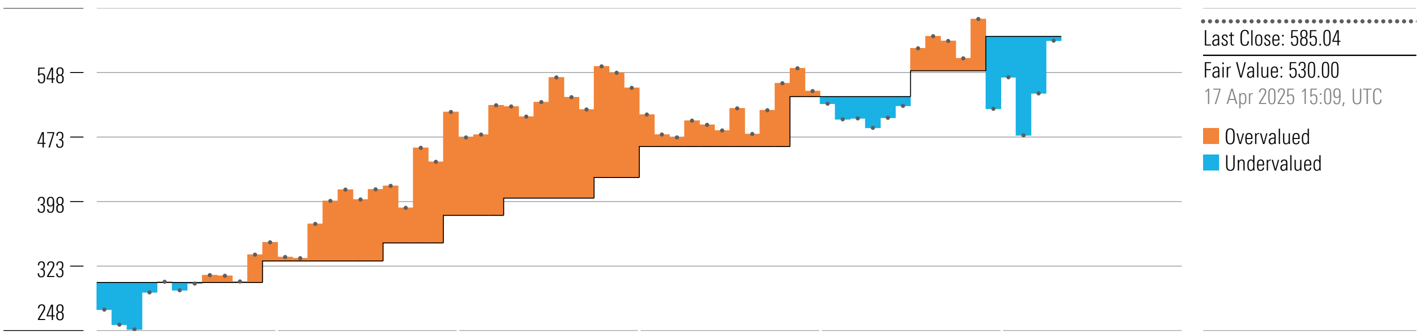
Morningstar Equity Analyst Report | Report as of 17 Apr 2025 15:13, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 1 of 24

UnitedHealth Group Inc UNH ★★★★ 17 Apr 2025 15:12, UTC

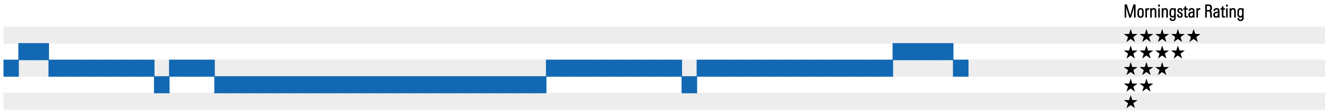
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
585.04 USD 16 Apr 2025	530.00 USD 17 Apr 2025 15:09, UTC	1.10	415.74 USD Bil 17 Apr 2025	Narrow	Large Value	Medium	Exemplary	2 Apr 2025 05:00, UTC

Price vs. Fair Value



	2020	2021	2022	2023	2024	YTD	
	1.07	1.31	1.24	1.01	0.86	1.10	Price/Fair Value
	20.93	44.79	6.86	0.68	-2.36	16.07	Total Return %

Morningstar Rating



Total Return % as of 16 Apr 2025. Last Close as of 16 Apr 2025. Fair Value as of 17 Apr 2025 15:09, UTC.

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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 Earnings: Weak Start to 2025 Cuts Into Near-Term Outlook and Fair Value Estimate

Analyst Note Julie Utterback, CFA, Senior Equity Analyst, 17 Apr 2025

Despite 10% revenue growth led by its medical insurer (12%) and PBM (14%), UnitedHealth lowered its 2025 guidance after a weak first quarter included only 4% adjusted EPS growth due to surging medical costs.

Why it matters: Management lowered its 2025 outlook due to this weak start to the year, causing shares to fall about 20% in early trading on April 17. The firm pointed to two major factors that cut its 2025 adjusted EPS view to $26.00-$26.50, down from $29.50-$30.00 previously.

- First, higher medical costs in its Medicare Advantage business contributed to its weak first-quarter profits. UnitedHealth now expects that elevated utilization to continue hurting its medical insurance profits through 2025.
- Second, its provider, Optum Health, delivered weak results, as new patients chose its value-based care providers after key insurance plans exited certain geographies, creating a situation where UnitedHealth is treating patients at lower rates than it believes is fair for the risk.

The bottom line: We are reducing our near-term expectations for UnitedHealth to reflect this elevated utilization in medical insurance and weak Optum Health-related trends, which cut our fair value estimate 10% to $530 per share. We continue to see shares as about fairly valued.

- Our narrow moat rating on UnitedHealth has not changed, and UnitedHealth remains the strongest

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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.

managed care organization we cover with significant margin for executional error like we are currently seeing.

- Although we are keeping our Capital Allocation Rating at Exemplary for now, executional errors like these are starting to weigh on our investment assessment.

Bulls say: While the 2025 outlook cut was disappointing, management highlighted initiatives that could help it get back to its annual earnings growth target of 13% to 16% in the long run.

- Also, as a US-based and US-focused firm, UnitedHealth looks largely immune to tariffs.

Business Strategy & Outlook Julie Utterback, CFA, Senior Equity Analyst, 26 Mar 2025

UnitedHealth Group operates a top-tier health insurer (UnitedHealthcare), pharmacy benefit manager (Optum Rx), provider (Optum Health), and health analytics franchise (Optum Insight). This integrated strategy has resulted in some of the best returns in the managed care industry and has been copied at least in part by CVS Health, which added Aetna's medical insurance assets to its retail stores and PBM, and Cigna, which added Express Scripts' PBM assets to its medical insurance operations. 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, but questions continue to swirl around whether managed care organizations' pursuit of profits outweighs those broader benefits for the US health system.

