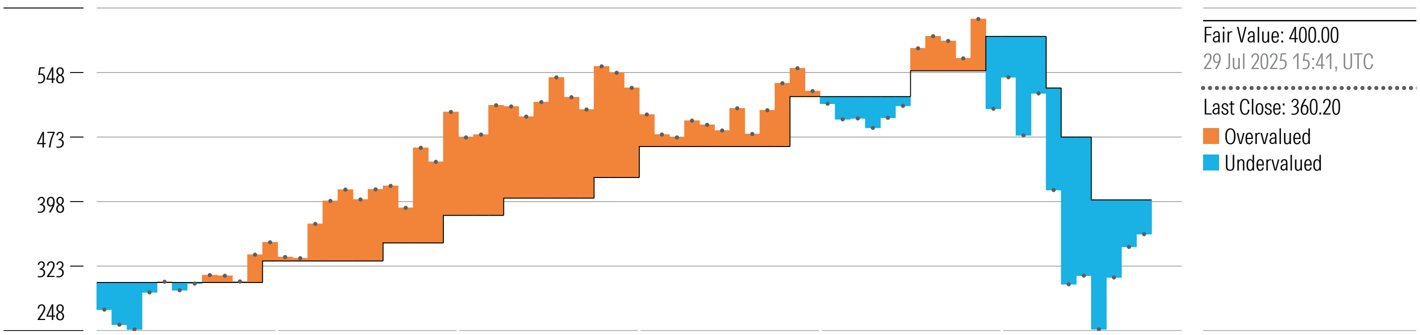
Morningstar Equity Analyst Report | Report as of 4 Oct 2025 04:23, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 1 of 23

UnitedHealth Group Inc UNH ★★★ 2 Oct 2025 21:35, UTC

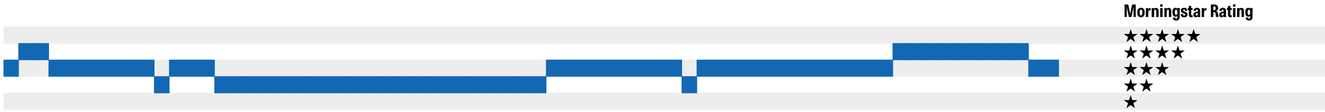
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
360.20 USD 3 Oct 2025	400.00 USD 29 Jul 2025 15:41, UTC	0.90	326.22 USD Bil 3 Oct 2025	Narrow	Large Value	High	Standard	3 Sep 2025 05:00, UTC

Price vs. Fair Value



	2020	2021	2022	2023	2024	YTD	
	1.07	1.31	1.24	1.01	0.86	0.90	Price/Fair Value
	20.93	44.79	6.86	0.68	-2.36	-27.51	Total Return %

Morningstar Rating



Total Return % as of 03 Oct 2025. Last Close as of 03 Oct 2025. Fair Value as of 29 Jul 2025 15:41, UTC.

Contents

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The primary analyst covering this company does not own its stock.

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

UnitedHealth Suffering From Elevated Medical Cost Trends and Intensifying Regulatory Scrutiny

Business Strategy & Outlook Julie Utterback, CFA, Senior Equity Analyst, 22 May 2025

UnitedHealth Group operates a top-tier health insurer (UnitedHealthcare), pharmacy benefit manager (Optum Rx), provider (Optum Health), and health analytics franchise (Optum Insight). Historically, this integrated strategy resulted in some of the best returns in the managed care industry that other managed care organizations have attempted to copy, including CVS Health that added Aetna's medical insurance assets to its retail stores and PBM and Cigna that added Express Scripts' PBM assets to medical insurance base. With the alignment of these interests, we think vertically integrated organizations like UnitedHealth have the opportunity to help bend the healthcare cost curve in the US. However, questions continue to swirl around whether UnitedHealth's pursuit of profits outweighs those potential benefits to the system.

UnitedHealth has operated on the leading edge of changes affecting the industry. For example, its 2015 acquisition of Catamaran greatly increased its PBM scale and helped create a more holistic view of a patient's care. That combination of services helps the company offer synergies to clients, such as employers and government programs, that are seeking to lower overall healthcare costs rather than just pharmacy or medical benefits. Adding service providers to the mix should align incentives even further, especially since the firm's outpatient care assets offer significantly lower costs than hospital-based services. United's analytical tools help caregiver and insurer clients pull various healthcare information

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Sector	Industry
Healthcare	Healthcare Plans

Business Description

UnitedHealth Group is one of the largest private health insurers and provides medical benefits to about 51 million members globally, including 1 million outside the US as of December 2024. As a leader in employer-sponsored, self-directed, and government-backed insurance plans, UnitedHealth has obtained massive scale in medical insurance. Along with its insurance assets, UnitedHealth's Optum franchises help create a healthcare services colossus that spans everything from pharmaceutical benefits to providing outpatient care and analytics to both affiliated and third-party customers.

together to provide an even fuller picture of a patient's health and care options.

By providing those diverse yet connected services, UnitedHealth aims to grow in nearly any regulatory environment. It is shooting for 13%-16% annual earnings growth in the long run, including strong operational growth and capital allocation activities, such as acquisitions and repurchases. While some regulatory scenarios could eventually cut into that mission, we suspect the value that UnitedHealth provides to the US healthcare system will help it remain relevant in the long run.

Bulls Say Julie Utterback, CFA, Senior Equity Analyst, 29 Jul 2025

- UnitedHealth's strategy of providing medical insurance, pharmacy benefits, and healthcare services should create a powerful alignment of incentives to help clients control their healthcare costs better than pure-play competitors.
- As the leading provider of Medicare Advantage plans in the US, UnitedHealth should benefit from ongoing demographic shifts and the increasing popularity of these plans among seniors.
- UnitedHealth has managed its balance sheet more conservatively than peers, which should give it more financial flexibility during uncertain periods like the current environment.

Bears Say Julie Utterback, CFA, Senior Equity Analyst, 29 Jul 2025

- Regulatory scrutiny appears targeted specifically at UnitedHealth, with ongoing antitrust investigations, questions around its risk assessments in Medicare Advantage, and scrutiny of its coverage denial rates in focus.
- The insurance and PBM industries will likely remain targets of regulators aiming to increase health coverage and reduce the healthcare cost burden on society until the US achieves universal, affordable coverage.
- The law of large numbers may eventually catch up to this healthcare behemoth, making its 13%-16% earnings growth goal difficult to achieve in the long run.

