BofA SECURITIES

UnitedHealth Group

Fischbeck Focus – MA rates, 2024 and the impact on OptumHealth

Reiterate Rating: BUY | PO: 650.00 USD | Price: 480.17 USD

17 July 2023

Equity

UNH still uniquely positioned, with trend under control

While Q2 was a mixed quarter by typical standards, the fact that UNH was able to meet/ beat its revised expectations, and actually guide up means that core results are largely in-line and gives additional weight to comments that issues have been caught in time for 2024 pricing. As visibility continues to improve (what peers say over the next few weeks will go a long way towards investor confidence in 2024), we believe the focus will come back to the forward trajectory and UNH's ability to grow EPS 13-16% for years regardless of the macroeconomic backdrop, justifying a significant premium. With Q2, we are adjusting down our 2024/2025 estimates slightly, but remain above consensus, and maintain our PO (higher multiple) due to the increased confidence in achieving them.

What's next for UNH and the group?

The market likely expected UNH to report the cleanest quarter of the group because 1) it is UNH, the industry bellwether with a long history of reporting clean earnings; and 2) they raised Q2 MLR guide the most (making it easier to hit). Momentum from here will be based on whether the peers can report similar quarters. Visibility remains clouded, but comments that trend was only an MA issue gives some optimism.

Capitated provider pressures should ease by 2024

The results help underscore that capitated providers (such as OptumHealth) are actually more exposed to swings in utilization than the insurers themselves. Since insurers sub capitate 25-30% of their MA spending to doctors, insurers only have 70-75% is variable, while physician groups largely have 100% of costs tied to cost trend. The good news for OptumHealth is that it appears costs have stabilized in-line with how UHC priced 2024 (OptumHealth gets half its rev from UHC). This also helps capitated docs broadly, (UNH represents 30% of industry enrollment) and with Humana (20% of industry) indicating it priced at least some of the trend through (at least half the membership should see some tailwind from pricing in 2024). From there, OptumHealth (and docs broadly) have room to negotiate higher rates to partially offset utilization pressure, putting 2024 back on track, even if trend pressures 2023.

Fischbeck Focus: Bridging the gap in OptumHealth margins

This quarter, we focus on how UNH was able to beat consolidated MLR by 10bps and still miss OptumHealth margins by 140bps. We estimate that 60% of the miss in OptumHealth was driven by higher MA utilization, 10% from higher member growth, and 30% from behavioral health utilization.

Estimates (Dec) (US$)	2021A	2022A	2023E	2024E	2025E
EPS	19.02	22.20	24.90	28.18	31.85
GAAP EPS	18.08	21.18	23.64	26.89	30.53
EPS Change (YoY)	12.7%	16.7%	12.2%	13.2%	13.0%
Consensus EPS (Bloomberg)			24.78	27.90	31.53
DPS	5.30	6.40	7.29	8.37	9.62
Valuation (Dec)					
P/E	25.2x	21.6x	19.3x	17.0x	15.1x
GAAP P/E	26.6x	22.7x	20.3x	17.9x	15.7x
Dividend Yield	1.1%	1.3%	1.5%	1.7%	2.0%

Key Changes

(US$)	Previous	Current
2023E Rev (m)	358,951.6	361,965.3
2024E Rev (m)	383,226.4	386,211.8
2025E Rev (m)	413,119.6	415,964.2
2024E EPS	28.33	28.18
2025E EPS	32.05	31.85

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Stock Data

Price	480.17 USD
Price Objective	650.00 USD
Date Established	13-Dec-2022
Investment Opinion	B-1-7
52-Week Range	445.68 USD - 558.10 USD
Mrkt Val (mn) / Shares Out (mn)	454,721 USD / 947.0
Average Daily Value (mn)	2256.47 USD
BofA Ticker / Exchange	UNH / NYS
Bloomberg / Reuters	UNH US / UNH.N
ROE (2023E)	26.5%
Net Dbt to Eqty (Dec-2022A)	34.4%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