UnitedHealth has demonstrated an uncanny ability to remain at 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 aligns incentives even further, especially since the firm's outpatient care assets offer significantly lower costs than hospital-based services. The firm's analytical tools help caregiver and other health insurer clients pull various healthcare information related to its other operations 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, 17 Apr 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

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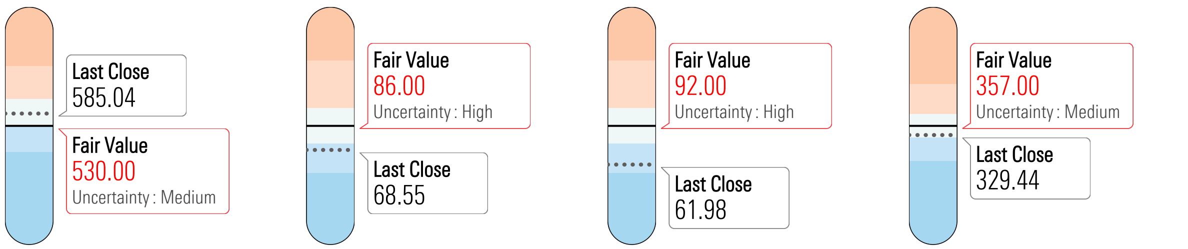
Competitors



	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	530.00 17 Apr 2025 15:09, UTC	86.00 12 Feb 2025 18:02, UTC	92.00 12 Dec 2023 18:19, UTC	357.00 30 Jan 2025 16:41, UTC
1-Star Price	715.50	133.30	142.60	481.95
5-Star Price	371.00	51.60	55.20	249.90
Assessment	Fairly Valued 16 Apr 2025	Undervalued 16 Apr 2025	Undervalued 16 Apr 2025	Fairly Valued 16 Apr 2025
Morningstar Rating	★★★★17 Apr 2025 15:12, UTC	★★★★16 Apr 2025 21:32, UTC	★★★★16 Apr 2025 21:33, UTC	★★★16 Apr 2025 21:32, UTC
Analyst	Julie Utterback, Senior Equity Analyst	Julie Utterback, Senior Equity Analyst	Julie Utterback, Senior Equity Analyst	Julie Utterback, Senior Equity Analyst
Capital Allocation	Exemplary	Standard	Standard	Standard
Price/Fair Value	1.10	0.80	0.67	0.92
Price/Sales	1.36	0.23	0.20	0.38
Price/Book	5.78	1.14	1.16	2.20
Price/Earning	26.24	16.61	8.64	12.05
Dividend Yield	1.44%	3.88%	0.00%	1.73%
Market Cap	535.14 Bil	86.54 Bil	30.75 Bil	89.31 Bil
52-Week Range	438.50—630.73	43.56—71.66	55.03—80.59	262.03—370.83
Investment Style	Large Value	Large Value	Mid Value	Large Value

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 in uncertain periods.

Bears Say Julie Utterback, CFA, Senior Equity Analyst, 17 Apr 2025

- ▶ Regulatory scrutiny appears targeted specifically at UnitedHealth, with ongoing antitrust investigations and scrutiny of its coverage denial rates particularly 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, 26 Mar 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

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

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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. Overall, 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. Additional controversies over coverage decisions and risk ratings on Medicare Advantage patients could have further effects on UnitedHealth specifically, if wrongdoing is found or if clients decide to move their business elsewhere. But overall, 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, 17 Apr 2025

We have cut our fair value estimate to $530 per share from $590 previously due to expected weakness in 2025 results on elevated medical utilization concerns and weak Optum Health trends. While we use a discounted cash flow methodology, our fair value estimate implies that UnitedHealth is fairly valued at about 20 times our expectation for 2025 earnings.

Through 2029, we assume revenue grows 9% and adjusted earnings per share grow 10% compounded annually. Our EPS expectation is significantly below management's long-term goal of 13%-16% due primarily to expected weakness in 2025. Beyond that, we think the company can return toward its targeted growth goals. We note that management's goals also include capital allocation activities like share repurchases and acquisitions. While we include share repurchases in our estimates, we do not include unannounced acquisitions, so that may be one reason we are slightly below UnitedHealth's long-term target range.

By segment, we expect UnitedHealthcare's insurance operations to grow 8% compounded annually during the next five years. In the US, we think government-sponsored programs will continue to lead the way growthwise over the next five years, despite some near-term headwinds in Medicare Advantage and Medicaid.

In the Optum businesses, we expect revenue growth of 7% compounded annually during the next five years. Organically, by division, we expect mid- to high-single digit growth compounded annually during the next five years from all three of its major business lines—Optum Health, Optum Rx, and Optum Insight. However, some uncertainty surrounds the Optum Insight division's near-term growth prospects, in particular, after the Change Healthcare network outage disrupted operations and client engagement starting in early 2024.

We expect EPS to grow at a faster pace than revenue due to margin expansion and share repurchases. From an operating margin perspective, we expect UnitedHealth to be able to increase profitability slightly off a weak 2024 base primarily through cost-control efforts. We also assume the company uses much of its excess cash flows to repurchase shares, which should boost adjusted EPS growth slightly above revenue growth, too.