Economic Moat Julie Utterback, CFA, Senior Equity Analyst, 22 May 2025

Our narrow economic moat rating for UnitedHealth Group reflects our generally narrow-moat view of the US managed care industry, including an unclear outlook for economic profitability outside our 10-year explicit forecast period due to regulatory concerns. Still, as a top-tier US health insurer, pharmacy benefit manager, service provider, and health analytics firm, UnitedHealth possesses enough competitive advantages to generate economic profits for at least the next 10 years, in our view, which is the signature of a narrow-moat firm.

We see a variety of moat sources stemming from its highly diversified business model, but overall, we think cost advantages and network effects are the companywide moat sources.

The Leading US Medical Insurer Benefits From Cost Advantages and Network Effects

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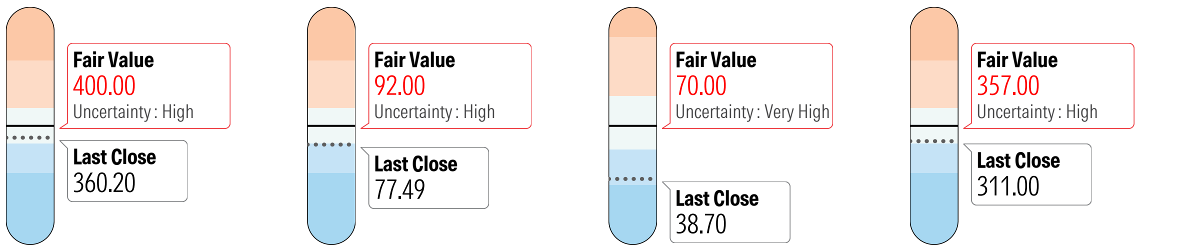
Competitors



	UnitedHealth Group Inc UNH	CVS Health Corp CVS	Centene Corp CNC	The Cigna Group CI
Economic Moat	Narrow	None	None	Narrow
Currency	USD	USD	USD	USD
Fair Value	400.00 29 Jul 2025 15:41, UTC	92.00 31 Jul 2025 14:43, UTC	70.00 25 Jul 2025 15:17, UTC	357.00 30 Jan 2025 16:41, UTC
1-Star Price	620.00	142.60	122.50	553.35
5-Star Price	240.00	55.20	35.00	214.20
Assessment	Fairly Valued 3 Oct 2025	Undervalued 3 Oct 2025	Undervalued 3 Oct 2025	Undervalued 3 Oct 2025
Morningstar Rating	★★★2 Oct 2025 21:35, UTC	★★★★2 Oct 2025 21:34, UTC	★★★★★2 Oct 2025 21:33, UTC	★★★★2 Oct 2025 21:33, UTC
Analyst	Julie Utterback, Senior Equity Analyst	Julie Utterback, Senior Equity Analyst	Julie Utterback, Senior Equity Analyst	Julie Utterback, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Standard
Price/Fair Value	0.90	0.84	0.53	0.83
Price/Sales	0.77	0.25	0.10	0.31
Price/Book	3.38	1.27	0.66	1.97
Price/Earning	15.28	19.26	7.03	10.58
Dividend Yield	2.44%	3.43%	0.00%	2.00%
Market Cap	326.22 Bil	98.28 Bil	19.01 Bil	83.01 Bil
52-Week Range	234.60—630.73	43.56—79.20	25.08—73.50	256.89—358.88
Investment Style	Large Value	Large Value	Mid Value	Mid Value

In medical insurance, we believe UnitedHealth operates with cost advantages and network effects. Although the firm operates a broad nationwide network, we think UnitedHealth benefits from scale advantages in specific locations, too, which is the key determinant of moats in medical insurance since local scale allows for greater negotiating leverage versus local healthcare suppliers than smaller insurers in each market. Also, when local scale advantages are significant enough, we think UnitedHealth's insurance operations benefit from a network effect. According to the American Medical Association, the share of local insurance markets in the US that were highly concentrated grew to 73% in 2022 from 71% in 2014, with leaders like UnitedHealth likely taking share in those markets due to local market dynamics. For example, in communities where UnitedHealth already enjoys substantial market share, it can offer lower costs or more benefits per member to existing and potential clients than its peers. If that offering is compelling enough, more members will be attracted to UnitedHealth's insurance plans in those communities, and local service providers (such as hospitals and physician groups) will have more incentive to join and offer lower prices to UnitedHealth's insurance networks to gain access to its large, growing membership rolls, creating a network effect.

Top-Tier Pharmacy Benefit Manager Enjoys Switching Costs and Network Effects

UnitedHealth's pharmacy benefit manager, Optum Rx, appears competitively advantaged with switching costs and a network effect present. The top three PBMs process about 80% of US pharmaceutical claims, and we think their historical cost advantages over other players led to their dominance of this market. However, they do not appear to have significant cost advantages over one another any longer. From a moat source perspective, we see evidence of switching costs and network effects at the PBMs that could prevent a big change in the competitive landscape, despite some new entrants emerging. For example, PBM contracts provide some switching costs for clients, with each contract typically lasting about three years on average and retention rates typically in the high 90s. This means client relationships can extend well beyond contractual terms probably due to inertia factors related to limited realistic alternatives.

Also, in recent years we have seen some network effects including cumulative market share increases by the top-tier players and UnitedHealth specifically. Overall, we think clients are most attracted to the discounts they can get on drugs due to a PBM's negotiating power with other stakeholders in this market, primarily drug manufacturers and pharmacies. As more users are attracted to a PBM, drug manufacturers and pharmacies have incentive to offer even larger discounts to benefit from those volume-based discounts, which can help scale-advantaged PBMs like UnitedHealth attract even more users and create a virtuous cycle, or a network effect.

The Largest US Caregiver Is Supported Primarily by Intangible Assets

Optum Health's outpatient services segment—consisting primarily of primary care practices, home healthcare service providers, and ambulatory surgical centers—is the largest caregiver in the US, and as at other top-tier caregivers, we think UnitedHealth's caregiving operations benefit from reputational-related intangible assets. Also, this business helps UnitedHealth align incentives between its insurance operations and providers, which can be powerful in the healthcare industry when done correctly. Optum Health service providers allow the company to better manage the care of its members through preventative measures and encourage the use of lower-cost-of-care sites, which can result in significantly lower costs relative to an acute hospital setting, for example.

