

UnitedHealth Group

MLR miss fails to deliver the “all clear” for the group but 2024 guide reaffirmed

Reiterate Rating: BUY | PO: 675.00 USD | Price: 539.68 USD

Worse MLR but EPS better; 2024 EPS guide reaffirmed

Medical Loss Ratio (MLR) was 100bp worse than consensus due to \$100m unfavorable Prior Period Development (PPD) with Days claims payable (DCPs) down. Meanwhile, Adjusted EPS beat consensus by 17c (3%) as the slightly lower operating earnings were more than offset by a higher investment income (19c) and lower taxes. The focus on the call will be any changes to the MLR outlook for 2024. The worse MLR headline is a negative read through for the industry, and the negative development is likely to feed into concerns that trend got worse through the year creating a 2024 pricing issue. However, the ability to reaffirm 2024 guidance implies the story remains on track. We maintain Buy given the balanced growth across the portfolio. See page 2 for variance vs our est/consensus.

MLR worse on unfavorable PPD

MLR increased 220bp y/y to 85.0% and was 100bp above consensus and 40bp above our ests. The full year MLR of 83.2% was 10bp above the higher end of the full year guide (UNH guided to the high end). UNH repeated prior comments on higher outpatient care, primarily MA, and business mix. In addition, PPD was an unfavorable \$100m or -0.1% of premiums vs the Q4 average of +0.8%, explaining the 100bp miss, but it appears largely related to 2023. DCPs decreased 2.8 days y/y and declined 2.0 days q/q, implying reserves weakening. SG&A declined -160bp y/y to 14.1% and was 70bp below consensus, helping offset worse MLR.

Enrollment growth y/y driven by MA and Commercial

Total membership was 0.5% above our est and in line with consensus. Commercial and Medicare Advantage (MA) were slightly below but Medicaid membership was slightly above consensus (3% above our est). Meanwhile, international membership was 7% above our est and 1% above consensus. Total medical enrollment grew +2.0% y/y, driven by MA (+8% y/y) and Fee-based Commercial (+3%). Medicaid -4% y/y.

Operating results roughly in line

Consolidated operating earnings were 1% below our est/consensus as worse UnitedHealthcare (UHC) and worse OptumHealth earnings were partially offset by better OptumInsight and OptumRx. Consolidated margins -20bp y/y, 30bp below consensus.

Insight and Rx helped offset UHC and OptumHealth

UHC earnings were 4% below consensus on 30bps worse margins. Meanwhile, Optum earnings were +2% above consensus. Inside Optum, OptumHealth earnings were 4% below consensus (much smaller magnitude of miss vs Q3), which was more than offset by OptumInsight 9% above and OptumRx 2% better. OptumHealth served 1m (+1%) more people vs last year and the rev/consumer was up 32% y/y on capitated rev growth. Margins were 40bps below consensus given the MA MLR pressure flows through to the segment. OptumRx revs were 8% above consensus but margins were 20bp below.

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Stock Data

Price	539.68 USD
Price Objective	675.00 USD
Date Established	13-Dec-2023
Investment Opinion	B-1-7
52-Week Range	445.68 USD - 554.70 USD
Mkt Val (mn) / Shares Out (mn)	505,140 USD / 936.0
Free Float	99.7%
Average Daily Value (mn)	1722.42 USD
BofA Ticker / Exchange	UNH / NYS
Bloomberg / Reuters	UNH US / UNH.N
ROE (2023E)	26.9%
Net Dbt to Eqty (Dec-2022A)	34.4%
ESGMeter™	High

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UNH = UnitedHealth Group

MA = Medicare Advantage

MLR = Medical Loss Ratio

PPD = Prior Period Development

Earnings Analyzer

Below we show key quarterly results vs. our estimates, consensus, and prior historical results.

Exhibit 1: UNH Earnings Analyzer

\$ values in millions except for per share data, membership in thousands; Δ, y/y and q/q growth metrics are differences for ratios and DCPs