Risk and Uncertainty Julie Utterback, CFA, Senior Equity Analyst, 26 Mar 2025

We continue to see medium uncertainty around UnitedHealth's prospects, although regulatory risks continue to swirl around it beyond industrywide 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, the Medicare for All policy debated in the lead-up to the Democratic primaries in 2020 called for the elimination of the private insurance industry, which could have threatened about two thirds of UnitedHealth's operations, including its medical insurance and pharmacy benefit management segments. While we view the probability of a Medicare for All-like scenario as virtually zero in the foreseeable future, other policy risks may threaten private insurer economic profit margins in future election cycles. 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. Additionally, investigations related to the combination of the company's medical insurance and caregiving remain ongoing. If wrongdoing is found, UnitedHealth is likely to face fines and additional regulatory scrutiny.

Capital Allocation Julie Utterback, CFA, Senior Equity Analyst, 17 Apr 2025

We give UnitedHealth an Exemplary Capital Allocation Rating, based on the company's sound balance sheet, exceptional investments, and appropriate shareholder distributions.

UnitedHealth ranks in the top echelon in healthcare services, in our opinion, based on its exceptional investment record and strategy. However, we are beginning to see signs of weak execution at UnitedHealth, including a reduced 2025 outlook due to a mismatch in rates and utilization in its Medicare Advantage business. Also, the Change network outage in early 2024 was a stain on its execution record. Those factors are tempering our view of UnitedHealth's investments a bit. However, compared with its MCO peers, we appreciate that UnitedHealth's growth record has largely been achieved through organic investments, which has allowed it to sport the highest returns on invested capital of the managed care organizations that we cover. Also, UnitedHealth's leadership team has shown impressive strategic foresight shepherding the firm into a diverse and vertically integrated business model, with top-tier medical insurance, pharmacy benefit management, provider, and analytical assets all under one roof. Most of the MCOs we cover are trying to copy UnitedHealth's success at least in the combined medical insurance and PBM businesses. CVS and Humana have also copied its foray into provider services, but none have ventured as significantly into the highly profitable analytical services as UnitedHealth. While some MCOs may try to copy UnitedHealth, we think the new entrants into these various fields may find it difficult to outpace such a formidable and nimble competitor in all its end markets.

UnitedHealth's largely organic investment strategy has allowed it to maintain a flexible balance sheet, too. 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 pursue internal and external investments as it sees fit for the foreseeable future.

The company distributes cash to shareholders appropriately, in our opinion. It pays out around 30% of its profits in dividends each year, and we expect a healthy payout ratio to continue. It also repurchases shares regularly, which can add to bottom-line growth on a per share basis. However, given where UnitedHealth shares typically trade relative to our fair value estimate, we do not see share repurchases as value-accretive, generally.

Analyst Notes Archive

MCOs: Strong Final 2026 Rate Notice for Medicare Advantage Boosts Undervalued Shares Julie Utterback, CFA,Senior Equity Analyst,7 Apr 2025

Late on April 7, the Centers for Medicare and Medicaid Services released its final reimbursement rate notice for Medicare Advantage, highlighting an expected change in per capita revenue of 5.06% in 2026 even after risk-related adjustments. This is up from 2.23% in the January initial rate notice.Why it matters: This announcement represents a first look at how Republicans plan to regulate rates in the important Medicare Advantage market. It appears they will be more generous than Democrats have been in recent years, which is a welcome change of pace for the MCOs we cover.   In after-hours trading, MA-focused insurer Humana traded up about 12%, MA-leader UnitedHealth rose about 6%, and top-tier MA insurer CVS increased about 7%. Even lower-tier MA players Elevance (up 7%) and Centene (up 4%) rose on the news. Also, Cigna, which has no exposure to Medicare Advantage after selling off that business to Health Care Service Corporation in March, inexplicably rose 1% after hours, generally benefiting from the improving market sentiment in the industry. The bottom line: In our valuation models, we previously suspected that the recent lean years in Medicare Advantage under Democrats would give way to more normalized trends eventually, so this good start under Republican rule merely starts that normalization process for MA insurers. We are not changing any of our fair value estimates in the industry and continue to view most of the MCOs we cover as moderately undervalued, including MA-focused insurer Humana which still trades at a roughly 30% discount to fair value even following the after-hours rally. Our moat ratings were all recently updated during our moat staleness

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review process and remain narrow for UnitedHealth, Humana, Elevance, and Cigna and none for CVS and Centene.

UnitedHealth: DOJ Probing Medicare Billing Practices at Moderately Undervalued MCO Julie Utterback, CFA,Senior Equity Analyst,21 Feb 2025

The Wall Street Journal reported on Feb. 21 that UnitedHealth's Medicare Advantage billing practices were under investigation by the Department of Justice. Specifically, whether UnitedHealth encourages providers to make inappropriate diagnoses to induce higher Medicare payments is being questioned. Why it matters: In early trading, UnitedHealth's shares dove over 10% on the uncertainty surrounding regulatory action due to this investigation, which includes internal and external caregivers that work with this healthcare behemoth. In 2024, UnitedHealth generated 47% of operating profits from medical insurance, where about 15% of its medical membership comes from Medicare Advantage. While the percent of profits generated from MA are not disclosed, we suspect shares are overreacting to the actual risks. Antitrust regulators have already been probing the combination of UnitedHealth's medical insurance arm (47% of profits) and caregiving arm (23%), and if regulators find wrongdoing, fines or even more significant changes are possible, although the magnitude remains unknown at this point. The bottom line: While we recognize the uncertainty surrounding this situation, we are keeping our $590 fair value estimate intact, as this investigation has many potential outcomes at this stage from nil to material. Shares appear moderately undervalued to us. 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. Coming up: In the next few months, we expect to hear more about Republican priorities for regulatory changes in the industry. While headline risks create uncertainty, we think potential downside risks for UnitedHealth's profits are largely reflected in its moderately discounted shares.

