BULL & BEAR HEALTHCARE

BBR BULL & BEAR RESEARCH

Healthcare Report: Managed Care

Spring 2025

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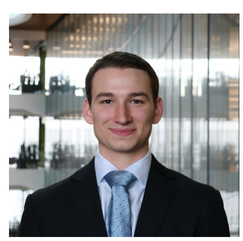

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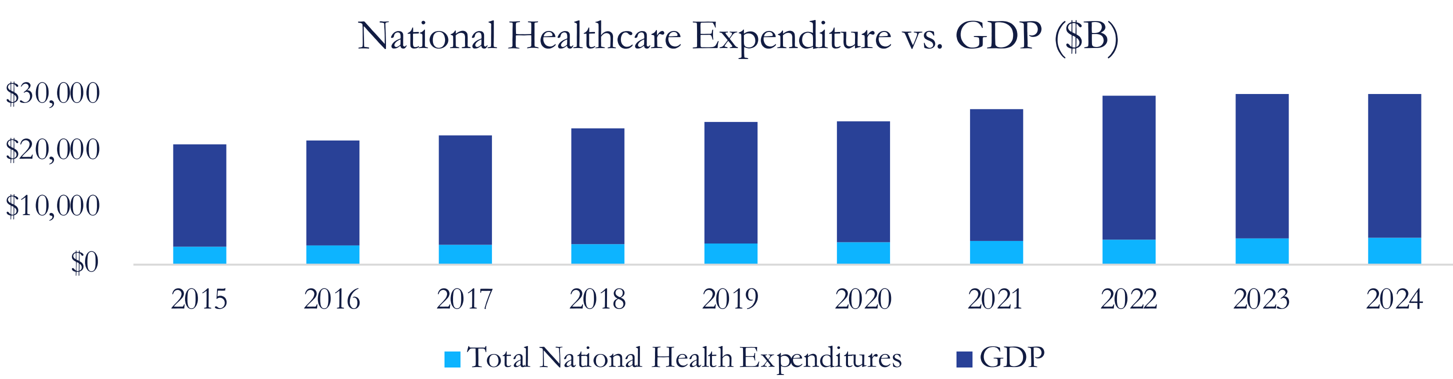
Healthcare Sector Overview

HEALTHCARE OVERVIEW

Sector Overview and Performance

The healthcare sector encompasses businesses dedicated to improving people's health. It comprises 11 industries, including healthcare facilities, services, pharmaceuticals, biotechnology, research & diagnostics, medical equipment and devices, and managed care. As of January 2025, there are nearly 6,000 companies, with a combined global market capitalization of $12.24T, which accounts for 8.64% of the market. The five largest healthcare firms make up 19.76% of the market, with Eli Lilly and Company (LLY), valued at $826.26B, controlling nearly 7% of the total market share. In the last 12 months, the healthcare sector has significantly underperformed the market, with a one-year revenue growth rate of 8.16% compared to 20% in the S&P 500. Some industries experienced strong growth in 2024, with healthcare facilities and services returning 11.79% and 51.2%, respectively, while biotech and diagnostics declined 4.78% and 11.03% during the same period. This performance was anticipated, as National Health Expenditure guidance projects a 1.5% decline in 2025, despite an average growth rate of only 6.1% in the last 50 years. The expiration of the American Rescue Plan Act (2021), which grants over $1.9T in subsidies for middle and low-income families, is one catalyst for this decline. The EBITDA margin growth in the segment is expected in to fluctuate in the coming years, stabilizing at 3-4% in 2028. Other limiting factors include sticky inflation and a small labor pool, both of which increase operating costs. Estimates from the World Health Organization (WHO) predict a shortage of nearly 10 million healthcare professionals by 2030. These constraints have stunted sectoral growth, as EBITDA across industries has not recovered to pre-pandemic levels.



Growth Potential

Despite recent slowdowns, there are several areas with substantial growth potential. Supporting industries, like Health Service Technology (HST), can address the lack of technology integration within healthcare, streamlining administrative and analytical tasks. The advancement of generative AI and machine learning has the potential to significantly boost operational efficiency and productivity in the sector. Additionally, the top HST firms are far less consolidated than their counterparts in the Technology sector, indicating room for growth, acquisitions, and cost efficiencies. The top 10 HST companies accounted for only 26% of HST market cap in 2024, compared to over 40% for Tech. Additionally, impending maturity for numerous PE funds is expected to increase M&A activity in the sector in coming years. That said, there is a broad consensus that AI integration will require considerable federal regulations, given the incredibly sensitive nature of personal data in the Healthcare sector.

Sources: Bloomberg, McKinsey, Deloitte, National Health Expenditures

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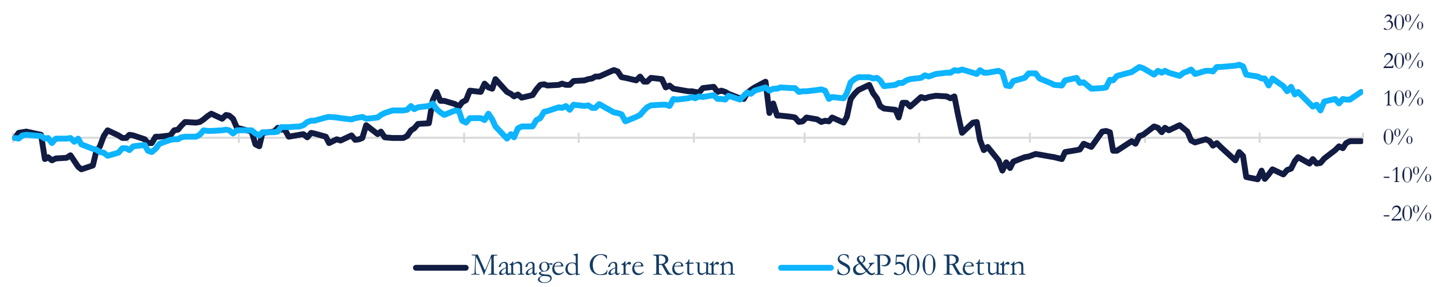
Managed Care Industry Overview

INDUSTRY OVERVIEW

Managed Care

The Managed Care industry is a key segment within the healthcare sector, focused on delivering affordable medical services through structured insurance plans, integrated into provider networks. The industry comprises four primary models: Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), Point of Service (POS) plans, and Exclusive Provider Organizations (EPOs). All are designed to improve access to care while optimizing costs and outcomes. HMOs require users to select a primary care physician (PCP) who coordinates care for the patient, usually from lower premiums and out-of-pocket costs. PPOs offer greater flexibility, allowing patients to see both in-network and out-of-network providers without referrals. These plans are well-suited for those seeking flexibility but come at higher costs than HMOs. Point of service plans are a hybrid of HMO and PPO models, requiring a PCP for referrals but they allow patients to use out-of-network care at higher costs. POS plans provide flexibility at mid-range prices to those who use a PCP-coordinated system. EPOs are similar to PPOs but do not provide coverage for out-of-network providers, offering lower costs but with fewer choices. At the end of 2024, the industry was valued at approximately $3.45 trillion. With a CAGR of 6.09%, the industry is poised for steady growth, estimated to reach $4.37 trillion by 2028. Offerings within the industry include health insurance plan management, preventive programs, chronic care solutions, and telehealth services.

Managed Care vs. S&P500 10 -Year Performance



Trends and Drivers

The Managed Care landscape is rapidly evolving to meet the need for affordable, accessible, and effective healthcare. The shift toward value-based care is a key driver, prioritizing prevention and improved patient outcomes over traditional fee-for-service models. Recently, the push toward value-based care has seen significant success. UnitedHealth, a leading MCO, served 4.7 million people in 2024, over three times its 2021 total. The investment landscape has grown considerably, as major MCOs seek increased adoption of value-based care, recognizing the potential to enhance patient satisfaction. Technology is pivotal in this transformation, with tools like telehealth, electronic health records, and AI streamlining care coordination, helping increase efficiency. At the ground level, consumers seek personalized care options, prompting managed care organizations to adapt. Managed care organizations are responding by integrating AI-driven insights and virtual care solutions to meet these expectations. This consumer-focused approach represents a much broader shift in healthcare, one in which patients are treated as partners in their care journey. In combining a shift towards value-based care, advanced technology integration, and a customer-centric approach, the managed care industry is actively positioning itself to deliver optimized care solutions while addressing the needs of patients.

