

BN UnitedHealth 3rd-Qtr Profit Rises 21% on Cost Control (Update5)
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(Adds closing share price in fifth paragraph.)

By Kristen Hallam

Oct. 14 (Bloomberg) -- UnitedHealth Group Inc. said quarterly profit climbed 21 percent as health costs rose at a slower rate, generating savings that may help the second-biggest U.S. medical-insurance provider gain new Medicare customers.

Net income for the third quarter jumped to \$842 million, or 64 cents a share, from \$698 million, or 52 cents, a year earlier, the Minnetonka, Minnesota-based company said today in a statement. Revenue gained 15 percent to \$11.3 billion.

Lower rates negotiated with hospitals and more use of generic drugs helped slow projected medical-cost increases for the year to 7.5 percent, UnitedHealth said today. The company previously had forecast an increase of 9 percent. The ability to control expenses may help the company offer lower-cost plans in the race for customers from the U.S. government's Medicare health-insurance program, which expands drug coverage next year.

"Medicare is probably the biggest driver of their future earnings growth for the next several quarters," said Michael Obuchowski, a principal at New York-based Altanes Investments LLC who manages about \$35 million including UnitedHealth shares, in an interview today.

UnitedHealth shares jumped \$2.23, or 4.1 percent, to \$56.43 at 4:02 p.m. in New York Stock Exchange composite trading, after the company said it expects to enroll as many as 3 million seniors in its Medicare drug plans.

"We are confident we'll make an appropriate return on the investment we've made," UnitedHealth Chief Executive William McGuire said today on a conference call with analysts. Actual enrollment "could be a little higher, or a little less," he said.

'Bullish'

That projection means the company, which has an exclusive branding agreement with consumer group AARP, expects to garner 10 percent to 15 percent of the Medicare drug market, Fulcrum Global Partners analyst Sheryl Skolnick said. UnitedHealth is one of 10 companies offering Medicare drug coverage nationwide.

"That's one heck of a statement," said Skolnick, who rates the stock a "buy," in a telephone interview today. "The reason the stock is up is because that's more bullish than anyone expected. Let's hope they execute to meet the expectation they've established."

The Morgan Stanley Health Care Payer Index rose 2.5 percent

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to 1576.29 as shares of UnitedHealth rivals WellPoint Inc. and Aetna Inc. also gained. UnitedHealth shares have increased tenfold in the past decade as investors bet on rising demand for health care from an aging U.S. population.

Raised Forecast

The company was expected to earn 63 cents a share in the third quarter, the average estimate of 17 analysts surveyed by Thomson Financial. UnitedHealth has beaten analysts' estimates by an average of 2 cents a share for the last 10 quarters, Banc of America Securities analyst Joseph France said in an Oct. 12 note to clients.

UnitedHealth raised its forecast for 2005 earnings to \$2.48 a share, up from its July estimate of \$2.45 to \$2.47 a share. In 2004, the company had net income of \$1.97 a share.

Profit grew less than 30 percent from the previous year for the first time in 23 consecutive quarters, Bear Stearns & Co. analyst John Rex wrote in an Oct. 11 note to clients.

The U.S. government on Sept. 23 said it approved UnitedHealth's bid to offer Medicare drug-insurance plans nationwide. UnitedHealth began marketing the plans Oct. 1, and can begin enrollment Nov. 15. Coverage starts Jan. 1.

AARP, Walgreen Agreements

UnitedHealth will be competing with WellPoint, the largest U.S. health-insurance provider, and eight other companies for as many as 30 million new customers. In addition to its agreement with AARP, which represents 36 million older Americans, UnitedHealth has a partnership with Walgreen Co., a chain of 4,700 drugstores in 45 states.

``The AARP brand name is a very powerful competitive tool,'' Skolnick said.

The company said it expects to spend about \$40 million in the third and fourth quarters to develop and promote its Medicare drug plans.

UnitedHealth agreed in July to pay \$8.14 billion for PacifiCare. The purchase, which will triple the number of participants in UnitedHealth's Medicare plans to about 1 million, will help the company increase profits when the program adds the drug benefit. PacifiCare also will give UnitedHealth a foothold in California, the most populous state.

Merger Approvals Needed

Indiana officials cleared the merger, and UnitedHealth needs

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approvals from nine other states including California, McGuire said on a conference call with analysts today. UnitedHealth expects to complete the purchase this year or in the first quarter of next year, he said.

UnitedHealth added about 500,000 customers in the quarter, even as enrollment fell at the company's Uniprise unit because employers didn't replace workers. The company added 135,000 customers on Sept. 29 through its purchase of Neighborhood Health Partnership, a closely held health plan in southern Florida, for an undisclosed sum.

The company lost about 30,000 customers as a result of Hurricanes Katrina and Rita, which ravaged the Gulf Coast region of the U.S., McGuire said on the call. That's about 15 percent of UnitedHealth's customers in that region.

UnitedHealth is the first of the top four health insurance providers to report third-quarter earnings. WellPoint reports results Oct. 26.

--With reporting by Nicole Ostrow in New York. Editors: Gienger, Elser, Gale, Greene, Gienger

Story illustration: To compare UnitedHealth with competitors, see {UNH US <Equity> RV <GO>}. For top health news, see {HTOP <GO>}.

To compare UnitedHealth and WellPoint's share appreciation, see {UNH US <Equity> COMP W WLP <GO>}. For the best and worst performers in the Morgan Stanley Health Care Payer Index, see {HMO <Index> MRR <GO>}.

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