Company Description:
UnitedHealth Group, the largest private health insurer in the U.S., provides a diverse and comprehensive array of health and well-being services to people through all stages of life. The company provides medical benefits to over 50 million members through employer-sponsored, self-directed, and government-backed insurance plans in the U.S. and internationally. UnitedHealth has two operating units: UnitedHealthcare (77% of Revenue) and Optum (23% of Revenue).

Name	Ticker	Yield	Growth	D + G
UnitedHealth Group Incorporated	UNH	1.39%	12.00%	13.39%

Highlights:
UNH has historically derived about 1/3 of their earnings growth from M&A, which likely includes recently acquired business lines including growth and synergies. They expect M&A to maintain this level of contribution to growth in the current environment. UNH normally does smaller acquisitions as they are typically early to sectors and/or are buying capabilities which they are applying differently to the current market offerings.

Regarding inflation, UNH highlighted their focus on forecasting cost inflation (along with containing costs), confirmed that this role is one where they have much experience. Given commentary, our impression is that management expects higher levels of medical cost inflation than pre-COVID, and that they will price for this.

Bull Case:

- ***Competitive Moat -*** UnitedHealth Group's massive scale is a crucial source of competitive advantage because it allows the company to reduce health cost per member and to price its insurance offerings at more competitive prices.
- ***Long Runway for Growth*** - Health care spending has grown consistently for many years and comprises approximately 18% of U.S. GDP. This trend is likely to continue as baby boomers continue to age.
- ***Continued Strong Growth with Optum -*** Management believes they are in the early innings of growth for OptumCare, positioning OptumCare as the top growth driver for the company. The company has emphasized opportunities in 1) continued expansion of geography and increased density in target markets, 2) expansion of fee for service relationships into full risk globally capitated deals; 3) integration of more capabilities into coordinative care, and 4) the potential for penetration of other segments. We see gov't MCO and OptumCare as strong growth pillars for UNH and are interested in what will emerge over the next 5-10 years as their 3rd pillar of their business model. Given their HC system technology, UNH's management expects 13-16% LT EPS growth targets for Optum.

Bear Case:

- ***Headline Risk → Do Not Feel the "Bern"*** – The stock may live in the sector with the highest sensitivity to the political landscape given its high leverage to Medicare Advantage – basically, the stock is affected by the political discussions regarding healthcare reform. If government healthcare for all policy were to be passed, UNH would be greatly affected.
- ***Sensitivity to Risk Adjustments*** – Medicare Advantage risk adjustment ("RADV") is an overhang for the sector, with some clarity coming in February. UNH always re-iterates the importance of risk adjustment to the MA business model. UNH also stressed the importance of FFS adjuster and not making retroactive changes to the program. We expect medium term pressure on MA rate growth but see that as largely being passed through to customers.
- ***Law of Larger Numbers & Increasing Goodwill*** – Historically, UNH has been a very diligent acquirer. Due to the company's large size, the impact from M&A becomes less meaningful, resulting in reduced synergies and slower bottom-line growth. Furthermore, given the company's interest in M&A, goodwill is a relatively high percentage of its total assets – impairment to these assets would prove unfavorable to the stock price.

Overall Thesis:
UnitedHealth, already the industry leader, is well positioned to capitalize on the attractive and rapidly growing Medicare Advantage market, as penetration continues to tick up ~100bps/year with ample room to grow from the current ~35%. Additionally, the Optum segment consistently exhibits double-digit growth through its wide mix of services including health care solutions (Optum Health), data-analytics and services (Optum Insight), and the delivery and management of prescription medications (Optum Rx).

We believe UnitedHealth is an attractive long-term investment opportunity given the industry backdrop, double-digit EPS growth rate, strong cash flow generation and its sound capital deployment strategy.

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