth (F1/F0)	8.66%	9.47%	4.16%	12.12%	7.40%	10.29%
Momentum Score	A	-	-	B	B	F
Daily Price Chg	-0.75%	-0.16%	0.27%	0.11%	-0.91%	-0.16%
1 Week Price Chg	1.93%	0.97%	0.39%	3.66%	5.43%	-0.20%
4 Week Price Chg	1.31%	1.31%	2.95%	2.40%	4.32%	0.26%
12 Week Price Chg	22.07%	21.08%	7.76%	17.69%	35.47%	27.89%
52 Week Price Chg	14.90%	8.97%	22.29%	16.61%	3.04%	25.95%
20 Day Average Volume	2,907,061	259,027	1,536,375	1,079,227	3,119,109	809,733
(F1) EPS Est 1 week change	0.11%	0.00%	0.00%	0.06%	0.19%	0.00%
(F1) EPS Est 4 week change	0.12%	0.00%	0.00%	0.06%	0.57%	-0.00%
(F1) EPS Est 12 week change	0.03%	-1.18%	-0.40%	-0.69%	-2.47%	-0.56%
(Q1) EPS Est Mthly Chg	-3.48%	0.00%	0.00%	0.00%	-2.30%	-0.14%

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	A
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.

Disclosures

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