

Analysis of Value Investments for the US Healthcare Companies for 2024 Using Financial Indicators and Ratio Analysis

Yuanjing Wang^{1,a,*}

*¹Faculty of Business and Management, Beijing Normal University-Hong Kong Baptist University
United International College, Zhuhai, 519087, China*

a. s230024214@mail.uic.edu.cn

**corresponding author*

Abstract: Because of the significant increase in the average age of people worldwide and the COVID-19 pandemic, there has been a significant increase in attention towards the quickly expanding healthcare industry. Along with this, the investors have paid great attention to the rapid revenue growth that the healthcare industry has achieved. This article analyzes the financial performance of the mentioned four firms in detail, suggesting that Elevance Health Inc. is the most advisable investment choice. This is because of Elevance Health Inc.'s expected market profitability and overall operational efficiency, which may result in substantial returns for investors. At the same time, the company faces the risks of increasing expenses and margin compression, pressure to regulate premium rates, and a substantial decline in healthcare enrollment, all of which might negatively impact its business, financial health, and operational outcomes. Moreover, several external regulatory risks and fierce market competition could threaten market share, whereas financial risk must also be evaluated by Elevance Health Inc. to ensure effective operational management.

Keywords: Healthcare Industry, Performance Evaluation, Valuation Analysis, Elevance Health, Inc.

1. Introduction

As an essential component of modern society, the healthcare industry has drawn much attention for its crucial function in maintaining and improving global public health and individual well-being. The rapid ageing of the worldwide population has greatly increased the demand for healthcare among the elderly, hence contributing to the overall growth of medical demand. Meanwhile, the resurgence of the global economy and technical progress have significantly improved the healthcare industry, resulting in the emergence of services such as personalised medicine and telemedicine with the industry's rapid advancement. Furthermore, the COVID-19 pandemic has greatly raised governmental focus on public health, leading to substantial financial investments to enhance healthcare infrastructure and efforts to advance universal healthcare coverage. Therefore, considering this situation, several investors are increasingly recognising the outstanding investment potential of the healthcare industry.

This research aims to comprehensively analyse the US healthcare industry, emphasising its investment potential and evaluating the industry's development status and size for 2023-2024 through ratio analysis. It will evaluate the financial condition and valuation of four companies: the UnitedHealth Group, Humana Inc., Molina Healthcare Inc., and Elevance Health Inc., providing insights into the industry and investment recommendations for diversified investors. This research allows readers to comprehend the healthcare industry, a dynamic field filled with opportunities and difficulties, and to investigate prospective investment prospects. This article will afterwards analyse the investing of the value of four healthcare companies through financial indicators and hypothetical models to provide readers with a clearer and more comprehensive assessment of investment value.

2. Industry Introduction

The Managed Healthcare industry has been traditional in the United States for decades. It focuses on reducing unnecessary healthcare services and ensuring effective use of healthcare resources through management services and organisational measures, thereby controlling healthcare costs and improving the quality of healthcare and patients' health status and quality of life. In recent years, with the advancement of medical technology and the application of new technologies such as big data and artificial intelligence, the managed healthcare industry has gradually developed towards digitalisation and intelligence. Meanwhile, with the reform of the global healthcare system, Managed Healthcare, as a traditional industry, is gradually integrating many emerging elements, such as digital health, telemedicine, and AI-assisted diagnosis and treatment, to cope with the various challenges in the modern healthcare system.

3. Company Introduction

3.1. UnitedHealth Group (UNH)

UnitedHealth Group is one of the US's leading global health and wellness services companies. The company is headquartered in Minneapolis, Minnesota. UnitedHealth Group is primarily a part of the Managed Healthcare industry and is also active in the health insurance and healthcare services industries. The company offers a broad range of health insurance and information technology services through its two central business units: UnitedHealthcare, the primary health insurance business unit, and Optum, which focuses on health services and technology solutions. In recent years, UnitedHealth Group has continued to expand its business through acquisitions and technological innovations, and its diversified business model and broad market coverage have led to steady growth in UNH's revenues and profits, which has given the company a strong reputation among investors and the marketplace [1].