UnitedHealth Earnings: 2025 Outlook Intact After Fatal Shooting of Key Leader Julie Utterback, CFA,Senior Equity Analyst,16 Jan 2025

About a month after the fatal shooting of its medical insurance segment leader, Brian Thompson, UnitedHealth delivered fourth-quarter results that helped management meet its previous 2024 goals and keep its 2025 guidance intact. Why it matters: With shares down somewhat in early trading, the market appeared disappointed that this typical overachiever merely met its 2024 goals, kept its 2025 outlook intact, and continued to look for a successor to lead its medical insurance operations. Given the timing of recent events and the importance of this role, we are not surprised that management is still looking for a successor to Thompson, and we still view UnitedHealth's bench as very deep. We think it is admirable that the MCO met 2024 goals, despite an elevated medical cost ratio that appeared to spook investors looking for signs of easing in this headwind. The bottom line: We are maintaining our $590 fair value estimate, and shares look moderately undervalued, in our opinion, despite some regulatory risks that have emerged since Thompson's shooting. With the strongest economic profit margins in the managed care industry, UnitedHealth's narrow moat rating appears intact. Potential regulatory changes, particularly in its top-tier pharmacy benefit management operations, add some risk to the situation, but we would expect to maintain its moat rating even in some high-risk, low-probability scenarios. Coming up: Management's goals for 2025 look achievable to us. In 2025, the company is aiming for $450 billion-$455 billion of revenue and $32 billion-$33 billion of operating cash flow, which are both roughly in line with our expectations for the year. The firm also aims for $29.50-$30.00 of adjusted earnings per share, or 7%-8% growth, which is only slightly below our view and well below its long-term 13%-16% goal. Given its tendency to overachieve, we remain comfortable with our slightly higher EPS expectation, absent another unusual event.

PBM Transparency Initiatives Included in New US Spending Bill Julie Utterback, CFA,Senior Equity Analyst,18 Dec 2024

The US federal spending bill expected to pass this week includes pharmacy benefit manager transparency efforts that eliminate rebate- and spread-based pricing benefits for PBMs.Why it matters: Managed care organizations, which own the PBMs, face a mild headwind to their profits from this new regulatory action. PBM clients currently use rebates and spread-based pricing mechanisms to incentivize PBMs to negotiate bigger discounts in biopharmaceutical prices, but this new legislation looks likely to force PBMs to pass those rebates and spreads on to clients. However, we expect PBMs to replace those variable pricing mechanisms with fees to resolve most of that risk to profits. This should result in the potential for a low-single-digit profit headwind for even the most exposed MCO—Cigna—based on our estimates.The bottom line: We maintain our fair value estimates for covered MCOs despite this legislation, because the potential profit headwinds are not enough to materially affect our valuations. Our narrow moat ratings also remain intact, despite the increased risk of regulation by Republicans in recent weeks that have caused shares to decline significantly. We think shares are trading at moderate (Cigna, Centene, and UnitedHealth) to significant (CVS, Elevance, and Humana) discounts to fair value.Coming up: Recent commentary from incoming Republican officials and negative sentiment from the public in the wake of a UnitedHealth executive's killing suggest that the MCOs should brace themselves for more potential policy changes. Republicans appear focused on reducing federal spending on Medicaid expansion and the individual exchanges, while bipartisan support of further PBM regulations or wasteful spending in Medicare Advantage would create more profit risks. Mild positive offsets to those potential risks appear possible, though, in the form of increased outsourcing of government programs to private insurers.

UnitedHealth: Under Tragic Circumstances, Management Keeps 2025 Guidance Intact at Investor Day Julie Utterback, CFA,Senior Equity Analyst,4 Dec 2024

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Narrow-moat UnitedHealth Group's annual investor day on Dec. 4, 2024, was cut short due to the fatal shooting of the company's medical insurance segment leader, Brian Thompson. Thompson had led this segment, which insures more Americans than any other company, for three years and was a 20-year veteran of the organization with previous experience leading that segment's government plans. Citing police, The New York Times reported that the shooting appeared targeted, although details are still scarce at this time. From a corporate viewpoint, investors should know that UnitedHealth's management bench is typically quite deep. In the near future, we expect the company to be able to smoothly transition that leadership role to an internal candidate under the direction of the UnitedHealth Group's CEO, Andrew Witty.Also prior to the event, UnitedHealth delivered a near-term view of its financial prospects roughly in line with our estimates. However, to recognize recent cash flows and a slightly higher outlook for long-term growth beyond our explicit forecast period, which we think better reflects the firm's high-quality businesses and exemplary capital allocation, we are boosting our fair value estimate to $590 per share from $550 previously. Shares still trade close to our fair value estimate.UnitedHealth's near-term guidance remains in line with the projections previewed on its third-quarter earnings call, and our estimates look close to those goals, too. For 2024, the firm still expects 9%-10% growth in adjusted EPS to $27.50-$27.75, despite absorbing $0.75 per share of Change-related business disruption effects. For 2025, the firm expects mid- to high-single-digit adjusted EPS growth to $29.50-$30.00, which is slightly lower than our estimate. We remain comfortable with our higher view, especially since UnitedHealth regularly exceeds its initial expectations.

