

By revenue, UnitedHealth Group is the nation's largest publicly traded managed care company. It operates through two business segments, UnitedHealthcare and Optum. UnitedHealthcare provides healthcare benefits through four membership groups: Employers & Individual, Medicare & Retirement, Community & State, and International. Optum segment is a health services business that serves payers, care providers, employers, governments, life science companies, and consumers.

## Analyst's Notes

Analysis by David Toung, April 17, 2025

**ARGUS RATING: HOLD**

- Downgrading to HOLD
- UNH cut its 2025 guidance amid a jump in medical costs in its group Medicare Advantage business and weaker results from its Optum Health business.
- Medical cost pressures at Group Medicare Advantage will likely continue through the first half of 2025.
- Membership growth at individual Medicare Advantage remains strong.

## INVESTMENT THESIS

For HOLD-rated UnitedHealth Group Inc. (NYSE: UNH), the dynamics of navigating in the post-pandemic environment has been challenging. Patients have returned to elective procedures. Medical utilization, including physician office visits, outpatient care, and inpatient 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.

UNH's cut in 2025 guidance makes it more difficult to see a path to profitable growth in managed-care.

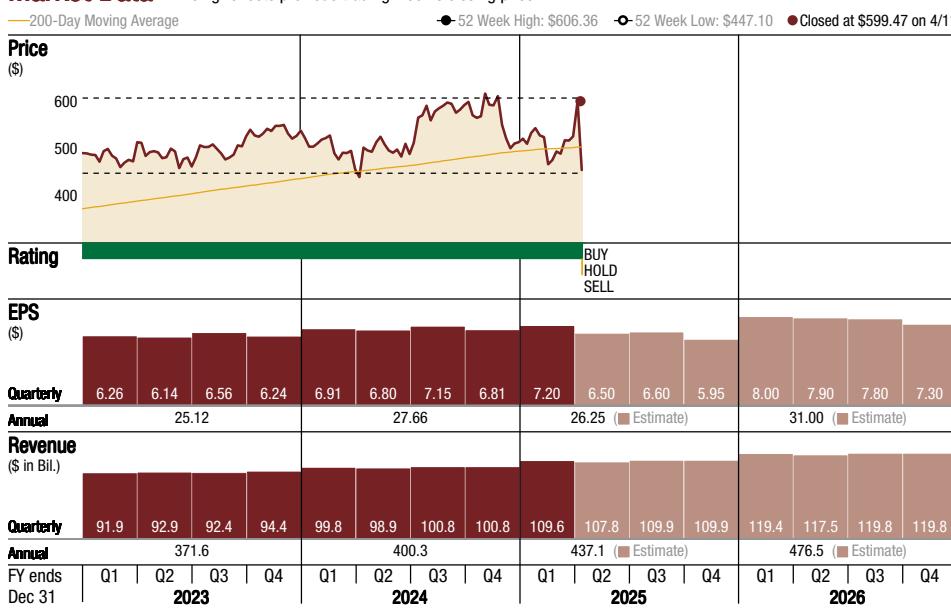
## RECENT DEVELOPMENTS

UNH cut its 2025 guidance amid a higher-than-anticipated rise in medical costs in its group Medicare Advantage business and weaker results from its Optum Health business. It cut its guidance for adjusted EPS to \$26.00-\$26.50 from to \$29.50-\$30.00. UNH was also impacted by Medicare funding reduction enacted by the previous administration.

We are surprised at the scope of the underperformance and the elevated levels of care activity in MA. UNH now expects its 2025 Medical Cost Ratio (MCR) to be at 87.5%, plus or minus 50 basis points, up from a prior view of 86.5%.

## 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: 74% Buy, 26% 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	\$454.11
Target Price	—
52 Week Price Range	\$438.50 to \$630.73
Shares Outstanding	914.71 Million
Dividend	\$8.40

### Sector Overview

Sector	Healthcare
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	11.20%

### Financial Strength

Financial Strength Rating	MEDIUM-HIGH
Debt/Capital Ratio	44.4%
Return on Equity	27.0%
Net Margin	5.4%
Payout Ratio	0.34
Current Ratio	0.83
Revenue	\$410.06 Billion
After-Tax Income	\$22.11 Billion

### Valuation

Current FY P/E	17.30
Prior FY P/E	16.42
Price/Sales	1.01
Price/Book	4.12
Book Value/Share	\$110.21
Market Capitalization	\$415.38 Billion

### Forecasted Growth

1 Year EPS Growth Forecast	-5.10%
5 Year EPS Growth Forecast	11.00%
1 Year Dividend Growth Forecast	7.14%

### Risk

Beta	0.40
Institutional Ownership	88.31%

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

UNH reported 1Q25 results on April 17. Adjusted EPS was \$7.20, missing the consensus estimate by \$0.07 and increasing 4.2%. GAAP net income was \$6.292 billion or \$6.85 per share, compared to a net loss of \$1.409 billion or \$1.53 per share a year ago.

The 1Q24 GAAP results included a charge of \$7.1 billion (pretax) on the loss on the sale of the Brazilian business and \$593 million in direct response costs related to a cyberattack at Change Healthcare.

