

|   |                    |                                 |                             |
|---|--------------------|---------------------------------|-----------------------------|
| <b>Company:</b> UnitedHealth Group Incorporated | <b>Ticker:</b> UNH | <b>Current Price:</b> \$ 511.52 | <b>Industry:</b> Healthcare |
| Target Price: \$ 638.91                         | TTM P/E: 25.06     | Beta: 0.76                      | Market Cap: \$ 477.9B       |
| Stop Loss: \$ 434.80                            | Forward P/E: 24.48 | Credit Rating: A+               | Avg Vol: 2.752M             |
| 52 Week High/Low: \$ 558.10 / \$ 436.00         | EPS: 20.41         | Rating Outlook: Stable          | Dividend Yield: 6.60        |

**Company Background:** UnitedHealth Group Inc. provides healthcare products and healthcare delivery and optimization services through their two brands; UnitedHealthcare and Optum.

**Industry Outlook:**

We have a neutral fundamental outlook for the Managed Health Care sub-industry. We think the main driver for the industry will continue to be the progression of labor conditions, which will dictate the evolution of employer-sponsored coverage and Medicaid coverage going forward. Aside from reducing drug prices, a policy goal which has bipartisan support and was part of the recent Inflation Reduction Act, we do not expect major healthcare legislation given a razor-thin Democrat Party edge in the Senate, although midterm elections may change that. While the recent demise of the health care venture launched by Amazon, Berkshire Hathaway, and JPMorgan Chase, could provide a short-term relief, we think Amazon Pharmacy has the potential to be a disruptor for Managed Care firms and pharmacy benefit managers (PBM) in the long run.

**Investment Thesis:** We rate UnitedHealth Group Inc. as a buy due to high 3Q22 revenue growth, increasing EPS growth, and recent news on the acquisition of Change Healthcare and ACA exchange expansion to 7 new states.

**Investment Risks:**

- Disruption by new players is a constant threat, especially as tech companies enter the sector
- Rising costs of healthcare may become unsustainable, and the government may choose to regulate the sector more heavily

**3-5 Takeaways from last quarter investor call transcripts**

- 2022 earnings outlook increased to \$21.85 to \$22.05 per share.
- In September UnitedHealth Group announced a long-term collaboration with Walmart with a plan to develop 15 Walmart health clinics in 2023.
- UnitedHealth Group revenues grew 12% or by \$8.6B with double digit growth in Optum and UnitedHealthcare segments.
- For a segment breakdown on revenue growth: OptumInsight's revenue grew by 18% in the quarter, OptumRx revenue grew by 8% in the quarter, and UnitedHealthcare revenue grew by 11%

**Financial Performance**

| Company Financials Fiscal year ending Dec 31         |         |         |         |         |         |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Per Share Data (USD)                                 | 2021    | 2020    | 2019    | 2018    | 2017    | 2016    | 2015    | 2014    | 2013    | 2012    |
| Tangible Book Value                                  | -18.76  | -20.98  | -22.53  | -20.04  | -18.23  | -20.88  | -21.66  | -5.85   | -4.67   | -5.95   |
| Operating Earnings                                   | 25.07   | 23.31   | 20.38   | 17.84   | 15.44   | 13.36   | 11.40   | 10.92   | 9.41    | 8.85    |
| Earnings   | 18.08   | 16.03   | 14.33   | 12.19   | 10.72   | 7.25    | 6.01    | 5.70    | 5.50    | 5.28    |
| Dividends  | 5.60    | 4.83    | 4.14    | 3.45    | 2.88    | 2.38    | 1.88    | 1.40    | 1.05    | 0.80    |
| Payout Ratio (%)                                     | 30.55   | 29.76   | 28.41   | 27.70   | 26.28   | 32.22   | 30.72   | 24.24   | 18.77   | 14.84   |
| Prices: High   | 509.23  | 367.95  | 300.00  | 287.94  | 231.77  | 164.00  | 126.21  | 104.00  | 75.88   | 60.75   |
| Prices: Low  | 320.35  | 187.72  | 208.07  | 208.48  | 156.09  | 107.51  | 95.00   | 69.57   | 51.36   | 49.82   |
| P/E Ratio: High                                      | 26.80   | 21.80   | 19.90   | 22.40   | 23.00   | 20.40   | 19.80   | 18.20   | 13.80   | 11.50   |
| P/E Ratio: Low                                       | 16.80   | 11.10   | 13.80   | 16.20   | 15.50   | 13.40   | 14.70   | 12.20   | 9.30    | 9.40    |
| Income Statement Analysis (Million USD)              |         |         |         |         |         |         |         |         |         |         |
| Net Life Insurance in Force                          | N/A     |
| Premium Income                                       | 226,233 | 201,478 | 189,699 | 178,087 | 158,453 | 144,118 | 127,163 | 115,302 | 109,557 | 99,728  |
| Other Revenue  | 59,040  | 54,161  | 50,570  | 46,784  | 41,683  | 39,894  | 29,375  | 14,604  | 12,368  | 10,366  |
| Total Revenue  | 285,273 | 255,639 | 240,269 | 224,871 | 200,141 | 184,013 | 156,537 | 130,474 | 122,489 | 110,618 |
| Pretax Income  | 22,310  | 20,742  | 17,981  | 15,944  | 14,023  | 11,863  | 10,231  | 9,656   | 8,915   | 8,922   |
| Net Operating Income                                 | 23,970  | 22,405  | 19,685  | 17,344  | 15,209  | 12,930  | 11,021  | 10,274  | 9,623   | 9,254   |
| Net Income   | 17,285  | 15,403  | 13,839  | 11,986  | 10,558  | 7,017   | 5,813   | 5,619   | 5,625   | 5,526   |
| Balance Sheet and Other Financial Data (Million USD) |         |         |         |         |         |         |         |         |         |         |
| Cash & Equivalent                                    | 21,375  | 16,921  | 10,985  | 10,866  | 11,981  | 10,430  | 10,923  | 7,495   | 7,276   | 8,406   |
| Investment Assets: Bonds                             | N/A     |
| Investment Assets: Loans                             | N/A     |
| Investment Assets: Total                             | 43,816  | 42,502  | 39,069  | 34,980  | 30,985  | 26,041  | 20,227  | 20,134  | 21,101  | 20,408  |
| Deferred Policy Costs                                | N/A     |
| Total Assets   | 212,206 | 197,269 | 173,869 | 152,221 | 139,059 | 122,810 | 111,254 | 88,392  | 81,882  | 80,885  |
| Insurance Annuity Liability                          | N/A     | 2,496   | 8,453   | 7,744   |
| Unearned Premiums                                    | 2,571   | 2,842   | 2,622   | 2,396   | 2,269   | 1,968   | 2,142   | 1,972   | 1,600   | 1,505   |
| Debt   | 50,276  | 43,487  | 40,678  | 36,554  | 31,892  | 32,970  | 31,976  | 17,461  | 17,023  | 16,765  |
| Common Equity  | 71,780  | 65,491  | 57,616  | 51,696  | 47,776  | 38,274  | 33,830  | 32,454  | 32,149  | 31,178  |
| Property & Casualty: Combined                        | NM      |
| % Return on Revenue                                  | 6.01    | 5.99    | 5.71    | 5.30    | 5.25    | 3.80    | 3.70    | 4.31    | 4.59    | 5.00    |
| % Return on Equity                                   | 24.10   | 23.80   | 24.10   | 22.90   | 23.50   | 18.50   | 16.70   | 17.00   | 17.50   | 17.50   |
| Premium/Annuity Revenue                              | 226,233 | 201,478 | 189,699 | 178,087 | 158,453 | 144,118 | 127,163 | 115,302 | 109,557 | 99,728  |

