UnitedHealth Group, Inc.

The JPMorgan of Healthcare

Downside Scenario	Current Price	Price Target	Upside Scenario
$531.00	$506.10	$591.00	$653.00
(6%)		*23%*	*36%*

Symbol	NYSE: UNH
52-Week Range	$445.68 – 558.10
YTD Performance	(7.32%)
Market Cap (M)	$445,240
Net Debt (M)	$19,310
Dividend Yield	1.56%
NTM P/E	17.8x
NTM EV/EBITDA	12.3x
ROE	27.2%
ROA	8.27%
ROIC	16.22%

- Due to higher medical costs, increased industry regulation, and uncertainty surrounding the upcoming election cycle, the market is hesitant to reward UNH's stock. Last quarter, the Company posted a medical loss ratio of 83.2%, reflecting a recent spike in orthopedic and cardiovascular procedures covered by UNH's insurance. The Company's dominance in the PBM industry has recently attracted FTC attention, and investors are on standby for upcoming Medicare debates.
- Through its unique acquisition strategy and years of experience, UNH has established an industry dominance and a system of business segments that complement each other. Despite its maturity, the Company's customer and enrollees' growth indicate that it is still gaining market share in each of the industries it operates in. UNH is well positioned to capitalize on value-based care, an aging population, and the growing prioritization of healthcare data and claims processing.
- We view the elevated procedure utilization as a transitory trend, and the Company's commitment to providing complex care and behavioral health services will boost its value proposition in the long-term, despite the short-term impact it is having on margins.
- Our short-term story points to a rebound in margin expansion within the next couple of quarters, while the long-term story reflects UNH becoming a winner in value-based care. With a goal of being overweight in the Healthcare portfolio, it needs a name that truly captures demand in different parts of the industry better than its competitors. Through our NTM P/E and NTM EV/EBITDA analyses, we see the stock achieving a 23.0% return with a price target of $591.00/share.

FY (Jan)	2022A	2023E	2024E
EPS (Adj.)			
Q1	5.49	6.26	6.86
YoY Change		*14.0%*	*9.5%*
Q2	5.59	6.14	6.94
YoY Change		*10.2%*	*13.0%*
Q3	5.79	6.33	7.17
YoY Change		*9.3%*	*13.2%*
Q4	5.34	6.10	6.91
YoY Change		*14.3%*	*13.1%*
Year	22.19	24.82	27.86

COMPANY OVERVIEW

Headquartered in Minnetonka, MN, UnitedHealth Group (UNH) is a healthcare service provider that offers healthcare coverage, software, and consultancy services. Since its inception in 1977, the Company has been focused on helping people live healthier lives and trying to make the health system work better for everyone. The Company operates through two main business segments: UnitedHealthcare (77.0% of FY'22 Revenue) and Optum (23.0%); Optum includes Optum Rx (12.0% of FY'22 Revenue), Optum Health (9.3%), and Optum Insight (1.6%). The Company's two main businesses work in synergy to create a comprehensive healthcare system that improves access, experiences, and affordability for individuals and organizations. Geographically, UNH generates most of its revenue (97.0%) from the United States.

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INVESTMENT SUMMARY

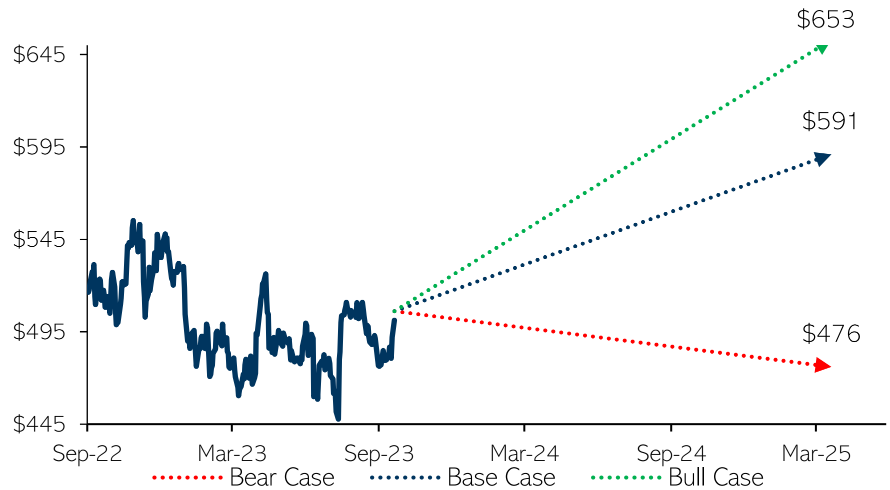
Headquarters
Minnetonka, MN

Chief Executive Officer
Andrew Witty

Number of Employees
400 k (as of FY'22)

GICS Classification
Healthcare

GICS Sub-Industry
Managed Healthcare



PRICE TARGET SCENARIOS

Bull Case Price Target: $653.00

12-18 Month Target Return: +36%

The Amedysis deal goes through, and the performance of the stock completely navigates regulatory and election worries. Revenue grows at 12.1% in FY'23, reflecting higher-than-expected demand for health services and insurance, as well as a greater benefit from premium hikes. UNH's MLR ratio comes in at 83.0%, and the Company gains more enrollees than expected. Optum Health optimizes its patient servicing costs and posts a margin expansion of 19.4% in FY'24. Through the value-based care approach, both segments receive a hefty cash infusion from the Medicare program for creating positive outcomes for new and existing customers. Moreover, the unprecedented demand for GLP-1 and other specialty drugs boosts Optum Rx and UNH's top line.

Base Case Price Target: $591.00

12-18 Month Target Return: +23%

UNH navigates one or two more quarters of higher procedures and an elevated MLR, while capturing demand and seeing a revenue growth of 11.5% in FY'23. A stabilization in higher costs leads to an operating margin of 9.4% in FY'24. Sacrificing its margins in the near term for Optum Health's new verticals translates into greater reimbursements and millions of new customers within our investment horizon. Upon the full integration of the Change Health deal, the Company strengthens its value proposition, allowing the Street to recognize the true value of UNH's intellectual property. UNH's vertical integration strategy continues to allow synergies between its segments to maintain its industry dominance. The Company settles an agreement with regulators over its PBM business and adjusts fine to new rules, as we anticipate a minimal top-line impact in the long term.

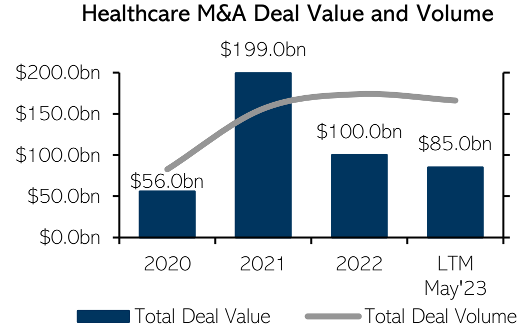
Bear Case Price Target: $531.00

12-18 Month Target Return: (6%)

The short-term cost pressures have a greater margin impact than expected, and the Company posts an MLR of 85.5% in 3Q'23. The progress of the PBM Transparency Act continues to cloud Optum Rx's near-term outlook, and the market reacts negatively to the fact that it will be more difficult to complete future acquisitions. Commentary during 2024 election debates may create volatility in the stock's performance. The Company will have a hard time acquiring value-based care patients and insurance enrollees as fast as we project, and the higher costs of its new treatment strategy weighs on profitability for longer.

INDUSTRY OVERVIEW

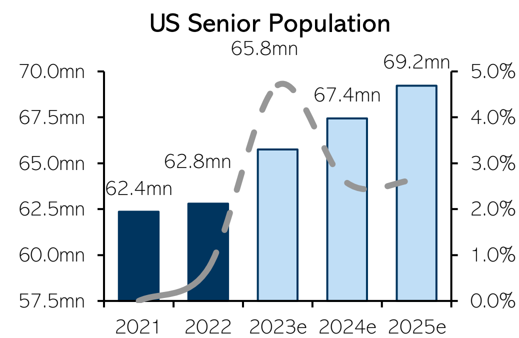
Can We Talk about the Political and Economic State of the World Right Now?



Source: PwC

In a rising-rate environment with workforce shortages, wage pressures, and a presidential election on the way, the Healthcare industry is facing difficult growth prospects. The FED is now targeting a rate range between 5.25%-5.50%, which is disenchanting debt financing, hence stagnating M&A activity; deal volumes declined 4.0% and deal value declined 15.0% from May'22 to May'23. Although M&A has slowed down, consolidation persists amongst the dominant players in the space. Workforce shortages are persisting as well, mainly driven by the rapidly aging population causing retirement of the healthcare workforce and growing demand for health services. Although the aging population is causing workforce shortages, this is an opportunity for providers to penetrate this whitespace and benefit from the growing demand. Additionally, the presidential election is taking place in Nov'24, which can have unpredictable impacts on healthcare policies, which directly impact companies within the space.

Who Wants Coverage?



