



# UnitedHealth Group, Inc. (UNH)

Updated October 13<sup>th</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$526	<b>5 Year CAGR Estimate:</b>	12.3%	<b>Market Cap:</b>	\$487 B
<b>Fair Value Price:</b>	\$500	<b>5 Year Growth Estimate:</b>	12.0%	<b>Ex-Dividend Date:</b>	12/15/23 <sup>1</sup>
<b>% Fair Value:</b>	105%	<b>5 Year Valuation Multiple Estimate:</b>	-1.0%	<b>Dividend Payment Date:</b>	12/28/23
<b>Dividend Yield:</b>	1.4%	<b>5 Year Price Target</b>	\$881	<b>Years Of Dividend Growth:</b>	14
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

UnitedHealth dates back to 1974 when Charter Med was founded by a group of health care professionals looking for ways to expand healthcare options for consumers. UnitedHealth has certainly done that in the decades since and now offers global healthcare services to tens of millions of people via a wide array of products. The company has two major reporting segments: UnitedHealth and Optum. The former provides global healthcare benefits to individuals, employers, and Medicare/Medicaid beneficiaries. The Optum segment is a services business that seeks to lower healthcare costs and optimize outcomes for its customers. UnitedHealth's market capitalization is \$487 billion, and it produces about \$368 billion in revenue annually, making it one of the largest companies in America by either measure.

UnitedHealth posted third quarter earnings on October 13<sup>th</sup>, 2023, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$6.56, which was 21 cents ahead of expectations. Revenue was up 14% year-over-year to \$92.4 billion, which was almost a billion dollars better than estimates.

The company noted growth in Q3 was driven by the rising number of people enrolled in Optum and UnitedHealthcare services, as well as the company broadening the scope of its offered services. Both Optum and UnitedHealthcare grew by double-digit rates.

The company's medical care ratio in Q3 was 82.3%, up from 81.6% in the year-ago period. The company noted a favorable medical reserve development of \$720 million, up from \$480 million in Q2, but down from \$870 million a year ago.

Operating costs were 15% of revenue in Q3, up from 14.4% a year ago due to business mix shifts, as well as investments to support future growth and productivity improvements.

Management boosted guidance slightly to adjusted earnings of \$24.85 to \$25.00 per share; we've increased our estimate by 15 cents accordingly.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$5.50	\$5.70	\$6.01	\$8.05	\$10.07	\$12.19	\$15.11	\$16.88	\$19.02	\$22.19	<b>\$25.00</b>	<b>\$44.06</b>
<b>DPS</b>	\$1.05	\$1.41	\$1.88	\$2.38	\$2.88	\$3.45	\$4.14	\$4.83	\$5.60	\$6.40	<b>\$7.52</b>	<b>\$14.48</b>
<b>Shares<sup>2</sup></b>	988	954	953	952	969	968	962	961	992	947	<b>935</b>	<b>900</b>

We forecast forward earnings-per-share growth of 12% annually as UnitedHealth continues to boost margins and generate revenue growth. We note that the sheer size of UnitedHealth makes it more difficult to grow over time, but Optum continues to be outstanding in pushing the top line higher, and UnitedHealth has picked up its growth in recent quarters as well. We do not believe the company's very impressive run of earnings-per-share growth is ending by any means, and sustained strength in both segments would seem to suggest there is some upside to the company's growth forecast. Margin expansion slowed to almost nothing in 2022, so investors would do well to watch that in the coming

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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quarters; we note that 2023 margins are thus far showing slight deterioration, but we believe that once 2023 results are lapped, margin expansion will resume.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.9	14.7	19.4	16.8	18.4	20.4	16.5	17.8	21.2	23.9	21.0	20.0
Avg. Yld.	1.6%	1.7%	1.6%	1.8%	1.5%	1.4%	1.7%	1.6%	1.4%	1.2%	1.4%	1.6%

UnitedHealth's price-to-earnings multiple is higher than it was at the time of our last update, standing at 21 times earnings. The business has posted continuously strong earnings growth rates and as such, investors have assigned a high-teens multiple in recent years. With shares trading slightly below our fair value estimate of 20 times earnings, this could drive a fractional tailwind to annual total returns. We see the yield rising over time as UnitedHealth has proven its commitment to increasing the dividend at meaningful rates. With the stock being slightly overvalued, we don't see a large impact on the yield from that.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	19%	24%	31%	29%	28%	28%	27%	29%	29%	29%	30%	33%

