



UConn Student Managed Fund

UnitedHealth Group (NSADAQ: UNH)

OCTOBER 5, 2021

Target Price: 470.94
 Current Price: \$392.43
 Stop loss: \$343.00
 52 Week High/Low: \$299.60/\$431.36

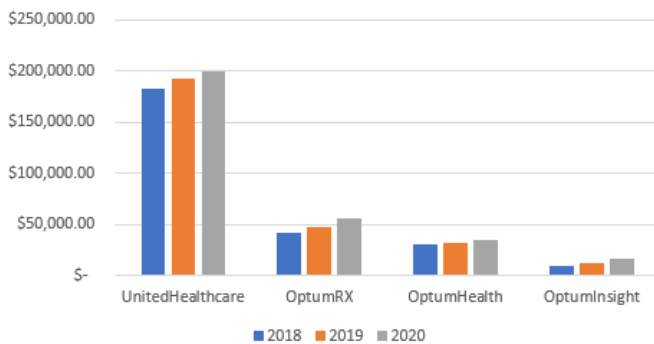
Market Cap (\$B): \$383.8M
 Dividend Yield: 1.41
 Beta: 1.12
 ROE: 25.02%

P/E Ratio (TTM): 25.92
 EV/EBITDA: 13.86
 EBITDA Margin: 10.27%
 Gross Margin: 26.06%

Company Overview

UnitedHealth Group is a leading US health insurer offering a variety of plans and services to group and individual customers nationwide. Its UnitedHealthcare health benefits segment manages health maintenance organization (HMO), preferred provider organization (PPO), and point-of-service (POS) plans, as well as Medicare, Medicaid, state-funded, and supplemental vision and dental options. In addition, UnitedHealth's Optum health services units, OptumHealth, OptumInsight, and OptumRx provide wellness and care management programs, financial services, information technology solutions, and pharmacy benefit management (PBM) services to individuals and the health care industry.

UnitedHealth Group Revenue Breakdown



Industry Outlook

For millions of health care consumers in the United States, the cost to deliver their care is significant and on the rise. The proof is in the data.

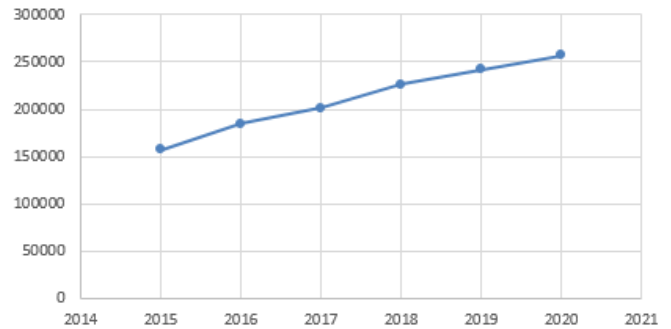
In 2019, the national health care expenditures (NHE) grew 4.6% to \$3.9 trillion, representing 17.7% of gross domestic product. Spending per person was \$11,582 and according to the Centers for Medicare and Medicaid Services (CMS), the NHE is projected to grow to 19.7% by 2028.

Further, according to NCR Health, three out of four consumers feel their health care decisions are the most important—and expensive—decisions they'll ever make, yet four out of five admit to finding it difficult to compare cost and quality during the decision-making process. This is in stark contrast to other industries where a consumer can access cost, benefits and features to guide their purchasing decisions.

From evolving consumerism needs to a robust deal environment, key areas are heating up for health care organizations this summer and in the coming months.

UnitedHealth's insurance products are largely sold through independent brokers and consultants, as well as through a direct sales force, strategic collaborations, and external producers in three markets: employers, including the sub-markets of large, mid-sized, and small employers; payers, such as health plans, third-party administrators, underwriter/stop-loss carriers, and individual market intermediaries; and government entities (states, Centers for Medicare and Medicaid Services, the Department of Defense, the Veterans Administration, and other federal procurement agencies).

Revenue Growth 2015-2020
 CAGR: 8.56%



Investment Thesis

UnitedHealth Group is focused on improving outcomes for patients, lowering healthcare costs, and offering a better health care experience for patients and care providers. To this end, the company is increasingly incorporating data analytics and other technologies in the delivery of health care.

The company has partnered with government agencies to identify ways to control increasing costs of prescription drugs.

The company has continued to enhance its offerings, focusing on more digital and physical care resources in the home, expanding its concierge navigation services and enabling the home as a safe and effective setting of care.

UnitedHealth Group can deliver consistent value for: their dominant market share, lower costs, and strategic merger and acquisition growth. UNH has the most dominant franchise in the industry and continues to gain share in Medicare Advantage which is currently the most valuable growth market in managed care. In addition, UnitedHealth Group is typically a medical cost ratio leader in the managed care industry, and we believe this is partially due to its close relationship with Optum to help keep medical and operating costs low. Lastly, UnitedHealth Group has made strategic investments such as DMG and Catamaran which has increased their medical resources and network access. These merger and acquisitions expand UNH's physician and Rx strategy which is used to control costs.