Source: U.S. Census

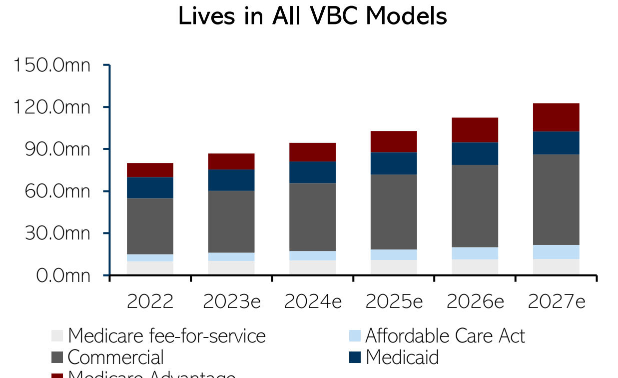
Demand for health coverage has been growing, especially from the aging population. The elderly population (65+ years of age) is increasing by 10.0k per day, adding to Medicare and Medicare Advantage enrollment. Additionally, healthcare costs are continuously increasing evident through the projected average cost of $7.2k in CY'23 compared to $6.8k last year (6.0% YoY increase compared to a 4.7% wage increase). Rising healthcare cost is the main driver of commercial medical plans. Medicaid enrollment growth stems from the Affordable Care Act (ACA), which expanded Medicaid eligibility to cover more low-income Americans, but it is optional for states to implement. A dozen states have yet to expand eligibility, but this number is starting to drop as South Dakota just expanded it in CY'23 and North Carolina is following suit by early CY'24. However, Medicaid redeterminations are pushing back on the upward growth potential as 3.8 mn enrollees lost their coverage as of July'23 and 15.0 mn are expected to lose coverage in the next year. As Medicaid enrollees lose coverage, most of them will seek renewals through other available medical plans, allowing managed care organizations to recapture lost enrollees.

Let's Team-Up

Although M&A has slowed down due to increasing debt cost, consolidation continues as evident through the several megadeals that happened in the last 12 months ending May'23. These transactions include CVS' $10.6 bn acquisition of Oak Street Health, Village MD's $8.9 acquisition of Summit Health-City MD, and CVS' $8.0 bn acquisition of Signify Health. All these transactions have been executed to generate efficiencies and offer greater quality care. Particularly, consolidation amongst payors and providers is a growing healthcare M&A trend because payors are looking to further implement the value-based care (VBC) model across providers in the health system and have a level of cost-control to increase profits. Payors acquiring providers gives them access to useful data from electronic health records (EHRs) that provide additional insights that can be used to generate quality scores and to appropriately capture risk scores for their demographics. Generating accurate quality scores is important for the implementation of VBC, which will lead to greater outcomes for patients. Also, the captured risk scores would allow payors to price their medical plans more effectively, generating greater profit margins. As a result, the cost of care will drop, benefiting both patients with lower premium costs and shareholders with improved profit margins.

Looking for Value

Value-based care (VBC) is a payment model that health service providers are rapidly adopting to deliver higher-quality and lower-cost care to patients in exchange for financial reimbursement from the Medicare program. In contrast to the traditional fee-for-service (FFS) model that compensates providers based on what they charge for treatment, participating hospitals, physician clinics, and other providers are compensated based on the quality of care, which incentivizes them to create positive outcomes for patients. The quality of care is often determined by Medicare star ratings (ranging from 1 to 5) and other metrics.



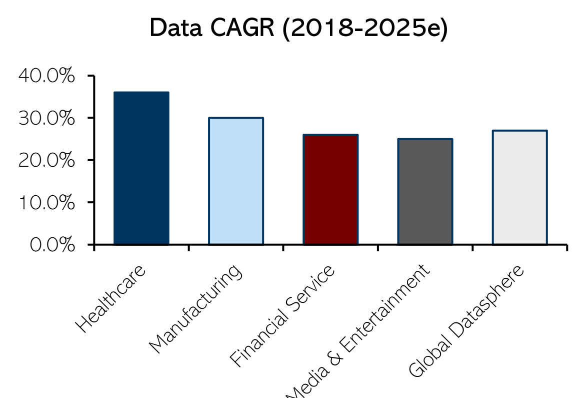
Source: McKinsey & Company

Accountable Care Organizations (ACOs): These providers operate in a form of VBC in which they assume the full financial risk of their patients' care in exchange for a share of the cost savings Medicare achieves through this model. Hospitals, outpatient facilities, and other providers under the same ACO share patients' data and records to better understand their medical histories and deliver the best treatment possible. In Jan' 23, the Centers for Medicare & Medicaid Services (CMS) launched the Medicare Shared Savings Program and two other accountable care models to provide care to ~13.2 mn patients and continue to track the success of the shift to VBC. The CMS aims to serve all Medicare patients under ACOs by 2030. UNH, CVS, and other payors that offer Medicare coverage have been partnering with ACOs since CY '15 to expand their customer bases and address the growing demand.

Behavioral Health Services: Exacerbated by the widespread psychological impacts of the pandemic, the growing demand for mental and behavioral health treatment continues to outpace the supply of capable providers. According to Trilliant Health, visit volumes rose 18.0% from pre-pandemic levels in 2Q'22 (most notably from eating disorders, anxiety, substance use disorders, and depression), and ~23.0% of adults in the U.S. had a mental illness in CY'21. The current shortage of care presents health systems an opportunity to address more patients, especially through the value-based care model to create outcomes that can resolve the situation. While we see value in this industry, we must note that the long-term nature of these conditions typically require care that is very costly for providers. For reference, the cost of treating depression can cost up to 20.0% higher than treating diabetes or hypertension. However, providers can get an edge by lowering other administrative costs, delivering treatment in outpatient settings, and earning higher reimbursement rates due to the complexity of the care.

Getting Technical

As the healthcare industry becomes more digitized, it is becoming increasingly important for companies to manage their electronic health records (EHRs) efficiently and use them to improve their operations. This includes everything from registration to medical recordkeeping and using data to make medical decisions. According to RBC, 30.0% of the world's data is generated by the healthcare sector, and it will grow by a CAGR of 36.0% from CY'18 to CY'25. Companies such as IQVIA, Optum Insight, and Medidata analyze billions of records to deliver helpful analytics and insights to players across the industry to help health providers improve their cost management, treatment strategies, and patient information systems. The growing adoption of VBC initiatives also requires providers to have strong payment cycle management systems that can adjust to the new payment model. Along with keeping track of patient records, this technology helps healthcare companies process patients' medical claims and treatment costs, which is particularly crucial for ACO's.

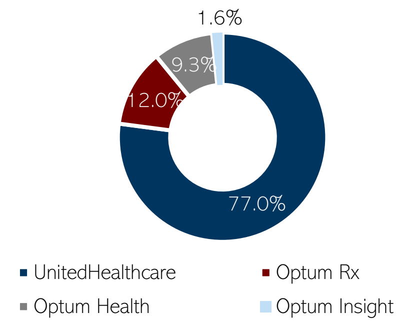


Source: RBC Capital Markets

BUSINESS OVERVIEW

UnitedHealth Group (UNH) is a healthcare service provider that offers healthcare coverage, software, and consultancy services. The UnitedHealthcare segment provides healthcare benefits through its network of 1.7 mn physicians and other healthcare professionals within its 6.4k hospitals and other facilities across the United States. The Optum segment delivers care through technology and data, providing guidance and tools to people, partners, and providers for better health results, Optum leverages its distinctive capabilities in healthcare delivery, healthcare operations, population health, data & analytics, and pharmacy care services through its three business segments. Patients can satisfy all of their medical needs within UNH's offered services.

Segment Breakdown



Source: FactSet

UnitedHealthcare (77.0% of FY'22 Revenue)

UnitedHealthcare is one of the largest health insurers in the U.S. For reference it serves ~14.0% of the U.S. population and ~16.0% of insured citizens. This segment recognizes revenue from monthly premiums paid by its beneficiaries in exchange for assuming the risk of patients' medical treatment and prescriptions. An important metric for this business is the medical loss ratio (MLR), which represents the percentage of premium revenues paid in benefits. The Affordable Care Act (ACA) requires a ratio of 80.0-85.0%, so a lower ratio indicates higher profitability. The Company reported an industry leading MLR of 82.0% last fiscal year. Additionally, it invests in long-term securities ensure that future liabilities can be paid out to policyholders. UnitedHealthcare offers a wide range of health insurance plans providing coverage to 46.3 mn enrollees domestically and 5.4 mn internationally as of FY'22. More than 250k companies of various sizes and industries offer UnitedHealthcare coverage to their employees, and the Company offers commercial plans to individual customers as well.

The Company's most valuable health insurance market is administering government-issued insurance plans, as 45.5% of the segment's revenue in FY'22 came from Medicare and Medicaid beneficiaries. UNH has positioned itself well in the Medicare Advantage market, with a leading 24.6% share of total enrollees. Also offering a large selection of bundled and supplemental plans, as well as coverage for dental, vision, critical illnesses, and car accidents, the Company has expanded its customer base by targeting as many demographics as it can.