Sources: Bloomberg, Yahoo Finance, National Association of Medicaid Director, KFF, MedTrainer

REGULATORY LANDSCAPE

Federal Developments

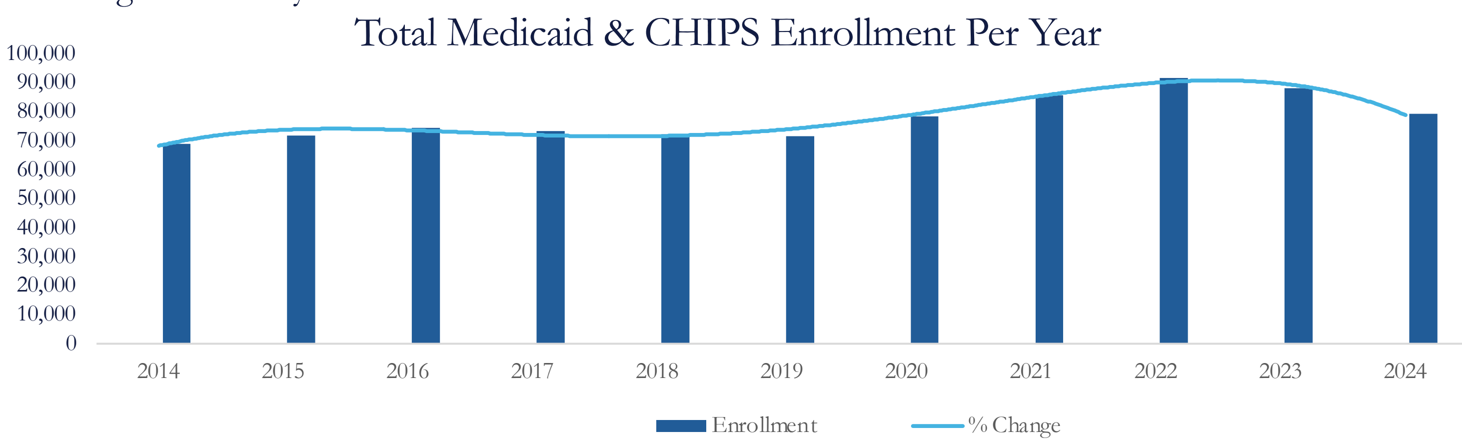
With new leaders in office, the country is seeing federally funded medical changes through executive orders and increased scrutiny of managed care organizations (MCOs). Executive orders on healthcare under President Trump have heightened, which presents compliance challenges for providers. MCOs, including Medicare, are facing severe payment reductions that affect the industry through the duality of federal mandates and state laws in funding. There was a significant 2.8% cut to Medicare reimbursement rates that prompted legislation to reverse these cuts. This uncertainty forces MCOs to monitor pending legislation, such as efforts to repeal the Affordable Care Act (ACA) and proposed policy targets aimed at pharmacy benefit manager regulations.

Trends and Drivers

The regulatory landscape is evolving with AI, telehealth adoption, and data interoperability pushes for operational efficiency and long-term profitability. MCOs aim to cut costs while improving patient outcomes. AI in healthcare is projected to surpass $188B by 2030, growing at a 37% CAGR and looks to transform healthcare practices globally. Telehealth use remains 38x higher than pre-pandemic levels, with regulations like Medicaid reimbursement laws ensuring accessibility.

Statewide Changes

Federal healthcare mandates are being enacted across the country, forcing MCOs to navigate a fractured healthcare landscape. Political agendas being pushed lead further resistance in Medicaid expansion on a state-level where in Mississippi Governor, Tate Reeves vocalizes concerns in the direction of costs and federal funding uncertainties. A stance like this would limit all managed care organizations' growth opportunities in the entire state - where approximately 100,000 residents would have gained coverage making this a missed opportunity to revenue generation and market share. Public sentiment works to drive change where 58.5% of Mississippi voters support Medicaid expansion fighting the limit to expansion. On the other end, states like Missouri are increasing budgets (by $2.2B in Missouri for FY2026), showcasing the growing support for coverage expansion and the revenue potential that MCOs serving Medicaid populations can bolster. This regulation change would include $161.5 million for provider rate increases and $71.6 million for behavioral health services that support economic stimulus and positive societal change in improved healthcare access. The clash between federal and state policies becomes more prevalent leaving MCOs to be agile in their decision making. Investors must monitor how state-to-state dynamics shape policy and in turn affect the growth prospects of MCOs, especially in portfolios with Medicaid.



Sources: KFF, Bloomberg, Medicaid (Gov)

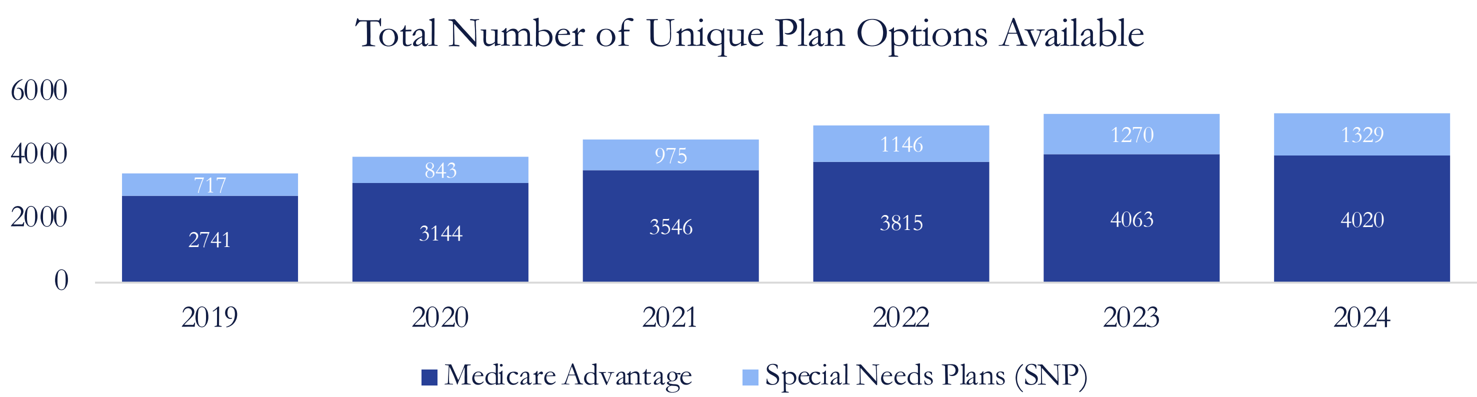
HEADWINDS

Uncertainty from Economic and Political Pressures

Managed care is facing headwinds from regulatory tensions, legislative pressure, high costs, competition, and consumer pushback. Where financial pressure is imminent, insurers are struggling with payment adjustments in Medicare Advantage programs which impact earnings in the industry. Recently represented in Humana's rating downgrade, the industry is struggling to maintain financial stability where programs are placing a strain on insurers. The labor shortages that exacerbate the operational strain are leading to rising wages and inefficiencies that hinder the quality of care. While technological advances may be a silver lining in offering potential solutions, they simultaneously introduce additional hurdles where high costs, interoperability issues, and high risks of cyber-attacks add to the challenges. As the issues converge, the industry has to adapt nimbly in an increasingly complex landscape and find balance between financial resilience and the evolving demands in an aging society.

Intensifying Competition and Consumer Pressure

Aside from financial and policy concerns, the managed care sector is dealing with additional pressure through deal flow activity and a surging competitive landscape. In an environment where insurers are forced to invest heavily in innovation and improvements to their existing service infrastructure, the battle for market share becomes increasingly fierce. This competitive dynamic is only worsened by consumer and provider dissatisfaction. Today, managed care is unfortunately defined by the delays in authorization and insufficient in-network providers that affect accessibility and timeliness for patient care. As these issues grow exponentially, it becomes more and more crucial for managed care organizations to be swift and find ways to adapt to the everchanging dynamic that is the managed care industry, forcing increased operational efficiency, agility and progress across the entire healthcare world.



Volatility Relating to Election Cycles

The amount of policy uncertainty is also exceedingly growing where authoritative figures like RFK Jr.'s roles lead to volatility, uncertainty, and policy change anticipation. At the same time of this unpredictability, the post-pandemic surge in healthcare usage along with an aging population drives the costs of care where insurer resources grow scarce. Given shifting policy stances, programs like Medicaid may be at risk of reduced federal spending. However, mixed control of the federal government would lead to less severe policy landscape, reducing the effects on managed care organizations. Medicare participation has decreased, largely due to less contractual yields and restrictive authorizations for care.

Sources: McKinsey, Morningstar, Healthcare Financial Management Association

TAILWINDS

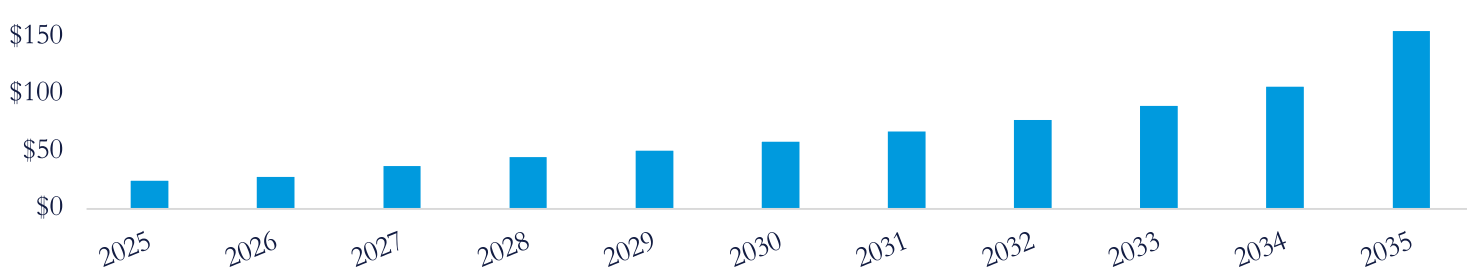
Increasing Popularity of Value-Based Care

Managed care providers are seeing a switch from a fee-for-service (FFS) business to a value-based care (VBC) model. VBC is a mutually beneficial service model, measuring value based on the delivered outcome for patients. In contrast, the FFS model charges fees based on the transaction made by the patient. While thee FFS model is more straightforward, it favors quantity over quality and balloons healthcare spending, which is estimated to top $6 trillion by 2028. In contrast, the VBC model promotes cost efficiencies by incentivizing providers to give the highest quality and most cost-effective care possible. Under VBC, both patients and healthcare providers are reimbursed based on the quality of the treatment outcome, simultaneously saving patients time and money, and improving outcomes.