Healthcare IT Solutions Are Derived From UnitedHealth's Data-Based Solutions

Through its health-related benefits and service businesses, UnitedHealth has amassed a wealth of data that it monetizes through its Optum Insight business. The company's analytical tools and services aim to improve care quality and improve efficiency in the healthcare system through a variety of intangible asset-derived solutions, including population health and risk analytics, consulting services to improve clinical performance and reduce administrative costs, and revenue cycle management tools. The company has previously claimed that its solutions are used by about 4 out of every 5 hospitals and about 3 out of every 4 health insurance plans, highlighting the expansive reach of its influence across the US health system. Switching costs can arise at customers that may be reluctant to switch suppliers in key back-office processes. Also, while it is the smallest business from a revenue perspective, its operating margins are the firm’s highest and similar to those of other IT services and solutions companies. We think this highly profitable business adds to UnitedHealth’s ability to generate returns on invested capital over capital costs.

Regulatory Concerns May Create Mild Headwinds Primarily in Medicaid and PBM

Our narrow moat rating for UnitedHealth is informed by an analysis of potential changes to the US healthcare system, which are possible due to environmental, social, and governance concerns around access to basic healthcare services. Near-term regulatory changes being considered after the 2024 election probably will not significantly dent the firm's industry-leading economic profitability, by our estimates. Beyond the Medicare Advantage-related regulatory risks that we have incorporated into our base-case scenario, we see mid-single-digit risks to operating profits primarily due to UnitedHealth's top-tier exposure to Medicaid and the PBM industry, which appear in the line of fire for regulators soon. Overall though, given how strong its economic margins are, we would be surprised to see them fall anywhere close to capital costs in the near or long term.

Fair Value and Profit Drivers Julie Utterback, CFA, Senior Equity Analyst, 29 Jul 2025

We are reducing our fair value estimate for UnitedHealth to $400 per share from $473 previously, to reflect elevated medical utilization trends that appear likely to create more intermediate-term profit headwinds for the organization than we previously expected. This fair value estimate cut follows our May 2025 reduction related to expected margin pressure on its insurance operations, including Medicare Advantage, and the potential for a $20 billion outflow due to a potential clawback in recent Medicare Advantage-related payments in the future resulting from intensifying regulatory scrutiny.

Through 2029, we assume revenue will grow 7% and adjusted earnings per share will grow 5% compounded annually, including share repurchases. Our EPS expectation is significantly below management's previously stated long-term goal of 13%-16%, primarily due to expected weakness in 2025, including a roughly 40% decline in adjusted EPS from 2024. That weakness looks likely to bleed into the next couple of years, as it may take time to fully reprice its offerings for elevated medical utilization, especially in government-sponsored programs. However, we still expect margin improvement to boost earnings materially in 2026 and beyond, albeit from a much lower base than we previously expected.

Ongoing and new regulatory concerns could create additional headwinds to UnitedHealth's earnings prospects in future years as well. For example, medical membership may face headwinds from planned federal spending cuts on the individual exchanges (starting in 2026) and Medicaid (2027), which could affect those populations. Those potential cuts are already reflected in our model, which incorporates the Republican tax and spending bill introduced in early July.

Its Medicare Advantage and PBM operations may face profit headwinds due to new regulatory scrutiny. While we have already incorporated some Medicare-related headwinds into our model, significant uncertainty surrounds these potential headwinds so that further adjustments may be necessary depending on the outcome of the new regulatory initiatives. Additionally, we have not yet incorporated any substantial PBM-related regulatory headwinds into our model, given the significant uncertainty surrounding those potential changes. However, these could eventually impact UnitedHealth's earnings prospects as well.

Risk and Uncertainty Julie Utterback, CFA, Senior Equity Analyst, 22 May 2025

In May 2025, we raised our Uncertainty Rating on UnitedHealth to High from Medium previously on company-specific challenges that continue to mount at the organization and create a murky profit outlook in addition to broader regulatory concerns.

Overall, potential healthcare policy changes could create ESG-related risks for UnitedHealth, especially during election cycles, as access to universal, affordable coverage remains a key concern of the US public. For example, regulators could continue to put pressure on profit margins in this middleman industry, which could reduce long-term growth prospects. The top-tier PBMs, including UnitedHealth's Optum Rx business, are being scrutinized by both Republicans and Democrats for a lack of transparency particularly around rebates and spread-based pricing, which could be eliminated eventually. Republicans also aim to reduce spending in key end markets, such as Medicaid, which could eat into UnitedHealth's prospects as well.

Company-specific challenges continue to mount for UnitedHealth, too, including questions around its coverage decisions, risk assessments in Medicare Advantage, conflicts between its medical insurance and Optum operations, and surging medical utilization. Although we suspect investors may eventually appreciate that new CEO Stephen Hemsley is taking a firmer grip on UnitedHealth while the major inputs for 2026's results can still be influenced, the murky outlook for 2025 and executive suite shakeup inject more uncertainty into the situation.

Capital Allocation Julie Utterback, CFA, Senior Equity Analyst, 22 May 2025

We are reducing our Capital Allocation Rating on UnitedHealth to Standard, from Exemplary previously, to reflect that management may have been too aggressive with some of its business practices to maximize profits and may have permanently impaired shareholder value in the process. That cut into our previously exceptional view of UnitedHealth's investments. We still think the firm's balance sheet is sound and its shareholder distributions are appropriate.

Overall, UnitedHealth's capital allocation has historically ranked in the top echelon in healthcare services, in our opinion. However, management's attempts to maximize profits may have pushed up risk assessments in Medicare Advantage and may have led to less generous coverage decisions than patients deserved throughout its medical insurance operations. Because of these factors, UnitedHealth may be subject to large cash outflows from government clawbacks or lower margins than it previously anticipated. The company's suspended 2025 outlook after CEO Andrew Witty left and the potential for a further mismatch in rates and utilization in insurance along with the Change network outage in early 2024 also contributed to a stain on its execution record. Those factors have tempered our view of UnitedHealth's investments.

More positively, UnitedHealth's largely organic investment strategy has allowed it to maintain a flexible balance sheet. For example, at the end of 2024, gross leverage stood around 2 times. We do not believe ongoing acquisitions have materially affected the company's financial health. Overall, we think this balance sheet strength should help UnitedHealth manage potential financial hurdles, including a big clawback of payments in Medicare Advantage.

UnitedHealth also distributes cash to shareholders appropriately, in our opinion. It typically pays out around 30% of its profits in dividends each year, and we expect a healthy payout ratio to continue, although the dividend may not grow until its earnings power and growth trajectory are assured. It also repurchases shares regularly, which can add to bottom-line growth on a per share basis. Given recent share prices below fair value, UnitedHealth may even be able to create a bit of intrinsic value in the short term versus its historic pattern of buying above or near fair value, too. However, given the uncertainty around its ongoing cash flows, we would not be surprised to see the firm hoard cash for the near future.