3.2. Humana Inc. (HUM)

Humana Inc. is an American health and insurance company headquartered in Louisville, Kentucky. It is one of the largest health insurance providers in the US. It focuses on providing a wide range of health insurance products and services to individuals, families, and groups in medical, dental, vision, and pharmaceuticals. Humana Inc. is primarily a part of the Managed Healthcare and Health Insurance industry. Its main business focuses on Health Insurance, healthcare services and pharmaceutical services management. In recent years, Humana has strengthened its competition in health insurance and healthcare services through strategic partnerships, acquisitions and technological innovations. The company has seen growth in both revenues and profits. Although the company has faced criticism, its reputation among consumers and healthcare providers is good overall [2].

3.3. Molina Healthcare Inc. (MOH)

Molina Healthcare Inc. operates as a health insurance company in the US that provides health insurance services to low-income groups and individuals. Molina Healthcare Inc. is headquartered in California and is primarily engaged in the Managed Healthcare and health insurance industry. The company focuses on government-sponsored health insurance programmes, including Medicaid, Medicare, and Health Insurance Marketplace plans. The company has a significant market share in the Medicaid and Medicare markets and has expanded its geographic coverage through acquisitions in recent years. Molina Healthcare's financial performance has been relatively solid in recent years, particularly in the government health insurance market, where expansion has helped to drive revenue growth. Because the company enjoys a strong reputation, it is viewed as a reliable health insurance provider in its target markets as a reliable health insurance provider [3].

3.4. Elevance Health Inc. (ELV)

Elevance Health Inc. is a leading US health insurance and health services company headquartered in Indianapolis, Indiana. The company belongs to the Managed Healthcare and health insurance industry. Its core businesses include commercial and individual health insurance, government-sponsored programmes and pharmacy benefit management. As the second largest health insurer in the US, Elevance Health is actively driving the transformation of a traditional health insurer into an integrated health services company. It is committed to leveraging data-driven insights and innovative solutions to drive change in the health sector, thereby improving the quality of healthcare delivery. In addition, thanks to its diversified business model and large member base, Elevance Health's revenues and profits have continued to grow in recent years, and its financial performance has been excellent, receiving positive reviews from the industry [4].

4. Research Methods

The method of this analysis is ratio analysis. The ratios selected for this analysis are EPS, P/E ratio, EPS Growth Rate, Revenue Growth Rate, PEG ratio, GP/A ratio, and Net Profit margin. The detailed introduction of these ratios is presented below.

4.1. Earnings Per Share (EPS)

EPS is one of the key financial measurements of a corporation's profitability. It shows the net profit earned by a company for each common share in an accounting period (one year in this Research). TTM EPS is the earnings per share earned by the company in the last 12 months, whereas NTM EPS is the expected earnings per share for the next 12 months. Moreover, the level of EPS value also reflects the contribution of the company's profit to the common shareholders, and a high EPS generally implies that the firm is more profitable [5].

4.2. Price-to-Earnings Ratio (P/E Ratio)

The P/E ratio indicates the relationship between a company's current share price and its earnings per share. It is a common valuation measure in the stock market, generally representing the price investors are prepared to pay for each unit of return. Its formula is presented in Equation (1).

$$\text{P/E ratio} = \frac{\text{Current Share Price}}{\text{Earning per Share}} \quad (1)$$

The TTM P/E represents the price that the market would pay for each unit of a firm's return in the past year, and the NTM P/E shows the price that the market might be willing to pay for each unit of a company's expected return in the next year.

A high P/E ratio typically demonstrates that investors feel confidence in a corporation's prospective growth and have the capacity to pay a premium for its stock. However, a high P/E ratio may also suggest that a company's stock is overvalued. Conversely, A low P/E could suggest that the firm is undervalued or contains limited future growth potential, causing investors to eagerly anticipate its profitability [6].

4.3. EPS Growth Rate

EPS growth rate is generally used to measure the profitability of a company. It is defined as the net profit of a firm over the number of common shares of the company outstanding in the market, which indicates the growth in earnings per share of the company in the past year compared to the previous year [7]. Its formula is presented in Equation (2).

$$\text{EPS Growth Rate} = \frac{(\text{Year 2 EPS} - \text{Year1 EPS})}{\text{Year1 EPS}} \quad (2)$$

4.4. Revenue Growth Rate

Revenue growth rate refers to the ability of a company to develop in the market and changes in sales, which is one of the key factors in evaluating a firm's overall financial performance. Investors can compare the company's revenue growth rate with data from other firms in the same industry. If the company's growth rate exceeds the industry average, it will likely capture a larger market share [8]. Its formula is presented in Equation (3).

$$\text{Revenue Growth Rate} = \frac{(\text{Year 2 Revenue} - \text{Year 1 Revenue})}{\text{Year 1 Revenue}} \times 100\% \quad (3)$$