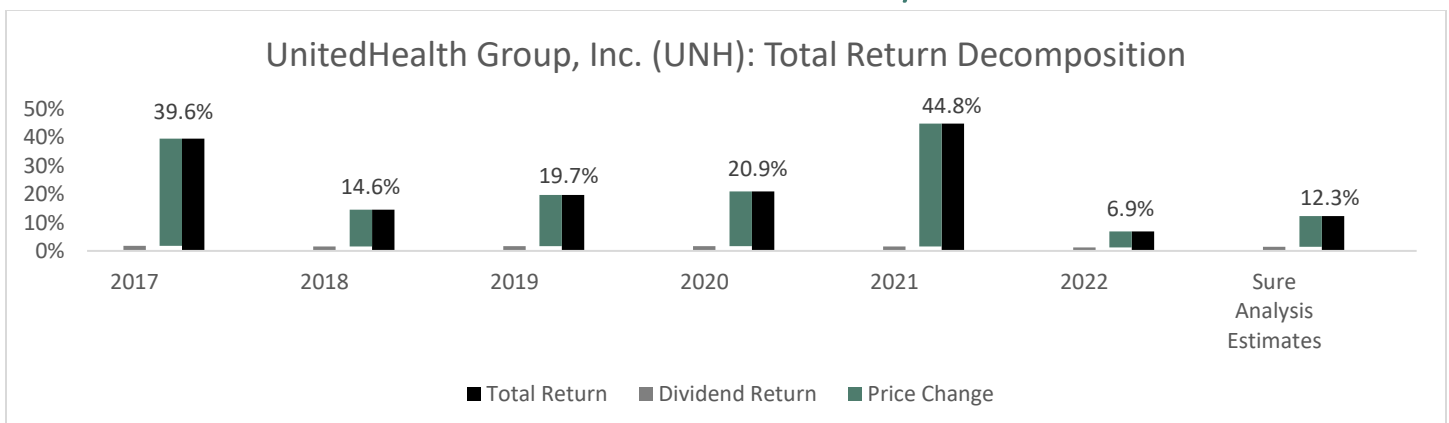
As mentioned, we see the payout ratio rising over time, as UnitedHealth's dividend is ultra-safe today. At only 30% of earnings, UnitedHealth has tremendous flexibility in terms of returning capital to shareholders. Its outstanding earnings growth should only strengthen this over time.

UnitedHealth's competitive advantage is in its gargantuan scale as well as its deeply entrenched customers with high switching costs. Like a utility, health and wellness providers have high switching costs, accruing significant benefits to incumbents like UnitedHealth. It is also quite resistant to recessions as its services are necessities in most cases. Optum remains an outstanding growth engine as well as it continues to outperform UnitedHealthcare.

## Final Thoughts & Recommendation

We see UnitedHealth as a premier growth stock that is now trading near fair value. Its strong growth forecast makes it attractive to growth investors, while its high rate of dividend growth makes it attractive for those seeking longer term income. We forecast total annual returns of 12.3%, consisting of the current 1.4% yield, 12% earnings growth and a 1% headwind from the valuation. UnitedHealth is an attractive long-term story offering high rates of earnings and dividend growth. With a continued strong outlook, we're reiterating the stock at a buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue (\$B)</b>	121.74	129.70	156.40	184.01	200.14	224.87	240.27	255.6	285.3	322.1
<b>Gross Profit</b>	29,194	32,236	36,316	42,558	45,988	52,470	55,712	65,498	67,328	77,587
<b>Gross Margin</b>	24.0%	24.9%	23.2%	23.1%	23.0%	23.3%	23.2%	25.6%	23.6%	24.1%
<b>D&amp;A Exp.</b>	1,375	1,478	1,693	2,055	2,245	2,428	2,720	2,891	3,103	3,400
<b>Operating Profit</b>	8,878	9,495	10,311	12,102	14,186	15,968	17,799	20,903	21,646	26,405
<b>Op. Margin</b>	7.3%	7.3%	6.6%	6.6%	7.1%	7.1%	7.4%	8.2%	7.6%	8.2%
<b>Net Profit</b>	5,625	5,619	5,813	7,017	10,558	11,986	13,839	15,403	17,285	20,120
<b>Net Margin</b>	4.6%	4.3%	3.7%	3.8%	5.3%	5.3%	5.8%	6.0%	6.1%	6.2%
<b>Free Cash Flow</b>	5,684	6,526	8,184	8,090	11,573	13,650	16,392	20,123	19,889	23,404
<b>Income Tax</b>	3,242	4,037	4,363	4,790	3,200	3,562	3,742	4,973	4,578	5,704

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets (\$B)</b>	81.88	86.38	111.25	122.81	139.06	152.22	173.89	197.3	212.2	245.7
<b>Cash &amp; Equivalents</b>	7,276	7,495	10,923	10,430	11,981	10,866	10,985	16,921	21,375	23,365
<b>Acc. Receivable</b>	3,052	4,252	6,523	8,152	9,568	11,388	11,822	12,870	14,216	17,681
<b>Goodwill &amp; Int.</b>	35,448	36,609	52,844	56,125	63,045	68,235	76,008	82,193	85,839	107,753
<b>Total Liabilities</b>	49,733	53,928	77,529	84,633	89,225	97,902	113,453	128,961	135,727	159,358
<b>Accounts Payable</b>	19,033	21,287	26,324	29,752	33,051	36,596	40,695	44,367	49,126	29,056
<b>Long-Term Debt</b>	16,860	17,406	31,965	32,970	31,692	36,554	40,678	43,467	46,003	57,623
<b>Total Equity</b>	32,149	32,454	33,830	38,274	47,776	51,696	57,616	65,491	71,760	81,450
<b>LTD/E Ratio</b>	0.52	0.54	0.94	0.86	0.66	0.71	0.71	0.66	0.64	0.71

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	6.9%	6.7%	5.9%	6.0%	8.1%	8.2%	8.5%	8.3%	8.4%	8.8%
<b>Return on Equity</b>	17.8%	17.4%	17.5%	19.5%	24.5%	24.1%	24.7%	25.0%	25.2%	26.3%
<b>ROIC</b>	11.6%	11.4%	10.1%	10.3%	13.8%	13.9%	14.4%	14.5%	14.6%	15.1%
<b>Shares Out.</b>	988	954	953	952	969	968	962	961	956	950
<b>Revenue/Share</b>	119.01	131.54	161.73	190.10	203.18	228.76	248.73	266.01	298.4	339.1
<b>FCF/Share</b>	5.56	6.62	8.46	8.36	11.75	13.89	16.97	20.94	20.80	24.64

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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