UNH = UnitedHealth Group

MLR = Medical Loss Ratio

MA = Medicare Advantage

UHC = UnitedHealthcare

Refer to important disclosures on page 11 to 13. Analyst Certification on page 9. Price Objective Basis/Risk on page 9.
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Income Statement Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premiums	226,233	257,157	287,543	307,563	331,063
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	**285,273**	**322,132**	**361,965**	**386,212**	**415,964**
Total Cost of Benefits and Claims	(186,911)	(210,842)	(238,819)	(255,192)	(274,962)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
Total Operating Expenses	**(263,627)**	**(295,727)**	**(333,426)**	**(353,708)**	**(379,629)**
Pre-Tax Operating Earnings	**21,646**	**26,405**	**28,539**	**32,504**	**36,335**
Income Tax Expense	(4,578)	(5,704)	(6,177)	(7,019)	(7,844)
Operating Earnings After Tax	**18,178**	**21,084**	**23,358**	**26,056**	**29,044**
Net Income (Reported)	**17,285**	**20,120**	**22,175**	**24,859**	**27,841**
Diluted Shares	956	950	938	925	912
Operating Earnings Per Share	19.02	22.20	24.90	28.18	31.85
Net Income (Reported) Per Share	18.08	21.18	23.64	26.89	30.53

Balance Sheet Data (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	23,907	27,911	47,896	70,151	70,151
Total Assets	**212,206**	**245,705**	**287,408**	**297,481**	**297,481**
Reserves	21,690	21,690	21,690	21,690	21,690
LT Debt	42,383	54,513	59,268	66,963	66,963
Total Liabilities	**135,727**	**159,358**	**187,962**	**187,226**	**187,226**
Total Equity	**76,479**	**86,347**	**99,446**	**110,255**	**110,255**
Total Equity (Ex FAS 115)	**76,479**	**86,347**	**99,446**	**110,255**	**110,255**
Book Value per Share (Reported)	80.02	90.92	106.01	119.24	120.91
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Expense Ratio	0%	0%	0%	0%	0%
Loss Ratio	82.6%	82.0%	83.1%	83.0%	83.1%
Combined Ratio	**82.6%**	**82.0%**	**83.1%**	**83.0%**	**83.1%**
Avg Assets / Avg Eq (Ex FAS 115) Ratio	2.8x	2.8x	2.9x	2.8x	2.7x

Growth Rates (YoY) (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premium	12.3%	13.7%	11.8%	7.0%	7.6%
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	11.6%	12.9%	12.4%	6.7%	7.7%
Operating Earnings per Share	12.7%	16.7%	12.2%	13.2%	13.0%
Asset	7.6%	15.8%	17.0%	3.5%	0%
Reported Book Value per Share	9.0%	13.6%	16.6%	12.5%	1.4%

Performance Metrics (Dec)

(US$ Millions)	2021A	2022A	2023E	2024E	2025E
Operating ROE	25.4%	26.9%	26.5%	26.0%	27.5%
Operating ROE (Ex FAS 115)	24.7%	25.9%	25.1%	24.9%	26.3%
Operating Return on Average Assets	8.9%	9.2%	8.8%	8.9%	9.8%
Operating Margin	6.4%	6.5%	6.5%	6.7%	7.0%
Long Term Debt to Cap Ratio (Ex FAS 115)	35.7%	38.7%	37.3%	37.8%	37.8%
Net Income % Operating Income	95.1%	95.4%	94.9%	95.4%	95.9%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Managed Health Care

Company Description

UnitedHealth Group (UNH) is one of the largest Managed Care Organizations (MCOs), serving members both in the US and internationally. UNH is the most diversified payer, either by product line, geography or customer type. The company's operating segments include United Healthcare, OptumRx, OptumInsight, and OptumHealth.

Investment Rationale

The company's scale and diversity should position UNH well, while the strong trajectory at Optum provides a unique growth opportunity.