4.5. Price/Earnings to Growth Ratio (PEG ratio)

The PEG ratio, which combines the P/E ratio and revenue growth rate, is an important metric for investors when assessing stock valuation. It not only considers the price of the stock relative to the current level of profits but also considers the company's future growth potential [9]. Its formula is presented in Equation (4).

$$\text{PEG ratio} = \frac{\text{P/E ratio}}{\text{EPS Growth rate}} \quad (4)$$

When the PEG ratio = 1, it means that the company's stock price fully reflects the company's earnings growth expectations. If $\text{PEG} < 1$, it indicates that the company's stock is undervalued, and although the stock price is low, the growth prospects are good, which may be a good time to invest. If $\text{PEG} > 1$, it indicates that the company's stock is overvalued now, and the stock price is high concerning the expected growth prospects, which may entail a high investment risk [9].

4.6. Gross Profit to Asset Ratio (GP/A)

GP/A is the ratio of gross profit margin to total assets, reflecting how efficiently a company uses its assets to generate gross profit margin. Generally, a higher GP/A ratio indicates that a company efficiently uses its assets to generate higher gross margins; thus, it is a key financial indicator for

assessing a corporation's operational efficiency and profitability [10]. Its formula is presented in Equation (5).

$$GP/A = \frac{\text{Gross profit}}{\text{Total Assets}} \quad (5)$$

4.7. Net Profit margin

Net profit margin is the percentage of a company's net profit per unit of revenue, which indicates the company's actual profitability after all expenses, taxes and interest are deducted [11]. Its formula is presented in Equation (6).

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Total Revenue}} \times 100\% \quad (6)$$

5. Analysis of Financial Performance

Table 1: Financial Performance of Four Selected Company

	UnitedHealth Group	Humana Inc.	Molina HealthCare	Elevance Health Inc.
Price	\$568.35	\$355.25	\$338.72	\$523.68
TTM EPS	26.43	21.86	21.02	35.37
NTM EPS	29.24	17.05	25.45	39.67
TTM Revenue	385,439	112,036	37,407	170,430
NTM Revenue	414,160	117,341	41,205	178,348
TTM P/E	21.50	16.25	16.11	14.81
NTM P/E	19.44	20.84	13.31	13.20
EPS growth rate	10.6%	-22.0%	21.1%	12.2%
Revenue growth rate	7.5%	4.7%	10.2%	4.6%
PEG	2.02	N/A	0.76	1.22
GP/A	47.4%	38.2%	36.3%	43.2%
Net profit margin	6.0%	2.3%	3.2%	3.5%

5.1. UnitedHealth Group (UNH)

UnitedHealth Group has the highest stock price among the four stocks, \$568.35. Furthermore, it shows an outstanding P/E ratio value compared to a few other firms, mainly due to its higher share price and EPS. This implies that investors must spend more for each dollar of earnings, perhaps resulting in a longer waiting period to receive the anticipated returns. Even though UnitedHealth Group's NTM P/E of 19.44 is lower than its TTM P/E value, the multiple is still high compared to other firms. This could indicate that the share price has already fully factored in the company's future growth, leaving little opportunity for further upside. (Table 1)

Moreover, the EPS growth rate of UnitedHealth Group, which stands at 10.6%, is significantly modest compared to the growth rates of Molina Healthcare and Elevance Health. Investors will likely search for companies with faster growth rates to achieve greater returns.

While UnitedHealth Group has the greatest Gross Profit/Asset (GP/A) ratio of 47.4% within the four stocks, its Net profit Margins of 6.0% are only almost higher than the average of the other three companies. In addition, due to its higher price-to-earnings (P/E) ratio, the attractiveness of its stock to investors may be slightly weakened.

In general, the current financial indicators suggest that investors may find its stock less appealing compared to lower-valued companies like Molina Healthcare and Elevance Health, which display greater growth potential. Therefore, it is not advisable to consider UNH stock as a recommended investment, given the current conditions.

5.2. Humana Inc. (HUM)

The significant EPS growth rate of -22.0% displayed by Humana Inc. reflects a downward trend in the company's profitability, which suggests a projected decrease in future earnings for Humana Inc. Although Humana's present TTM P/E ratio is at 16.25, the NTM P/E ratio has increased to 20.84, showing a lack of confidence in the market towards the company's future profitability prospects.