Optum Rx (12.0%)

Optum Rx is a pharmacy benefit manager (PBM) that primarily processes pharmacy claims and negotiates the prices of pharmaceuticals on behalf of insurers, unions, and other organizations to optimize costs for them and their enrollees. Patients access their medication either through the Company's network of over 67k pharmacies or Optum Rx's online mail service that delivers to their homes. As part of UNH's value-based care approach, it also offers clinical and counseling programs, medical management, and digital tools such as Price Edge™ to help patients make optimal decisions on treatment and medication. PBMs like Optum Rx establish formularies, which are lists of drugs they want insurance to pay for. Drugmakers may lower prices or give rebates to get their drugs on these lists, insurers can ultimately save costs on these drugs, and Optum Rx profits from the spread of each drug sold.

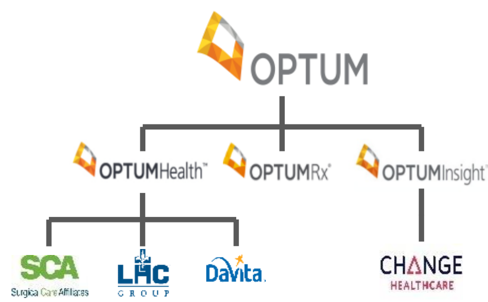
Optum Health (9.3%)

This business offers care that addresses the physical, mental, social, and financial well-being of 102.0 mn consumers and serves 100+ health payer partners. Optum Health delivers primary, behavioral, multi-specialty, surgical, and urgent care through clinical sites, in-home, and virtual care settings. Also, this segment provides products and services that emphasize the importance of maintaining good health by helping patients address their chronic, complex, and behavioral health needs. As a new vertical, Optum Health is transitioning from the traditional fee-for-service (FFS) model to a value-based care (VBC) model that prioritizes patients' outcomes and experiences. This involves assuming each patient's medical costs and risks in exchange for a monthly payment.

To assist organizations across the health system, Optum Health provides healthcare financial services through its Optum Financial business. It serves patients through ~20.0 mn consumer accounts offering financial products & health savings accounts (HSAs). Optum Financial effectively managed ~$20.0 bn in assets as of FY'22. Organizations depend on Optum Financial to make strategic investments and manage their payment flows through automated, scalable, end-to-end digital payment systems and integrated card solutions. This portion of the business generates revenue by charging card fees and earning investment income on managed funds.

Optum Health sells its products and services through direct channels, collaborations, and external producers in three areas:

- *Employers:* Different size employers across large enterprises and small & midsize businesses.
- *Payers:* Health plans, underwriters/stop-loss carriers, third-party administrators, and individual product intermediaries.
- *Public Entities:* U.S. Departments of Health and Human Services, Defense, Veteran Affairs, and other government agencies.



Optum Insight (1.6%)

Optum Insight provides analytics, digital platforms, and technology solutions that make administrative, clinical, and financial processes simpler and quicker for companies across the healthcare system. These solutions help improve performance and reduce costs through administrative efficiency, meet compliance policies, further VBC through clinical workflows with built-in evidence-based standards, and meet the changing needs of health systems by updating core operating systems. Optum Insight serves four main parties:

- *Health Systems:* Serves care providers by implementing technology into their businesses to reduce administrative costs and better coordinate care. It offers services such as patient engagement, revenue cycle management, and health management.
- *Health Plans:* Improves financial performance and leverages analytics to enhance outcomes for health plans. These solutions help insurance companies analyze medical records and patients' risk exposure more effectively, which helps reduce benefit costs.
- *State Governments:* Provides technology and analytics services used to track and update the administration of government healthcare programs such as Medicare and Medicaid, while enhancing cost predictability.
- *Life Sciences Companies:* Advances therapeutic discoveries and improves clinical outcomes for life sciences companies by combining data and analytics expertise with comprehensive technologies to help with the development of new treatments.

Optum Insight's technology products and professional services are often delivered as part of multi-year contracts, providing the Company with recurring revenues and stable order backlogs for extended periods. The backlog includes estimated revenue from signed contracts, anticipated renewal contracts, and other legally binding agreements. As of December 31, 2022, Optum Insight's aggregate backlog was ~$30.0 bn compared to the prior year's ~$22.4 bn; the acquisition of Change Healthcare in 2022 increased backlog revenue by $7.6 bn. Of the aggregate backlog, $16.8 bn is expected to be realized within the next year.

UNDERVALUATION

They're Missing the Bigger Picture!

UnitedHealth Group is arguably the most dominant healthcare company in the United States–not only due to the scale and market share of each of its businesses, but more importantly how they complement each other. The Company has truly mastered the strategy of vertical integration in healthcare. Despite maintaining an industry dominance that has benefitted from an aggressive M&A strategy and growing EPS by a compounded ~15.0% growth over the past five years, UNH's NTM P/E multiple trades at 17.8x, a 6.3% discount to its 1-year median, and it has returned (7.32%) YTD. The stock has been weighed down by margin pressures, new competition, and investors' uncertainty on regulatory trends and the upcoming election.

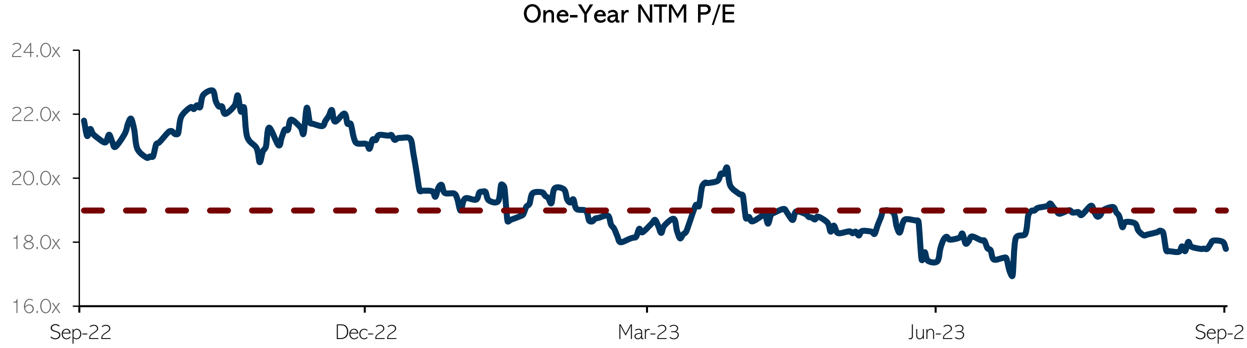
Can I get my surgery now? On June 13th, 2023, UNH announced at Goldman Sachs' 44th Annual Global Healthcare Conference that it was seeing elevated demand for outpatient services, particularly orthopedic procedures (hip and knee surgeries). The bulk of these surgeries were delayed during the pandemic as hospitals prioritized treating COVID-19 infections and experienced labor shortages. As the largest health insurer on the public market, UNH multiple contracted 250 bps as investors anticipate that the Company will have to pay for many of its beneficiaries' procedures, which will raise its MLR and compress margins. The Company also experienced higher costs on the Optum Health side due to its commitment to complex care treatment.

The End of the PBM? Shares also contracted in early August by 250 bps in response to the news that Blue Shield of California partnered with Amazon Pharmacy and Mark Cuban's Cost-Plus to be its preferred pharmacies starting in CY'25. Both companies offer drugs at lower prices than traditional pharmacies by negotiating directly with pharmaceutical manufacturers. Their goal is to take customers away from pharmacies that are integrated with PBMs. Upon the news, investors made the quick assumption that UNH's PBM business, Optum Rx, is beginning to face greater competitive pressure.

The remaining negative sentiment on the stock comes from uncertainty on the outlook of regulation in the managed care industry. The FTC aims to slow down the consolidation of insurance companies and other health services, and UNH is a prime target. Additionally, upcoming debates in the upcoming election cycle could sway investor's sentiment on the outlook for Medicare plans, and that risk has been incorporated into the price of UNH's stock.

It's been a tough year for UNH, but we believe the Company is simply misunderstood. We see the elevated utilization levels and the unprecedented demand for surgeries as transitory trends. UNH's expertise in risk pooling and medical cost management gives us a positive outlook on the situation, which should subside over the next couple of quarters. New entrants into the pharmacy market–especially non-traditional healthcare companies–have quite a way to go before they can take significant business away from Optum Rx, the third largest PBM in the country; not to mention that they will need UnitedHealthcare to cover their customers' drugs. Negotiating drug prices is much more difficult for newer players, while UNH has attained a level of negotiating power that is hard to match. Furthermore, we don't see the regulatory concerns or election commentary significantly impacting the strength of UNH's business.