Analyst Notes Archive

UnitedHealth: Berkshire Hathaway Announces Initial, Large Stake in Beleaguered MCO

Julie Utterback, CFA,Senior Equity Analyst,15 Aug 2025

After hours on Aug. 14, Berkshire Hathaway revealed that it had accumulated a 5 million share position in UnitedHealth worth about $1.6 billion. Shares in UnitedHealth soared over 10% in after-hours trading, and the other managed care organizations we cover also rose. Why it matters: Investors appeared to appreciate the vote of confidence from Berkshire Hathaway—Warren Buffett's investment firm with a penchant for owning competitively advantaged, attractively valued firms—at a time of significant uncertainty for both UnitedHealth and the MCO industry. Most MCOs' shares, including UnitedHealth, have floundered in 2025 on deflated profits and weaker market sentiment due to uncertainty surrounding the long-term earnings power of these organizations. This has created an opportunity for long-term investors like Berkshire Hathaway. Although we see elevated uncertainty at UnitedHealth and the other MCOs, right now, due to a combination of mismatched rates and utilization, along with intense regulatory scrutiny, we also still view UnitedHealth as a top-tier MCO with the capacity to handle the problems that it is facing. The bottom line: While Berkshire's vote of confidence does not change our $400 fair value estimate or any of our ratings on narrow-moat UnitedHealth, we appreciate that one of the most admired investment firms also sees value in its shares, despite ongoing challenges. Even after the rise in shares following this disclosure, we still believe UnitedHealth is trading at a roughly 25% discount to fair value. After a decline in profits in 2025 on surging medical utilization in its key at-risk business, we expect UnitedHealth's adjusted earnings per share could surge over 20% compounded annually through 2030, as the firm pulls levers to improve margins in its MA and provider units, particularly.

UnitedHealth Earnings: Reinstated 2025 Guidance Underwhelms Julie Utterback, CFA,Senior Equity Analyst,29 Jul 2025

In the second quarter, UnitedHealth delivered 13% revenue growth, but adjusted EPS declined 40%, as its medical insurer and value-based caregiver absorbed elevated medical costs. To reflect this dynamic, UnitedHealth reinstated 2025 guidance at lower levels, including at least $16 of adjusted EPS. Why it matters: Shares fell about 5% in early trading on this weak outlook, which was lower than we were expecting and roughly half of the firm's original outlook for the year of $29.50-$30.00 and well below its previously withdrawn outlook of $26.00-$26.50, given in April. Medical utilization outpaced pricing in the second quarter, causing medical insurance operating margins to decline to 2.4% from 5.4% a year ago. Optum Health's operating margin also declined to 2.5% from 7.1% a year ago, as its risk-taking caregiver operations absorbed higher medical costs. Overall, these results highlighted how elevated medical utilization trends are wreaking havoc on managed care margins. MCOs like UnitedHealth need to figure out how to boost future pricing on their offerings to fully reflect these elevated costs, despite the intense regulatory environment. The bottom line: We are lowering our fair value estimate to $400 per share from $473 to recognize its weaker intermediate-term profit prospects due to elevated medical utilization, which may take some time to offset from a pricing perspective, especially in government-sponsored programs. Our narrow moat rating on UnitedHealth has not changed, and UnitedHealth looks likely to remain a top-tier managed care organization on an economic profitability basis, with significant margin for executional error like we are seeing, currently. However, investors should be aware of the elevated uncertainty rating (High) around future cash flows and the share volatility that may arise, given ongoing challenges at UnitedHealth, including rising scrutiny on its Medicare Advantage business.

UnitedHealth: Acknowledged DOJ Probe Into Medicare Advantage Program Highlights Risks Julie

Morningstar Equity Analyst Report | Report as of 4 Oct 2025 04:23, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 9 of 23

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Utterback, CFA,Senior Equity Analyst,24 Jul 2025

After proactively reaching out to the Department of Justice following recent reports in The Wall Street Journal, UnitedHealth announced that it was cooperating with criminal and civil investigations about its Medicare Advantage program. Shares fell about 2% after this announcement. Why it matters: These now acknowledged investigations highlight key risks that have cut into shares in recent months, and we suspect fines or clawbacks of previous overpayments related to its MA plans are possible if wrongdoing is found. UnitedHealth has been facing investigations into its MA practices, like risk-related upcoding, for about a decade, and it has yet to face significant financial consequences. In fact, this spring, a court-appointed special master could find no wrongdoing by the firm. So, it remains to be seen if these investigations will result in financial consequences, but we have already included a potential $20 billion cash outflow in our model and lower Medicare Advantage margins than historical norms to reflect these risks. The bottom line: We are keeping our fair value estimate for narrow-moat UnitedHealth at $473 and continue to view shares as undervalued for the risks. However, investors should be aware of the elevated uncertainty (High Morningstar Uncertainty Rating) and share volatility that may arise, given ongoing challenges at UnitedHealth. Coming up: On its July 29 earnings call, it plans to give 2025 guidance under returning CEO Stephen Hemsley, and we think this announcement could act as a catalyst for shares—up or down—as investors clamor for a baseline in the firm's earnings power. When Hemsley took the helm in May, UnitedHealth withdrew its April-issued 2025 EPS guidance of $26.00-$26.50 (down from $29.50-$30.00 previously). FactSet consensus is currently at $20.75, albeit with a wide range of estimates from $18 to $26. If guidance appears significantly above consensus, shares could rally, while lower guidance could push shares down further.

UnitedHealth: Reducing Fair Value Estimate as Medicare Advantage and Other Practices Questioned

Julie Utterback, CFA,Senior Equity Analyst,22 May 2025

The Centers for Medicare and Medicaid Services announced plans to increase regulation of the Medicare Advantage market to curb overpayments to private insurers like UnitedHealth. Why it matters: As the largest Medicare Advantage insurer that may have been more aggressive than peers in risk assessments, UnitedHealth could be subject to a big clawback of overpayments and lower margins in that business. The new CMS directive suggests MA overpayments from 2018 to 2024 will be clawed back, which could result in a $20 billion outflow at UnitedHealth, if the Office of Inspector General's estimates about 2023 overpayments are correct ($3.7 billion) and can be extrapolated to other recent years. Also, given recent scrutiny of UnitedHealth's coverage decisions and the potential for lower MA risk assessments going forward, the growth and margins in UnitedHealth's medical insurance business may be more constrained than we previously expected. The bottom line: As a result of the above, we are reducing our fair value estimate on narrow-moat UnitedHealth to $473 per share from $530 previously. Shares still look moderately undervalued to us, although we recognize the high uncertainty around future cash flows in this evolving situation. The 11% fair value change is driven more by our reduced near- and long-term expectations for UnitedHealth's insurance businesses including MA (8%) than by the potential $20 billion clawback in Medicare Advantage-related payments (3%). Also, we are lowering our Capital Allocation Rating to Standard, from Exemplary previously, to reflect that management may have been too aggressive with some of its business practices to maximize profits but permanently impaired shareholder value in the process. Coming up: Republican efforts to cut spending in Medicaid and potentially change the business models of the pharmacy benefit managers could cut into UnitedHealth's fair value by an additional mid-single-digit percentage by our estimates, if enacted.