Stock Data

Average Daily Volume	4,699,317

Quarterly Earnings Estimates

	2022	2023
Q1	5.49A	6.26A
Q2	5.57A	6.14A
Q3	5.79A	6.73E
Q4	5.34A	5.77E

Fischbeck Focus: MLR impacts Optum

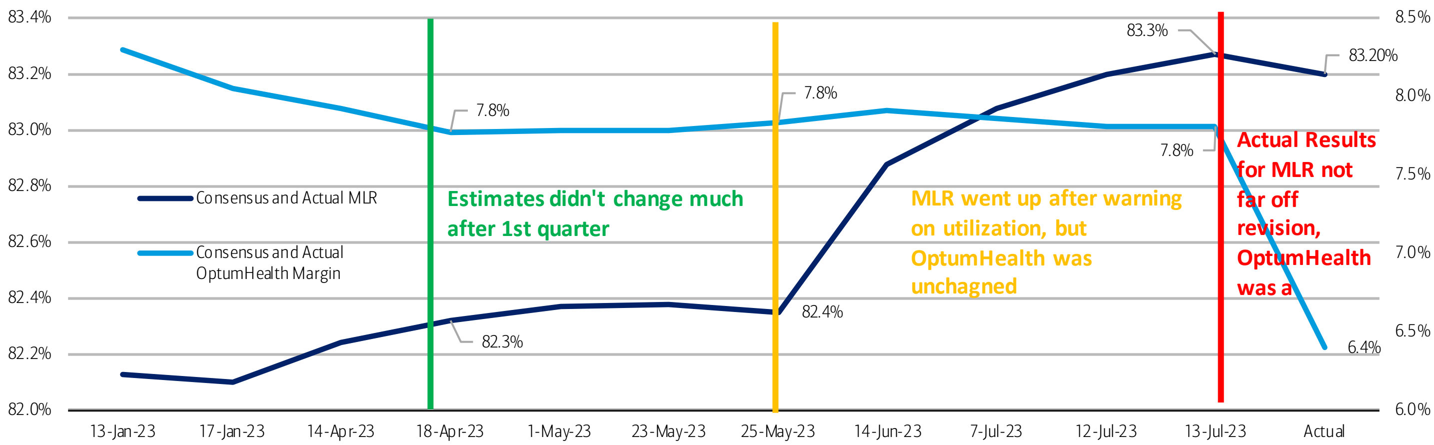
In the Fischbeck Focus section, we choose a theme to explore in more detail, either in response to recent investor questions or because of an unexpected development in the quarter. This quarter, we focus on bridging the gap between the consolidated MLR beat and the sizable miss on OptumHealth margins. It seems like a good amount of the issue is that the market was mis-modeling the interplay between OptumHealth and UHC and we explain the accounting in more detail.

OptumHealth expectations weren't properly rebased

As we noted in our analysis of preliminary results on Friday, MLR came in slightly better than anticipated in the quarter, which helped ease concerns about trend. However, OptumHealth margins were far off target. What wasn't immediately obvious was that MLR estimates had moved up 100bps from around the time UNH started talking about utilization issues, meaning that consensus MLR adjustments had adequately reflected the new commentary. OptumHealth margins on the other hand, hadn't budged at all throughout the year.

Exhibit 1: Since UNH raised the alarms about utilization, MLR estimates for UNH moved, but OptumHealth didn't change, driving the miss

Second quarter MLR and OptumHealth margin estimates over time (YTD) and actual results



Source: Visible Alpha, BofA Global Research

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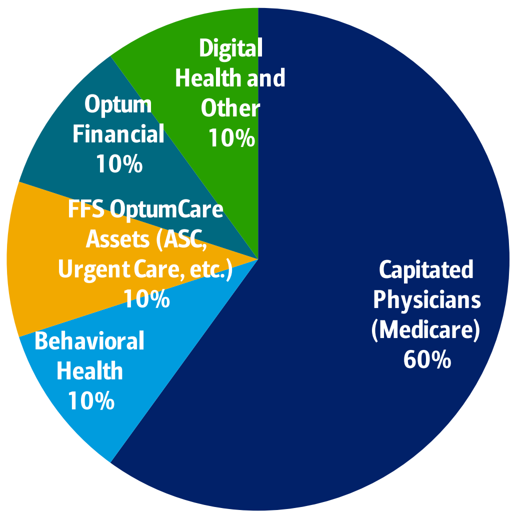
OptumHealth more exposed to utilization pressure