Growth in Telehealth Services

While the onset of telemedicine was necessitated by the Covid-19 pandemic, its utilization has prevailed throughout the following half decade and proves to be an effective supplement to the managed care industry. Telehealth applications include real-time video consultations, remote monitoring, and mobile health applications. These services provide incredible benefits including increased access to care, enhanced patient outcomes and decreased geographic barriers. One study on diabetes patients found the hybrid care model saw significantly higher rates of HbA1c measurement and improved HbA1c levels due to the hybrid service model. Additionally, limiting factors, such as digital literacy and access to technology, both continue to wane in the digital era. While data privacy is a sensitive issue, these concerns introduce opportunities for adjacent industries to benefit from this growth. As rates of hyperconnectivity increase across the world, telehealth services will continue to be a staple of managed care offerings.

Projected Telehealth Market Size ($B)



Incipient AI Adoption

The inception of AI has taken the industry by storm, seeing over 11 billion USD in US venture capital investment. By 2030, AI in healthcare is expected to surpass 187.95 billion USD, growing at a CAGR of 37%. In managed care, AI looks to be incredibly advantageous in streamlining research and automation, while also improving date-driven treatment plans. Ultimately, value-based care models could see the most gain from AI. Annually, the US healthcare system spends over $265 billion unnecessary dollars due to data and process fragmentation. The inception of AI, and its ability to streamline and produce data-driven treatment plans could save the federal government a significant amount. Additionally, by 2030 the demand for registered nurses is expected to hit over 3.6 million. AI, and its strong ability to complete monotonous tasks could serve as a strong tool in reducing the need for additional workers.

Sources: Ernst and Young, National Library of Medicine, ESOMAR, Vantage Market Research, KFF

MEDICARE

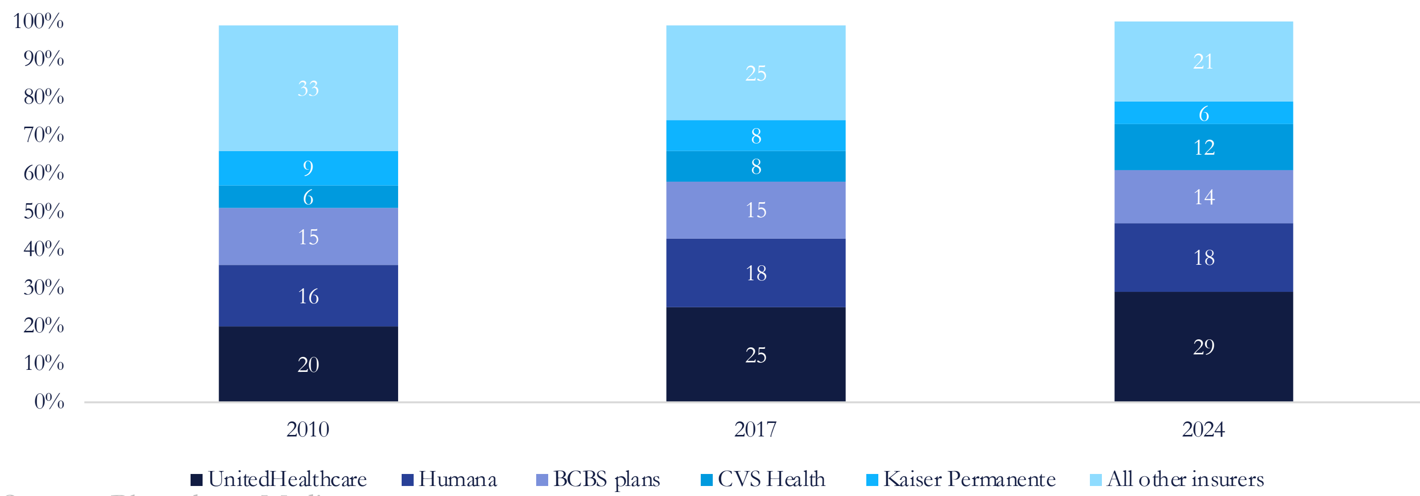
Structure

Medicare is the federal health insurance program for those aged 65 and up and those that struggle with certain disabilities End-Stage Renal Disease (ESRD), or ALS (Lou Gehrig's Disease). The structure is broken down into four parts. Part A, Hospital Insurance, covers inpatient hospital services, skilled nursing facility care, and some home health services. It is primarily funded through a 2.9% payroll tax, split equally between employers and employees. Since 2013, individuals earning above $200,000 ($250,000 for married couples) pay an additional 0.9% Medicare tax. Part B, Supplementary Medical Insurance, overs physician services, outpatient hospital services, certain home health services, durable medical equipment, and preventive services. Funding comes from beneficiary premiums, set at 25% of program costs, with the remaining 75% covered by general federal revenues. Part C, Medicare Advantage, offers beneficiaries the option to receive Parts A and B benefits through private health plans. Funding is drawn from both the Hospital Insurance and Supplementary Medical Insurance trust funds. Part D, Prescription Drug Coverage, provides prescription drug benefits. It is financed through premiums paid by beneficiaries and general federal revenues (about 25% and 75% respectively)

Financial Overview

Medicare spending grew by 8.1% in 2024, accounting for 21% of national health expenditures. There are significant beneficiary contributions that fund Medicare's financing through premiums, deductibles, and coinsurance. For instance, Part B premiums are set to cover 25% of program costs, while the remaining 75% is subsidized by general revenues. Within their financial environment, Medicare has a Hospital Insurance Trust Fund to finance Part A projected to be able to pay full benefits through 2036. Medicare has been shifting towards value-based care (VBC) models to improve quality and control costs. Programs like the Medicare Shared Savings Program (MSSP) encourage providers to form Accountable Care Organizations (ACOs) that focus on coordinated care and share in cost efficient service delivery. Additionally, initiatives such as the Making Care Primary (MCP) Model introduce various payment types to support care delivery and quality improvement goals, offering different track options for organizations based on their experience with Medicare value-based care. These efforts aim to transition Medicare to the VBC model, rewarding quality, efficiency, and enhancing care for beneficiaries.

Medicare Advantage Enrollment by Firm or Affiliate (by Percent)



