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## Analyst's Notes

*Analysis by David Toung, May 14, 2025*

### ARGUS RATING: HOLD

- Cloudy growth outlook amid rising medical costs
- Given UNH's suspension of guidance for 2025, we see an uncertain near-term outlook for the company's earnings. Still, should we see evidence of a return to profitable growth from UNH, we would consider an upgrade to the BUY list.
- Stephen Hemsley has been appointed CEO, succeeding Andrew Witty, who stepped down for personal reasons.
- We are reducing our estimates for adjusted EPS to \$26.00 from \$26.25 for 2025 and to \$28.50 from \$31.00 for 2026.

### INVESTMENT THESIS

For HOLD-rated UnitedHealth Group Inc. (NYSE: UNH), the dynamics of navigating the post-pandemic environment has been challenging. Patients have returned to elective procedures. Medical utilization, including physician office visits and outpatient care, remain elevated, putting pressure on the medical cost ratio and reducing profit margins.

On the other hand, the demographics of an aging population remain a favorable tailwind, as the increasing population of older Americans will need health benefit plans and services to manage their healthcare needs.

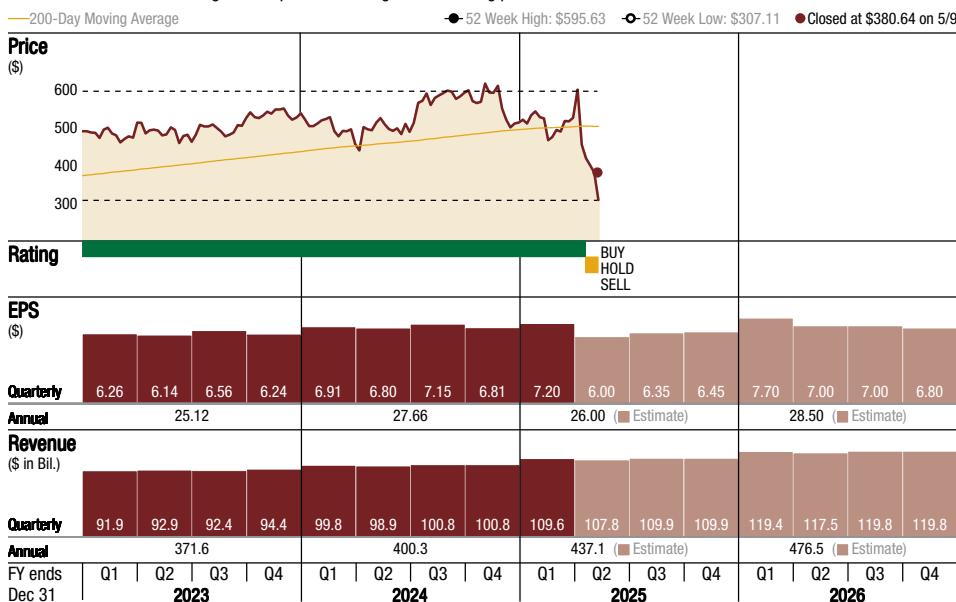
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### RECENT DEVELOPMENTS

The unexpected departure of Andrew Witty as CEO, along with the suspension of 2025 guidance, gives us less confidence in the growth strategy of the company. Stephen Hemsley, who succeeds Witty as CEO, is a known quantity as he had a solid track record of success in his prior tenure as CEO in 2006-2017. CEO succession aside, we are concerned about rising medical utilization and costs in the Medicare Advantage business. In fact, the company said the unexpected rise in utilization has now extended to other insurance

### Market Data

Pricing reflects previous trading week's closing price.



### Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 73% Buy, 27% Hold, 0% Sell.

### Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

#### Market Overview

Price	\$308.01
Target Price	--
52 Week Price Range	\$307.11 to \$630.73
Shares Outstanding	907.14 Million
Dividend	\$8.40

#### Sector Overview

Sector	Healthcare
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	10.80%

#### Financial Strength

Financial Strength Rating	MEDIUM-HIGH
Debt/Capital Ratio	44.4%
Return on Equity	25.1%
Net Margin	5.4%
Payout Ratio	0.32
Current Ratio	0.83
Revenue	\$410.06 Billion
After-Tax Income	\$22.11 Billion

#### Valuation

Current FY P/E	11.85
Prior FY P/E	11.14
Price/Sales	0.68
Price/Book	2.95
Book Value/Share	\$104.44
Market Capitalization	\$279.41 Billion

#### Forecasted Growth

1 Year EPS Growth Forecast	-6.00%
5 Year EPS Growth Forecast	11.00%

1 Year Dividend Growth Forecast	0%
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#### Risk

Beta	0.40
Institutional Ownership	89.66%

**Analyst's Notes** ...Continued

sectors beyond Medicare Advantage.