One-Year NTM P/E

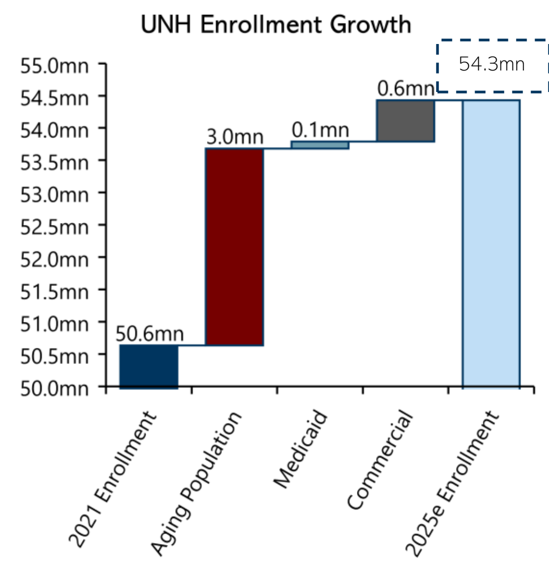


Source: FactSet

CATALYSTS & DRIVERS

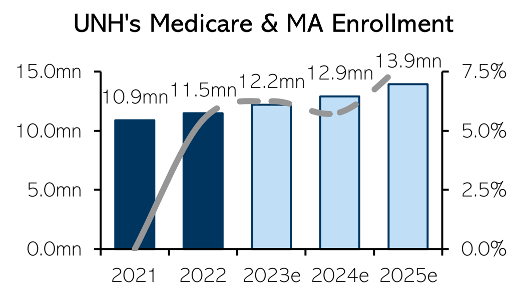
Enrollees Growth

UnitedHealth Group, Inc. has been prioritizing its enrollee expansion to drive top-line growth. There have been several tailwinds driving this expansion including the aging population, Medicare Advantage (MA) growth, and Change Healthcare acquisition. Each tailwind has significantly contributed to the Company's total enrollee count of 47,5 mn as of 2Q'23 compared to 45,8 mn in 2Q'22 (YoY increase of 3.6%). We forecast that UNH's total enrollment will grow to 54.3 mn by the end of CY'25 (7.5% increase from CY'21).



Source: Company Filings, U.S. Census

Aging Population: The accelerated and continuous increase in the 65+ year-old population by ~10.0k per day has been an ongoing trend in the healthcare sector, specifically benefiting payors like UNH. Senior patients face medical conditions like hearing loss, dementia, cataracts, diabetes, and osteoarthritis more often than their younger counterparts. The older age population was estimated at 55.8 mn adults (16.8% of the U.S. population) as of CY'21, and we project this group to grow to 61.9 mn by CY'25. As the projected CY'25 healthcare cost for the senior population is $17.9k, our calculations imply that total spending on senior healthcare will be ~$1.1 tn in CY'25. This is a large market that UNH will penetrate considering that we expect UNH to increase its senior enrollees to 12.5 mn by the end of CY'25.



Source: Company Filings, U.S. Census

Medicare Advantage (MA) Growth: The exponential growth in MA enrollment is a trend that UNH has been successfully taking advantage of and will continue to do so. As of CY'23, there is a total of 30.8 mn MA enrollees, which comprises 51.0% of eligible Medicare beneficiaries. The U.S. Census estimates that MA enrollment will reach 44.0 mn people by CY'32 (9-year CAGR of ~4.0%), which will be 61.0% of Medicare beneficiaries. Using this data, we predict that MA enrollment will increase to 33.3 mn by CY'25. The growth in MA enrollment is particularly being driven by the aforementioned trend of the aging population coupled with the inclusion of Plan D. In 2Q'23, UNH reported an MA enrollment of 7.6 mn (24.7% market share), we estimate UNH will capture an additional 626.9k enrollees of the estimated 2.5 mn increase in MA enrollees by CY'25. As previously mentioned, MA operating margin is relatively high at ~$1.7k per enrollee as of CY'21, yielding a potential addition of ~$1.1 bn to the Company's operating profit within the next two years.

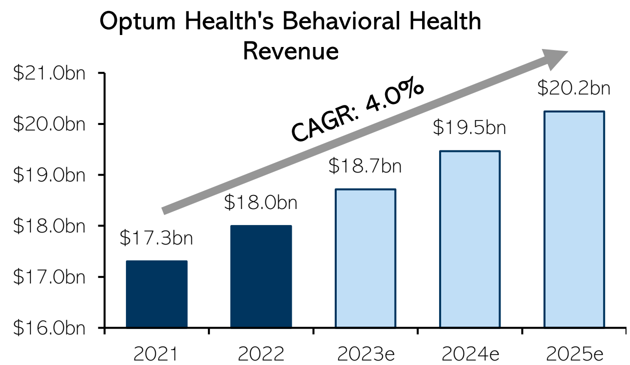
Making "Change"

In Oct'22, UNH completed its $13.0 bn acquisition ($8.0 bn of equity and $5.0 bn of debt) of Change Healthcare (CHG), the leading healthcare payment processing company, for the purpose of advancing its technology and systems and product integration. Post-closure, CHG is expected to achieve 15.0% SG&A synergies for UNH over a two-year period by connecting and simplifying its clinical, administrative, and payment processes; all stakeholders will benefit from lower costs and better experiences. Additionally, we believe this recent acquisition presents an attractive opportunity for the Optum Health business to gain new customers. In CY'21, Change Healthcare facilitated 15.0 bn healthcare transactions between most hospitals, physicians, and pharmacies in the U.S. CHG's data will give Optum Health a very differentiated advantage in care treatment, and UNH can identify patients that are overpaying with competitors. The true benefit of this is yet to be reflected in the stock, and such efficiencies in the core processes paired with the transaction data insight result in intangible benefits for patients.

Fully Accountable

We like the progress UNH's Optum Health business is making with its "Fully Accountable Care" model. By adding ~700.0k customers in Q1'23, the Company reached its full-year target of 4.0 mn within just months of declaring it. Unlike the traditional fee-for-service (FFS) model, Optum Health assumes the financial risk of treating patients and receives compensation from the Medicare program based on the quality of care. Additionally, the acquisition of LHC Group Inc. granted UNH ~12.0 mn home health patients, and the possible Amedisys integration can add an extra ~455.0k. UNH wants to treat more of these patients through the accountable care model, as it creates a more convenient experience for patients in a lower-cost setting than in hospitals. This strategy will reduce costs in the long run for the UnitedHealthcare segment and its customers by reducing admissions and negative outcomes. Furthermore, Optum health–with a current star rating of 4.0 and satisfaction rate of 90.0%–can retain customers through creating positive outcomes for them.

UNH is also focused on treating patients who require complex care, and its opportunity in providing behavioral health services stood out to us in particular. To address the growing issue of depression, substance abuse, and other behavioral health disorders in the U.S., the Company is prioritizing treatment of more patients in home and virtual settings. As of CY'21, ~58.9 mn people in the U.S. had mental health disorders and the average cost per patient was ~$1.3k. We estimated that Optum had 13.0 mn behavioral health patients. Assuming the projected 4.0% market CAGR, the Company can make ~$40.0 bn in behavioral health in the next two years (see appendix). While higher utilization among patients has recently escalated servicing costs, we agree with the strategy of temporarily sacrificing margins to achieve long-term growth. Furthermore, the Company is adding to its value proposition and competitive positioning by addressing more complex forms of care, which typically scares away other providers due to the hefty costs.

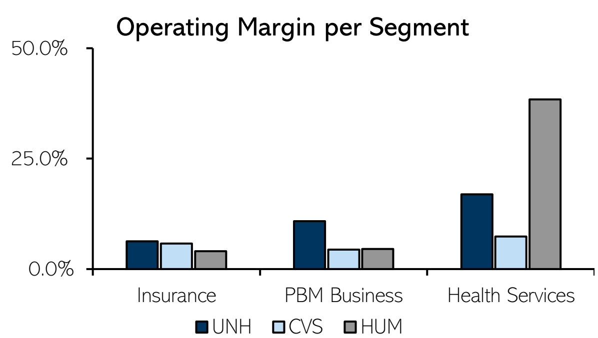


Source: Fortune Business Insights, Optum

Vertical Integration

As UNH, CVS, and HUM each operate in business segments that work synchronously, these revenues are eliminated in their books. To gauge the success of each of their health services segments, we focused on external revenues (from customers outside of each business). At a first glance, UnitedHealthcare and Optum Rx have better operating margins (as a % of external revenue) than CVS and HUM's insurance and PBM businesses. While Centerwell (HUM's provider segment) came in at 38.0%, compared to Optum Health's 16.9% and CVS' 7.4%. While CenterWell is more profitable, 84.0% of the segment's revenue relies on business from the insurance segment, compared to UNH's 57.0%. That strategy could be a positive for HUM, but it also makes the case that as UNH gains millions of customers, it can become more profitable by converting them into enrollees. With its impressive margin profile, UNH is well-positioned to reap the benefits of VBC, especially if the Amedisys acquisition closes.

Given the Company's large-scale insurance offerings (UHC), quality-driven health strategy (Optum Health), and industry-leading medical guidance (Optum Rx), UNH is developing an ecosystem for patients that can satisfy all their medical needs. Despite its large scale and dominance, the progress that we are seeing shows that there is still room for growth that isn't reflected in the stock. While competitors are making similar efforts, UNH's medical enrollment and health services patient base are higher than the industry average. Furthermore, despite operating primarily in a low-margin industry, we noticed an average 5.4% higher margin than competitors, showing us that the consolidation strategy seems to work best for UNH.