In hindsight, it was clear that OptumHealth earnings expectations should have been adjusted for the utilization commentary. In fact, the segment is more exposed to the issues UNH had highlighted than the insurance division. In particular UNH had highlighted costs were much higher in **1) Medicare Advantage outpatient 2) Behavioral Health.**

OptumHealth has slightly more revenue exposure to impacted end markets

What some investors don't appreciate is that OptumHealth is primarily composed of capitation revenue, meaning that it is exposed to swings in healthcare utilization. Roughly 60% of the segment revenue is driven by taking risk on Medicare Advantage beneficiaries. Meanwhile, another 10%+ is from Behavioral Health, which is generally sold as a carve out benefit. Therefore, swings in utilization on MA and Behavioral impact 70% of OptumHealth's revenue vs. just over 60% at the UnitedHealthcare insurance segment.

Exhibit 2: 70% of OptumHealth impacted by utilization pressures…
Revenue exposure breakdown by major line of business for OptumHealth



Source: BofA Global Research, Company Filings

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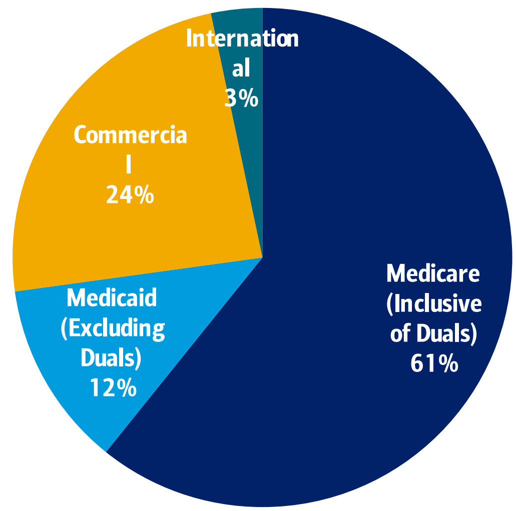
Exhibit 3: …compared to only 61% of UnitedHealthcare
Revenue exposure breakdown by major LOB for UnitedHealthcare



Source: BofA Global Research, Company Filings

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For a sizable chunk of this spend, Optum bears the risk

Exacerbating the exposure further, is the fact that OptumHealth's largest customer is UnitedHealthcare, and UHC capitates spending to OptumHealth. As a refresher, below we show an overview of intersegment capitation economics. When UHC capitates to OptumHealth, then that spending is locked in at 85% MLR regardless of what happens to underlying costs. In turn, that exposure to trend is shifted to OptumHealth.

Notice that the PMPM (per member per month) for UHC is higher than at Optum. This is because as part of the arrangement, UHC locks in their target MLR (85%), which becomes the revenue / payment for OptumHealth. On a consolidated basis, the OptumHealth revenue related to UHC is eliminated, while the UHC "cost" (the capitated payment to OptumHealth), is also eliminated. As such, the consolidated MLR for any patient that UHC cpaitates to OptumHealth is based on UHC's premium and OptumHealth's cost. If OptumHealth can lower medical spending, then MLR will drop below 85%, while if costs go above expectations, MLR could be above 85%. In this first example, if OptumHealth is able to achieve its target MLR, it can earn its target margin, and the enterprise is better off. In this case, although UHC MLR is locked in at 85%, because OptumHealth can lower costs by another 20%, consolidated MLR is only 68%.