Sources: Bloomberg, Medicare

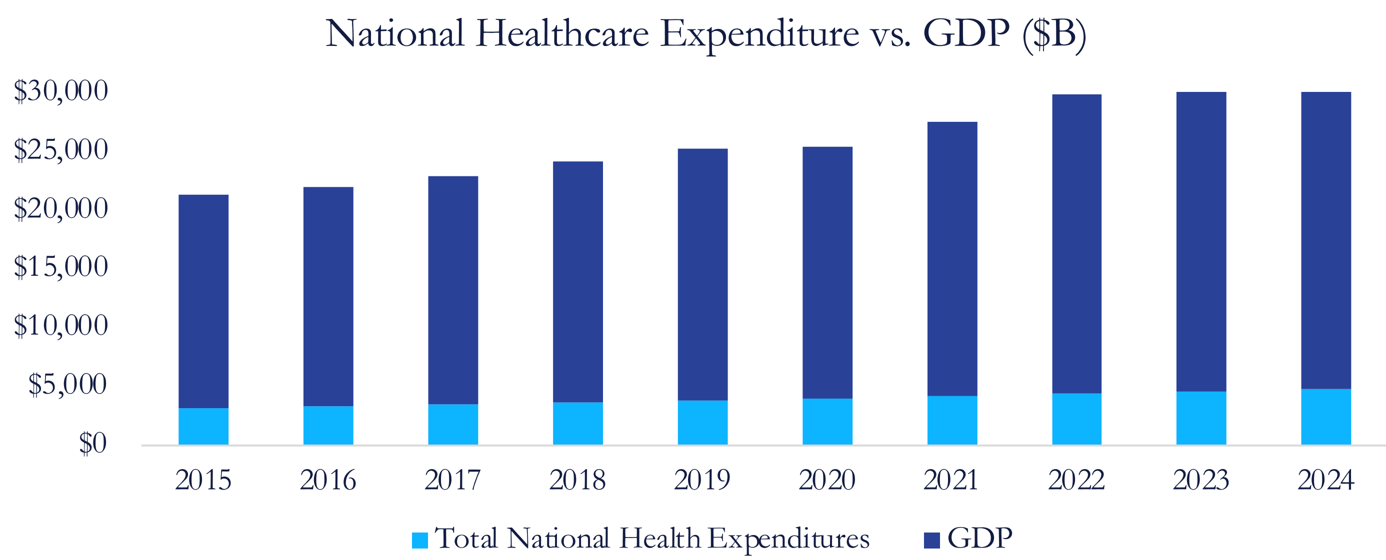
MEDICAID

Plan Overview, Features, and Types of Plans

Medicaid is a government-funded health insurance program in the United States that provides coverage to low-income families and individuals. It is funded by both federal and state governments, but it is administered on the state level, so the plan structures, costs, and features vary by state. Eligibility also varies by state, but Medicaid primarily serves low-income families under the Federal Poverty Line, children, disabled individuals, and elderly individuals who need supplemental coverage after Medicare. After the Affordable Care Act, many states expanded their coverage to serve more people. Medicaid provides comprehensive healthcare including doctor visits, preventative care including vaccines and check-ups, emergency services, maternity and newborn care, prescription drugs, dental and vision, mental health treatment, and long-term care for elderly and disabled individuals. Medicaid is a key program for elderly needing extended care where some services are exclusive to this program, like nursing home care. There are three types of plans within Medicaid: Fee-for-Service (FFS), Managed Care Organizations (MCOs), and Waiver Programs. With FFS plans, the state pays providers directly for each service. Most people who use Medicaid have MCO plans where private insurers contract with states to provide coverage whereas Waiver Programs are used to provide additional services or alter eligibility rules increasing accessibility including circumstances like home services for disabled people.

Demographics and Financials

As of 2024, there were about 90 million people enrolled in Medicaid. Children account for ~40% of enrollees through programs like the Children's Health Insurance Program (CHIP) and elderly and disabled people account for ~25% of total enrollees. Medicaid predominantly serves low-income families, and there is a diverse range of customer races and ethnicities represented. Medicaid is a major component of national healthcare expenditures (NHE), totaling $871 billion in 2024. For most customers, Medicaid is free or very low-cost. Some states charge copays, deductibles, or premiums, but all costs remain extremely minimal when compared to private insurance. Medicaid spending has grown at a CAGR of 6.5% since 2007 and currently makes up around 18% of total national healthcare expenditures, which accounts for nearly 19% of GDP in the United States and continues to develop.



Sources: Center for Medicare and Medicaid Services

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M&A ACTIVITY

July 2024

Elevance Health

Health Plans

Undisclosed

ELV is the largest for-profit managed care company in the Blue Cross Blue Shield Association. It operates health insurance plans, such as Anthem brand Blue Cross and Blue Shield in 14 states. The company hosts 46.8 million members among its affiliated companies' health plans. Indiana University Health is a nonprofit healthcare system that operates hospitals and is exiting the insurance business. IU Health sold its Medicare Advantage plans to 19,000 members in 36 Indiana counties and its commercial plans to employers covering around 9,600 members.

January 2024

Astrana Health

PROSPECT MEDICAL

$745 million

Astrana Health is a leading healthcare company that provides primary care and coordination of care in partnership with Anthem Blue Cross and Elation Health. Prospect is an integrated care delivery system that coordinates clinical care. It hosts a network of 3,000 primary care providers and 10,000 specialists in several states. Prospect enables providers to deliver patient-centered care to roughly 610,000 members across Medicare Advantage, Medicaid, and Commercial lines of business.

April 2024

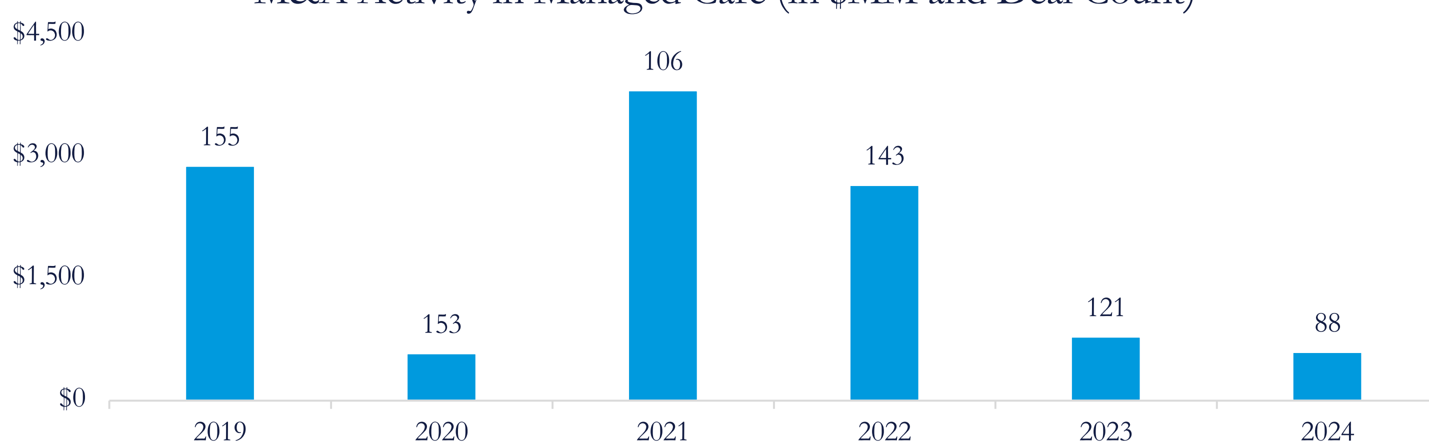
CVS Health

HELLA HEALTH

Undisclosed

CVS operates a large multi-payer technology platform. Hella Health provides Medicare Advantage brokerage services, specializing in assisting seniors in a straightforward method to enroll in a suitable Medicare Advantage plan. Hella Health operates a wholly owned insurance agency with platforms in every US state. The deal enabled CVS to expand its multi-payer technology platform to include a wide range of insurance offerings in a simple, direct-to-consumer Medicare shopping experience.

M&A Activity in Managed Care (in $MM and Deal Count)



Sources: Business Wire, Forbes, Fierce Healthcare

IPO ACTIVITY

Understanding IPO Activity in Managed Care

The managed care industry saw few significant initial public offerings in 2024. With the US IPO market experiencing a resurgence with over 80 IPOs generating nearly $20B in the first half of the year, sectors like technology and healthcare are key drivers – yet managed care activity remains limited. Managed care organizations opted for strategic conservatism due to rising regulatory scrutiny. Despite broader caution, select companies have moved forward with IPOs by leveraging their large, integrated provider networks. Ultimately, these IPOs reflect strong investor confidence in companies that have offered stable, recurring revenue streams addressing critical needs in both domestic and foreign markets. In a highly scrutinized sector, these companies have continued to deliver growth.

July 2024

ArdentHealth

$16/share
$192M

Morgan Stanley
J.P.Morgan
BofA SECURITIES

Ardent Health is a leading healthcare provider, aiming to make healthcare more accessible for all. The company spans across the United States, operating 30 hospitals and 200 additional sites of care. Additionally, Ardent has over 1,700 aligned providers, which allows physicians and healthcare professionals to work in their system.

July 2024

Concentra®

$22.48/share
$529M

J.P.Morgan
BofA SECURITIES
GS

Concentra provides leading outcome-based occupational health care services, striving to improve patient results at an affordable cost. The company operates through a large network of over 540 medical centers, and 150 onsite clinics, serving over 50,000 patients daily providing leading occupational and urgent medical services.

September 2024

OptimaHealth

$2.32/share
$110M

BofA SECURITIES
Morgan Stanley
EVERCORE

Optima Health is an occupational health and wellbeing company based in the United Kingdom, offering a wide range of clinics and remote services. The company serves a variety of clients including both the public and private sectors. Today, Optima has over 800 occupational health practitioners in the UK.