Source: Company Filings

RISKS TO INVESTMENT THESIS

Regulatory Pressures on the Rise

UNH's biggest risk in CY'23 surrounds the increasing regulatory pressures around Medicaid redeterminations, investigations of PBMs for anti-competitive practices, and review of the Amedisys deal for antitrust. Medicaid redeterminations are expected to remove 15.0 mn from coverage, which translates to ~1.3 mn Medicaid enrollees potentially being lost for the Company (UNH's Medicaid market share is 8.9%). Also, PBMs are under pressure by the DOJ because of rebates and spread pricing that inorganically increase the costs of prescription drugs. The DOJ's new regulations aim to increase transparency and stimulate fair competition. UNH's Optum Rx segment is directly exposed to such regulations since it is vertically integrated across the space. The Amedisys deal is being reviewed by the DOJ as well on the basis of anti-trust; the deal not closing would stunt its expansion in home health.

Mitigant: Fortunately, UNH is positioned well to combat these regulatory pressures. Medicaid redeterminations will not have a significant impact on UNH in particular because Medicaid enrollees comprise 15.8% of its total enrollees, so a loss of ~1.3 mn enrollees would only result in a 2.5% loss of total enrollees. Also, since UNH is such a dominant player in the MCO space, it would be able to acquire a solid portion of those lost enrollees back for its other medical plans. For the proposed PBM Transparency Act, if it is passed, it will take over 10 years to save taxpayers $740 mn, so the implementation of said policy would not have significant impacts on UNH in the short-term. Finally, the Amedisys deal is expected to close in CY'24 because Optum's LHC Group has minimal overlap with Amedisys's geographical footprint and UNH is willing to divest overlaps if that leads to the deal closing.

In our bear case, we modeled in lower UnitedHealthcare revenue growth and lower Optum Rx profit margins after CY'23 to account for a loss of ~1.3 mn enrollees and regulations on drug spread pricing. Additionally, no reflection of future cost and revenue synergies from the potential acquisition of Amedisys.

Medicare Advantage Payment Clawback

The older population's more frequent and costlier conditions paired with the government overpaying due to systematic overbilling have led to a high MA operating margin of ~$1.7k per enrollee as of CY'21. However, this high margin is being combatted by the CMS through the implementation of risk adjustment data validation (RADV) and a clawback of $4.7 bn. The CMS claims that this move is to further develop value-based care across the health system because of the requirement to further include medical records to ensure that the claim diagnosis codes match the records. UNH's MA market share of 24.7% exposes it to margin contractions and loss from the clawback.

Mitigant: CMS's plan to clawback $4.7 bn in MA payments would be over a 10-year horizon with push-back from MCOs along the way. MCOs are already filing lawsuits against the CMS rule on the basis that the new audit methodology violates the Administrative Procedure Act. Insurers are arguing that the new methodology's elimination of the fee-for-service adjuster is detrimental to the MA system because of its importance in recognizing the error rate of Medicare claims. The legal battle over the plan will persist past the Fund's investment horizon.

In our bear case, we modeled in lower UnitedHealthcare profit margins after CY'23 to account for the negative impact on MA profit margins and an additional profit reduction from the gradual clawback.

Home Health Reimbursement Cut

The CMS is proposing a home health reimbursement cut by 2.2% for CY'24 (~375.0 mn less payment than CY'23) to account for the impact of the implementation of the Patient-Driven Groupings Model (PDGM). UNH's expansion into home health providers through its acquisitions of LHC Group and Amedisys exposes the Company to this cut.

Mitigant: Several home health agencies (HHAs) are pushing back on this proposal because it will further restrict patient access to home services. Last month, the Preserving Access to Home Health Act of 2023 was introduced proposing to eliminate some of CMS' rate cuts, which would preserve 3.0 mn beneficiaries who rely on home health.

In our bear case, we modeled in lower Optum Health revenue growth and profit margins for CY'24, accounting for the pushbacks being ineffective and the 2.2% cut impacting accessibility and profitability.

PEER GROUP ANALYSIS

UnitedHealthcare

These are managed care organizations (MCO) that offer health plans to people.

Optum Rx

These are pharmacy benefit managers (PBM) that ensure availability of prescription medicines.

Optum Insight

These healthcare analytics companies that provide insight that improves the efficiency of health systems.

Optum Health

These are health providers that offer inpatient/outpatient care to those with medical needs.

UnitedHealthcare

				Sales		EPS		EBITDA Margin		Profit Margin		Enterprise Value / EBITDA		Enterprise Value / Sales		Price / Earnings	
	Ticker	Market Cap	Enterprise Value	LTM	2022E	LTM	2022E	LTM	2022E	LTM	2022E	LTM	2022E	LTM	2022E	LTM	2022E
UnitedHealth Group Inc.	UNH	$450,728	$484,204	12.9%	13.4%	19.6%	17.4%	9.6%	9.9%	6.1%	6.3%	14.0x	13.3x	1.4x	1.3x	21.8x	19.4x
Elevance Health, Inc.	ELV	106,851	123,184	11.3%	8.5%	1.7%	32.7%	6.4%	7.0%	3.9%	4.6%	11.1x	10.3x	0.7x	0.7x	16.5x	13.6x
The Cigna Group	CI	74,888	100,596	3.3%	6.6%	35.2%	16.4%	5.3%	6.2%	3.6%	3.8%	10.9x	8.5x	0.6x	0.5x	12.9x	10.2x
Humana Inc.	HUM	61,389	68,419	9.3%	11.4%	4.5%	28.1%	5.2%	5.6%	3.4%	3.4%	10.1x	11.8x	0.6x	0.7x	17.6x	17.4x
Centene Corporation	CNC	36,341	45,780	10.3%	9.0%	2.4%	213.9%	4.6%	3.3%	2.0%	2.4%	6.1x	9.4x	0.3x	0.3x	14.1x	10.3x
CVS Health Corporation	CVS	93,223	148,532	10.4%	9.3%	NM	173.8%	5.4%	5.6%	0.8%	3.2%	7.3x	7.5x	0.5x	0.4x	32.9x	8.4x
High		$106,851	$148,532	11.3%	11.4%	35.2%	213.9%	6.4%	7.0%	3.9%	4.6%	11.1x	11.8x	0.7x	0.7x	32.9x	17.4x
Mean		74,538	97,302	8.9%	9.0%	11.0%	93.0%	5.4%	5.5%	2.7%	3.5%	9.1x	9.5x	0.5x	0.5x	18.8x	12.0x
Median		74,888	100,596	10.3%	9.0%	3.4%	32.7%	5.3%	5.6%	3.4%	3.4%	10.1x	9.4x	0.6x	0.5x	16.5x	10.3x
Low		36,341	45,780	3.3%	6.6%	1.7%	16.4%	4.6%	3.3%	0.8%	2.4%	6.1x	7.5x	0.3x	0.3x	12.9x	8.4x

Company		General Statistics			Returns Analysis			2022A Leverage Analysis: Total Debt /			2022A Coverage Analysis			Liquidity Profile		Credit Profile	
	Ticker	Tax Rate	Beta	Dividend Yield	ROIC	ROE	ROA	Cap	EBITDA	Equity	EBITDA / Int. Exp.	(EBITDA - Capex)/Int.	EBIT / Int. Exp.	Quick Ratio	Current Ratio	S&P	Outlook
UnitedHealth Group Inc.	UNH	21.7%	0.90	1.4%	20.6%	25.1%	7.5%	0.4x	1.9x	0.7x	15.4x	14.0x	13.6x	0.65	0.73	A+	NR
Elevance Health, Inc.	ELV	22.5%	0.85	1.3%	13.4%	17.4%	5.6%	0.4x	2.5x	0.7x	11.6x	10.2x	10.1x	1.27	1.40	A	Stable
The Cigna Group	CI	19.2%	0.63	2.0%	9.4%	14.8%	3.3%	0.4x	3.2x	0.7x	7.7x	6.7x	6.1x	0.58	0.73	A-	Stable
Humana Inc.	HUM	21.4%	0.72	0.7%	29.4%	20.8%	5.8%	0.4x	2.5x	0.8x	12.0x	9.2x	10.7x	1.32	1.52	BBB+	NR
Centene Corporation	CNC	38.7%	0.56	0.0%	9.9%	10.3%	3.7%	0.5x	3.4x	0.9x	9.6x	8.1x	6.6x	0.97	1.06	BBB-	Stable
CVS Health Corporation	CVS	NM	0.60	3.3%	(3.6)%	3.8%	3.7%	0.5x	3.1x	1.0x	10.0x	8.8x	6.7x	0.62	0.94	BBB	Stable
High		38.7%	0.85	3.3%	29.4%	20.8%	5.8%	0.5x	3.4x	1.0x	12.0x	10.2x	10.7x	1.32	1.52		
Mean		25.5%	0.67	1.5%	11.7%	13.4%	4.4%	0.4x	2.9x	0.8x	10.2x	8.6x	8.1x	0.95	1.13		
Median		22.0%	0.63	1.3%	9.9%	14.8%	3.7%	0.4x	3.1x	0.8x	10.0x	8.8x	6.7x	0.97	1.06		
Low		19.2%	0.56	0.0%	(3.6)%	3.8%	3.3%	0.4x	2.5x	0.7x	7.7x	6.7x	6.1x	0.58	0.73		

VALUATION ANALYSIS

Model Assumptions

As UNH is a conglomerate with businesses that each generate tens of billions of dollars a year and have dominant positions in their respective industries, we initially wanted to value them and calculate the true multiples they should trade at. However, as the Company has no likely intentions of spinning off any of these segments, we found that a sum of the parts analysis did not match our story. Most of the Street uses a forward P/E multiple for UNH, a company highly dependent on earnings growth. Our valuation includes an equal mix of NTM P/E and NTM EV/EBITDA multiples as our outlook on UNH reflects a rebound in margin expansion. For NTM P/E, we decided to discount the historical multiple by 4.0%, as it is reflective of rapid EPS expansion and accretive acquisitions in the past. While we did not use the DCF method, we note that the huge change of long-term items in our first-year free cash flow projections reflects a significant amount of goodwill from the LHC group acquisition in 1Q'23.