Republican Party Win in US Election Could Ease Key Pressures in Managed-Care Industry Julie Utterback, CFA,Senior Equity Analyst,6 Nov 2024

With the Republicans winning key federal electable bodies (White House and Senate at the time of writing) in the US election, pressure on certain parts of the managed-care industry could ease a bit, while other areas would still face scrutiny, but at this point, we're not changing any fair values. Positively, the Republicans' leadership could mean less pressure on Medicare-focused insurers like Humana and CVS Health, while antitrust scrutiny also could dissipate. Negatively, Medicaid and the individual exchanges—two Centene strongholds—could see less support under the Republicans. Also, we still view pharmacy benefit management transparency as a key concern for both major political parties, but we expect potential legislation to be manageable for top-tier players like Cigna, CVS, and UnitedHealth.Medicare Advantage is currently facing many regulatory challenges under the Democratic Party leadership, including risk adjustments down toward traditional Medicare rates and weak star ratings that promise to constrain future bonus payments. However, the switch to Republican leadership could ease those pressures a bit, given the Republicans support these privatized plans for senior citizens. At the very least, we would expect regulators to stop turning the screws so hard on Medicare Advantage beyond current risk-adjustment initiatives that are projected to be completed in 2026, which would bode well for M&A-focused insurers like Humana, CVS, and UnitedHealth.Also, the Republican victories could grease the wheels of future M&As in the channel, which has almost been halted under the Biden administration. The potential merger of Cigna and Humana could have a better chance of success than under the Democrats, though we still see increasing claims concentration in the PBM industry as a concern. Also, the combination of medical insurance and healthcare services firms may face less scrutiny, which could bode well for UnitedHealth's diversified business model and any imitators.

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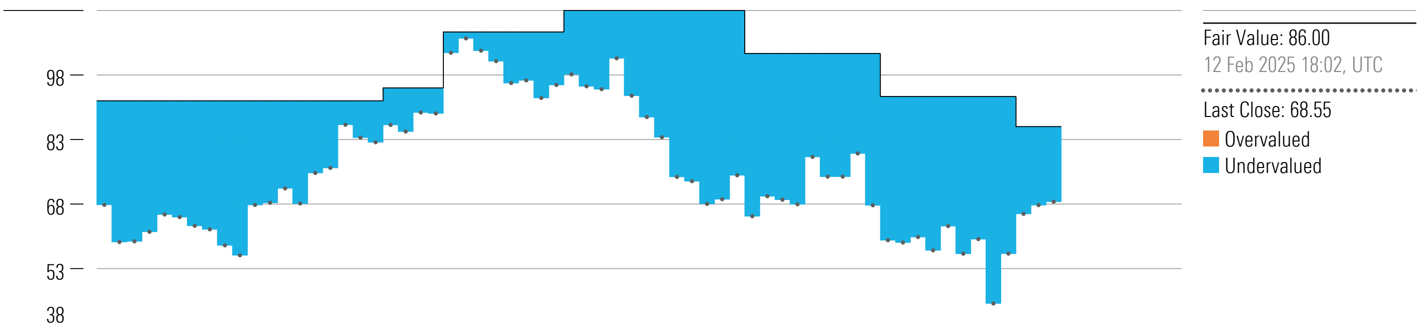
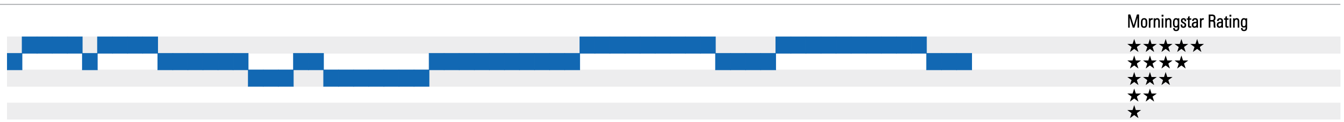
UnitedHealth Group Inc UNH ★★★★ 17 Apr 2025 15:12, UTC

Competitors Price vs. Fair Value

CVS Health Corp CVS

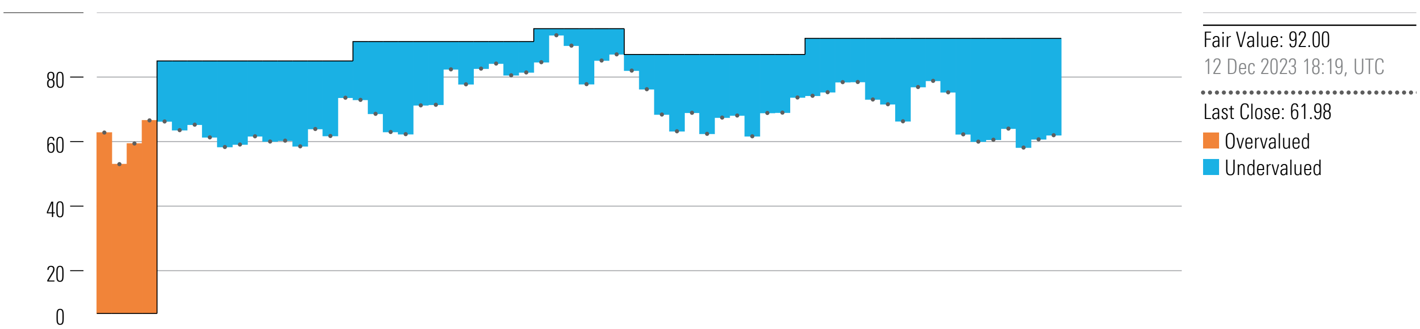


	2020	2021	2022	2023	2024	YTD	
	0.74	0.96	0.82	0.77	0.48	0.80	Price/Fair Value
	-5.37	53.97	-7.53	-12.67	-39.78	54.19	Total Return %