Exhibit 4: At target margin, Optum must manage down costs
Overview of OptumHealth intersegment economics, when achieving target margin

2Q23	UnitedHealthcare	OptumHealth	Eliminations	Consolidated	Comments
Membership	2,200,000	2,200,000		2,200,000	UHC subcontracts the risk of around 2.2m members to OptumHealth
PMPM	$1,412	$1,200			In general, Optum assumes the risk at 85% of MLR, meaning PMPM is 15% lower
Premium Revenues ($m)	$9,318	$7,920	-$7,920	$9,318	The OptumHealth capitation revenue from UHC is eliminated for consolidated reporting
MLR	*85%*	*80%*		*68%*	On these members, UHC locks in 85% minimum MLR regardless of actual performance
Medical Costs ($m)	$7,920	$6,336	-$7,920	$6,336	Payment UHC makes to OptumHealth is eliminated. Consolidated MLR on these members is driven entirely by performance at OptumHealth, which impacts OptumHealth segment margins
Operating Expense Ratio	*10%*	*10%*		*19%*	
Operating Expenses ($m)	$932	$792		$1,724	Operating expenses generally not impacted by intersegment eliminations, both are counted
Operating Income ($M)	$466	$792		$1,258	
% Margin	*5.0%*	*10.0%*		*13.5%*	On consolidated basis, if OptumHealth can manage down costs, it is margin accretive

Source: BofA Global Research, Company Filings

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If costs rise, the insurance segment sees no economic impact on capitated lives

However, in this example below we show what happens when costs rise unexpectantly. Even here if OptumHealth's MLR rises 1,500bps, to the point where the segment is losing money, the UnitedHealthcare segment sees no impact. Of course, from an enterprise perspective this has real economic consequences, as the consolidated MLR goes from 81% (vs 68% in the prior example). This shows that when UNH sees higher MA cost trend, the portion of UHC that is subcapitated to OptumHealth should be modeled as flowing through MLR pressure to the OptumHealth segment, with no impact to UHC.

Exhibit 5: If costs rise, UnitedHealthcare margins aren't impacted, but show up in consolidated results and at OptumHealth
Overview of OptumHealth intersegment economics, when costs rise

2Q23	UnitedHealthcare	OptumHealth	Eliminations	Consolidated	Comments
Membership	2,200,000	2,200,000		2,200,000	
PMPM	$1,412	$1,200			
Premium Revenues	$9,318	$7,920	-$7,920	$9,318	
MLR	*85%*	*95%*		*81%*	In this example, as costs rise, UHC MLR doesn't see any impact
Medical Costs	$7,920	**$7,524**	-$7,920	**$7,524**	Again, the payment UHC makes to OptumHealth doesn't change, and gets eliminated
Operating Expense Ratio	*10%*	*10%*		*19%*	
Operating Expenses	$932	$792		$1,724	
Operating Income	$466	**-$396**		**$70**	
% Margin	*5.0%*	***-5.0%***		***0.7%***	The end result, is that OptumHealth could entirely wipe out Consolidated margins, but UnitedHealthcare would still 'earn' the same margin

Source: BofA Global Research, Company Filings

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Similar dynamics on the behavioral health carve out

For behavioral its likely that the vast majority (possibly 100%) of the risk has now been shifted to the OptumHealth segment, meaning that the behavioral pressure UNH is talking about is almost entirely isolated to OptumHealth. Meanwhile, we estimate that around 21% of UHC's Medicare related Medical costs are sub capitated to OptumHealth, heightening the relative magnitude of the impact to OptumHealth's capitated physicians since they are 100% exposed to MA, while UHC is not, and even the part that is, is partially subcontracted away.

Exhibit 6: We estimate around 21% of UHC's MA costs are contracted to Optum
Estimating the percentage of UHC's MA spending managed by Optum

	2Q23
Medicare Segment Revenue	$32,440
UHC Duals (In Medicaid Segment)	1,950,989
PMPM	**$1,750**
Duals Revenue	$10,243
Total UHC Medicare Revenue	**$42,683**
MLR	87%
UHC Medicare Medical Costs	**$37,134**
OptumHealth Revenue	$23,917
% in capitation	**60%**
Capitation Revenue	$14,350
% attributable to UHC	**55%**
Capitation revenue at Optum from UHC	**$7,893**
% of UHC Medicare Medical Costs	**21%**

Source: BofA Global Research, Company Filings

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Lower benchmark exacerbates the impact on earnings

Another dynamic driving up the impact on OptumHealth margins beyond those experienced in UnitedHealthcare is the fact that the denominator (Revenue) is lower. As we mentioned in our illustrative example, the revenue capitated providers get from insurers is just 85% of the premium, in order to take on 100% of Medical costs.