Discounted Cash Flow	2020	2021	2022	1Q23	2Q23	3Q23e	4Q23e	2023e	2024e	2025e	2026e	2027e
Revenue	$257,141.0	$287,597.0	$324,162.0	$91,931.0	$92,903.0	$87,225.9	$89,243.1	$361,303.0	$391,066.5	$425,356.0	$465,268.5	$508,961.4
EBITDA	24,930.0	26,626.0	31,316.0	8,893.0	8,895.0	8,876.8	9,149.6	35,814.4	40,404.5	45,671.2	51,236.9	57,134.0
EBIT	22,405.0	23,970.0	28,435.0	8,086.0	8,057.0	7,920.8	8,208.5	32,272.3	36,708.1	42,017.1	47,521.8	53,253.6
Income Tax Benefit (Expense)	(4,973.0)	(4,578.0)	(5,704.0)	(1,558.0)	(1,572.0)	(1,580.7)	(1,641.1)	(6,351.9)	(7,378.1)	(8,493.0)	(9,649.5)	(10,853.2)
NOPAT (EBIAT)	$17,432.0	$19,392.0	$22,731.0	$6,528.0	$6,485.0	$6,340.0	$6,567.4	$25,920.4	$29,330.0	$33,524.1	$37,872.3	$42,400.4
% YoY Growth								*14.0%*	*13.2%*	*14.3%*	*13.0%*	*12.0%*
Depreciation & Amortization				970.0	1,021.0	956.0	941.1	3,888.1	3,696.4	3,654.1	3,715.1	3,880.4
Stock-Based Compensation				362.0	242.0	227.2	232.5	1,063.7	1,018.7	1,108.0	1,212.0	1,325.8
Capital Expenditures				(760.0)	(829.0)	(785.0)	(803.2)	(3,177.2)	(3,519.6)	(3,828.2)	(4,187.4)	(4,580.7)
Goodwill Impairment				-	-	-	-	-	-	-	-	-
(Increase)/Decrease in Working Capital				(2,592.0)	4,122.0	(473.5)	(339.0)	717.5	(526.3)	2,433.7	884.9	1,199.8
(Increase)/Decrease in LT Items				-	-	(310.3)	(311.8)	(12,090.1)	(3,846.2)	(997.9)	(1,012.8)	(1,028.0)
Unlevered Free Cash Flow				$4,508.0	$11,041.0	$5,954.5	$6,286.8	$16,322.3	$26,153.1	$35,893.9	$38,484.1	$43,197.8
% YoY Growth									*60.2%*	*37.2%*	*7.2%*	*12.2%*
Discountable Unlevered Free Cash Flow				$4,508.0	$11,041.0	$5,954.5	$6,286.8	$27,790.3	$26,153.1	$35,893.9	$38,484.1	$43,197.8
Full-Year Discount								*0.69*	*1.69*	*2.69*	*3.69*	*4.69*
Mid-Year Discount								*0.34*	*1.19*	*2.19*	*3.19*	*4.19*
Discount Factor								*0.98*	*0.92*	*0.85*	*0.79*	*0.74*
Present Value of Future Free Cash Flow								$27,095.7	$23,965.2	$30,560.8	$30,444.6	$31,752.4
% Growth									*(11.6%)*	*27.5%*	*(0.4%)*	*4.3%*

EV/EBITDA	
Current Multiple	12.4x
Historical Average	15.1x
Premium/(Discount)	*(17.7%)*
Premium Applied to Historical	*0.0%*
Implied Multiple	15.1x
NTM EBITDA	$38,505
Implied Enterprise Value	$580,389
(+) Cash & Equivalents	46,279
(-) Preferred Stock	0
(-) Total Debt	(65,589)
(-) Pension Obligations	0
(-) Non-Controlling Interests	(9,803)
(-) Capital Leases	0
Implied Market Cap	$551,276
Shares Outstanding	$940
Implied Price Target	$586
% Return	*22.0%*

Price/Earnings	
Current Multiple	17.9x
Historical Average	21.9x
Premium/(Discount)	*(18.1%)*
Premium Applied to Historical	*(4.0%)*
Implied Multiple	21.0x
NTM EPS	$28.42
Implied Price Target	$596
% Return	*24.1%*

NTM EPS	$28.42
NTM EBITDA	$38,505.14

Multiples Valuation

Implied Share Price

		NTM P/E				
		19.0x	20.0x	21.0x	22.0x	23.0x
EPS	$22.74	$431.68	$454.41	$477.15	$499.89	$522.63
	$25.58	$485.64	$511.21	$536.79	$562.37	$587.95
	$28.42	$539.59	$568.02	$596.44	$624.86	$653.28
	$31.26	$593.55	$624.82	$656.08	$687.35	$718.61
	$34.11	$647.51	$681.62	$715.73	$749.83	$783.94

		NTM EV/EBITDA				
		13.1x	14.1x	15.1x	16.1x	17.1x
EBITDA	$30,804	$397.44	$430.21	$462.98	$495.75	$528.52
	$34,655	$450.99	$487.85	$524.72	$561.59	$598.45
	$38,505	$504.54	$545.50	$586.46	$627.43	$668.39
	$42,356	$558.09	$603.15	$648.21	$693.27	$738.33
	$46,206	$611.64	$660.80	$709.95	$759.11	$808.26

Implied % Return

		NTM P/E				
		19.0x	20.0x	21.0x	22.0x	23.0x
EPS	$22.74	(10.2%)	(5.5%)	(0.7%)	4.0%	8.7%
	$25.58	1.0%	6.4%	11.7%	17.0%	22.3%
	$28.42	12.3%	18.2%	24.1%	30.0%	35.9%
	$31.26	23.5%	30.0%	36.5%	43.0%	49.5%
	$34.11	34.7%	41.8%	48.9%	56.0%	63.1%

		NTM EV/EBITDA				
		13.1x	14.1x	15.1x	16.1x	17.1x
EBITDA	$30,804	(17.3%)	(10.5%)	(3.7%)	3.1%	10.0%
	$34,655	(6.2%)	1.5%	9.2%	16.8%	24.5%
	$38,505	5.0%	13.5%	22.0%	30.5%	39.1%
	$42,356	16.1%	25.5%	34.9%	44.2%	53.6%
	$46,206	27.3%	37.5%	47.7%	57.9%	68.2%

Returns Profile

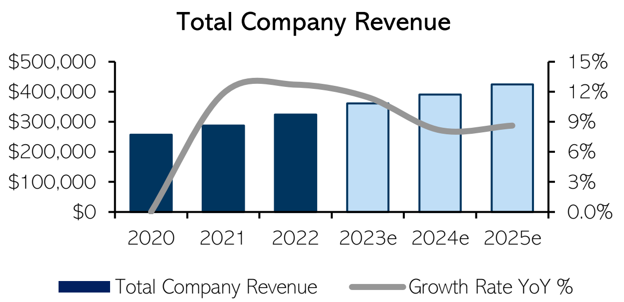
Weight	Methodology	Implied PT	Implied Return
	DCF		
0.0%	*Exit Multiple*	*$703*	*46.2%*
0.0%	*Perpetual Growth Rate*	*$735*	*52.8%*
	Historical Multiples		
50.0%	*NTM P/E*	*$596*	*24.1%*
0.0%	*NTM P/E Spread to Comps*	*$504*	*4.8%*
50.0%	*NTM EV/EBITDA*	*$586*	*22.0%*
0.0%	*NTM EV/EBITDA Spread to Comps*	*$557*	*15.8%*
	Cyclical Multiples		
0.0%	*NTM P/E*	*$360*	*(25.1%)*
0.0%	*NTM P/E Spread to Comps*	*$298*	*(38.1%)*
0.0%	*NTM EV/EBITDA*	*$244*	*(49.2%)*
0.0%	*NTM EV/EBITDA Spread to Comps*	*$389*	*(19.0%)*
	Sum of the Parts		
0.0%	*NTM EV/EBITDA*	*$434*	*(9.7%)*
	Blended Average	*$491*	*2.2%*
	Weighted Average	*$591*	*23.0%*

