

Company Name: UnitedHealth Group (NYSE:UNH)
Current Price: \$111.71 52 Week H/L: \$126.21/\$95.00
Target Price: \$144.61 P/E: 18.59 Beta: 0.62
Market Cap: \$106.5 B Dividend Yield: 1.77%

Company Background: UnitedHealth Group is a diversified healthcare company operating mostly out of the United States. The company was started in 1977, dealing primarily in health insurance. Now the company offers a wide variety of health insurance products under its UnitedHealthcare segment in addition to health data and software consulting services offered by the newly formed Optum segment. UnitedHealth Group is the largest American health insurer in terms of revenue and the third largest pharmacy benefits manager under OptumRx. Overall the company is a fortune 14 company with a market cap over \$106 Billion and a workforce over 182,000.

Investment Thesis: We feel as though UnitedHealth Group is strongly positioned as the industry leader and we are confident in their future growth prospects. While their core healthcare business is growing at steady rates, Optum is undergoing a rapid expansion and we expect Optum revenues to outpace health insurance revenues by 2022. Another major benefit to UnitedHealth Group is their ability to offer a full spectrum of products and services along the healthcare supply chain. By providing both health insurance and pharmacy benefits management for example, they open themselves up to operational synergies as well as convenience for their customers. While issues associated with healthcare reform may cut into UnitedHealthcare's revenues in the short term, we understand that these effects are felt industry wide. Overall we see UnitedHealth Group's market influence, diversification, and pioneering innovation as methods for them to create value well into the future.

Business Segments:

- **UnitedHealthcare-** Provides health insurance to over 50 million individuals in Employer and Individual, Medicare, Medicaid, and Global markets.
- **OptumRX-** The third largest pharmacy benefits manager in the country including the recent acquisition of Catamaran.
- **Optum Health-** Provides solutions and consulting services for payers, employers, and other parties.
- **Optum Insight-** Provides data, software, and technology consulting services to players in the healthcare industry.

Industry Analysis: The health insurance industry is currently undergoing significant changes pending the merger of Aetna and Humana, as well as Anthem and Cigna, effectively reducing the top five insurers to three. However, despite these changes, UnitedHealth Group will remain the nation's largest health insurer in terms of revenue. We believe that UnitedHealth is at a significant advantage in the industry, not only due to their size but also because of the presence in other service-related business segments. While Humana has some involvement in pharmacy benefits management, Cigna, Anthem, and Aetna have not stepped far outside their core health and life insurance businesses.

Competitive Advantage: UnitedHealth Group's competitive advantage lies in its sheer size and its ability to offer a full spectrum of products and services. As the largest health insurer, UnitedHealth Group is able to lead the market using a high level of bargaining power. Also their full spectrum of products and services allows them to cut costs due to operational synergies as well as provide more than just insurance for their customers.

Risks: One of the most discussed risks in this industry would be the costs associated with the Affordable Care Act (ACA). Health Insurers industry-wide are having a difficult time remaining profitable in individual exchanges due to the ACA and the UnitedHealth Group has announced that they may exit these exchanges due to significant losses. Other risks include risks from competition (particularly Aetna and Anthem), and business mix risk from being overly concentrated in employer and individual insurance enrollment.

Valuation Assumptions:

- WACC: 10%
- FCF Growth Rate: 5.86%
- Terminal Growth Rate: 3%

Corporate Social Responsibility: **please note that while many of these CSR measures are below industry average, we believe the attached CSR report justifies our investment decision.*

- ESG Disclosure Score: 17.36 (Avg. 23.80)
- Environmental Disclosure Score: 6.20 (Avg. 12.25)
- Governance Disclosure Score: 51.79 (Avg. 55.00)
- Business Ethics Policy: Yes
- Equal Opportunity Policy: Yes