Investment Risk

Public health crises, large-scale medical emergencies and pandemics, such as the COVID-19 pandemic, effect on our business, results of operations, financial condition and financial performance

Competition; fundamentally compete on quality and value given to customers

If we sustain cyber-attacks or other privacy or data security incidents resulting in security breaches disrupting our operations or resulting in the unintended dissemination of protected personal information or proprietary or confidential information, we could suffer a loss of revenue and increased costs, exposure to significant liability, reputational harm and other serious negative consequences.

Financial Performance

The company's revenue increased by 6% to \$257.1 billion in 2020 compared from the prior year with \$242.2 billion. The increases in revenue were primarily driven by the increase in the number of individuals served through Medicare Advantage and Medicaid; pricing trends; and organic and acquisition growth across the Optum business, primarily due to expansion in pharmacy care services and care delivery.

Net income for fiscal 2020 increased by 11% to \$15.8 billion compared from 2019 with \$14.2 billion.

Cash held by the company increased to \$16.9 billion in 2020. Cash provided by operations was \$22.2 billion while cash used for investing and financing activities were \$12.5 billion and \$3.6 billion, respectively. Main uses of cash were purchases of investments and cash dividends paid.

Breakdown	TTM	12/31/2020	12/31/2019	12/31/2018	12/31/2017
> Total Revenue	270,295,000	255,639,000	240,269,000	224,871,000	200,136,000
Cost of Revenue	205,957,000	190,141,000	184,557,000	172,401,000	154,148,000
Gross Profit	64,338,000	65,498,000	55,712,000	52,470,000	45,988,000
> Operating Expense	45,257,000	44,595,000	37,913,000	36,502,000	31,802,000
Operating Income	19,081,000	20,903,000	17,799,000	15,968,000	14,186,000
> Net Non Operating Interest Inc...	-1,603,000	-1,663,000	-1,704,000	-1,400,000	-1,186,000
> Other Income Expense	1,804,000	1,502,000	1,886,000	1,376,000	1,023,000
Pretax Income	19,282,000	20,742,000	17,981,000	15,944,000	14,023,000
Tax Provision	4,324,000	4,973,000	3,742,000	3,562,000	3,200,000
> Net Income Common Stockhold...	14,512,000	15,403,000	13,839,000	11,986,000	10,558,000

Valuation Assumptions & Key Financials

We recommend a BUY rate for UNH based on a target price of \$470.94 per share. This target price reflects a 20.00% margin of safety based on its closing price of \$392.43 on October 1, 2021. We calculated WACC as 6.74%, assuming a terminal growth rate of 2% and a 14x exit EV/EBITDA.

Perpetuity Growth Method - Value per Share				Terminal EBITDA Method			
Free Cash Flow at Year 2025		24,949.51		Terminal EBITDA at year 2025		37,458	
WACC		6.74%		WACC		6.74%	
Perpetuity Growth Rate		2.00%		Exit Enterprise Value / EBITDA		14	
Perpetuity Value at End of Year 5		536,399.68		Terminal Value in 5 years		524,405.25	
Present Value of Perpetuity (@ WACC)		387,047.89		Present Value of Terminal Value (@ WACC)		378,393.11	
(+) Present Value of Free Cash Flows (@ WACC)		88,115.94		(+) Present Value of Free Cash Flows (@ WACC)		88,116	
(=) Current Enterprise Value		475,163.83		(=) Current Enterprise Value		466,509.05	
(-) Long Term Debt		42,230.00		(-) Long Term Debt		42,230	
(+) Cash and Marketable Securities		19,781.00		(+) Cash and Marketable Securities		19,781	
(=) Equity Value		452,714.83		(=) Equity Value		444,060.05	
Shares outstanding		942.92		Shares outstanding		942.92	
Estimated Value per Share (USD)		480.12		Estimated Value per Share (USD)		470.94	
Current Price (USD)		392.43		Current Price (USD)		392.43	
Estimated Upside		87.69		Estimated Upside		78.51	
		22%				20%	

ESG Considerations

In the case of UnitedHealth Group, Member of Dow Jones Sustainability Index since 1999 Fortune's World's Most admired companies: #1 rank in the insurance and managed care sector

UnitedHealth Group Inc

Industry Group: Healthcare

Country: United States

Identifier: NYS:UNH

ESG Risk Rating

20.2 Medium Risk

Negligible
Low
Medium
High
Severe

0-10 10-20 20-30 30-40 40+

Ranking

INDUSTRY GROUP
Healthcare

85 out of 577

UNIVERSE

Global Universe

3215 out of 14042

Last Update: Aug 4, 2021