FINANCIAL ANALYSIS

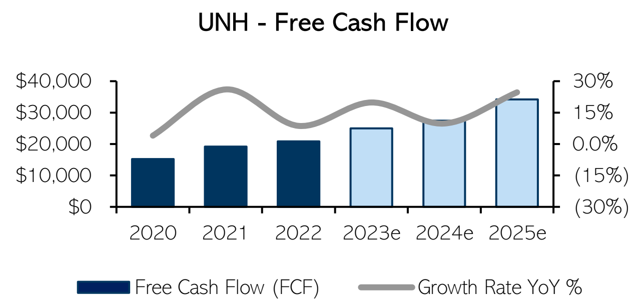
Revenue Build

									CAGR	
Summary	2020	2021	2022	2023e	2024e	2025e	2026e	2027e	Historical	Projected
Total Company Revenue	$257,141.0	$287,597.0	$324,162.0	$361,303.0	$390,799.7	$424,504.2	$464,374.0	$508,022.3	*12.3%*	*9.4%*
% Growth YoY		*11.8%*	*12.7%*	*11.5%*	*8.2%*	*8.6%*	*9.4%*	*9.4%*		
UnitedHealthcare Revenue	$200,875.0	$222,899.0	$249,741.0	$274,822.3	$295,154.0	$318,103.0	$344,416.7	$373,010.1	*11.5%*	*8.4%*
% Growth YoY		*11.0%*	*12.0%*	*10.0%*	*7.4%*	*7.8%*	*8.3%*	*8.3%*		
% of Total Revenue	*78.1%*	*77.5%*	*77.0%*	*76.1%*	*75.5%*	*74.9%*	*74.2%*	*73.4%*		
Optum Health Revenue	$39,808.0	$54,065.0	$71,174.0	$87,138.9	$95,608.5	$105,505.4	$117,416.9	$130,552.9	*33.7%*	*12.9%*
% Growth		*35.8%*	*31.6%*	*22.4%*	*9.7%*	*10.4%*	*11.3%*	*11.2%*		
% of Total Revenue	*15.5%*	*18.8%*	*22.0%*	*24.1%*	*24.5%*	*24.9%*	*25.3%*	*25.7%*		
Optum Insight Revenue	$10,802.0	$12,199.0	$14,581.0	$18,219.6	$20,406.0	$22,854.7	$25,597.2	$28,668.9	*16.2%*	*14.5%*
% Growth		*12.9%*	*19.5%*	*25.0%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*		
% of Total Revenue	*4.2%*	*4.2%*	*4.5%*	*5.0%*	*5.2%*	*5.4%*	*5.5%*	*5.6%*		
Optum Rx Revenue	$87,498.0	$91,314.0	$99,773.0	$109,418.6	$114,342.4	$119,487.8	$125,462.2	$131,735.3	*6.8%*	*5.7%*
% Growth		*4.4%*	*9.3%*	*9.7%*	*4.5%*	*4.5%*	*5.0%*	*5.0%*		
% of Total Revenue	*34.0%*	*31.8%*	*30.8%*	*30.3%*	*29.3%*	*28.1%*	*27.0%*	*25.9%*		

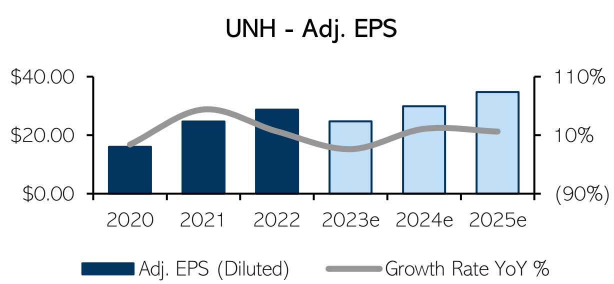
Total Revenue



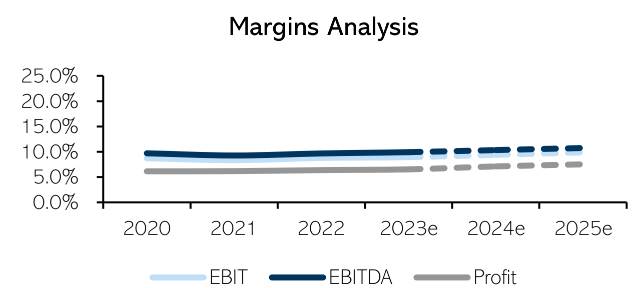
Free Cash Flow



Earnings Per Share



Margins



APPENDIX

Exhibit I: Street Discussion Summary – "It's Darkest Before Dawn"

Analyst: Will Spivack | PT: $555.00 | Buy Rating

Surgery demand/VBC Opportunity: In the near-term, the stock is going to trade sensitively to utilization data on orthopedic and cardiovascular procedures. Upcoming numbers on new procedures can impact the stock positively or negatively, but the trend will likely continue into 1H'23. This has the most immediate impact on the Company's MLR. It's going to hold back margin growth for the Optum Health side, and Will's team is monitoring the impact that 2024 Medicare and Medicare reimbursement rates will have on that business. On the other hand, value-based care is a growing industry trend that benefits UNH, and it's well-positioned in that market. UNH is focused on creating better health outcomes for patients, and UNH should capture greater market share in the long run.

Margin Expansion: Despite all of the pressures, UNH expects margin improvement in the upcoming quarters, but Will is a bit skeptical about how much improvement it will actually achieve based on the procedural trends. He pointed out that the insurance business is taking away benefits from some of its health plans to combat the higher costs, but the outlook is still uncertain on how much that will help. His team expects a rebound in margins in 2H'24 as utilization comes down and Optum Insight continues to boost UNH's profit. The Company has a long-term EPS growth target of ~13.0%, and he's conservative, expecting it to achieve somewhere just below that.

Medicaid Outlook: Will anticipates low-to-mid single digit growth in Medicaid enrollees. States are outsourcing Medicaid coverage to private companies, and UNH will benefit from that. The recent determinations are a short-term hurdle, but it will eventually settle out and return to pre-pandemic levels. If you look at historical enrollment growth for the program, it will show you that the demand was originally there before the regulation headwinds.

Regulation & Election: Investors' worries and uncertainty surrounding government regulation on the managed care industry is weighing on the stock. The FTC is persistent in its study of the PBM industry, and there's a chance that the PBM Transparency Act of 2023 can be passed as a law, which could have a 2.0-5.0% impact on Optum Rx's top-line. However, Optum Rx a huge business and it's shifting more into specialty drugs than spread pricing on generics. On a macro level, UNH's stock usually underperforms following a Fed tightening cycle and can be sensitive to election periods. However, by 2H'24, after it gets past election-related sentiment and possible volatility, the stock will begin to outperform.

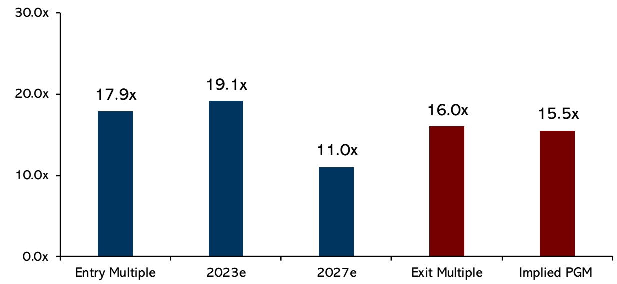
Home Health: Will's team likes the VBC strategy but has a bearish outlook on home health's near-term performance due to the recent reimbursement cuts. They are forecasting Amedisys' EBITDA to be flat for the next two years. However, UNH traditionally is a smart acquirer, and it was to buy Amedisys at a lower price than originally anticipated. The deal will still be accretive to earnings, but AMED's earnings growth will be limited for a while. On the bright side, he believes this is largely understood and priced in.

AMZN and Cost-Plus Competition: The selloff was simply overblown. It's an ambitious move by Blue Shield of CA, AMZN, and Cost-plus, but customers are unlikely to switch to multiple vendors so quickly. According to Cowen's initial note on the situation, Blue Shield's projections of $500.0 mn annual cost savings only translate to ~12.0% savings compared to the 20.0% of costs that go to its pharmacy business. Furthermore, the deal mainly addresses non-specialty drugs that will need to be delivered through a mail service by the new partners. Cowen's work shows that mail delivery only comprises 30.0% of pharmacy demand, and non-specialty drugs address only ~5.0% of that, which only translates to a $200.0 mn opportunity for AMZN. Bottom line, while the news indicates an impressive move against the PBM industry, Will's team believes the selloff assumed future substantial losses for UNH and other managed care names that doesn't have enough immediate evidence to validate it.