UnitedHealth: Shares Dive on Wall Street Journal Report of Criminal Probe in Medicare Advantage

Julie Utterback, CFA,Senior Equity Analyst,15 May 2025

The Wall Street Journal reported on May 14 that a criminal component had been added to an already-reported civil investigation of UnitedHealth's risk-rating practices in Medicare Advantage. UnitedHealth later responded that it had not been notified of the criminal probe. Why it matters: After the media report but before UnitedHealth's rebuttal, shares were down another 8% in after-hours trading, crashing further in a dismal week for investors that already saw its CEO leave and 2025 guidance suspended. The potential for Medicare fraud at the largest Medicare Advantage insurer is spooking investors, and if wrongdoing is eventually found, the monetary damages could be stiff. Previous assertions under Andrew Witty that risk assessments would solve its current profit challenges look dubious. The diversity of UnitedHealth's operations should shield it somewhat. About half of profits come from medical insurance and only about 15% of its global medical membership comes from Medicare Advantage, which looks disproportionately low relative to recent share movement. The bottom line: After raising our Uncertainty Rating to High following the management and guidance announcement earlier this week, we are making no further changes to our views of narrow-moat UnitedHealth. Positively, UnitedHealth maintains a conservative balance sheet, including gross debt/EBITDA of roughly 2 times and credit ratings in the single-A category. Financially, we suspect the company should be able to ride out gathering storms. Shares appear significantly undervalued to us at these levels, but investors should be aware of the elevated uncertainty and potential for share volatility, especially given ongoing regulatory challenges broadly for the industry and specifically for UnitedHealth. Bears say: UnitedHealth shares have fallen by half in just a month, and current prices imply a further deterioration of profits representing nearly half of its medical insurance operations in the near term.

UnitedHealth: Pulls 2025 Outlook and Replaces CEO With Chair and Former CEO Stephen Hemsley

Julie Utterback, CFA,Senior Equity Analyst,13 May 2025

UnitedHealth shares fell nearly 10% in early trading May 13 after the company pulled its 2025 guidance on surging medical utilization and replaced CEO Andrew Witty with its current chairman and former CEO from 2006-17, Stephen Hemsley. Why it matters: Challenges continue to pile up for UnitedHealth,

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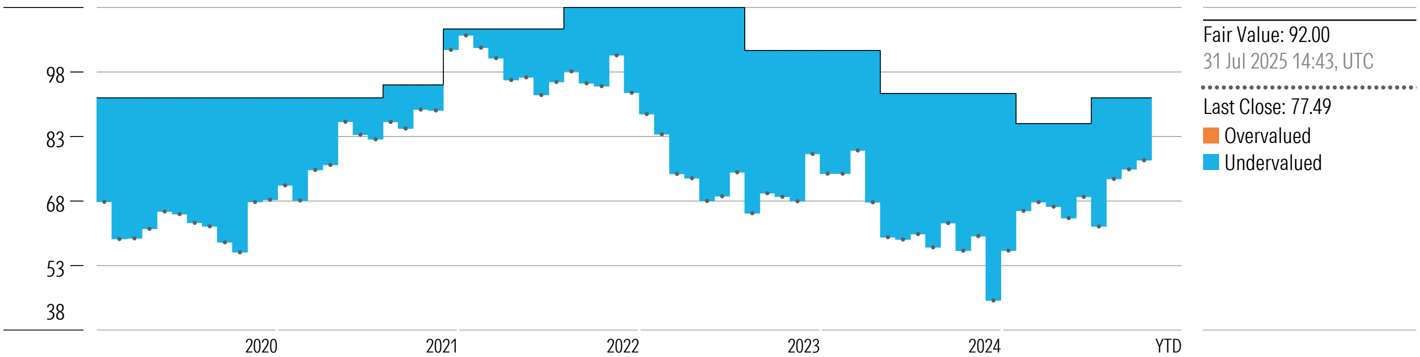
which has caused shares to drop from over $600 on the day of its key insurance executive's killing in early December to below $350 per share in pre-market trading May 13. Since December, UnitedHealth shares have re-rated on broad regulatory concerns and company-specific questions around its coverage decisions, risk ratings in Medicare Advantage, conflicts between its medical insurance and Optum operations, and surging medical utilization. Although we suspect investors may eventually appreciate Hemsley taking a firmer grip on UnitedHealth while the major inputs for 2026's results can still be influenced, the murky outlook for 2025 and executive suite shakeup inject more uncertainty into the situation. The bottom line: While we are keeping our fair value estimate at $530 per share for now, we are raising our Uncertainty Rating to High from Medium to reflect the company-specific challenges that UnitedHealth faces, especially in the near term. Our narrow moat rating on UnitedHealth has not changed, and UnitedHealth remains the strongest managed care organization we cover with a significant margin for executional error like we are seeing currently. Although we are keeping our Capital Allocation Rating at Exemplary, we may reconsider that rating if Hemsley's team cannot turn around the company's execution in its risk-related businesses in 2026 and beyond. Bulls say: While the 2025 outlook suspension is disappointing, management continued to highlight that it aims to eventually return to its earnings growth target of 13% to 16%. Returning to that growth trajectory in the long run would make current share prices look very attractive.