4QFY-2023	Actual	Consensus	BofA	Δ vs Consensus	Δ vs Consensus	Δ vs BofA	Δ vs BofA	Growth Y/y	Growth Q/q	4QFY-2022	3QFY-2023
Key Metrics:											
Revenue (ex-investment income)	\$93,248	\$91,026	\$88,959	2.4%	BEAT	4.8%	BEAT	13.8%	2.1%	\$81,932	\$91,364
Adj. EPS	\$6.16	\$5.99	\$5.99	2.9%	BEAT	2.9%	BEAT	15.3%	-6.0%	\$5.34	\$6.56
Integrated Medical MLR	85.0%	84.0%	84.6%	0.9%	MISS	0.4%	MISS	2.2%	2.7%	82.8%	82.3%
SG&A Ratio	14.1%	14.8%	14.2%	-0.7%	BEAT	-0.1%	IN-LINE	-1.6%	-0.9%	15.7%	15.0%
DCPs	47.9	N/A	N/A		RESERVES WEAKENING			-2.0	-2.8	49.9	50.7
Investment & other income	\$1,179	\$969	\$1,000	21.7%	BEAT	17.9%	BEAT	37.9%	18.3%	\$855	\$997
Pre-tax Income	\$6,859	\$6,940	\$6,947	-1.2%	MISS	-1.3%	MISS	10.4%	-10.8%	\$6,215	\$7,692
Taxes Paid	\$1,184	\$1,490	\$1,459	-20.5%	BEAT	-18.8%	BEAT	-9.4%	-28.4%	\$1,307	\$1,654
Tax Rate	17.3%	21.5%	21.0%	-4.2%	BEAT	-3.7%	BEAT	-3.8%	-4.2%	21.0%	21.5%
Diluted Shares	935.0	934.0	932.5	0.1%	IN-LINE	0.3%	IN-LINE	-1.3%	-0.1%	947.0	936.0
Membership:											
Risk-based Commercial	8,115	8,177	8,274	-0.8%	IN-LINE	-1.9%	MISS	0.9%	-0.1%	8,045	8,120
Fee-based Commercial	19,200	19,206	19,323	0.0%	IN-LINE	-0.6%	IN-LINE	3.0%	0.4%	18,640	19,130
Total Commercial	27,315	27,384	27,597	-0.3%	IN-LINE	-1.0%	MISS	2.4%	0.2%	26,685	27,250
Medicare Advantage	7,695	7,726	7,723	-0.4%	IN-LINE	-0.4%	IN-LINE	8.3%	0.7%	7,105	7,645
Medicaid	7,845	7,823	7,634	0.3%	IN-LINE	2.8%	BEAT	-4.0%	-2.7%	8,170	8,065
Medicare Supplement	4,355	4,345	4,344	0.2%	IN-LINE	0.2%	IN-LINE	-0.5%	0.2%	4,375	4,345
Total Public and Senior	19,895	19,894	19,701	0.0%	IN-LINE	1.0%	IN-LINE	1.2%	-0.8%	19,650	20,055
Total UNH Domestic Medical	47,210	47,277	47,299	-0.1%	IN-LINE	-0.2%	IN-LINE	1.9%	-0.2%	46,335	47,305
International	5,540	5,474	5,199	1.2%	BEAT	6.6%	BEAT	3.4%	1.2%	5,360	5,475
Total UNH - Medical	52,750	52,751	52,498	0.0%	IN-LINE	0.5%	IN-LINE	2.0%	-0.1%	51,695	52,780
Medicare Part D stand-alone	3,315	3,331	3,321	-0.5%	IN-LINE	-0.2%	IN-LINE	0.6%	-0.6%	3,295	3,335
Adj. Revenues:											
Employer & Individual	\$17,030	\$17,182	\$17,433	-0.9%	IN-LINE	-2.3%	MISS	4.6%	1.0%	\$16,281	\$16,854
Medicare & Retirement	\$32,394	\$31,880	\$31,567	1.6%	BEAT	2.6%	BEAT	15.5%	1.2%	\$28,051	\$32,022
Community & State	\$18,982	\$17,626	\$16,139	7.7%	BEAT	17.6%	BEAT	14.7%	2.3%	\$16,546	\$18,560
Global/Amil	\$2,402	\$2,377	\$2,108	1.1%	BEAT	13.9%	BEAT	10.8%	-0.6%	\$2,168	\$2,417
United Healthcare	\$70,808	\$69,064	\$67,247	2.5%	BEAT	5.3%	BEAT	12.3%	1.4%	\$63,046	\$69,853
OptumHealth	\$24,534	\$23,976	\$23,403	2.3%	BEAT	4.8%	BEAT	33.0%	2.8%	\$18,446	\$23,864
OptumInsight	\$4,785	\$5,052	\$4,800	-5.3%	MISS	-0.3%	IN-LINE	9.1%	-3.9%	\$4,387	\$4,977
OptumRx	\$31,166	\$28,887	\$27,695	7.9%	BEAT	12.5%	BEAT	20.5%	8.0%	\$25,854	\$28,857
Optum Eliminations	-\$990	-\$957	-\$875	3.5%	BEAT	13.1%	BEAT	20.9%	3.0%	-\$819	-\$961
Optum	\$59,495	\$56,959	\$55,023	4.5%	BEAT	8.1%	BEAT	24.3%	4.9%	\$47,868	\$56,737
UnitedHealth Group	\$94,427	\$91,995	\$89,959	2.6%	BEAT	5.0%	BEAT	14.1%	2.2%	\$82,787	\$92,361
Earnings from Operations:											
United Healthcare	\$3,122	\$3,247	\$3,288	-3.9%	MISS	-5.1%	MISS	6.5%	-32.0%	\$2,932	\$4,592
OptumHealth	\$1,691	\$1,757	\$1,755	-3.7%	MISS	-3.7%	MISS	-0.1%	7.8%	\$1,692	\$1,568
OptumInsight	\$1,284	\$1,179	\$1,194	8.9%	BEAT	7.5%	BEAT	43.5%	15.8%	\$895	\$1,109
OptumRx	\$1,592	\$1,535	\$1,509	3.7%	BEAT	5.5%	BEAT	16.0%	26.7%	\$1,372	\$1,257
Optum	\$4,567	\$4,471	\$4,459	2.1%	BEAT	2.4%	BEAT	15.4%	16.1%	\$3,959	\$3,934
UnitedHealth Group	\$7,689	\$7,762	\$7,747	-0.9%	IN-LINE	-0.8%	IN-LINE	11.6%	-9.8%	\$6,891	\$8,526
Margins:											
United Healthcare	4.4%	4.7%	4.9%	-0.3%	IN-LINE	-0.5%	MISS	-0.2%	-2.2%	4.7%	6.6%
OptumHealth	6.9%	7.3%	7.5%	-0.4%	MISS	-0.6%	MISS	-2.3%	0.3%	9.2%	6.6%
OptumInsight	26.8%	23.3%	24.9%	3.5%	BEAT	2.0%	BEAT	6.4%	4.6%	20.4%	22.3%
OptumRx	5.1%	5.3%	5.5%	-0.2%	IN-LINE	-0.3%	MISS	-0.2%	0.8%	5.3%	4.4%
Optum	7.7%	7.8%	8.1%	-0.2%	IN-LINE	-0.4%	MISS	-0.6%	0.7%	8.3%	6.9%
UnitedHealth Group	8.1%	8.4%	8.6%	-0.3%	IN-LINE	-0.5%	MISS	-0.2%	-1.1%	8.3%	9.2%