This elevated medical utilization is clearly pressuring the profit margins of the UnitedHealthcare insurance business. Management said the 'care activity continued to accelerate while also broadening to more types of benefit offerings than seen in the first quarter.' This elevated utilization indicates that UNH's members have increased their physician office visits and are undergoing more outpatient procedures.

Since we view this suspension of guidance, in the backdrop of rising medical costs, as essentially a cut in guidance, this marks the second time in less than a month that UNH had lowered its 2025 outlook. It had cut guidance when it reported 1Q25 results on April 17.

UNH also said it would appropriately set pricing for and adjust its insurance plan offerings in order to return to its long-term target margin range of 3%-5%. It will incorporate the higher utilization experiences and expectations into its 2026 Medicare Advantage bids that are due in a few weeks. UNH said it expects to return to growth in 2026.

**EARNINGS & GROWTH ANALYSIS**

Based on UNH's guidance suspension for 2025 and management's comments regarding rising medical utilization, we are reducing our estimates for adjusted EPS. We are reducing our estimate to \$26.00 from \$26.25 for 2025 and to \$28.50 from \$31.00 for 2026.

**FINANCIAL STRENGTH & DIVIDEND**

Our financial strength rating on UNH is Medium-High, the second-highest rank on our five-point scale. The company has a solid balance sheet and strong cash flow. Cash flow from operations was \$24.2 billion for 2024, compared to \$29.1 billion in the year-ago period.

UNH pays a dividend at the annualized rate of \$8.40 for a current yield of 2.7%. With its 11% dividend raise earlier in 2024, the company marked 15 consecutive years of dividend hikes. Our dividend estimates are \$8.40 (reduced from \$9.00) for 2025 and \$9.00 (reduced from \$9.60) for 2026.

**MANAGEMENT AND RISKS**

As noted earlier, Stephen Hemsley was appointed CEO, succeeding Andrew Witty, who had served as CEO from 2021 until May 2025.

John Rex is president and CFO.

UnitedHealth faces competitive risks in both the commercial and government-sponsored markets as rival insurers, both for-profit and not-for-profit, seek to expand share. It also faces actuarial risks, as it must estimate the growth of healthcare costs and the use of medical services by its members. The profit margin of the UnitedHealthcare insurance segment is measured by the medical cost ratio (MCR), which is the ratio of medical costs to premium revenue. A lower ratio means a higher profit margin.

The company also faces legal risks as its acquisitions face

**Growth & Valuation Analysis****GROWTH ANALYSIS**

(\$ in Millions, except per share data)

	2020	2021	2022	2023	2024
Revenue	257,141	287,597	324,162	371,622	400,278
COGS	190,141	217,945	244,545	280,664	310,879
Gross Profit	67,000	69,652	79,617	90,958	89,399
SG&A	—	—	—	—	—
R&D	—	—	—	—	—
Operating Income	22,405	23,970	28,435	32,358	32,287
Interest Expense	1,663	1,660	2,092	3,246	3,906
Pretax Income	20,742	22,310	26,343	29,112	20,071
Income Taxes	4,973	4,578	5,704	5,968	4,829
Tax Rate (%)	24	21	22	21	24
Net Income	15,403	17,285	20,120	22,381	14,405
Diluted Shares Outstanding	961	956	950	938	929
EPS	16.03	18.08	21.18	23.86	15.51
Dividend	4.83	5.60	6.40	7.29	8.18
<b>GROWTH RATES (%)</b>					
Revenue	6.2	11.8	12.7	14.6	7.7
Operating Income	13.8	7.0	18.6	13.8	-0.2
Net Income	11.3	12.2	16.4	11.2	-35.6
EPS	11.9	12.8	17.1	12.7	-35.0
Dividend	16.7	15.9	14.3	13.9	12.2
Sustainable Growth Rate	20.4	15.1	18.7	18.9	7.7
<b>VALUATION ANALYSIS</b>					
Price: High	\$367.95	\$509.23	\$558.10	\$554.70	\$630.73
Price: Low	\$187.72	\$320.35	\$445.74	\$445.68	\$436.38
Price/Sales: High-Low	1.4 - 0.7	1.7 - 1.1	1.6 - 1.3	1.4 - 1.1	1.5 - 1.0
P/E: High-Low	23.0 - 11.7	28.2 - 17.7	26.4 - 21.0	23.2 - 18.7	40.7 - 28.1
Price/Cash Flow: High-Low	15.9 - 8.1	19.3 - 12.2	15.7 - 12.5	17.6 - 14.1	35.3 - 24.4

