

BN UnitedHealth 2nd-Qtr Net Rises 36% on Premium Gains (Update5)
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(Adds CEO comments beginning in 11th paragraph, closing share price in eighth.)

By Keith Snider

July 15 (Bloomberg) -- UnitedHealth Group Inc., the biggest U.S. health insurer, said second-quarter profit rose 36 percent as the company increased premiums. It projected rates will climb 9 percent to 10 percent this year.

Net income jumped to \$596 million, or 93 cents a share, from \$439 million, or 71 cents, in the quarter a year earlier, the Minnetonka, Minnesota-based company said. Revenue rose 23 percent to \$8.7 billion on acquisitions.

UnitedHealth raised premiums even as job growth lagged the economic expansion, and Chief Executive Officer William McGuire said the company won't need to offer discounts to win business. The \$4.9 billion purchase of Oxford Health Plans Inc., its third major acquisition since 2002, will add 1.5 million members in metropolitan New York when completed this quarter.

``There's competition, but there's no reason to lower the premiums,'' said Michael Obuchowski, who manages \$35 million, including UnitedHealth shares, at New York-based Altanes Investments LLC. ``Even with slow enrollment growth, they are able to manage their costs extremely well.''

From April through June, UnitedHealth's medical costs consumed 79.4 cents of every premium dollar, down from 80.7 cents a year earlier. The company benefited from wider use of generic drugs and has reduced hospital costs by cutting unneeded laboratory tests. Putting transactions online reduced operating expenses as a share of revenue, UnitedHealth said today.

Earnings Outlook

The company, the first managed-care insurer to report second-quarter results, raised its full-year profit estimate to \$3.79 to \$3.82 a share, excluding gains from the addition of Oxford. In April, UnitedHealth forecast 2004 profit of \$3.75 to \$3.78. UnitedHealth earned \$2.96 a share last year.

UnitedHealth said per-share earnings will increase at least 20 percent next year, and revenue will approach \$45 billion.

The company's shares rose \$3.80, or 6.1 percent, to \$65.70 at 4:01 p.m. in New York Stock Exchange composite trading.

UnitedHealth was expected to earn 92 cents a share in the second quarter, the average estimate of analysts surveyed by Thomson Financial.

Analysts are watching for signs that UnitedHealth or managed-

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care competitors such as Aetna Inc. and Anthem Inc. are cutting premiums to gain business that normally comes when customers add jobs. In the past, some health insurers that locked in lower rates were then hurt when medical costs jumped.

No Sign of Discounts

UnitedHealth CEO McGuire said on a conference call that there is no evidence of rate discounts on a national basis. In April he said slow job growth may hurt UnitedHealth. Today he said the economy is stronger ``and eventually employment trends will improve.''

``This has been a company that's historically been very disciplined about not chasing business just for membership growth,' ' Wachovia analyst Eric Veiel said of UnitedHealth, which he rates as ``outperform.' ' ``I'd be absolutely shocked if they began doing that just to show something to Wall Street.''

The company said medical costs are rising about 9 percent this year, and McGuire estimated next year's increase will be about the same.

The company expects to add 150,000 to 200,000 members in its UnitedHealthcare plans and about 500,000 in Uniprise plans it runs for big employers, lower than forecast last year.

UnitedHealth said membership in its health plans rose to 20.3 million from 18.3 million a year earlier, and it lost 10,000 members from plans it runs for large U.S. employers due to the bankruptcy of one customer and attrition at others. Membership was little changed from the first quarter.

Employment Market

The company said much of the employment growth in the U.S. is in small businesses or in part-time work, which usually don't include health benefits.

While job growth lags, UnitedHealth and its rivals have used acquisitions to expand into new regions or increase their market share.

Anthem Inc. agreed last year to buy WellPoint Health Networks Inc. for \$16.4 billion to leapfrog past UnitedHealth in membership. That transaction, under review by California regulators, is may close soon.

UnitedHealth already has about 2.5 million customers in the New York region, which is home to almost 100 Fortune 500 companies. The Oxford transaction will add 4 cents a share to quarterly earnings, UnitedHealth said.

The company bought Mid Atlantic Medical Services Inc. this year and AmeriChoice Corp. in 2002.

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``Acquisitions are on the horizon,'' said Altanes Investments' Obuchowski. ``It's a very viable way to grow their enrollment. There will be some wounded companies available.''

(UnitedHealth's conference call with investors is available at {UNH <Equity> CNAV <GO>}).

--Editor: Gienger, Elser, Schauder, Barry, Simison.

Story illustration: For a rolling screen of data about UnitedHealth, see {UNH US <Equity> CNP00094090108 <GO>}. To compare the company with competitors, see {UNH US <Equity> RV <GO>}.

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