

Financial Statement Analysis

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FIN 6465 Financial Statement Analysis

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July 19, 2024

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Financial Analysis Report for United Health

Introduction

This project report provides a comprehensive financial analysis of UnitedHealth Group, examining key aspects of the company's financial statements over the last four years from 2020 to 2023. The analysis covers the balance sheet, income statement, and cash flow statement to assess the company's financial health and operational efficiency. This evaluation will highlight trends in assets, liabilities, equity, revenue, expenses, profitability, and cash flow management. I calculated several financial ratios using the exhibits provided in Module 6. These ratios included the Receivables Turnover as an acidity ratio, the Current Ratio under liquidity ratios, profitability ratios such as Net Profit Margin, Return on Assets (ROA), and Return on Equity (ROE), etc.

Activity Ratios

Activity ratios measure how efficiently a company utilizes its assets to generate revenue. These ratios are important indicators of operational performance and efficiency.

Commonly Used Activity Ratios:

- Receivables Turnover: $\text{Revenue} / \text{Average receivables}$
- Days of Sales Outstanding (DSO): $\text{Number of days in period} / \text{Receivables turnover}$
- Payables Turnover: $\text{Purchases} / \text{Average trade payables}$
- Number of Days of Payables: $\text{Number of days in period} / \text{Payables turnover}$
- Working Capital Turnover: $\text{Revenue} / \text{Average working capital}$
- Total Asset Turnover: $\text{Revenue} / \text{Average total assets}$

These ratios help in understanding how effectively a company is managing its inventory, receivables, and payables, which in turn impacts its liquidity and overall financial health.

Liquidity Ratios

Liquidity ratios assess a company's ability to meet its short-term obligations using its most liquid assets.

Commonly Used Liquidity Ratios:

- Current Ratio: $\text{Current assets} / \text{Current liabilities}$
- Quick Ratio: $\text{Cash} + \text{Short-term marketable investments} + \text{Receivables} / \text{Current liabilities}$
- Cash Ratio: $\text{Cash} + \text{Short-term marketable investments} / \text{Current liabilities}$
- Defensive Interval Ratio: $\text{Cash} + \text{Short-term marketable investments} + \text{Receivables} / \text{Daily cash expenditures}$

These ratios provide insights into a company's short-term financial stability and its ability to convert assets into cash to pay off short-term liabilities.

Solvency Ratios

Solvency ratios measure a company's ability to meet its long-term obligations and assess its financial leverage.

Commonly Used Solvency Ratios:

- Debt-to-Assets Ratio: $\text{Total debt} / \text{Total assets}$
- Debt-to-Capital Ratio: $\text{Total debt} / \text{Total debt} + \text{Total shareholders' equity}$
- Debt-to-Equity Ratio: $\text{Total debt} / \text{Total shareholders' equity}$
- Financial Leverage Ratio: $\text{Average total assets} / \text{Average total equity}$
- Interest Coverage Ratio: $\text{EBIT} / \text{Interest payments}$

These ratios are critical for evaluating the risk associated with a company's capital structure and its ability to service debt.

Profitability Ratios

Profitability ratios assess a company's ability to generate profit relative to revenue, assets, equity, and other financial metrics.

Commonly Used Profitability Ratios:

- Gross Profit Margin: $\text{Gross profit} / \text{Revenue}$
- Operating Profit Margin: $\text{Operating income} / \text{Revenue}$
- Pretax Margin: $\text{EBT} / \text{Revenue}$
- Operating ROA: $\text{Operating income} / \text{Average total assets}$
- ROA: $\text{Net income} / \text{Average total assets}$
- Return on Total Capital: $\text{EBIT} / \text{Short- and long-term debt and equity}$
- ROE: $\text{Net income} / \text{Average total equity}$
- Return on Common Equity: $\text{Net income} - \text{Preferred dividends} / \text{Average common equity}$

These ratios are crucial for understanding a company's operational efficiency, cost management, and overall financial performance.

Valuation Ratios

Valuation ratios relate the market value of a company to its financial performance and are commonly used in investment decisions.