Sources: Business Wire, Forbes, Fierce Healthcare, Bloomberg

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Comparable Companies Analysis

COMPARABLE UNIVERSE

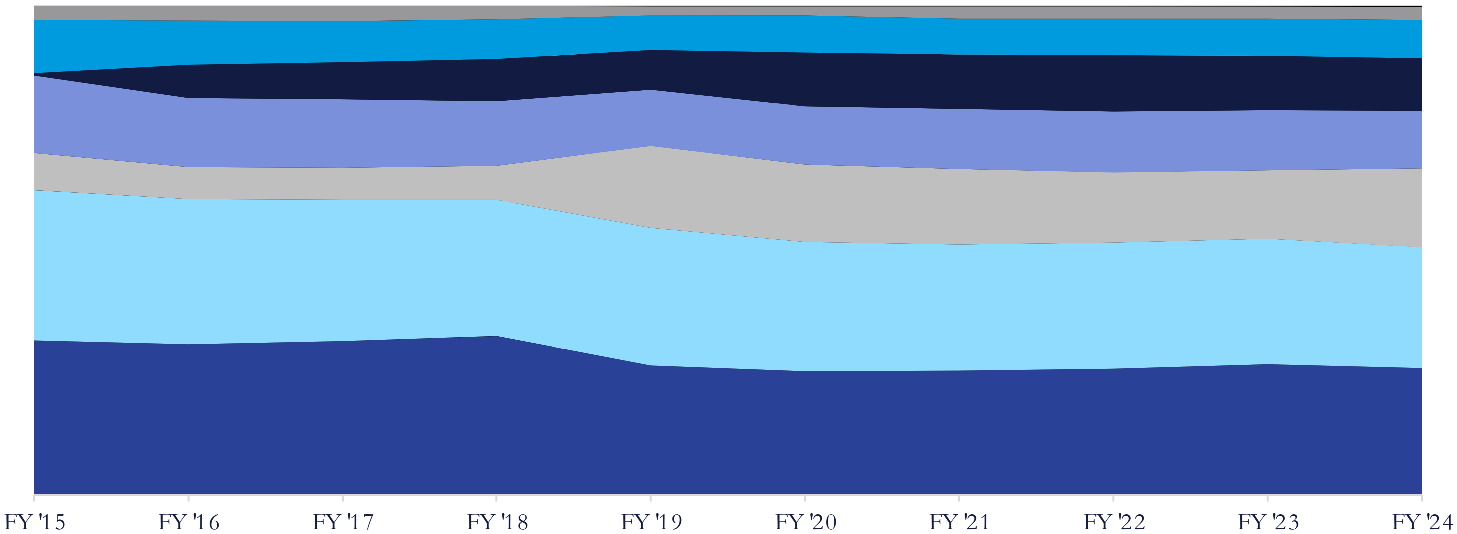
Logo	Company	Ticker	Description	LTM Revenue (millions USD)
	UnitedHealth Group Inc.	UNH	Leading healthcare company that offers insurance, healthcare delivery, and technology-driven healthcare solutions through its UnitedHealthcare and Optum businesses.	$400,278
CVS	CVS Health Corp.	CVS	Diverse healthcare company that operates retail pharmacies, health clinics (MinuteClinic), and insurance services (Aetna) with a focus on affordable solution.	$372,809
THE Cigna GROUP℠	The Cigna Group	CI	Global health services company that offers health insurance, wellness programs, and pharmacy benefits to employers, governments, and individuals.	$247,121
Elevance Health	Elevance Health Inc.	ELV	Major health insurance provider that specializes in its Blue Cross Blue Shields program and offers Medicare, Medicaid, managed care, and commercial health plans.	$177,136
CENTENE® Corporation	Centene Corporation	CNC	Multinational company that provides government-sponsored healthcare programs like Medicaid, Medicare Advantage, and Affordable Care Act (ACA) plans.	$163,071
Humana	Humana Inc.	HUM	Health insurance company that focuses on Medicare Advantage plans, employer, and military programs.	$117,747
	Molina Healthcare Inc.	MOH	Provides cost-effective health insurance under government programs like Medicaid to underserved individuals and families.	$40,650
	Alignment Healthcare Inc.	ALHC	Technology-driven Medicare Advantage company that offers personalized healthcare services with a focus on improving senior healthcare outcomes.	$2,703

The companies highlighted above form a strong set to represent the managed care industry. They are all dominant players within healthcare and managed care, representing significant presences in various market segments. There are insurers (UNH, ELV, MOH, and others), pharmacy benefit managers (CVS, CI), and integrated healthcare providers (UNH, CVS) all represented in the comparable companies set above. The integration of the three areas of companies allow for comprehensive analysis of the financial performance and strategic direction of the managed care industry. There is also a range of services offered from government-sponsored Medicare and Medicaid plans to commercial and employer-sponsored coverage. UNH operates globally and in all 50 states along with CVS. The rest of the companies cover the US with various areas of focus. Further, the companies have a diverse mix of offerings, ranging from government-focused plans like MOH and CNC to vertically integrated giants like UNH and CVS. This set of companies is ideal for analyzing industry trends, pricing strategies, and competitive dynamics within managed care.

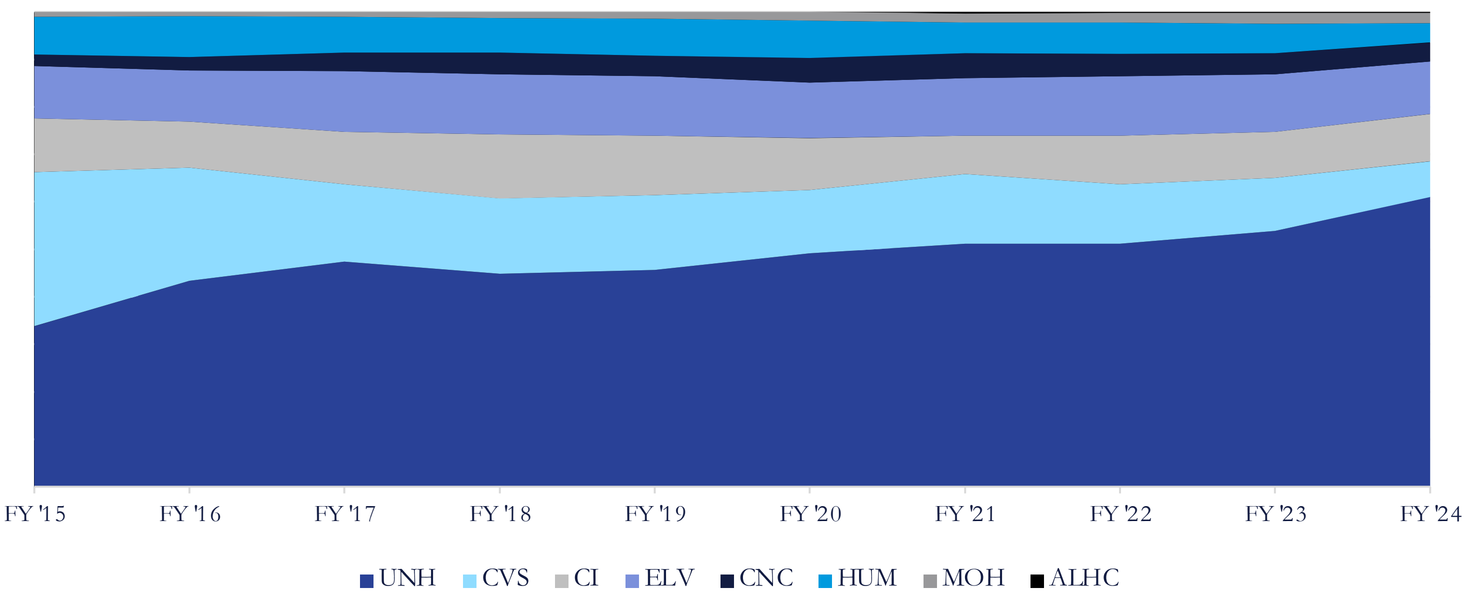
Sources: Bloomberg, FactSet, Respective Company Websites

MARKET SHARE

Revenue



Market Capitalization



The two charts above show the relative positions of each company from the comparable companies set in terms of their revenue and market capitalization. Their relative positions allow for analysis of how each company has evolved in the market through the revenue and how the street perceives their value over the last 10 years. UNH has had steady market share with a decline in 2019, but its market capitalization has increased, signaling that it's perceived value in the market is growing, despite no change in market share. CI has slowly started to gain share in the market since 2018, however, its market capitalization has remained stable, signaling that is it undervalued and would be a strong potential investment for value investors. ALHC has also slowly began to take market share, but similarly has remained stable in market capitalization, making it another attractive investment opportunity. CVS has had steady revenue share, but its perceived value is rapidly declining, signaling negative perception on the street despite strong market positioning.

Sources: Bloomberg, FactSet

VALUATION & GROWTH

Company	Valuation Metrics					Growth (YoY%)		
	EV/EBITDA	EV/Revenue	Price/Book	P/E	P/FCF	2024	2025	2026
UNH	13.02x	1.26x	5.00x	32.62x	22.70x	7.71	13.05	8.04
CVS	8.86x	0.42x	0.75x	12.28x	8.96x	4.20	4.35	4.82
CI	9.37x	0.47x	1.84x	22.77x	8.73x	26.56	2.18	4.76
ELV	9.74x	0.67x	2.03x	14.37x	18.87x	3.31	9.22	7.47
CNC	5.14x	0.19x	1.14x	9.60x	-64.75x	5.89	5.17	2.68
HUM	9.39x	0.34x	1.87x	25.41x	12.83x	10.70	7.16	2.52
MOH	5.69x	0.28x	3.63x	14.24x	30.87x	19.31	8.08	8.00
ALHC	356.44x	1.07x	21.61x	-16.76x	-322.87x	48.26	38.68	25.40
Lower	6.48x	0.30x	1.32x	10.27x	-46.38x	4.62	4.55	3.20
Median	9.38x	0.45x	1.95x	14.31x	10.90x	9.21	7.62	6.14
Mean	52.21x	0.59x	4.73x	14.32x	-35.58x	15.74	10.99	7.96
Upper	12.20x	0.97x	4.66x	24.75x	21.74x	24.74	12.09	8.03

Valuation ratios measure the financial performance of firms by comparing a valuation metric such as enterprise value (EV) or share price to a profitability metric like sales, earnings, or free cash flow (FCF). EV/EBITDA is a popular valuation metric because it compares the market value of a firm's debt and equity financing (EV) to the core operational profitability of a business without considering its capital structure (EBITDA). Based on this metric, UNH is a comparably higher valued business based on its financing and profit compared to a lower value firm like CNC. UNH investors are willing to pay almost 3x as much for $1 of EBITDA compared to CNC investors. Notably, ALHC stands out with a multiple far above the rest, as their EBITDA margin displays the high cost of owning the business. Other metrics worth comparing are P/E and P/FCF, though while similar, explain operational differences in each firm. CVS and CI have very similar P/FCF metrics, but significantly different P/E ratios. This is an indication that CI has lots of activity that chips away their bottom line which can be seen in their high levels of depreciation and amortization expenses. On the other hand, CVS has relatively lower non-cash expenses as it is a more mature firm with cash flows closer to net income. CVS and CI have very similar P/FCF metrics, but significantly different P/E ratios.