**Financial & Risk Analysis****FINANCIAL STRENGTH**

	2022	2023	2024
Cash (\$ in Millions)	23,365	25,427	25,312
Working Capital (\$ in Millions)	-20,168	-20,617	-17,990
Current Ratio	0.77	0.79	0.83
LT Debt/Equity Ratio (%)	70.1	65.6	78.1
Total Debt/Equity Ratio (%)	74.1	70.5	83.0

**Analyst's Notes** ...Continued

regulatory scrutiny. The acquisition of Change Healthcare had a protracted regulatory review that ultimately forced UNH to divest certain Change businesses before completing the acquisition.

**COMPANY DESCRIPTION**

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The Optum Health business provides care delivery in primary and specialty care, care management, wellness programs, and offers consumer engagement services. OptumInsight uses advanced data analytics and technology to help optimize the performance of clients. OptumRx provides pharmacy benefit management services (PBM).

**VALUATION**

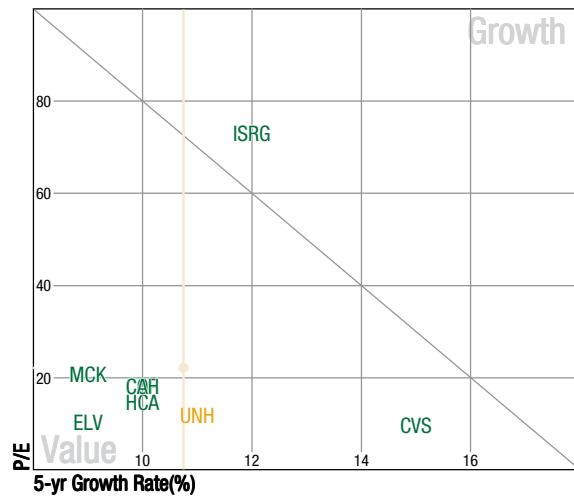
UNH is trading at 10.9-times our 2026 EPS estimate, below the mean of 12.6 for our coverage universe of managed care stocks.

On May 14, HOLD-rated UNH closed at \$308.01, down \$3.37.

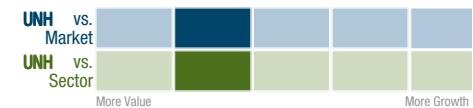
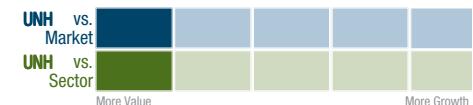
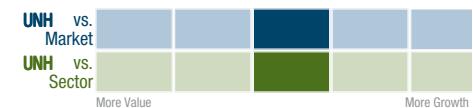
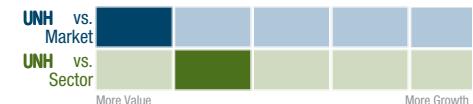
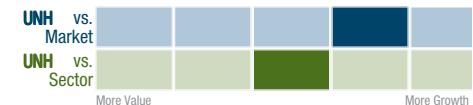
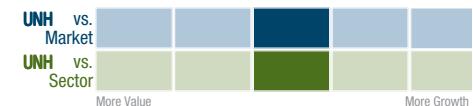
**Peer & Industry Analysis**

The graphics in this section are designed to allow investors to compare UNH versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how UNH stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how UNH might fit into or modify a diversified portfolio.



Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
UNH	Unitedhealth Group Inc	279,408	11.0	11.8	5.4	9.6	HOLD
ISRG	Intuitive Surgical Inc	202,843	12.0	73.0	28.4	16.1	BUY
HCA	HCA Healthcare Inc	88,411	10.0	14.8	8.1	12.3	BUY
MCK	Mckesson Corporation	85,362	9.0	20.8	.9	12.1	BUY
ELV	Elevance Health Inc	84,565	9.0	10.4	3.2	7.1	BUY
CVS	CVS Health Corp	75,952	15.0	9.8	1.4	14.2	BUY
COR	Cencora Inc	54,106	10.0	18.1	.5	8.4	BUY
CAH	Cardinal Health, Inc.	35,422	10.0	18.3	.7	11.9	BUY
<b>Peer Average</b>		<b>113,259</b>	<b>10.8</b>	<b>22.1</b>	<b>6.1</b>	<b>11.5</b>	

**P/E****Price/Sales****Price/Book****PEG****5 Year Growth****Debt/Capital**

## About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

### THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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