Source: BofA Global Research, Company Filings, Visible Alpha
Consensus estimates are from Visible Alpha

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Price objective basis & risk

UnitedHealth Group (UNH)



Our \$675 price objective (PO) is based on a 2024E EPS multiple of 24.0x, a premium to UNH's five year historical average of 19.6x. This is justified, in our opinion, by the growing share of earnings coming from Optum as well as the significant growth potential of Optum, UNH's Health Care Services platform, which has higher margins and unregulated cash flow. Our PO is also supported by our sum-of-the-parts (SOTP) valuation.

Downside risks to our PO are that healthcare utilization rebounds faster than expected, that growth targets for Optum are not achieved, or that political/regulatory risk intensifies.

Analyst Certification

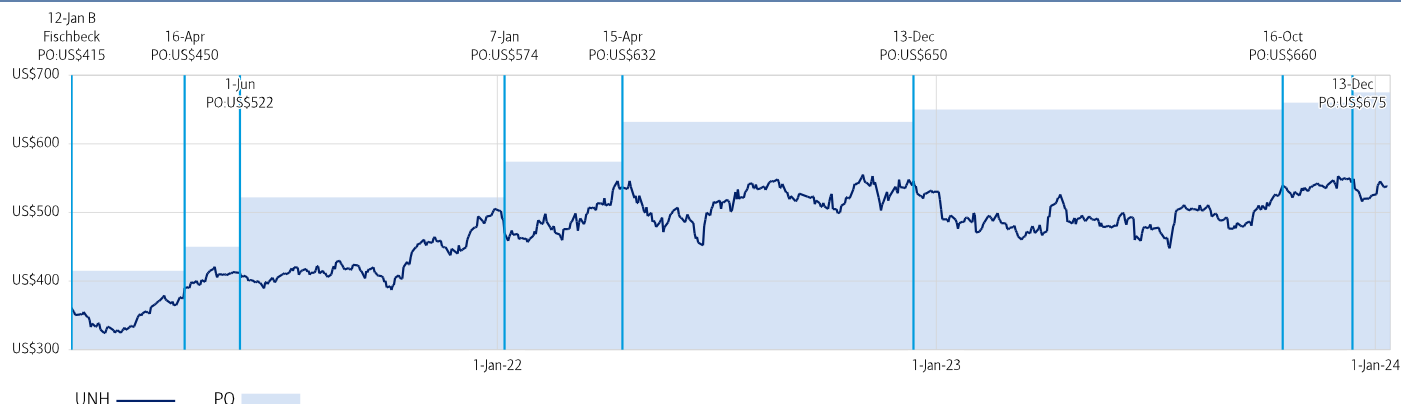
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UnitedHealth Grp (UNH) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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