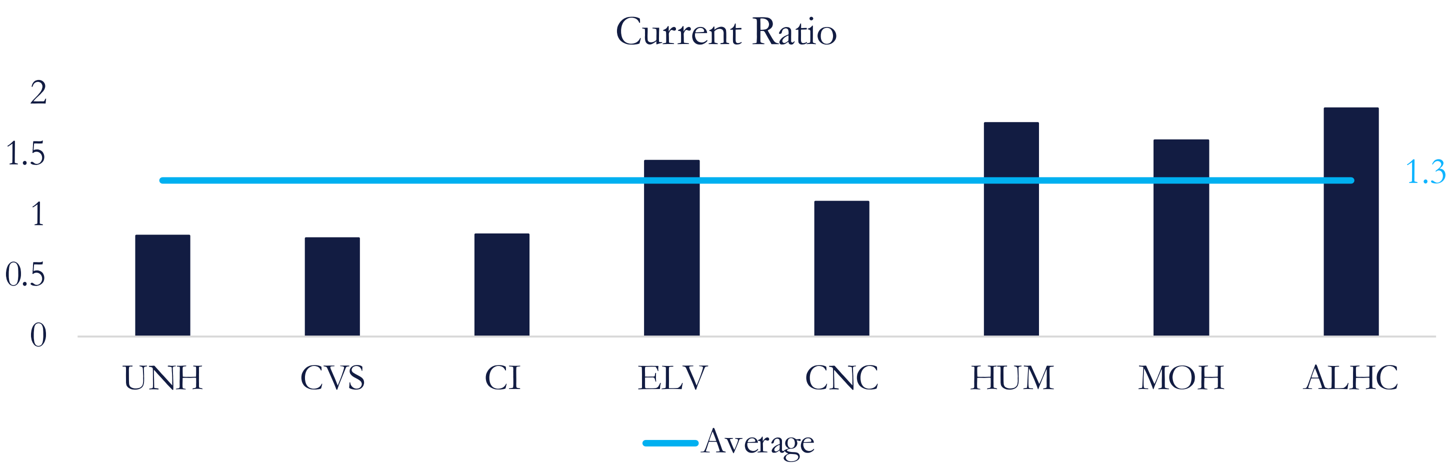
The varying YoY growth projections represent operational differences through diverse execution of business models and differing levels of financial stability. ALHC shows the highest growth rates from 2024 to 2026, though could be inflated from a low revenue base and financial instability. In contrast, UNH, MOH, and ELV display consistent mid-to-high single-digit growth, supporting their stronger valuation multiples. The sector median gradually declines from 9% in 2024 to 6% in 2026, reflecting broader expectations of slowing revenue expansion.

Sources: Bloomberg, FactSet, Respective Company Websites, Yahoo Finance

LIQUIDITY & LEVERAGE

In millions USD except ratios

Company	Operating Cash Flow	Current Assets	Total Assets	Current Liabilities	Total Liabilities	Liquidity			Leverage		
						Current Ratio	Quick Ratio	Cash Ratio	Debt / Equity	Debt / Assets	FCF/Total Debt
UNH	24,204	85,779	302,102	103,769	191,511	0.83	0.50	0.24	0.75	0.63	25.30
CVS	9,107	68,645	260,822	84,609	185,092	0.81	0.56	0.13	1.09	0.71	7.60
CI	10,363	48,870	151,503	57,979	110,260	0.84	0.56	0.13	0.93	0.73	28.00
ELV	5,808	58,942	116,889	40,581	75,463	1.45	1.18	0.20	0.75	0.65	14.20
CNC	154	37,999	83,584	34,261	57,074	1.11	1.06	0.41	0.73	0.68	-2.50
HUM	2,966	29,815	46,312	16,939	29,867	1.76	1.37	0.13	0.71	0.64	19.50
MOH	644	12,773	15,682	7,896	11,186	1.62	1.56	0.59	0.69	0.71	17.00
ALHC	35	662	782	352	681	1.88	1.78	1.24	3.26	0.87	-2.00
Lower	522	25,555	38,655	14,678	25,197	0.84	0.56	0.13	0.73	0.65	5.20
Median	4,387	43,435	100,237	37,421	66,269	1.28	1.12	0.22	0.75	0.70	15.60
Mean	6,660	42,936	122,210	43,298	82,642	1.29	1.07	0.38	1.11	0.70	13.39
Upper	9,421	61,368	178,833	64,637	128,968	1.65	1.42	0.46	0.97	0.72	20.95

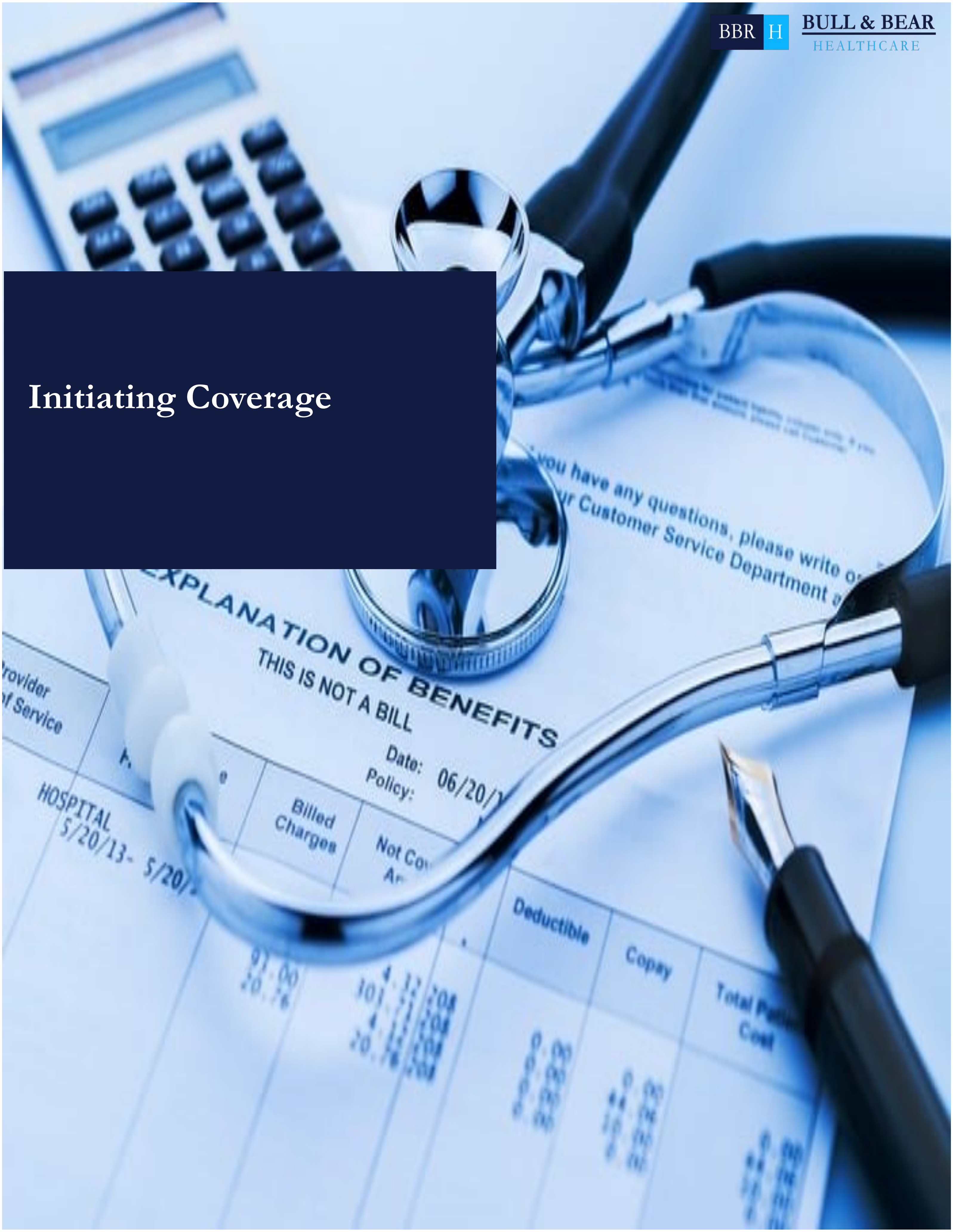


The analysis of liquidity and leverage across leading managed care organizations reveals a clear divide between the largest incumbents and growth-stage players. Most companies represent a healthy current ratio above 1.0, indicating they possess more current assets than liabilities, suggesting a strong ability to cover short-term debts. Comparatively, UNH, CVS, and CI fall below 1.0, indicating a tighter margin in meeting short-term obligations. Surprisingly, ALHC, despite being the smallest firm by asset base, possesses the highest current ratio, revealing that it holds significantly more current assets than current liabilities - a sign of strong short-term liquidity. However, this comes with a trade off as ALHC holds an unusually high debt to equity ratio of 3.26, far exceeding the group median of 0.75. Ultimately, ALHC's strong current ratio appears to be deceiving for investors, as their surface level liquidity strength has been artificially inflated by borrowed funds, as opposed to generated capital. UNH and HUM stand out amongst the group when considering FCF to Total Debt, highlighting their ability to generate ample free cash relative to debt. Conversely, CNC and ALHC report negative ratios signaling inherent risk, or a growth phase featuring high capital investment.

