

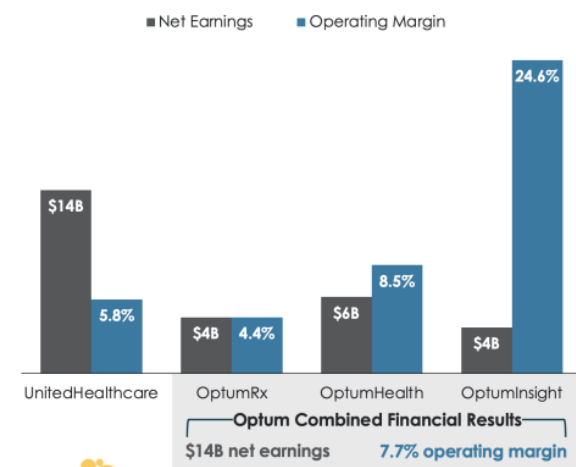
## UnitedHealth Group hits a milestone in vertical integration

Constrained by the Affordable Care Act's medical loss ratio (MLR) requirement that health insurers must spend 80-85 percent of their revenue on medical services, **payers have been pivoting to providing care, managing pharmacy benefits, and supporting other healthcare services, in order to fuel earnings growth.** The graphic below shows why UnitedHealth Group (UHG) is seen as the health insurance industry's most noteworthy model of this vertical integration strategy, thanks to its flourishing Optum division. **Optum is now as big a profit driver for UHG as its UnitedHealthcare insurance arm, with each bringing in \$14B of net earnings in 2022.** Optum's 7.7 percent operating margin is almost two points higher than UnitedHealthcare's, which owes much of its revenue and earnings growth to its expanding Medicare Advantage (MA) business. **As both sides of UHG's business have grown, so too have intercompany eliminations, which have increased by over 80 percent in five years, reaching \$108 billion in 2022.** These payments from one division of UHG to another—mostly from the insurance business to the provider arm—allow the company to shift **profit-capped** insurance revenues into other divisions, driving increased profitability for the overall enterprise. **It will be worth watching the trend in intercompany eliminations at other vertically integrated insurance companies, with an eye for whether integration truly results in lower cost of care for patients or just higher margins for the insurers.**

### UnitedHealth Group Earned as Much from Optum as UnitedHealthcare in 2022

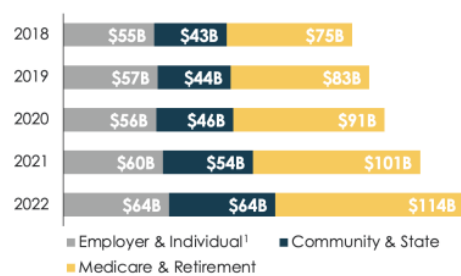
Medicare Advantage Revenues and Intercompany Eliminations Have Risen Dramatically Since 2018

UnitedHealth Group Net Earnings and Operating Margins, by Segment in 2022

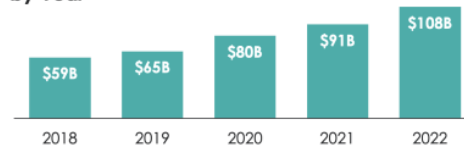


1. US revenues only, excludes non-US global.

UnitedHealthcare Insurance Revenues, by Year



UnitedHealth Group Intercompany Eliminations, by Year



Source: UnitedHealth Group, "Form 10-K for the fiscal year ended December 31, 2022", Acc. on 22 Mar. 2023; UnitedHealth Group, "Form 10-K for the fiscal year ended December 31, 2019", Acc. on 22 Mar. 2023; Gist Healthcare analysis.