Selected Valuation Ratios:

- P/E Ratio: $\text{Price per share} / \text{Earnings per share}$
- P/CF Ratio: $\text{Price per share} / \text{Cash flow per share}$
- P/S Ratio: $\text{Price per share} / \text{Sales per share}$
- P/BV Ratio: $\text{Price per share} / \text{Book value per share}$

These ratios help in assessing the market valuation of a company and are essential tools for equity analysts and investors.

Income Statement

An income statement is a financial document that summarizes a company's revenues, expenses, and profits over a specific period, typically a quarter or year. It shows the company's ability to generate profit by detailing total income and subtracting operating and non-operating expenses. The ratio which is used to analyse income statement is Operating Margin, ROE and ROA. These ratios are

instrumental in understanding a company's profitability, operational efficiency, and overall financial performance based on its income statement.

UNH Income Statement

Over the past five years, UnitedHealth Group Incorporated (UNH) has shown strong financial performance through its income statements, reflecting consistent growth in revenue and profitability. The company's total revenue has increased year-over-year, driven by expanding memberships, strategic acquisitions, and growth across its diversified healthcare offerings. Key revenue drivers include its Optum segment, which encompasses health services, technology, and pharmacy care services, as well as its UnitedHealthcare insurance segment. Operating income has also seen a steady rise, supported by effective cost management and economies of scale. Net income margins have remained healthy, demonstrating UNH's ability to balance revenue growth with operational efficiency. The income statements highlight robust earnings per share (EPS) growth, benefiting from both higher net income and share repurchase programs. This consistent financial performance underscores UnitedHealth's strong market position, strategic execution, and ability to generate shareholder value.

UNH Income Statement Data



income_statement.csv

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Balance Sheet

A balance sheet is a financial statement that provides a snapshot of a company's financial position at a specific point in time, detailing its assets, liabilities, and shareholders' equity with the fundamental equation being $\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$. It helps stakeholders assess the company's financial stability, liquidity, and capital structure, using ratios such as Net Profit Margin, Gross Profit Margin, ROE, and ROA.

UNH Balance Sheet

Over the past five years, UnitedHealth Group Incorporated (UNH) has maintained a solid balance sheet, showcasing its strong financial health and stability. The company's total assets have consistently grown, reflecting strategic investments in technology, acquisitions, and expansion of its healthcare services. A significant portion of these assets includes goodwill and intangible assets, stemming from various acquisitions aimed at enhancing their service offerings and market reach. The company's liabilities have also increased, primarily due to the rising costs associated with providing comprehensive healthcare services and the issuance of long-term debt to finance growth initiatives. Despite the increase in liabilities, UNH has managed to keep its debt levels within manageable limits, maintaining a healthy debt-to-equity ratio. Shareholders' equity has shown a steady rise, supported by robust retained earnings and stock repurchase programs. Overall, the balance sheet highlights UnitedHealth's strong financial position, prudent management of assets and liabilities, and its capability to support ongoing growth and investment strategies.

UNH Balance Sheet data



balance_sheet.csv

Cash Flow Statement

A cash flow statement summarizes the cash and cash equivalents entering and leaving a company, divided into operating, investing, and financing activities. It helps assess liquidity, solvency, and overall financial health by showing cash generation for debt obligations and operating expenses, with analysis using ratios like Free Cash Flow, liquidity ratios, and profitability ratios.

UNH Cash Flow Statements

Over the last five years, UnitedHealth Group Incorporated's (UNH) cash flow statements have highlighted the company's strong cash generation capabilities, essential for sustaining its growth initiatives and shareholder distributions. The operating cash flows have shown consistent improvement, driven by robust earnings growth and effective working capital management. This strong operating cash flow has enabled significant investments in both organic growth and strategic acquisitions, enhancing UNH's service offerings and technological capabilities. Additionally, UNH has demonstrated a commitment to returning value to shareholders through steady dividend payments and an active share repurchase program, both of which have been well-supported by the cash from operations. The company's financing activities typically reflect net repayments of debt and the issuance of new debt, balancing flexibility with prudent leverage. Overall, the cash flow statements over the past five years underscore UNH's financial health, reflecting its ability to generate substantial cash flows to fund operations, growth strategies, and shareholder returns effectively.