Morningstar Equity Analyst Report | Report as of 4 Oct 2025 04:23, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 12 of 23

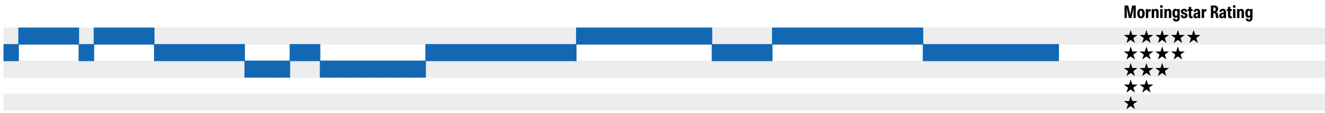
UnitedHealth Group Inc UNH ★★★ 2 Oct 2025 21:35, UTC

Competitors Price vs. Fair Value

CVS Health Corp CVS

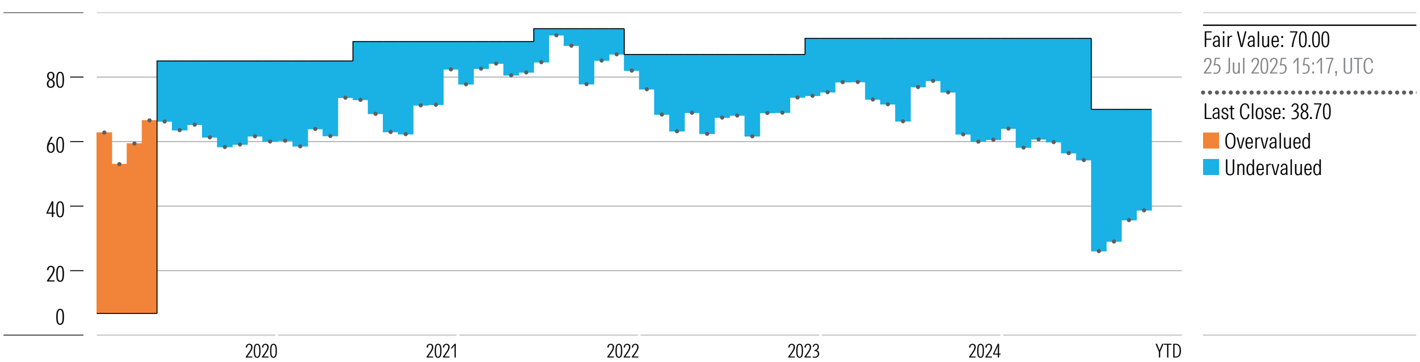


	2020	2021	2022	2023	2024	YTD
Price/Fair Value	0.74	0.96	0.82	0.77	0.48	0.84
Total Return %	-5.37	53.97	-7.53	-12.67	-39.78	77.07

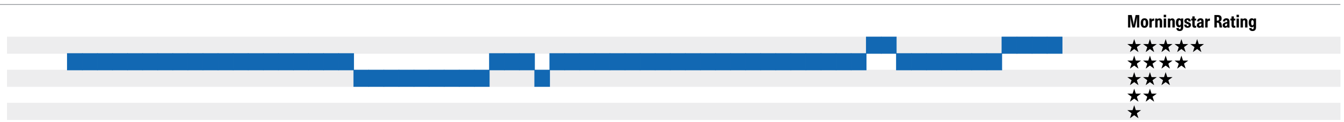


Total Return % as of 03 Oct 2025. Last Close as of 03 Oct 2025. Fair Value as of 31 Jul 2025 14:43, UTC.

Centene Corp CNC



	2020	2021	2022	2023	2024	YTD
Price/Fair Value	0.71	0.91	0.94	0.81	0.66	0.53
Total Return %	-4.52	37.26	-0.47	-9.51	-18.37	-36.12



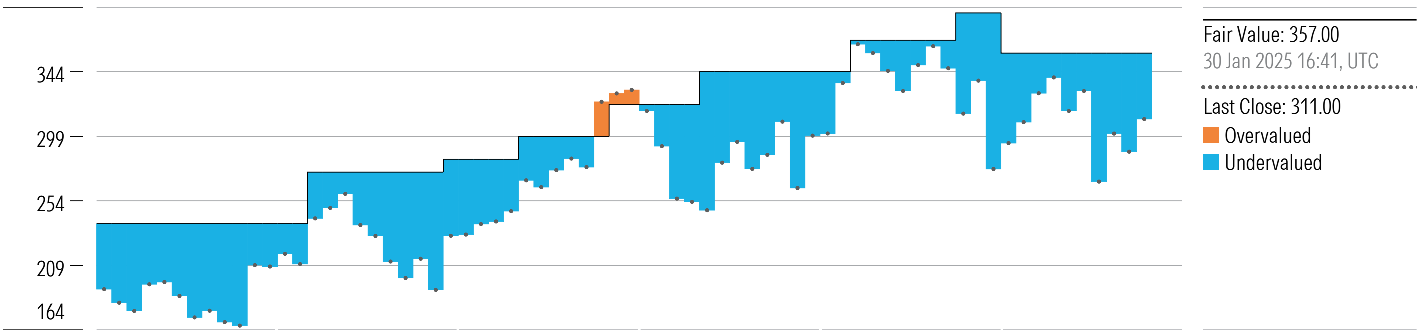
Total Return % as of 03 Oct 2025. Last Close as of 03 Oct 2025. Fair Value as of 25 Jul 2025 15:17, UTC.

Morningstar Equity Analyst Report | Report as of 4 Oct 2025 04:23, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 13 of 23

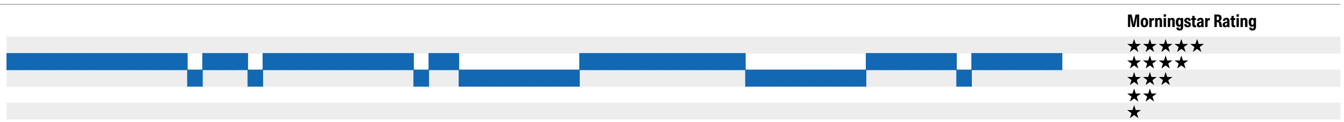
UnitedHealth Group Inc UNH ★★★ 2 Oct 2025 21:35, UTC

Competitors Price vs. Fair Value

The Cigna Group CI



	2020	2021	2022	2023	2024	YTD	
	0.87	0.81	1.03	0.87	0.72	0.83	Price/Fair Value
	1.82	12.23	46.24	-8.14	-5.91	14.26	Total Return %



Total Return % as of 03 Oct 2025. Last Close as of 03 Oct 2025. Fair Value as of 30 Jan 2025 16:41, UTC.