Sources: Bloomberg, FactSet, Yahoo Finance

BBR H BULL & BEAR HEALTHCARE

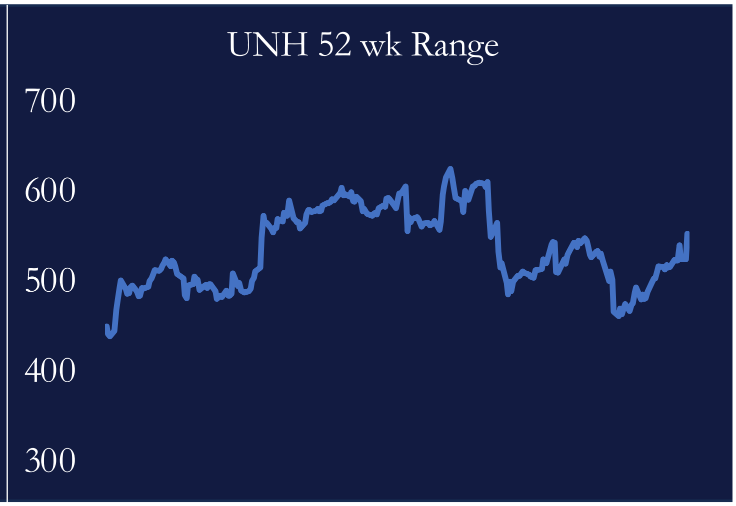
Initiating Coverage



BBR H BULL & BEAR HEALTHCARE

UnitedHealth Group Inc. (UNH)

Recommendation:	BUY	P/E	19.95
Price Target:	$653.72	EV ($B)	542.14
Current Price:	$553.28	EV/EBITDA	19.66x
Market Cap ($B)	494.35	Beta	0.62
Shares Outstanding (MM):	914.7	EPS (TTM)	26.23



Company Overview

UnitedHealth Group provides organized health systems, offering employers the resources needed for employee benefit programs and individuals across the globe. The company focuses on delivering high-quality care, enabling affordable coverage, and offering a variety of health benefits. Customers of UNH span across individuals, families, employer insurance, and Medicare and Medicaid beneficiaries. The UNH Optum business units offer wellness and care management programs, pharmacy benefit management services, information technology solutions, and financial services. The company has 4 reportable segments: UnitedHealthcare (55% of revenue), OptumRx (25%), OptumHealth (20%), and OptumInsight (remaining 5%). UNH has a total market capitalization of $480 billion, making up 7.56% of the healthcare sector and 56.7% of the managed care industry through its global presence.

Services Offered

- UnitedHealthcare: Comprises 55% of the company's revenue. It consists of Employer and Individual, Medicare & Retirement, and Community & State, serving a total of 41.4 million. There are 29.7 million in employer and individual, 4.3 million individuals over age 50 in Medicare, and 7.4 million in state programs.
- OptumRx: Provides pharmacy care services to 67,000 retail pharmacies, home delivery, and home infusion services and makes up 25% of the total revenue.
- OptumHealth: Focuses on comprehensive patient-centered care to address the physical, mental, social, and financial needs of 100 million consumers and 100 health payer partners.
- OptumInsight: Connects the healthcare system with services and analytics to deliver integrated solutions to help administrative and financial processes.

Street View

UnitedHealth Group has faced a great deal of public scrutiny over the last 6 months following the assassination of CEO Brian Thompson. UNH also missed projected annual revenue of $101.6B with actual revenue of $100.8B, which is a 7% year-over-year increase. UNH reported high medical cost ratio for the year which has raised some concerns about the company's profitability among Wall Street analysts. There was a negative reaction on the street after missed earnings with the stock down 5%. Despite this, the company maintained its expectations for 2025. UNH remains one of the highest recommended "Buy" stocks within healthcare and in the market with >95% of analysis recommending it as a strong buy opportunity for investors.

Investment Thesis

Despite some challenges in the managed care industry and severe market volatility, we view UnitedHealth Group as a very strong investment opportunity. UNH is currently focused on growing its Optum segment, which comprises about 45% of its total company revenue. They aim to manage medical costs effectively to drive continued financial success for both the segment and the company. UNH's diverse range of services looks to prove stability amongst volatility in the market. Ultimately, in comparison to its competitors, UNH provides investors with the most consistency, as it looks to drive upon prior successes of 2023 and 2024.

Sources: Bloomberg, Pitchbook, Respective Company Websites, Yahoo Finance

STREET PERSPECTIVE - UNH

UnitedHealth Group Inc.

Select Commentary

Wells Fargo — **Price Target: $660** — **Rating: Overweight**

- UNH provides the lowest risk profile with the most attractive growth framework demonstrating stabilization
- Recently changing regulatory backdrop that looks to favor Medicare Advantage starting in 2026
- Medical Advantage usage remains elevated, creating risk for a decrease in current client base
- UNH's strong positioning and consistent margin performance looks to persist

Research Team

- Stephen Baxter, *Equity Analyst*

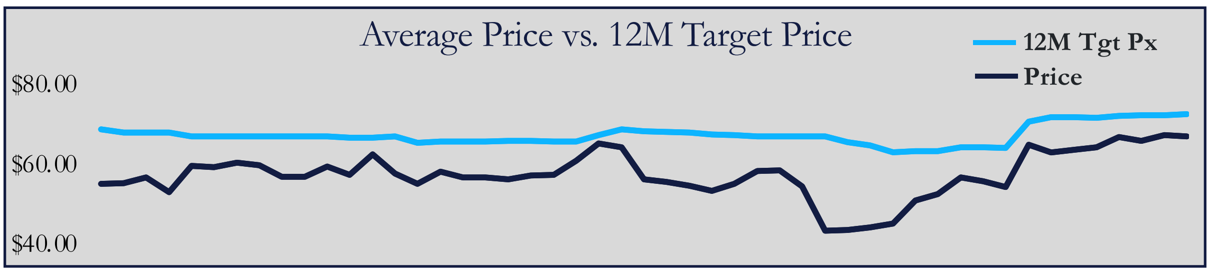
J.P. Morgan — **Price Target: $652** — **Rating: Overweight**

- Given UNH's strong operational capabilities and diversification, their long-term goal of +13% to +16% remains attainable despite concerns amongst competitors
- Immense confidence in Optum Health as it has evolved its mix of patients with a higher D-SNP enrollment, providing opportunity in the long term to deal with a more complex population

Research Team

- Debbie S. Wang, *Senior Equity Analyst*

Price Analysis



Consensus Rating

BUY:	96.7%
HOLD:	0%
SELL:	3.3%

Comparative Analysis ($653.72)	Date	Analyst	Firm	Rating
$600	4/1/25	Sidharth Sahoo	HSBC	BUY
$697	3/31/25	Lance Wilkes	Bernstein	OUT
$600	3/31/25	Ann Hynes	Mizuho	OUT
$610	3/26/25	Erin Wright	Morgan Stanley	OW
$650	3/23/25	Matt Gillmor	KeyBank	OW
$600	2/26/25	Jessica Tassan	Piper Sandler	OW
$675	2/21/25	Whit Mayo	Leerink Partners	OUT
$609	2/21/25	Ryan Langston	TD Cowen, a division of TD Securities	BUY

Sources: Bloomberg, Wells Fargo, JP Morgan

CVS Health Corp. (CVS)

BULL & BEAR HEALTHCARE

Recommendation:	**BUY**	P/E	**17.39**
Price Target:	**$83.28**	EV ($B)	**152.19**
Current Price:	**$67.63**	EV/EBITDA	**11.11**
Market Cap ($B)	**81.02**	Beta	**0.57**
Shares Outstanding (MM):	**1,259**	EPS (TTM)	**3.66**

Company Overview

Founded in Lowell, Massachusetts, CVS Health is a diversified health solutions company. Their business model includes the retail pharmacy, healthcare benefits, and health services. CVS achieved a revenue of $373 billion in 2024. The firm maintains a focus on integrating the delivery, digital transformation, and accessibility of healthcare to underserved communities by providing a wide variety of solutions under a unified and affordable umbrella. CVS recently sought to expand its healthcare services segments through strategic acquisitions, such as Oak Street Health, Hella Health, and Signify Health. The company holds perhaps the widest variety of customers in the comparable company group, spanning across patients of the CVS Pharmacy, shoppers, and health enthusiasts. CVS operates nearly 10,000 pharmacies and dispenses nearly 27% of total retail prescriptions in the US but does not operate within any other countries of the world.