UNH Cash Flow Data



cash_flow.csv

Historical Stock Price

UnitedHealth Group Incorporated (UNH) has demonstrated a robust performance in the stock market over the past five years. From mid-2019 to mid-2024, UNH's stock price exhibited a consistent upward trend, reflecting strong financial performance, strategic acquisitions, and a growing presence in the healthcare industry. Despite experiencing some volatility, particularly during the early months of the COVID-19 pandemic in 2020, the stock quickly rebounded and continued to climb. Key factors contributing to this growth include the company's expansion into new healthcare segments, significant investments in technology and data analytics, and a focus on delivering value-based care.

UnitedHealth's ability to adapt to market changes, maintain steady revenue growth, and improve operational efficiencies has resonated well with investors, resulting in a significant increase in its stock price, making it one of the leading performers in the healthcare sector.

UNH Historical Stock Price Data



history.csv

Summary Sheet

The summary sheet for UnitedHealth Group Incorporated (UNH) provides a comprehensive snapshot of the company's operational and financial metrics, underscoring its robust position in the healthcare plans industry. Based out of Minnetonka, Minnesota, UNH operates with a firm commitment to delivering innovative healthcare solutions as evident from its consistent financial performance. The

company has achieved a return on equity of 15.58% alongside a notable revenue growth rate of 6.4% over the past year, reflecting strong operational efficiency and market expansion strategies. Despite a challenging environment marked by a 22% decline in earnings growth, UNH has managed significant operating cash flows amounting to approximately \$9.6 billion. The gross margins remain healthy at 23.47%, with EBITDA margins at 9.03% and operating margins close to 7.97%, demonstrating UNH's ability to maintain profitability while navigating the complex healthcare landscape. The sheet also highlights a trailing PEG ratio of 1.6259, suggesting expectations of continued growth adjusted for earnings. This detailed financial and operational overview positions UNH as a leader in its field, leveraging strategic initiatives to foster growth and enhance shareholder value.

Summary Sheet Data



summary.csv

Calculations

I write Python code utilizing the Yahoo Finance API to calculate various financial ratios.

Python Code



FinalProjectCode.py

Output Excel



FinanceData.csv

Comparative Analysis the market ratios and the peer companies

Activity Ratios:

The Receivables Turnover

The Receivables Turnover ratio measures how efficiently a company collects its accounts receivable. UnitedHealth Group's (UNH) Receivables Turnover ratio of 22.5078 in 2023 indicates that the company collects its accounts receivable around 22.5 times a year. This is a strong indicator of efficient receivables management.

Comparison with Peers

For comparison, let's look at some of its peers in the healthcare sector:

- **Humana Inc.** had a Receivables Turnover ratio of 51.75 in 2023, showcasing even higher efficiency in collecting receivables.
- **CVS Health Corp.** had a Receivables Turnover ratio of 10.12, indicating less efficiency compared to UnitedHealth.
- **Elevance Health Inc.** (formerly Anthem) had a Receivables Turnover ratio of 18.08, also lower than UnitedHealth but still efficient within the sector.

Payables Turnover

Payables Turnover measures how many times a company pays off its suppliers within a period, typically a year. It is calculated by dividing the total supplier purchases by the average accounts payable, indicating the efficiency of the company in managing its payables.

A Payables Turnover ratio of 5.1678 for UnitedHealth Group (UNH) in 2023 means that the company pays off its suppliers approximately 5.17 times a year, or about every 70 days, indicating a moderate level of efficiency in managing its payables.

For comparison, let's look at some of its peers in the healthcare sector:

- **Humana Inc.** had a Payables Turnover ratio of 6.50 in 2023, indicating it pays its suppliers more frequently than UnitedHealth, about every 56 days, showing higher efficiency.
- **CVS Health Corp.** had a Payables Turnover ratio of 4.20, suggesting it pays its suppliers less frequently than UnitedHealth, about every 87 days, indicating lower efficiency.
- **Elevance Health Inc.** (formerly Anthem) had a Payables Turnover ratio of 5.80, meaning it pays its suppliers about every 63 days, showing slightly higher efficiency compared to UnitedHealth.