To help illustrate the impact of this, below we bridge UNH's consolidated MLR guidance to the OptumHealth segment margin. UNH warned that MLR would likely hover at or above the high end of MLR guidance which we interpret to be 60bps of pressure.

However, we estimate that only about 2/3 of UNH's premium revenue is related to Medicare. Therefore, if that's where the vast majority of the pressure is coming from, then it implies that the Medicare specific MLR pressure would be 90bps (since the other 1/3 would be essentially be 0).

Taking this a step further, we assume that UNH also capitates some of its membership to external value based provider groups (eg another 20% goes to companies like OakStreet, agilon, etc.), meaning that the core MLR pressure would be 110bps instead of 90bps (since it is not responsible for that other 20%).

From the perspective of the capitated providers (Such as OptumHealth), 110bps of insurer MLR would actually be 130bps of MLR (110bps / 85% = 130bps) as the cost pressure is applied to a lower base of revenue.

However, only 60% of OptumHealth segment revenue is related to the capitated providers, meaning that the segment would only see a 80bps drag (130bps * 60%).

Exhibit 7: OptumHealth seeing at least 80bps of margin pressure from MA utilization
Bridging UNH's consolidated utilization and MLR commentary to OptumHealth

UNH MLR Implied Impact on OptumHealth	
UNH MLR Guidance Raise	0.6%
Non-UHC Optum Capitation	$6,458
Total UHC Medicare Revenue	$42,683
Total Enterprise Medicare Premiums	**$49,140**
Total Enterprise Premiums	$72,474
% of spending in Medicare	68%
Implied Medicare MLR raise	0.9%
Downside risk exposure mix	*80.0%*
Core MLR Pressure	**1.1%**
Capitation Rate	*85.0%*
MLR pressure for providers	**1.3%**
% of OptumHealth related to capitated providers	*60.0%*
OptumHealth margin pressure	**0.8%**

Source: BofA Global Research, Company Filings

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Excess member growth another driver of MLR pressure

In addition to actual utilization costs, another driving factor of MLR pressure at OptumHealth would be growing faster than expected. At the start of the year the company outlined the expectation to grow +800k lives. This quarter, it talked about growing +900k y/y, pointing to 100k better than expected membership. Generally, new membership comes on around breakeven margins (medically complex patients might be a slight drag, while the other average patient could be a slightly positive). If we assume that the new membership came in at 0% margin, it would add 10bps of margin pressure to the segment simply by adding revenue without any profit.

Exhibit 8: Another 10bps of pressure from growing faster than expected
Excess member growth impact on OptumHealth

2Q23	
Excess member growth	100,000
PMPM	$1,200
Revenue from excess growth	**$360**
Margin on excess growth	-1.00%
Dilutive impact of excess growth	**($3.6)**
OptumHealth Revenue	$23,917
OptumHealth Earnings	$1,525
Reported Margin	**6.4%**
OptumHealth Revenue excluding excess	$23,557
OptumHealth earnings (ex-excess growth)	$1,529
Margin excluding excess growth	**6.5%**
Margin Impact	**0.1%**

Source: BofA Global Research, Company Filings

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Behavioral pressure explains the remaining margin delta

UNH flagged higher behavioral utilization as the second largest contributor to segment underperformance. We estimate the segment has around $2.5b in quarterly premiums (~10% of the segment revenue). Therefore, every 100bps of MLR pressure for behavioral would be around 10bps of MLR pressure for the segment.