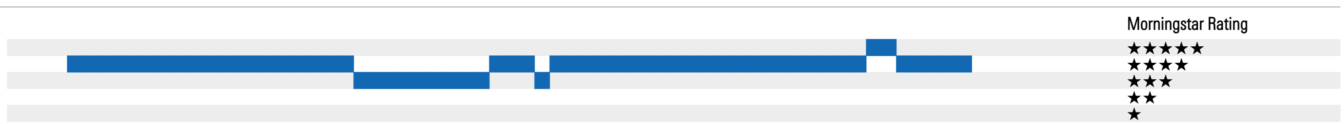


Total Return % as of 16 Apr 2025. Last Close as of 16 Apr 2025. Fair Value as of 12 Feb 2025 18:02, UTC.

Centene Corp CNC



	2020	2021	2022	2023	2024	YTD	
	0.71	0.91	0.94	0.81	0.66	0.67	Price/Fair Value
	-4.52	37.26	-0.47	-9.51	-18.37	2.31	Total Return %



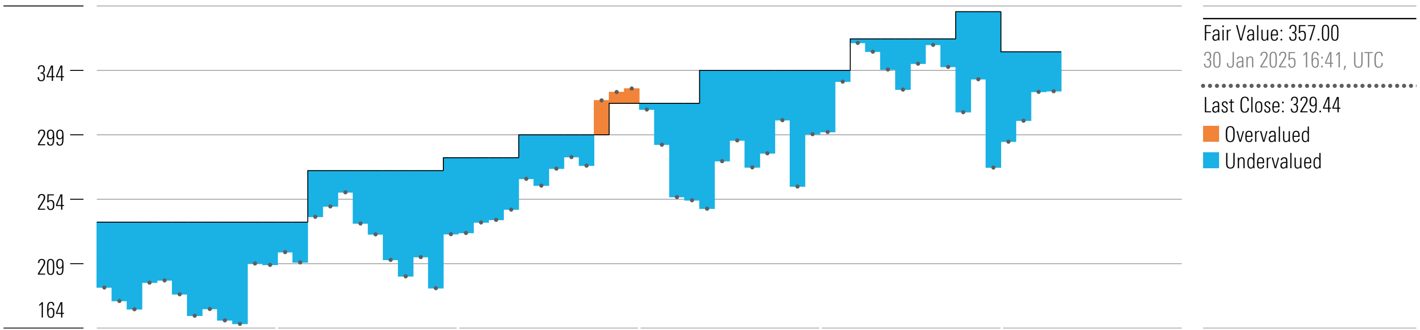
Total Return % as of 16 Apr 2025. Last Close as of 16 Apr 2025. Fair Value as of 12 Dec 2023 18:19, UTC.

Morningstar Equity Analyst Report | Report as of 17 Apr 2025 15:13, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

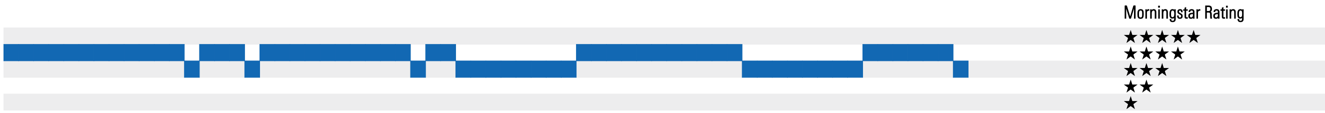
UnitedHealth Group Inc UNH ★★★★ 17 Apr 2025 15:12, UTC

Competitors Price vs. Fair Value

The Cigna Group CI



	2020	2021	2022	2023	2024	YTD
Price/Fair Value	0.87	0.81	1.03	0.87	0.72	0.92
Total Return %	1.82	12.23	46.24	-8.14	-5.91	19.85



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

Morningstar Equity Analyst Report | Report as of 17 Apr 2025 15:13, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 15 of 24

UnitedHealth Group Inc UNH ★★★★ 17 Apr 2025 15:12, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
585.04 USD 16 Apr 2025	530.00 USD 17 Apr 2025 15:09, UTC	1.10	415.74 USD Bil 17 Apr 2025	Narrow	Large Value	Medium	Exemplary	2 Apr 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 07 Mar 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	455,292	507,553	544,551	582,833	620,204
Operating Income (USD Mil)	28,435	32,358	32,287	38,415	41,130	45,869	51,154	56,175
EBITDA (USD Mil)	31,835	36,330	28,076	42,968	46,206	51,314	56,982	62,377
Adjusted EBITDA (USD Mil)	33,062	37,822	42,948	44,552	47,972	53,209	59,010	64,535
Net Income (USD Mil)	20,120	22,381	14,405	26,217	28,288	31,865	35,877	39,690
Adjusted Net Income (USD Mil)	21,081	23,567	25,699	27,453	29,665	33,342	37,458	41,373
Free Cash Flow To The Firm (USD Mil)	1,946	15,546	9,338	28,066	31,799	33,208	36,659	39,728
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	28.65	31.46	36.17	41.55	46.91
Adjusted Earnings Per Share (Diluted) (USD)	22.19	25.12	27.66	30.00	33.00	37.84	43.38	48.89
Dividends Per Share (USD)	6.31	7.21	8.11	9.00	9.90	11.35	13.01	14.67