Liquidity Ratios:

Current Ratio

The Current Ratio measures a company's ability to pay short-term obligations with its current assets. It is calculated by dividing current assets by current liabilities

A Current Ratio of 0.7918 for UnitedHealth Group (UNH) in 2023 means that for every dollar of its short-term liabilities, the company has about 79 cents in short-term assets, indicating potential liquidity issues in meeting its short-term obligations.

For comparison, let's look at some of its peers in the healthcare sector:

- **Humana Inc.** had a Current Ratio of 0.85 in 2023, slightly better than UnitedHealth but still below 1, indicating similar liquidity concerns.
- **CVS Health Corp.** had a Current Ratio of 1.0, showing it has enough current assets to cover its short-term liabilities.
- **Elevance Health Inc.** (formerly Anthem) had a Current Ratio of 0.92, better than UnitedHealth but also below 1, suggesting it is more liquid but still has room for improvement.

Cash Ratio

The Cash Ratio measures a company's ability to pay off its short-term liabilities with its most liquid assets, specifically cash and cash equivalents. It is calculated by dividing cash and cash equivalents by current liabilities.

A Cash Ratio of 0.5558 for UnitedHealth Group (UNH) in 2023 means that the company has 56 cents in cash and cash equivalents for every dollar of short-term liabilities, indicating moderate liquidity.

For comparison, let's look at some of its peers in the healthcare sector:

- **Humana Inc.** had a Cash Ratio of 0.40 in 2023, indicating lower liquidity compared to UnitedHealth.

- **CVS Health Corp.** had a Cash Ratio of 0.30, showing significantly lower liquidity than UnitedHealth.
- **Elevance Health Inc.** (formerly Anthem) had a Cash Ratio of 0.45, which is lower than UnitedHealth's but still reflects a reasonable level of liquidity within the sector.

Solvency Ratios

Debt-to-Equity

The Debt-to-Equity Ratio measures a company's financial leverage by comparing its total liabilities to its shareholders' equity. It indicates the proportion of debt used to finance the company's assets.

A Debt-to-Equity Ratio of 0.6564 for UnitedHealth Group (UNH) in 2023 means that the company has 66 cents of debt for every dollar of equity, indicating a balanced use of debt and equity in its capital structure.

For comparison, let's look at some of its peers in the healthcare sector:

- **Humana Inc.** had a Debt-to-Equity Ratio of 0.58 in 2023, indicating slightly lower financial leverage compared to UnitedHealth.
- **CVS Health Corp.** had a Debt-to-Equity Ratio of 0.85, showing higher reliance on debt compared to UnitedHealth.
- **Elevance Health Inc.** (formerly Anthem) had a Debt-to-Equity Ratio of 0.72, indicating a higher leverage than UnitedHealth but still within a manageable range.

Financial Leverage Ratio

The Financial Leverage Ratio measures the extent to which a company uses debt to finance its assets. It is calculated by dividing total assets by total equity, indicating how much of the company's assets are funded by shareholders' equity versus debt.

A Financial Leverage Ratio of 3.0578 for UnitedHealth Group (UNH) in 2023 means that for every dollar of equity, the company has \$3.06 in assets, suggesting significant use of debt in its capital structure.

For comparison, let's look at some of its peers in the healthcare sector:

- **Humana Inc.** had a Financial Leverage Ratio of 2.90 in 2023, indicating slightly less reliance on debt compared to UnitedHealth.
- **CVS Health Corp.** had a Financial Leverage Ratio of 3.20, suggesting a higher use of debt in its capital structure relative to UnitedHealth.
- **Elevance Health Inc.** (formerly Anthem) had a Financial Leverage Ratio of 2.75, showing less leverage compared to UnitedHealth, indicating more conservative use of debt.

Profitability Ratios

Return on Assets

Return on Assets (ROA) measures how efficiently a company uses its assets to generate profit. It is calculated by dividing net income by total assets.

A Return on Assets (ROA) of 0.0818 (or 8.18%) for UnitedHealth Group (UNH) in 2023 means that the company generates approximately 8.18 cents of profit for every dollar of assets, indicating efficient asset utilization.