Consolidated revenue was \$109.575 billion, increasing 9.8%. The consolidated MCR was 84.8%, up 50 basis points from a year ago, reflecting the higher medical costs. The operating cost ratio was 12.4%, improving (declining) by 170 basis points.

Management cited several factors contributing to the higher medical costs. These include increasing volumes of physician visit, specialty care, and outpatient volumes. Further, the company expects these trends to continue at least through the first half of 2025.

**EARNINGS & GROWTH ANALYSIS**

UNH cut its guidance for adjusted EPS for 2025. It now expects adjusted EPS of \$26.00-\$26.50, reduced from \$29.50-\$30.00. It continues to expect revenue of \$450 billion-\$455 billion. Within that guidance, it now expects revenue for both UnitedHealthcare and Optum Rx to be stronger than the outlook issued in December 2024. It expects revenue for Optum Health to be \$106 billion-\$107

billion, or about \$10 billion below the previous outlook.

Based on the updated guidance, we are reducing our estimates for adjusted EPS to \$26.25 from \$29.70 for 2025 and to \$31.00 from \$33.30 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 1.4%. With its 11% dividend raise earlier in 2024, the company marked 15 consecutive years of dividend hikes. Our dividend estimates are \$9.00 for 2025 and \$9.60 for 2026.

**MANAGEMENT AND RISKS**

Andrew Witty is CEO. 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
<b>RATIOS (%)</b>			
Gross Profit Margin	24.6	24.5	22.3
Operating Margin	8.8	8.7	8.1
Net Margin	6.2	6.0	3.6
Return On Assets	8.8	8.6	5.0
Return On Equity	26.9	26.9	15.9
<b>RISK ANALYSIS</b>			
Cash Cycle (days)	—	—	—
Cash Flow/Cap Ex	9.4	8.6	6.9
Oper. Income/Int. Exp. (ratio)	13.6	10.0	6.1
Payout Ratio	33.5	30.4	30.6

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## 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

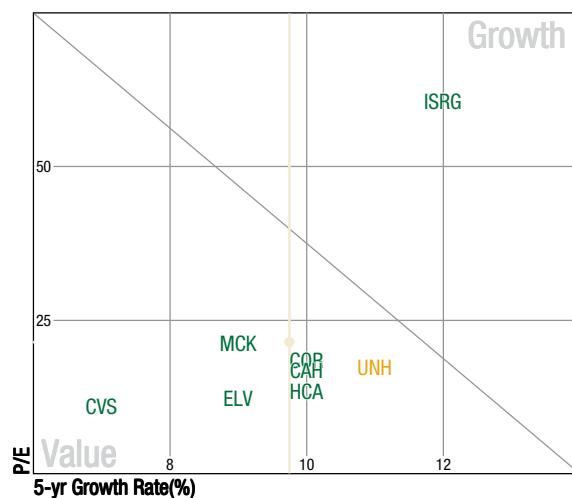
UNH is trading at 18.9-times our 2026 EPS estimate, above the mean of 15.7 for our coverage universe of managed care stocks.

On April 17, HOLD-rated UNH closed at \$454.11, down \$130.93.

## Peer &amp; Industry Analysis

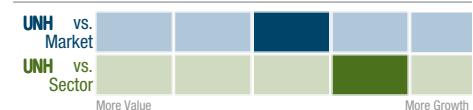
The graphics in this section are designed to allow investors to compare UNH versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- 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.

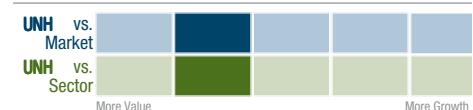


Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
UNH	Unitedhealth Group Inc	415,380	11.0	17.3	5.4	18.1	HOLD
ISRG	Intuitive Surgical Inc	172,953	12.0	60.7	27.8	18.2	BUY
ELV	Elevance Health Inc	96,108	9.0	12.3	3.4	11.4	BUY
MCK	Mckesson Corporation	87,363	9.0	21.3	.8	12.1	BUY
CVS	CVS Health Corp	84,946	7.0	11.0	1.2	15.2	BUY
HCA	HCA Healthcare Inc	82,481	10.0	13.5	8.2	12.3	BUY
COR	Cencora Inc	55,545	10.0	18.6	.5	8.4	BUY
CAH	Cardinal Health, Inc.	32,542	10.0	16.9	.6	12.8	BUY
<b>Peer Average</b>		<b>128,415</b>	<b>9.8</b>	<b>21.4</b>	<b>6.0</b>	<b>13.6</b>	

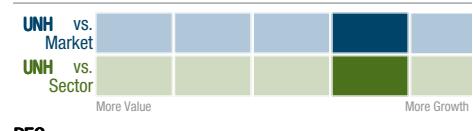
## P/E



## Price/Sales



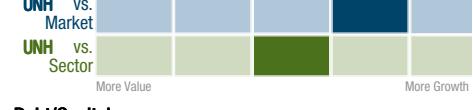
## Price/Book



## 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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