Morningstar Equity Analyst Report | Report as of 4 Oct 2025 04:23, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 14 of 23

UnitedHealth Group Inc UNH ★★★ 2 Oct 2025 21:35, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
360.20 USD 3 Oct 2025	400.00 USD 29 Jul 2025 15:41, UTC	0.90	326.22 USD Bil 3 Oct 2025	Narrow	Large Value	High	Standard	3 Sep 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 29 Jul 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
Revenue (USD Mil)	324,162	371,622	400,278	446,849	473,687	493,404	529,383	559,634
Operating Income (USD Mil)	28,435	32,358	32,287	19,709	21,312	25,301	32,158	39,488
EBITDA (USD Mil)	31,835	36,330	28,076	24,178	26,049	10,194	37,452	45,084
Adjusted EBITDA (USD Mil)	33,062	37,822	42,948	25,694	27,728	31,984	39,328	47,067
Net Income (USD Mil)	20,120	22,381	14,405	13,433	14,447	1,843	22,750	28,402
Adjusted Net Income (USD Mil)	21,081	23,567	25,699	14,669	15,757	18,839	24,214	29,949
Free Cash Flow To The Firm (USD Mil)	1,946	15,546	9,338	10,402	14,014	389	22,010	26,662
Weighted Average Diluted Shares Outstanding (Mil)	950	938	929	915	899	881	863	846
Earnings Per Share (Diluted) (USD)	21.18	23.86	15.51	14.68	16.07	2.09	26.35	33.57
Adjusted Earnings Per Share (Diluted) (USD)	22.19	25.12	27.66	16.03	17.53	21.38	28.04	35.39
Dividends Per Share (USD)	6.31	7.21	8.11	8.84	8.84	8.84	8.41	10.62

Margins & Returns as of 29 Jul 2025		Actual			Forecast					
	3 Year Avg	2022	2023	2024	2025	2026	2027	2028	2029	5 Year Avg
Operating Margin %	7.8	8.8	8.7	8.1	4.4	4.5	5.1	6.1	7.1	4.6
EBITDA Margin %	—	9.8	9.8	7.0	5.4	5.5	2.1	7.1	8.1	—
Adjusted EBITDA Margin %	—	10.2	10.2	10.7	5.8	5.9	6.5	7.4	8.4	6.8
Net Margin %	5.3	6.2	6.0	3.6	3.0	3.1	0.4	4.3	5.1	3.2
Adjusted Net Margin %	6.4	6.5	6.3	6.4	3.3	3.3	3.8	4.6	5.4	4.1
Free Cash Flow To The Firm Margin %	2.4	0.6	4.2	2.3	2.3	3.0	0.1	4.2	4.8	2.9

Growth & Ratios as of 29 Jul 2025		Actual			Forecast					
	3 Year CAGR	2022	2023	2024	2025	2026	2027	2028	2029	5 Year CAGR
Revenue Growth %	11.7	12.7	14.6	7.7	11.6	6.0	4.2	7.3	5.7	6.9
Operating Income Growth %	10.4	18.6	13.8	-0.2	-39.0	8.1	18.7	27.1	22.8	4.1
EBITDA Growth %	3.0	17.6	14.1	-22.7	-13.9	7.7	-60.9	267.4	20.4	44.1
Adjusted EBITDA Growth %	15.0	17.2	14.4	13.6	-40.2	7.9	15.4	23.0	19.7	1.8
Earnings Per Share Growth %	-5.0	17.1	12.7	-35.0	-5.3	9.5	-87.0	1159.9	27.4	16.7
Adjusted Earnings Per Share Growth %	-5.0	16.7	13.2	10.1	-42.1	9.3	22.0	31.2	26.2	16.7

Valuation as of 29 Jul 2025	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Price/Earning	23.9	21.0	18.3	22.1	20.2	16.5	12.6	10.0
Price/Sales	1.5	1.3	1.2	0.7	0.7	0.6	0.6	0.6
Price/Book	6.5	5.6	5.1	3.6	3.7	4.7	4.5	4.1
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	15.2	13.4	11.7	14.3	13.3	11.5	9.3	7.8
EV/EBIT	17.6	15.6	15.6	18.6	17.2	14.5	11.4	9.3
Dividend Yield %	1.2	1.4	1.6	2.5	2.5	2.5	2.4	3.0
Dividend Payout %	28.4	28.7	29.3	55.2	50.4	41.3	30.0	30.0
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 29 Jul 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
ROA %	8.2	8.2	4.8	4.4	4.6	0.6	7.3	8.8
ROE %	23.3	22.6	14.0	13.4	14.9	2.3	27.9	32.6
ROIC %	22.7	21.9	17.8	11.0	11.1	12.1	14.4	16.5

Morningstar Equity Analyst Report | Report as of 4 Oct 2025 04:23, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 15 of 23

UnitedHealth Group Inc UNH ★★★ 2 Oct 2025 21:35, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
360.20 USD 3 Oct 2025	400.00 USD 29 Jul 2025 15:41, UTC	0.90	326.22 USD Bil 3 Oct 2025	Narrow	Large Value	High	Standard	3 Sep 2025 05:00, UTC

Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Debt/Capital %	10.4	11.4	14.2	16.1	15.5	14.3	13.9	13.4
Assets/Equity	2.8	2.8	2.9	3.1	3.2	3.7	3.8	3.7
Net Debt/EBITDA	0.9	0.9	1.7	2.0	2.0	6.9	1.8	1.4
Total Debt/EBITDA	1.7	1.7	1.8	2.8	2.6	2.2	1.8	1.5
EBITDA/ Net Interest Expense	15.8	11.7	11.0	11.7	16.9	19.0	23.1	27.6

Forecast Revisions as of 29 Jul 2025	2025		2026		2027	
Prior data as of 22 May 2025	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	400.00	472.73	—	—	—	—
Revenue (USD Mil)	446,849	449,181	473,687	488,625	493,404	516,256
Operating Income (USD Mil)	19,709	29,942	21,312	33,264	25,301	37,130
EBITDA (USD Mil)	25,694	36,018	27,728	39,873	31,984	44,113
Net Income (USD Mil)	14,669	20,904	15,757	23,542	18,839	26,517
Earnings Per Share (Diluted) (USD)	14.68	21.49	16.07	24.69	2.09	10.74
Adjusted Earnings Per Share (Diluted) (USD)	16.03	22.84	17.53	26.19	21.38	30.10
Dividends Per Share (USD)	8.84	8.11	8.84	8.11	8.84	8.11

Key Valuation Drivers as of 29 Jul 2025	
Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	8.3
Long-Run Tax Rate %	21.5
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	30.0
Perpetuity Year	15

Additional estimates and scenarios available for download at https://pitchbook.com/.

