Earnings Preview: UnitedHealth reports 3Q earnings

The Associated Press

UnitedHealth Group Inc. kicks off third-quarter earnings reports for big health insurers Tuesday, giving investors their first chance to see whether the sector's run of strong performances has carried into the second half of the year.

WHAT TO WATCH FOR: Health care use that grew at a slower pace than insurers expected when they set their premiums helped UnitedHealth and other managed care companies top Wall Street expectations in the second quarter.

Analysts say utilization growth tends to slow after a recession, as consumers pull back on their health care spending. Another quarter of slower-than-expected growth will help performances.

UnitedHealth's net income climbed 13 percent in both the first and second quarters compared to 2010, as enrollment gains also helped.

UnitedHealth CEO Stephen Hemsley told analysts in July he expects utilization trends to move back toward normal levels in the second half.

But Goldman Sachs analyst Matthew Borsch said in a research note health care volume could continue to grow slowly until 2014.

Analysts also will be looking for insight into UnitedHealth's expectations for 2012, and pricing will be a concern. Insurers may react to the slowing utilization growth by taming their price increases, and that could trigger investor worry about profit margin pressure.

Bernstein analyst Ana Gupte said she expects 2012 prices to come in "comfortably" above cost increases.

WHY IT MATTERS: UnitedHealth, based in Minnetonka, Minn., is the largest publicly traded health insurer based on total revenue and the second-largest based on enrollment, trailing only WellPoint Inc. It is the first big health insurer to announce its earnings every quarter, and many analysts and investors see it as a bellwether for the sector.

WellPoint reports third-quarter results Oct. 26, and Aetna Inc. follows the next day. Humana Inc. reports its earnings Oct. 31, and Cigna Corp. announces results Nov. 3.

WHAT'S EXPECTED: Analysts surveyed by FactSet forecast, on average, earnings of $1.12 per share on $25.41 billion in revenue.

LAST YEAR'S QUARTER: UnitedHealth said its 2010 third-quarter profit jumped 23 percent, as premium revenue rose and consumers slowed their use of the healthcare system. The company earned $1.28 billion, or $1.14 per share, and revenue climbed 9 percent to $23.67 billion.

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