

UnitedHealth Group (NYSE: UNH)

Sector: Health Care



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$309.89	\$266.77	\$287.94	\$208.48	22.15x	\$257.9 B	1.33%	1.06

Business Description

UnitedHealth unites its health plans with consumers across the US. As a leading health insurer, it offers a variety of plans and services to group and individual customers nationwide. Its UnitedHealth care 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 which are Optum Health, OptumInsight, and Optum Rx provide wellness and care management programs, financial services, information technology solutions, and pharmacy benefit management (PBM) services to individuals and the health care industry.

Industry Trends

The Healthcare and Social Assistance sector has steadily grown over the past five years. The majority of services offered by subsectors in the industry, which includes hospitals, ambulatory healthcare services, nursing and residential care facilities and social assistance services, experienced steady demand during the five-year period, driven by demographic changes and increasing total health expenditure. Rising total health expenditure and federal funding for Medicare and Medicaid were the principal drivers of sector revenue during the current period. Total health expenditure, which measures private and public spending on health. In addition, federal funding for Medicare and Medicaid grew at an annualized rate of 4.5% to \$890.2 billion during the same period. Over the next five years, revenue for the sector is forecast to continue steadily rising.

Investment Thesis

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.

Corporate Social Responsibility

ESG Disclosure Score: 32.64% (Industry Average: 35.95%)
Percent Women on Board: 25.00% (Industry Average: 25.00%)
ISS Governance Quickscore: 1 (Industry Average: 1)

Valuation Assumptions

WACC: 10.00%

Terminal Dividend Growth: 1.33%

Upside: 16.2%

Sources: Bloomberg, Ibis, JP Morgan, Annual reports

Key Financials

Current stock price: \$266.77

Intrinsic Value: \$309.89

5-Year Stock Performance



Competitive Analysis

UnitedHealth Group main competitors include insurers like Cigna, Humana, and Aetna along with Rx companies such as CVS and etc. By revenue, UNH is the nation's largest publicly traded managed care company. Cigna along with Express Scripts compete with UNH in the Provider & Payer- Centric model of healthcare while CVS and Aetna compete for share using a Consumer-Centric model. Mergers and Acquisitions are key catalyst for growth and currently today. UnitedHealth Group cash on hand for the quarter ending December 31, 2018 was \$13.849B while Cigna cash on hand for the quarter ending September 30, 2018 was \$24.032B.

Competitive Advantages

Due to their scale, resources and technological advances, UNH is consistently able to have a leading Medical Loss Ratio (MLR). In 2018, UNH had a MLR of 81.5% compared to 82.5% and 84.3% for Aetna and Cigna respectively. Moreover, in the Medicare Advantage segment, UNH added 2 million members since December 2015, more than half of the ~3.8 million lives added during the same timeframe. In the Value-Based Care segment, UNH is making the largest strides among their competitors and best-positioned to capture more of this emerging market.

Risks

We recognize a few key risks with an investment a company such as UnitedHealth Group such as high regulation, medical costs, and losses to their investment portfolio. UnitedHealth Group is regulated by federal, state and local governments in the U.S. and other countries where they do business. Although, there has already been significant consolidation at the top of the Managed Care industry. UNH's profitability depends largely on their ability to predict, price and manage medical costs. Through Optum, UNH is leveraging scale, data, and technology to drive lower costs. Lastly, market fluctuations can impair their profitability and capital position. Although, this may be a major risk, UNH has a large cash balance and easy access to liquidity.

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