Margins & Returns as of 07 Mar 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	8.4	8.1	8.4	8.8	9.1	8.6
EBITDA Margin %	—	9.8	9.8	7.0	9.4	9.1	9.4	9.8	10.1	—
Adjusted EBITDA Margin %	—	10.2	10.2	10.7	9.8	9.5	9.8	10.1	10.4	9.9
Net Margin %	5.3	6.2	6.0	3.6	5.8	5.6	5.9	6.2	6.4	6.0
Adjusted Net Margin %	6.4	6.5	6.3	6.4	6.0	5.8	6.1	6.4	6.7	6.2
Free Cash Flow To The Firm Margin %	2.4	0.6	4.2	2.3	6.2	6.3	6.1	6.3	6.4	6.2

Growth & Ratios as of 07 Mar 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	13.7	11.5	7.3	7.0	6.4	9.2
Operating Income Growth %	10.4	18.6	13.8	-0.2	19.0	7.1	11.5	11.5	9.8	11.7
EBITDA Growth %	3.0	17.6	14.1	-22.7	53.0	7.5	11.1	11.1	9.5	18.4
Adjusted EBITDA Growth %	15.0	17.2	14.4	13.6	3.7	7.7	10.9	10.9	9.4	8.5
Earnings Per Share Growth %	-5.0	17.1	12.7	-35.0	84.8	9.8	14.9	14.9	12.9	24.8
Adjusted Earnings Per Share Growth %	-5.0	16.7	13.2	10.1	8.5	10.0	14.7	14.6	12.7	24.8

Valuation as of 07 Mar 2025	Actual			Forecast				
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Price/Earning	23.9	21.0	18.3	19.5	17.7	15.5	13.5	12.0
Price/Sales	1.5	1.3	1.2	1.2	1.1	1.0	0.9	0.9
Price/Book	6.5	5.6	5.1	5.2	4.7	4.3	3.9	3.5
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	15.2	13.4	11.7	13.1	12.2	11.0	9.9	9.0
EV/EBIT	17.6	15.6	15.6	15.2	14.2	12.7	11.4	10.4
Dividend Yield %	1.2	1.4	1.6	1.5	1.7	1.9	2.2	2.5
Dividend Payout %	28.4	28.7	29.3	30.0	30.0	30.0	30.0	30.0
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 07 Mar 2025	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
ROA %	8.2	8.2	4.8	8.2	8.2	8.8	9.3	9.6
ROE %	23.3	22.6	14.0	23.2	23.1	24.0	24.9	25.2
ROIC %	22.7	21.9	17.8	19.5	20.2	21.3	22.4	23.2

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UnitedHealth Group Inc UNH ★★★★ 17 Apr 2025 15:12, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
585.04 USD 16 Apr 2025	530.00 USD 17 Apr 2025 15:09, UTC	1.10	415.74 USD Bil 17 Apr 2025	Narrow	Large Value	Medium	Exemplary	2 Apr 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	11.5	11.0	10.0	9.7	9.3
Assets/Equity	2.8	2.8	2.9	2.8	2.8	2.7	2.7	2.6
Net Debt/EBITDA	0.9	0.9	1.7	0.9	0.6	0.4	0.2	-0.1
Total Debt/EBITDA	1.7	1.7	1.8	1.6	1.5	1.3	1.2	1.1
EBITDA/ Net Interest Expense	15.8	11.7	11.0	12.2	13.1	14.2	15.5	16.8

Forecast Revisions as of 26 Mar 2025	2025		2026		2027	
Prior data as of 16 Jan 2025	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	530.00	578.87	—	—	—	—
Revenue (USD Mil)	455,292	453,725	507,553	487,665	544,551	524,982
Operating Income (USD Mil)	38,415	36,653	41,130	39,688	45,869	43,838
EBITDA (USD Mil)	44,552	43,047	47,972	46,560	53,209	51,236
Net Income (USD Mil)	27,453	27,586	29,665	29,957	33,342	33,147
Earnings Per Share (Diluted) (USD)	28.65	28.64	31.46	31.75	36.17	35.90
Adjusted Earnings Per Share (Diluted) (USD)	30.00	30.22	33.00	33.49	37.84	37.81
Dividends Per Share (USD)	9.00	9.07	9.90	10.05	11.35	11.34

Key Valuation Drivers as of 07 Mar 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 07 Mar 2025	**USD Mil**
Present Value Stage I	242,678
Present Value Stage II	81,068
Present Value Stage III	273,908
Total Firm Value	**597,654**
Cash and Equivalents	266
Debt	76,904
Other Adjustments	0
Equity Value	**521,016**
Projected Diluted Shares	915
Fair Value per Share (USD)	**530.00**