Moreover, Humana's Gross Profit/Asset ratio of 38.2% is comparatively lower than the ratios of UnitedHealth Group and Elevance Health, indicating that Humana Inc. is less effective than its competitors in generating profits from assets.

Additionally, the net profit margin of Humana Inc. stands at only 2.3%, substantially lower than that of other companies. This indicates that the company will have a significantly limited ability to maintain a portion of its profit once all costs and expenses have been subtracted. Therefore, the company becomes more susceptible to market volatility or cost-escalated situations.

As a result, considering the research mentioned above, the present financial status of Humana Inc. implies that it is not a viable investment opportunity. Investors may choose a company with outstanding expansion possibilities or more profitability to achieve a superior return.

5.3. Molina Healthcare Inc. (MOH)

Molina Healthcare Inc. has a TTM price-to-earnings (P/E) ratio of 16.11, while the NTM P/E has fallen to 13.31. This indicates that the market has positive expectations for the company's future earnings. Moreover, the company's Share Price is \$338.72, the lowest among the four companies. Thus, investors can take advantage of future growth prospects at a relatively beneficial cost, which remains appealing.

Furthermore, the attractive PEG ratio of Molina Healthcare Inc. is influenced by its earnings per share (EPS) growth rate of 21.1. The substantial increase in Molina Healthcare Inc.'s earnings per share (EPS) implies strong profitability and potential for growth. However, the company's current share price is inexpensive, as shown by its PEG ratio 0.76. The ratio reveals that the company's current share price is far lower than its growth potential, which appeals to investors.

Molina Healthcare Inc. has a revenue growth rate of 10.2%, exceeding that of the other three companies. This indicates that the company is effectively enhancing its market share or expanding its range of services to generate revenues. Moreover, this growth contributes to the company's profitability and further augments shareholder value.

Despite the relatively lower net profit margin of 3.2% and gross profit/asset ratio of 36.3% compared to other competitors, Molina Healthcare Inc. consistently shows excellent financial performance. Hence, investors may find the company to be a viable investment opportunity.

5.4. Elevance Health Inc. (ELV)

Elevance Health Inc. has the lowest NTM P/E ratio of 13.2 among the four businesses. This shows that the market has optimistic expectations for the company's future earnings, and investors are willing to pay lower prices for the company's earnings per share. Meanwhile, Elevance Health Inc.'s earnings per share (EPS) and revenue growth rates are 12.2% and 4.6%, respectively. Although these percentages are not as high as those of Molina Healthcare Inc., they are more stable, and the company's projected profitability still indicates considerable growth potential.

Furthermore, the company's PEG ratio stands at 1.22, nearing 1. This indicates that the company's present P/E ratio is acceptable, factoring in its EPS growth rate and aligning with its anticipated future possibilities. Meanwhile, Elevance Inc. has a Gross Profit/Asset (GP/A) ratio of 43.2%, ranking second to UnitedHealth Group. This suggests the company has excellent operational efficiency and effectively leverages its assets to generate revenue. Therefore, this contributes to the overall profitability and returns for shareholders. Additionally, the company's Net profit margin of 3.5% exceeds that of Molina and Humana, indicating its superior capacity to sustain profitability throughout market instability and increasing expenses, offering investors more consistent returns.

Hence, Elevance Health Inc. is a highly suggested investment choice based on its strong financial performance and favourable market expectations.

5.5. Recommendation

Based on the research above, it can be concluded that both Molina and Elevance common stocks are highly suggested as investment objects for investors. However, considering the following issues, the shares of Elevance Health Inc. are more deserving of investment recommendations compared to Monlina Healthcare Inc..

5.5.1.Scenario 1

Assuming a predicted long-term revenue growth rate of 10.15% for Molina and a future price-to-earnings ratio (NTM P/E) of 15, the overall return in year five amounts to 65.9%. (Table 2)

Table 2: Molina Scenario1 Assumptions

Year	EPS	Stock price	Return
Year 1	25.45	381.75	12.7%
Year 2	28.03	420.51	24.1%
Year 3	30.88	463.20	36.8%
Year 4	34.02	510.23	50.6%
Year 5	37.47	562.04	65.9%

5.5.2.Scenario 2

Assuming a predicted long-term revenue growth rate of 3.9% for Elevance and a future price-to-earnings ratio (NTM P/E) of 14, the overall return in year five would amount to 27.2%. (Table 3)

Table 3: Molina Scenario2 Assumptions

Year	EPS	Stock price	Return
Year 1	25.45	330.85	-2.3%
Year 2	26.72	347.39	2.6%
Year 3	28.06	364.76	7.7%
Year 4	29.46	383.00	13.1%
Year 5	30.93	402.15	18.7%

Although Molina displays a higher return, sustaining a long-term average of 10.15 per cent is more difficult and riskier. If Molina's sales growth rate decreases to 5% and its NTM P/E ratio falls to 13, the return will drop to 18.7%. Moreover, Elevance's Gross Profit on Assets (GP/A) of 43.2% exceeds Molina's GP/A of 36.3%.