COWEN

Exhibit II: Model Output

Multiples Analysis (P/E)



Return Summary	
Exit Multiple Method	
Implied Enterprise Value:	$681,526
Implied Equity Value:	652,413
Implied Share Price:	$694
% Return:	37.1%
Perpetuity Growth Method	
Implied Enterprise Value:	$663,222
Implied Equity Value:	634,109
Implied Share Price:	$675
% Return:	33.3%

Consolidated Financials	Annuals 2021	2022	2023e	2024e	2025e	2026e	2027e	CAGR Historical	CAGR Projected
Revenue	$287,597	$324,162	$361,303	$390,800	$424,504	$464,374	$508,022	*12.3%*	*9.4%*
YoY % Growth	*11.8%*	*12.7%*	*11.5%*	*8.2%*	*8.6%*	*9.4%*	*9.4%*		
Gross Profit	$287,597	$324,162	$361,303	$390,800	$424,504	$464,374	$508,022	*12.3%*	*9.4%*
% Margin	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*		
YoY % Growth	*11.8%*	*12.7%*	*11.5%*	*8.2%*	*8.6%*	*9.4%*	*9.4%*		
EBITDA	$26,626	$31,316	$35,814	$40,392	$45,628	$51,189	$57,082	*12.7%*	*13.4%*
Margin	*9.3%*	*9.7%*	*9.9%*	*10.3%*	*10.7%*	*11.0%*	*11.2%*		
YoY % Growth	*7.0%*	*18.6%*	*13.5%*	*13.7%*	*14.4%*	*13.1%*	*12.1%*		
Net Income (Loss)	$17,732	$20,639	$23,551	$27,746	$31,916	$36,265	$40,792	*14.4%*	*14.6%*
Margin	*6.2%*	*6.4%*	*6.5%*	*7.1%*	*7.5%*	*7.8%*	*8.0%*		
YoY % Growth	*12.4%*	*16.4%*	*14.1%*	*17.8%*	*15.0%*	*13.6%*	*12.5%*		
Adj. EPS (Diluted)	$25	$29	$25	$30	$35	$40	$45	*33.9%*	*9.4%*
YoY % Growth	*54.0%*	*16.4%*	*(13.9%)*	*20.8%*	*16.1%*	*14.6%*	*13.5%*		
Free Cash Flow	$19,183	$20,844	$24,980	$27,427	$34,197	$36,685	$41,297	*17.0%*	*13.4%*
YoY % Growth	*26.1%*	*8.7%*	*19.8%*	*9.8%*	*24.7%*	*7.3%*	*12.6%*		

Capitalization and Key Ratios	Annuals 2021	2022	2023e	2024e	2025e	2026e	2027e	Average Historical	Average Projected
Leverage									
Total Debt / EBITDA	1.7x	1.8x	1.8x	1.6x	1.4x	1.3x	1.1x	*1.8x*	*1.5x*
Total Debt / Equity	0.6x	0.7x	0.7x	0.6x	0.5x	0.4x	0.3x	*0.6x*	*0.5x*
Total Debt / Total Assets	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x	*0.2x*	*0.2x*
Liquidity									
Current Ratio	1.2x	1.2x	1.4x	1.6x	1.8x	2.1x	2.3x	*1.2x*	*1.8x*
Quick Ratio	0.8x	0.8x	0.9x	1.2x	1.4x	1.6x	1.9x	*0.8x*	*1.4x*
Cash Ratio	0.5x	0.5x	0.6x	0.8x	1.1x	1.3x	1.6x	*0.5x*	*1.1x*
Profitability									
Return on Assets (ROA)	8.4%	8.4%	8.5%	9.4%	9.8%	10.1%	10.2%	*8.2%*	*9.6%*
Return on Equity (ROE)	23.2%	23.9%	23.6%	23.8%	23.3%	22.5%	21.6%	*23.1%*	*23.0%*
Return on Inv. Capital (ROIC)	14.5%	14.3%	14.3%	15.2%	15.8%	16.0%	16.1%	*14.2%*	*15.5%*
Coverage									
Interest Expense	$1,660	$2,092	$2,369	$1,574	$1,574	$1,572	$1,572	*$1,805*	*$1,732*
Capital Expenditures	2,454	2,802	3,177	3,517	3,821	4,179	4,572	*2,436*	*3,853*
EBIT / Interest	14.4x	13.6x	13.6x	23.3x	26.7x	30.2x	33.9x	*13.8x*	*25.5x*
EBITDA / Interest	16.0x	15.0x	15.1x	25.7x	29.0x	32.6x	36.3x	*15.3x*	*27.7x*
(EBITDA - CapEx) / Interest	14.6x	13.6x	13.8x	23.4x	26.6x	29.9x	33.4x	*14.0x*	*25.4x*
Efficiency									
Asset Turnover	1.4x	1.3x	1.3x	1.3x	1.3x	1.3x	1.3x	*1.3x*	*1.3x*
Days Sales Outstanding	17.2	18.0	18.2	18.0	18.0	18.0	18.0	*17.9*	*18.0*
Days Inventory Outstanding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*0.0*	*0.0*
Days Payables Outstanding	46.4	45.5	45.0	45.0	45.0	45.0	45.0	*48.2*	*45.0*
Cash Conversion Cycle	(29.2)	(27.6)	(26.8)	(27.0)	(27.0)	(27.0)	(27.0)	*(30.3)*	*(27.0)*

Exhibit III: Supplemental Charts and Estimates

Behavioral Health Market Size (2021)	
Behavioral Health Market Size	$76,440,000,000
Behavioral Health Patients	58,900,000
Cost per Patient (Annual)	$1,298
Optum Health's Behavioral Health Revenue (2021)	
Optum Health Behavioral Providers	200,000
Total Optum Health Providers	300,000
Behavioral Health Patients	13,333,333
Total Patients	20,000,000
Behavioral Health Revenue	$17,303,904,924
Optum Health's Behavioral Health Revenue (2021-2025)	
Years	Revenue (bn)
2021	$17.3
2022	$18.0
2023e	$18.7
2024e	$19.5
2025e	$20.2

Source: Fortune Business Insights, Optum

UNH's Medicare & MA Enrollment (mn)			
Years	Senior Population	Medicare & MA Enrollment	Growth
2021	9.7	10.9	0%
2022	10.3	11.5	5.5%
2023e	10.9	12.2	6.2%
2024e	11.5	12.9	5.8%
2025e	12.5	13.9	8.0%

Source: Company Filings, U.S. Census

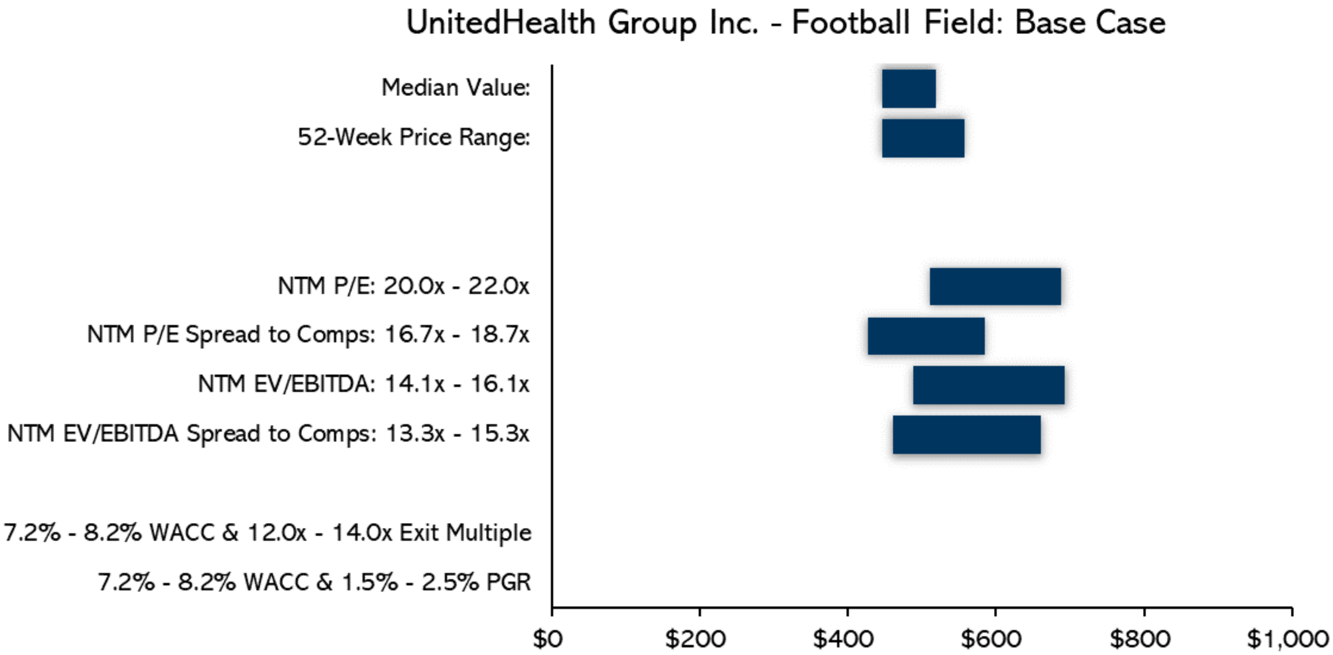
Medicare & MA Enrollment (mn)		
Years	Senior Population	Medicare & MA Enrollment
2021	55.8	62.4
2022	56.2	62.8
2023e	58.8	65.8
2024e	60.3	67.4
2025e	61.9	69.2

Source: U.S. Census

Healthcare M&A Deal Value & Volume	2020	2021	2022	LTM May'23
Total Deal Value (bn)	$56.0	$199.0	$100.0	$85.0
Total Deal Volume (k)	0.8	1.6	1.7	1.7

Source: PwC

Exhibit IV: Football Field



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- Provide students with hands-on investment management experience
- Enable students to work in a team-based setting in consultation with investment professionals.
- Connect student participants with nationally recognized money managers and financial institutions

Earnings from the fund will be reinvested net of fund expenses, which are primarily trading and auditing costs and partial scholarships for student participants.

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