Discounted Cash Flow Valuation as of 29 Jul 2025	**USD Mil**
Present Value Stage I	140,109
Present Value Stage II	66,015
Present Value Stage III	223,049
Total Firm Value	**429,173**
Cash and Equivalents	266
Debt	76,904
Other Adjustments	0
Equity Value	**352,535**
Projected Diluted Shares	915
Fair Value per Share (USD)	**400.00**

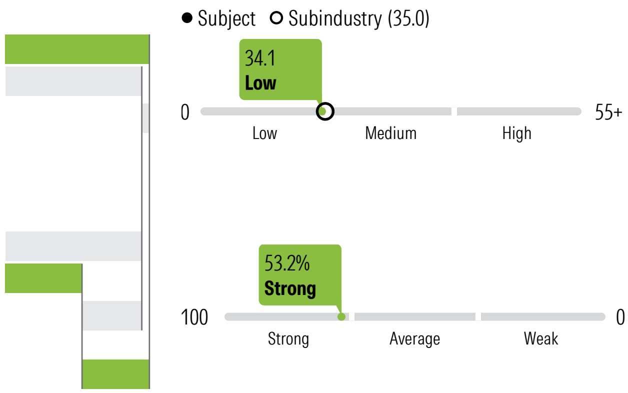
Morningstar Equity Analyst Report | Report as of 4 Oct 2025 04:23, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 16 of 23

UnitedHealth Group Inc UNH ★★★ 2 Oct 2025 21:35, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
360.20 USD 3 Oct 2025	400.00 USD 29 Jul 2025 15:41, UTC	0.90	326.22 USD Bil 3 Oct 2025	Narrow	Large Value	High	Standard	3 Sep 2025 05:00, UTC

ESG Risk Rating Breakdown

Exposure	
Company Exposure[1]	34.1
– Manageable Risk	32.3
Unmanageable Risk[2]	**1.8**
Management	
Manageable Risk	32.3
– Managed Risk[3]	17.2
Management Gap[4]	**15.1**
Overall Unmanaged Risk	**16.9**



- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating

ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 53.2% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment[5]

ESG Risk Rating is of Sep 03, 2025. Highest Controversy Level is as of Sep 08, 2025. Sustainalytics Subindustry: Managed Health Care. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 03 Sep 2025

Peers are selected from the company's Sustainalytics-defined Subindustry and are displayed based on the closest market cap values

Company Name	Exposure			Management			ESG Risk Rating		
UnitedHealth Group Inc	34.1 | Low	0	55+	53.2 | Strong	100	0	16.9 | Low	0	40+
Centene Corp	36.9 | Medium	0	55+	68.1 | Strong	100	0	13.1 | Low	0	40+
The Cigna Group	34.8 | Low	0	55+	75.3 | Strong	100	0	9.9 | Negligible	0	40+
CVS Health Corp	38.6 | Medium	0	55+	58.1 | Strong	100	0	17.4 | Low	0	40+
Humana Inc	37.2 | Medium	0	55+	60.7 | Strong	100	0	15.8 | Low	0	40+

Morningstar Equity Analyst Report | Report as of 4 Oct 2025 04:23, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 17 of 23

Appendix
Historical Morningstar Rating

UnitedHealth Group Inc UNH 2 Oct 2025 21:35, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★	★★★	★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★

CVS Health Corp CVS 2 Oct 2025 21:34, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★	★★★	★★★	★★★★	★★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★★	★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★

Centene Corp CNC 2 Oct 2025 21:33, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	—	—	—	—

Morningstar Equity Analyst Report | Report as of 4 Oct 2025 04:23, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 18 of 23

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
—	—	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★★	★★★★	★★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★	★★★★	★★★★	★★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★★	★★★★	★★★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

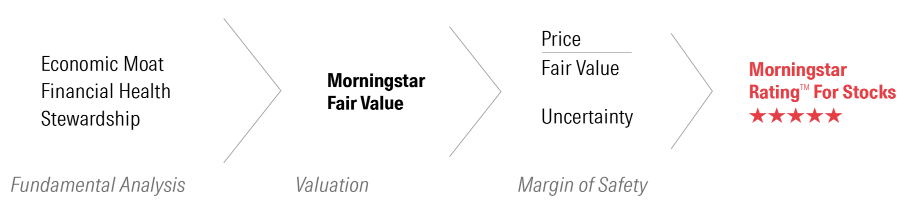
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future

Morningstar Equity Research Star Rating Methodology



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Research Methodology for Valuing Companies

outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

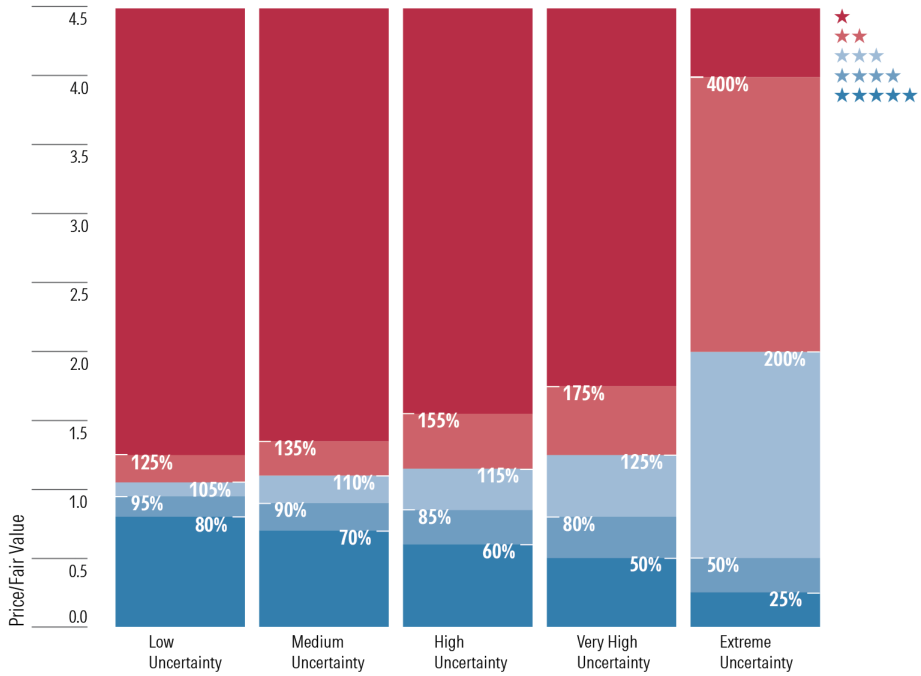
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments,

Research Methodology for Valuing Companies

and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

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Research Methodology for Valuing Companies

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