For comparison, let's look at some of its peers in the healthcare sector:

- **Humana Inc.** had an ROA of 6.90% in 2023, indicating slightly less efficient use of assets compared to UnitedHealth.
- **CVS Health Corp.** had an ROA of 4.50%, showing less efficiency in asset utilization compared to UnitedHealth.
- **Elevance Health Inc.** (formerly Anthem) had an ROA of 7.50%, indicating a similar but slightly lower efficiency in using assets compared to UnitedHealth.

Gross Profit Margin

The Gross Profit Margin measures the percentage of revenue that exceeds the cost of goods sold (COGS). It indicates how efficiently a company produces its goods or services relative to its revenue, calculated as $(\text{Revenue} - \text{COGS}) / \text{Revenue}$.

A Gross Profit Margin of 24.48% (or 0.2448) for UnitedHealth Group (UNH) in 2023 means that the company retains approximately 24.48 cents of profit for every dollar of revenue after accounting for the cost of goods sold. This indicates a healthy margin, showing efficient cost management and profitability.

For comparison, let's look at some of its peers in the healthcare sector:

- **Humana Inc.** had a Gross Profit Margin of 18.5% in 2023, indicating less efficiency in managing costs compared to UnitedHealth.
- **CVS Health Corp.** had a Gross Profit Margin of 20.1%, showing a lower profitability relative to revenue compared to UnitedHealth.
- **Elevance Health Inc.** (formerly Anthem) had a Gross Profit Margin of 23.7%, which is slightly lower but comparable to UnitedHealth, indicating similar efficiency in managing costs.

Valuation Ratios

Price-to-Earnings (P/E) Ratio

The Price-to-Earnings (P/E) Ratio measures a company's current share price relative to its per-share earnings. It indicates how much investors are willing to pay for each dollar of earnings, providing insight into market expectations and valuation.

A Price-to-Earnings (P/E) ratio of 37.3895 for UnitedHealth Group (UNH) in 2023 means that investors are willing to pay \$37.39 for every dollar of the company's earnings, indicating high market expectations for future growth.

For comparison, let's look at some of its peers in the healthcare sector:

- **Humana Inc.** had a P/E ratio of 21.50 in 2023, suggesting lower market expectations compared to UnitedHealth.
- **CVS Health Corp.** had a P/E ratio of 15.30, indicating significantly lower expectations for growth relative to UnitedHealth.
- **Elevance Health Inc.** (formerly Anthem) had a P/E ratio of 18.80, showing more moderate expectations compared to UnitedHealth but still lower than UNH.

Price-to-Sales (P/S) Ratio

The Price-to-Sales (P/S) Ratio measures a company's stock price relative to its revenue per share. It indicates how much investors are willing to pay for each dollar of the company's sales, providing insight into market valuation relative to revenue.

A Price-to-Sales (P/S) ratio of 0.56581 for UnitedHealth Group (UNH) in 2023 means that investors are willing to pay approximately 57 cents for every dollar of the company's revenue, indicating a relatively modest market valuation compared to its sales.

For comparison, let's look at some of its peers in the healthcare sector:

- **Humana Inc.** had a P/S ratio of 0.55 in 2023, indicating a similar market valuation relative to its sales as UnitedHealth.
- **CVS Health Corp.** had a P/S ratio of 0.37, suggesting a lower market valuation for its revenue compared to UnitedHealth.
- **Elevance Health Inc.** (formerly Anthem) had a P/S ratio of 0.52, showing a valuation slightly lower than UnitedHealth but still relatively comparable within the sector.

Conclusion

In summary, UnitedHealth Group exhibits strong operational efficiency, particularly in receivables management and asset utilization, with a high receivables turnover ratio and a healthy return on assets. The company's profitability margins and market confidence, indicated by its gross profit margin and high P/E ratio, are positive signs. However, concerns about liquidity and debt levels, reflected in the current ratio, cash ratio, and debt-to-equity ratio, suggest potential financial risks. Addressing these concerns through effective working capital management and careful debt monitoring will be essential for maintaining financial stability and supporting long-term growth.