For some context, the company mentioned behavioral trend was growing in the 'double digits', and while it did not mention what it priced for, 300bps-400bps of pressure would imply it priced for high single digit increases, which is consistent with what we've heard in the commercial market.

Exhibit 9: Every 100bps of behavioral MLR pressure is 10bps of segment margin
Translating behavioral MLR headwinds into OptumHealth MLR

Behavioral MLR headwind	1.00%	2.00%	3.00%	4.00%	5.00%
Behavioral Premiums (2Q23)	$2,500	$2,500	$2,500	$2,500	$2,500
Medical Cost Headwind	$25	$50	$75	$100	$125
% of OptumHealth Revenue	0.1%	0.2%	0.3%	0.4%	0.5%

Source: BofA Global Research, Company Filings

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Peers could also see 10-20bps of pressure

We note that a couple of major MCOs have behavioral health platforms, and based on our estimates for the scale of behavioral assets at peers we estimate roughly 10-20bps of consolidated MLR pressure. The main swing factor would be whether peers expected, and priced for, a higher behavioral trend than UNH did.

Exhibit 10: Major MCOs could see 10-20bps of MLR pressure from behavioral utilization rise
Backing into MLR pressure at other MCOs based on experience at UNH and BofA Estimates

	Evernorth (CI)	Optum (UNH)	Carelon (ELV)	Magellan (CNC)
Disclosed Membership	26,890,000	42,000,000	56,000,000	41,000,000
Blended PMPM	$8.25	$18.98	$8.25	$6.00
Behavioral Revenue	$2,662	$9,567	$5,544	$2,952
Behavioral MLR Impact	**3.50%**	**3.50%**	**3.50%**	**3.50%**
Gross Annualized Impact	$93	$335	$194	$103
Consolidated FY Premiums (Consensus)	$43,242	$287,251	$141,684	$131,425
Consolidated MLR impact	0.22%	0.12%	0.14%	0.08%

Source: BofA Global Research, Company Filings, Visible Alpha

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Conclusion: Floor has been established, 2024 back on track

Overall, the divergence in performance between consolidated MLR and OptumHealth margins can be explained by consensus mismodeling the dynamics between the two segments. When trend rises faster than expected in Medicare, it is clear that OptumHealth is more exposed to margin compression, which makes the results seem more extreme and led to an initial confusion.

While higher costs are not ideal, the quarter was in-line with the rebased expectations which alleviated concerns that costs would continue to accelerate or spread to commercial/Medicaid. Importantly, the company reiterated that the pricing assumptions in 2024 for UHC's MA business were enough to cover the current trajectory of claims, implying that the issue should be resolved by next year. If UHC is successful in repricing, this should also help restore OptumHealth margins as more than 50% of its members are from UHC. For the external customers of OptumHealth, there could be lingering headwinds, but UNH will push back and ask for higher rates and look for G&A savings to offset it.

Monthly data saw uptick in May, mixed data in June

From here we will monitor our monthly Trend Tracker report which tracks utilization through an indicator based on our propriety hospital volume survey, along with high-level industry data sources from hundreds of hospitals, thousands of providers and billions of prescription drugs scripts. Below we break down our monthly data inputs, which show that trend largely accelerated into May, but was more mixed in June as 5 data points slowed and 4 accelerated.

Exhibit 11: Utilization data mixed in Q2, with upward pressure exiting April

Year over year growth in volume metrics by component of trend, most recent datapoint highlighted based on improving (green) or worsening (red) trend

Inpatient	January	February	March	April	May	June
HHS Admissions (all-in y/y increase)	-0.6%	-0.2%	1.6%	0.7%	-0.6%	-1.6%
HHS Admissions (Non-COVID y/y increase)	21.7%	9.2%	1.8%	0.4%	1.3%	2.5%
Kaufman Hall Admissions	3.0%	3.0%	7.0%	2.0%	6.0%	
BofA Survey Admissions	1.4%	3.2%	3.2%	2.5%	2.5%	2.1%
Outpatient						
Kaufman Hall Equivalent Admissions	23.0%	15.0%	7.0%	4.0%	14.0%	
BofA Survey Equivalent Admissions	2.9%	3.4%	4.2%	3.6%	4.6%	3.6%
Physician						
CDC patient volumes per provider	9.4%	25.2%	18.8%	11.9%	5.5%	6.5%
New Pharmacy Scripts ex-COVID	3.7%	7.2%	5.7%	4.2%	4.4%	2.5%
Drugs						
Total Pharmacy Scripts ex-COVID	1.8%	4.0%	3.4%	2.5%	2.7%	1.5%