**Discounted Cash Flow**

| COO                             | 2015    | 2016    | 2017    | 2018    | 2019    | 2020    | 2021    | 2022    | 2023    | 2024    | 2025    | 2026    | 2027    | 2028    | 2029    | 2030    | 2031    |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Revenue                         | 156,997 | 166,612 | 176,227 | 185,842 | 195,457 | 205,072 | 214,687 | 224,302 | 233,917 | 243,532 | 253,147 | 262,762 | 272,377 | 281,992 | 291,607 | 301,222 | 310,837 |
| Operating Costs                 | (88)    | (96)    | (104)   | (112)   | (120)   | (128)   | (136)   | (144)   | (152)   | (160)   | (168)   | (176)   | (184)   | (192)   | (200)   | (208)   | (216)   |
| Operating Profit                | 68,917  | 70,616  | 72,323  | 73,830  | 75,337  | 76,844  | 78,351  | 79,858  | 81,365  | 82,872  | 84,379  | 85,886  | 87,393  | 88,900  | 90,407  | 91,914  | 93,421  |
| Capital Expenditures            | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) |
| Free Cash Flow                  | 67,917  | 69,616  | 71,323  | 72,830  | 74,337  | 75,844  | 77,351  | 78,858  | 80,365  | 81,872  | 83,379  | 84,886  | 86,393  | 87,900  | 89,407  | 90,914  | 92,421  |
| WACC                            | 8.00%   | 8.00%   | 8.00%   | 8.00%   | 8.00%   | 8.00%   | 8.00%   | 8.00%   | 8.00%   | 8.00%   | 8.00%   | 8.00%   | 8.00%   | 8.00%   | 8.00%   | 8.00%   | 8.00%   |
| Present Value of Free Cash Flow | 57,686  | 57,686  | 57,686  | 57,686  | 57,686  | 57,686  | 57,686  | 57,686  | 57,686  | 57,686  | 57,686  | 57,686  | 57,686  | 57,686  | 57,686  | 57,686  | 57,686  |
| Terminal Value                  |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Enterprise Value                |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Debt                            |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Equity Value                    |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Share Price                     |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |

**Relative Valuation**

**Total Return %**

Fair Value Conclusions

|                                   | Low           | Mid           | High          |
|-----------------------------------|---------------|---------------|---------------|
| LTM P/E Method                    | 507.29        | 533.99        | 560.69        |
| Fwd P/E Method                    | 521.39        | 548.83        | 576.27        |
| <b>Concluded Fair Value Range</b> | <b>514.34</b> | <b>541.41</b> | <b>568.48</b> |
| <i>Upside / (Downside)</i>        | 2.3%          | 7.6%          | 13.0%         |