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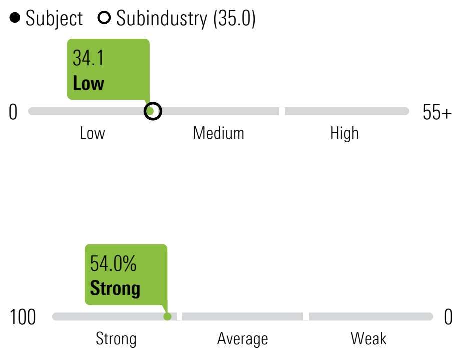
UnitedHealth Group Inc UNH ★★★★ 17 Apr 2025 15:12, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
585.04 USD 16 Apr 2025	530.00 USD 17 Apr 2025 15:09, UTC	1.10	415.74 USD Bil 17 Apr 2025	Narrow	Large Value	Medium	Exemplary	2 Apr 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]	17.4
Management Gap[4]	**14.9**
Overall Unmanaged Risk	**16.6**



- 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 54.0% 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 Apr 02, 2025. Highest Controversy Level is as of Apr 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 02 Apr 2025

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

Company Name	Exposure	Range	Management	Range	ESG Risk Rating	Range
UnitedHealth Group Inc	34.1 | Low	0 – 55+	54.0 | Strong	100 – 0	16.6 | Low	0 – 40+
Centene Corp	36.5 | Medium	0 – 55+	60.9 | Strong	100 – 0	15.3 | Low	0 – 40+
The Cigna Group	34.5 | Low	0 – 55+	65.3 | Strong	100 – 0	13.0 | Low	0 – 40+
CVS Health Corp	35.2 | Medium	0 – 55+	50.3 | Strong	100 – 0	18.3 | Low	0 – 40+
Humana Inc	33.9 | Low	0 – 55+	46.3 | Average	100 – 0	18.9 | Low	0 – 40+

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Appendix

Historical Morningstar Rating

UnitedHealth Group Inc UNH 16 Apr 2025 21:36, 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 16 Apr 2025 21:32, 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 16 Apr 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
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	—	—	—	—

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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
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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

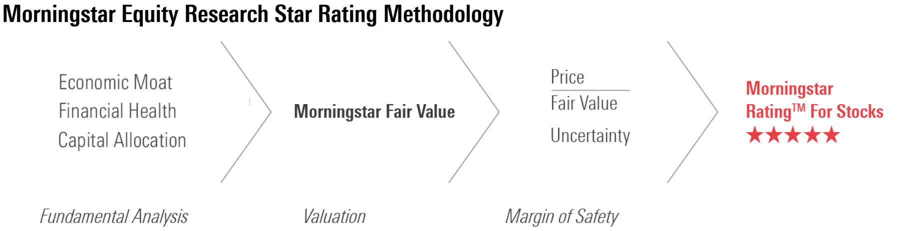
Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than 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.

Morningstar Equity Research Star Rating Methodology



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 outcomes for the intrinsic value of a company, and any-

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thing 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.

Qualitative Analysis Uncertainty Ratings	Margin of Safety ★★★★★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.

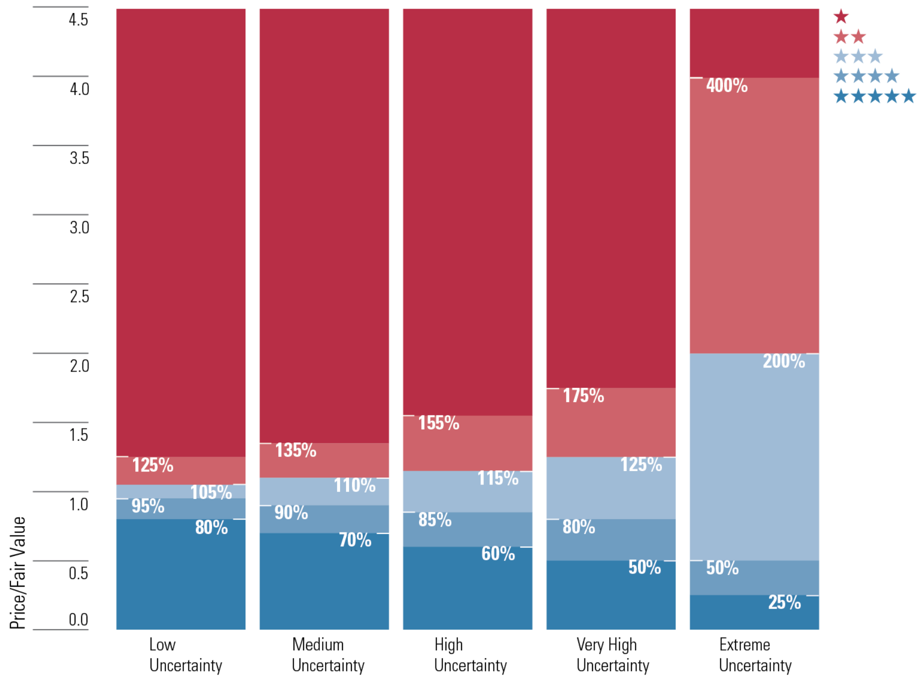
4. Market Price

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 Star Rating for Stocks

Morningstar Equity Research Star Rating Methodology



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, and shareholder distributions. Analysts consider compan-

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ies' 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/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

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