Source: HHS, CDC, Guidepoint, Company Filings, Kaufman Hall's National Hospital Flash Report, IQVIA, Milliman, BofA Global Research

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Price objective basis & risk

UnitedHealth Group (UNH)

Our $650 price objective (PO) is based on a 2024E EPS multiple of 23.1x, 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

I, Kevin Fischbeck, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Alignment Healthcare	ALHC	ALHC US	Kevin Fischbeck, CFA
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Chemed Corporation	CHE	CHE US	Joanna Gajuk
	Elevance Health Inc	ELV	ELV US	Kevin Fischbeck, CFA
	Encompass Health	EHC	EHC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Option Care Health	OPCH	OPCH US	Joanna Gajuk
	Privia Health	PRVA	PRVA US	Adam Ron
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Service Corp.	SCI	SCI US	Joanna Gajuk
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
NEUTRAL				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agiliti Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Community Health Systems	CYH	CYH US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Oscar Health	OSCR	OSCR US	Kevin Fischbeck, CFA
UNDERPERFORM				
	Aveanna Healthcare	AVAH	AVAH US	Joanna Gajuk
	Bright Health Group	BHG	BHG US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Cano Health	CANO	CANO US	Adam Ron
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Clover Health	CLOV	CLOV US	Kevin Fischbeck, CFA
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk

US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Pediatrix Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

*iQ*method SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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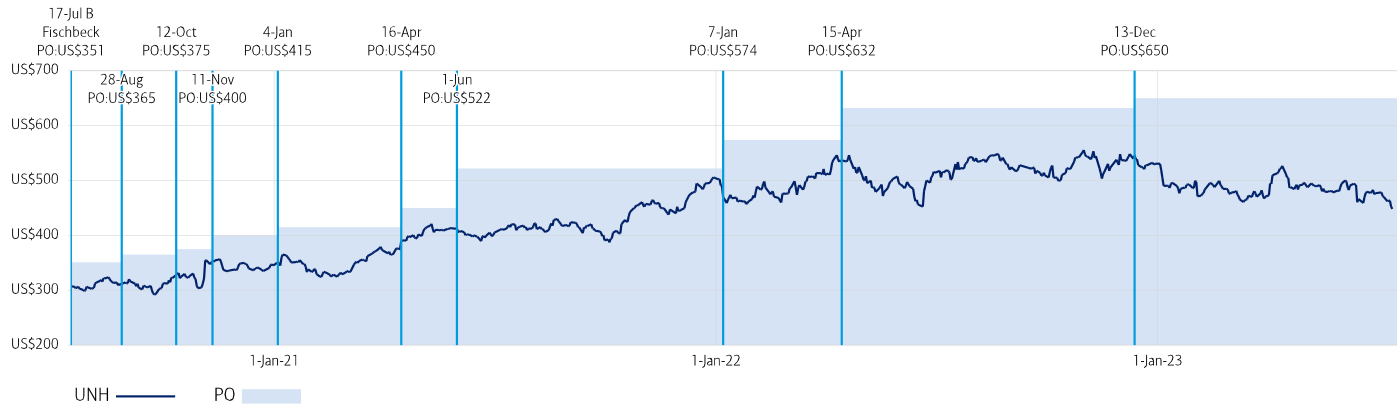
UnitedHealth Grp (UNH) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Health Care Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	236	57.84%	Buy	105	44.49%
Hold	87	21.32%	Hold	38	43.68%
Sell	85	20.83%	Sell	22	25.88%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

[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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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