

UnitedHealth Group

Quick takes from the call

Reiterate Rating: BUY | PO: 675.00 USD | Price: 516.73 USD

Despite questions, tone as bullish as ever

Despite a number of headline issues (higher MLR, negative development, beat on lower taxes), UNH reaffirmed its guidance outlook for 2024 including MLR and OptumHealth margins. At the same time, the tone of the call was bullish, with mgmt. going so far as saying that Q4 “solidifies our confidence in 2024 and the growth outlook”. UNH reiterated its 13-16% LT EPS guidance, signaling that the company remains on track. It will be hard for UNH (and the group) to shake concerns that trend isn’t fully captured in the outlook, until we see a couple of quarters, but to us, the initial MLR guidance was sufficiently conservative that it can weather what appears to be incremental pressure. Reiterate Buy.

Core cost trend “in-line”, ex-RSV, COVID, vaccinations

UNH indicated that core cost trend came in largely as expected, despite MLR 10bps above guidance at the Investor Day. Within the MA book, post the investor day, RSV, COVID and vaccinations picked up above expectations which brought some extra services with it (particularly when the senior hadn’t seen a doctor in a while). COVID admits are running at a higher cost than UNH had historically seen, with December admits 50-60% above the October/November average. UNH indicated that these trends picked up in Q3 and attributed most of the negative development to these factors, rather than core trend. In fact, UNH indicated that base care patterns remain consistent with 1H. Outpatient care for seniors elevated (ortho and cardio the highest). Assumed that these costs would persist through 2024, which gives them confidence in their MLR guide (assumes that these seasonal items don’t repeat). Finally, UNH is looking at leading indicators of utilizations more closely than ever and not seeing any deviation in core. Commercial and Medicaid trend are in-line with expectations.

OptumHealth performance similar to MA

Broadly similar trend in OptumHealth vs MA. Grew capitated membership 900k (+28% vs +8% in its MA book), which created an additional pressure on margins. Started the year with a 20% engagement level, but ended the year at 80%, which helps give some visibility into costs and coding in 2024. New membership for 2024 starting with 50% engagement as doctors better equipped to identify and engage patients. UNH doesn’t see a claims lag at OptumHealth relative to MA, and believes that it gets some early datapoints vs the health plan given its model. Reiterated 2024 margin guide of 7.7-8.0% citing medical management programs, payment integrity and SG&A cuts.

Adjusting to MA rate pressure, thinks peers aggressive

UNH views the rate pressure as a 3 year process, and is making consistent adjustments each year to avoid y/y disruptions. It doesn’t see any pricing “catch-up” necessary because it took a rational change to benefits in 2024 given trend and rate pressures. In contrast, UNH thinks peers priced more aggressively than historically, and implied that peers may have to pull back in future years, positioning UNH to grow well in 2025/26. Added 100k lives in Jan, on track for 450-550k (added 430k from Feb-Dec last year). Started the year with a little less Group and a little more churn than expected.

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Equity

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Stock Data

Price	516.73 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)	483,659 USD / 936.0
Free Float	99.7%
Average Daily Value (mn)	1648.39 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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LT = Long-term

MLR = Medical loss ratio

UNH = UnitedHealth Group

RSV = Respiratory syncytial virus

MA = Medicare Advantage

mgmt = management

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.

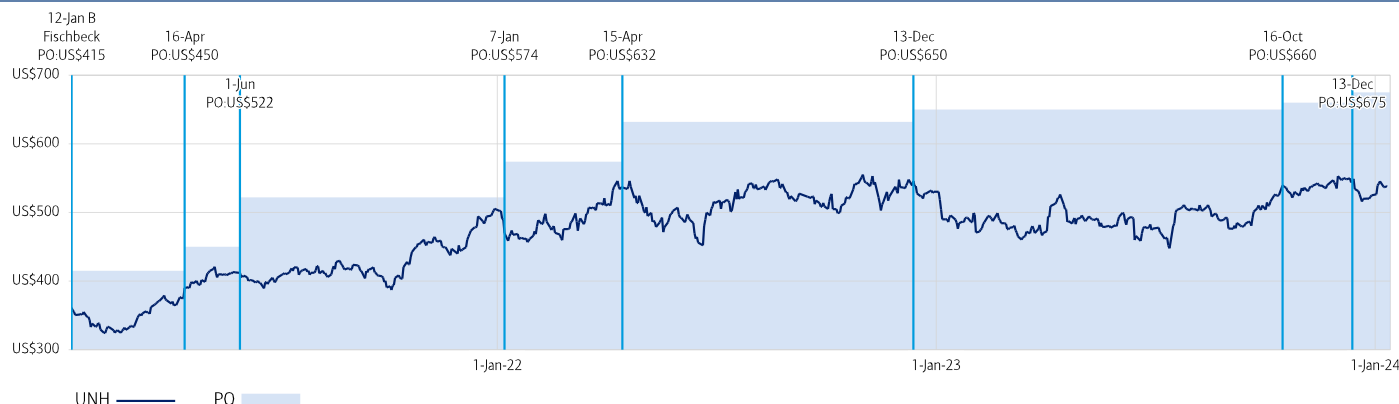
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UnitedHealth Grp (UNH) Price Chart



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 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
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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