Consequently, Elevance Health Inc. appears to be the most advantageous choice among these four stocks due to its affordable NTM P/E ratio, consistent growth rate, and positive margin profile. Moreover, the company's gross profit-to-asset ratio exceeds Molina Healthcare Inc.'s.

6. Risk Analysis

6.1. Business Risk

The ongoing increase in the cost of healthcare and pharmaceuticals, together with the rise in the expense of labour, may result in a compression of the margins for profitability for Elevance Health Inc. [12]. This may reduce the profitability of its products and services and have a material adverse effect on its business, financial condition, and results of operations.

Moreover, Elevance Health Inc. faces pressure to control premium rates and must enhance or sustain its capacity to avert a substantial loss of customer members, which could significantly impact the company's business, cash flow, financial condition, and operational results.

Additionally, due to the COVID-19 pandemic, the firm stopped re-evaluating Medicaid users for eligibility, leading to a reduced number of members qualifying for the Medicaid program [12]. Meanwhile, the general economic decline, given to business closures and raised unemployment, has led employers to withdraw specific health insurance benefits for their employees [12]. This has caused a substantial reduction in registration in Elevance Health Inc.'s health benefit plans, pharmacy services, and diversified products, resulting in a major adverse effect on its business.

6.2. Legal, Regulatory and Public Policy Risks

Elevance Health Inc. runs under substantial governmental regulation, and any alteration, implementation, or enforcement of new laws, regulations, or judicial interpretations may compel the firm to modify its business practices, affecting its operational costs for delivering products and services and thereby its revenues, which could significantly and negatively influence the company's commercial activities [12].

In addition, as Elevance Health Inc. broadens its operations internationally, the business encounters challenges related to regulatory frameworks, regional civil unrest, and political disputes, requiring a substantial investment of senior management's attention and resources, thus augmenting its vulnerability to regulatory risk.

6.3. Strategic Risk

Due to the fierce competitiveness within the health insurance industry, Elevance Health encounters significant competitors from other major health insurers, health management organisations, and emerging technology-based health platforms. Some competitors create and utilise big data platforms for healthcare data analysis, resulting in substantial operational cost savings and enhanced member capability. These could end up in Elevance Health losing market share, which will harm its financial health and operational outcomes [13].

Moreover, Elevance Health owns an adequate amount of remaining debt, leaving the firm vulnerable to the risks associated with increasing interest rates and the potential for higher financing costs due to instability in global financial markets. The company is bound by restrictions related to its debt, which could affect Elevance's financial and operational flexibility [13].

Furthermore, Elevance Health's goodwill and other intangible assets have been evaluated for potential impairment, which may lead to a drop in its GP/A. The company must continuously monitor developments in these domains to make prompt judgments and adjustments.

7. Conclusion

This research depends on the rapid expansion of the healthcare industry and the quick increase in demand for medical services. It offers a reasonable and efficient evaluation of the financial position of four companies: the UnitedHealth Group, Humana Inc., Molina Healthcare Inc., and Elevance Health Inc., together with a competent assessment of their investment value. This research provides significant implications for academic research and practical commercial applications, offering investors and market analysts critical insights into each company's value investment and future growth potential. The article presents a comprehensive analysis of the financial performance of these companies, concluding that Elevance Health Inc. is the most advisable investment option because of the favourable market-anticipated profitability and overall operational efficiency, which could result in substantial returns for investors. However, the company faces increased costs and diminished profit margins, which could severely affect its business, financial status, and operational outcomes. Furthermore, Elevance Health Inc. must handle several external regulatory risks, such as potential market share erosion from fierce competition and debt-related risks.

Elevance Health Inc.'s excellent operating conditions, solid financial position, and favourable market expectations, combined with the ability to ensure that it responds appropriately in the face of risk, make the company's stock a recommended purchase.

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