Services Offered

CVS has three main segments: Health Care Benefits, Health Services, Pharmacy & Consumer Wellness.

- Pharmacy: CVS Pharmacy and related services.
- Health Services: This segment includes pharmacy benefits managers (PBMs) like CVS Caremark, and other services.
- Healthcare Benefits:
    - Aetna: A major health insurance provider, Aetna plays a significant role in CVS Health's managed care business.
    - CVS Caremark: CVS Caremark is a leading PBM, managing prescription drug benefits for clients.
    - Medicare Advantage: CVS Health offers highly rated Medicare Advantage plans and a leading Medicare Part D prescription drug plan.
    - Medicaid: CVS Health also serves Medicaid beneficiaries through its health insurance and managed care offerings.

Street View

CVS positions itself as a managed care market leader through strategic acquisitions that define its direction. However, as a new management team comes aboard, the firm seeks to rebound from poor results in the past, exemplified by a 4.2% revenue growth from 2023 to 2024. The regulatory environment limits how far margins can expand on products such as Medicare Advantage, limiting the potential for immediate improvement. CVS must also integrate primary-care assets towards its established retail pharmacy footprint, leaving the growth prospects somewhat ambiguous but hopeful. Overall, the firm maintains a strongly diversified business model, making investors optimistic for a successful turnaround.

Investment Thesis

CVS maintains a secure business structure across several business segments. It's retail pharmacy segment and health services segment are less affected by regulatory headwinds than other companies in the managed care industry. This security in cash flow provides CVS with the ability to implement strategic initiatives towards operational efficiency and increased margins, which new management has highlighted as key goals for their tenure. Given the firm's diverse solution offerings, the management is uniquely positioned to leverage prior acquisitions towards their goals while maintaining relatively strong cash flows. This leads our team to give CVS a strong implied upside and a buy recommendation.

Sources: Bloomberg, Morningstar, Pitchbook, Respective Company Websites, Yahoo Finance

BBR H **BULL & BEAR** HEALTHCARE

STREET PERSPECTIVE - CVS

CVS Health Corp.

Select Commentary

Wells Fargo — **Price Target: $73**
Rating: Overweight

- Forecasts CVS's 2026E EPS is 4.4% positively impacted for every 100bps of underlying MLR improvement, due to significant MA exposure
- Expects lot of growth MA/Exchange tailwinds and new management likely to reset expectations conservatively
- Sees CVS as undervalued due to short-term concerns, but believes the market is overlooking its strong long-term earnings potential

Research Team

- Stephen Baxter, CFA, *Equity Analyst*

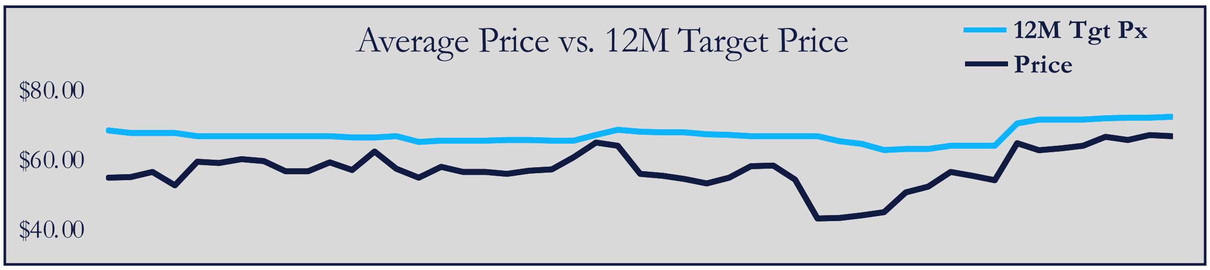
Mizuho — **Price Target: $70**
Rating: Outperform

- Embedded earnings power led to a raised price target to $70 (from $58)
- Views CVS as a long-term opportunity due to strong cash flow, cost-plus reimbursement strategy, and vertical integration via Oak Street and Signify
- Valuation based on blended approach (P/E, EV/EBITDA, FCF/EV), implying 12.0x 2025E EPS vs. 10-year trading average of 12.3x

Research Team

- Ann Hynes, *Managing Director*

Price Analysis



Consensus Rating

BUY:	69%
HOLD:	31%
SELL:	0%

Comparative Analysis	Date	Analyst	Firm	Rating
$70	4/7/25	Ann Hynes	Mizuho	OUT
$80	4/2/25	Charles Rhyee	TD Cowen, a division of TD Securities	BUY
$73	03/28/25	Stephen Baxter	Wells Fargo	OW
$74	03/21/25	Jessica Tassan	Piper Sandler	OW
$75	03/13/25	John W Ransom	Raymond James	OUT
$68	02/13/25	Erin Wright	Morgan Stanley	OW
$51	02/12/25	Michael Ha	Baird	Neutral
$73	02/12/25	Andrew Mok	Barclays	OW

$83.28

Sources: Bloomberg

Molina Healthcare Inc. (MOH)

Recommendation:	BUY	P/E	16.19
Price Target:	$367.07	EV ($Bn)	12.11
Current Price:	$330.66	EV/EBITDA	11.24x
Market Cap ($Bn)	18.09	Beta	0.70
Shares Outstanding (Mn):	57.4	EPS (TTM)	20.42

Company Overview

Molina Healthcare offers services to low-income families and individuals under Medicare and Medicaid programs and state insurance marketplaces. MOH serves 5.54 million members across 20 states in the United States and primary care clinics in Northern and Southern California. Molina focuses on expansion into various regions across the US to reach more customers. Over the past two years, Molina has seen its total customers grow at an average of 4.4% year over year. The company has 4 reportable segments: Medicaid, Medicare, Marketplace, and Other making up 80%, ~15%, ~5%, and the remainder of the company's revenue share, respectively. The Medicaid, Medicare, and Marketplace segments represent the company's government-funded and sponsored programs for managed healthcare services. The Other segment includes long-term services and supports consultative services in Wisconsin, though it is insignificant to its operations results.

Services Offered and Customers Served

Molina operates through its Medicaid, Medicare, and Marketplace segments to offer government-funded programs to underserved populations. Their offerings include preventative care, primary and specialty physician services, hospital care, maternity and pediatric care, prescription drug coverage, chronic disease management, and more. Their value-added services like transportation to appointments, telehealth, and housing assistance coupled with their collaboration with federal and state agencies allows them to excel in accessible and affordable care delivery. .Including transportation services, aiding with housing, and helping with language barriers, allows for many people to receive the care that they need. Molina has a strong network of providers and offers personalized care to improve the health outcomes and quality of life for its members and committing to community-based care.

Street View

After Molina's quarter 3 earnings call in late October 2024, the stock soared by 23%, which is one of the largest daily increases in the last decade. However, there are mixed opinions on the future performance of Molina, as 37.5% of sell-side analysts put a "Buy" rating on the name, while 50% recommend for investors to hold. The stock traded down significantly after missing quarter 4 earnings per share (EPS) expectations of $5.88 with actual EPS at $5.05. Last week, however, March 31 to April 4, which was one of the worst weeks for the S&P 500 in the last decade, Molina arose as one of the best performing stocks. MOH was up 7.39% at the close on April 4 for the week. Despite turbulent times in the market, Molina demonstrated its strong performance.

Investment Thesis

Molina has seen nearly 20% topline growth and 8% growth in net income from 2023 to 2024, posing strong competition in the managed care industry. Though there are industry challenges such as the Medicaid redetermination process, Molina surpassed 2024 guidance and revised expectations for 2025 with expected revenue growth of 10%. Molina is also looking to expand its Medicaid memberships to 5.1 million by the end of 2025. Ultimately, MCO's actively face an uncertain regulatory landscape under President Trump leading to future funding concerns. However, with these strong expectations for the company coupled with outstanding performance over the past few years, we see high potential upside in holding Molina.

Sources: Bloomberg, FactSet, Molina Healthcare Inc, Yahoo Finance

STREET PERSPECTIVE - MOH

Molina Healthcare Inc.

Select Commentary

J.P. Morgan — **Price Target: $333**
Rating: HOLD

- Recently trimmed price target from $350 to $333 in coordination with an adjusted 12.0x multiple added to JPM's earnings per share (EPS) estimate
- John Stansel sees potential for growth in line with recent Medicaid wins in California, Iowa, Georgia, and Nebraska
- Volatile risk as MOH faces material annual contract renewals

Research Team

- John Stansel, *Managing Director*

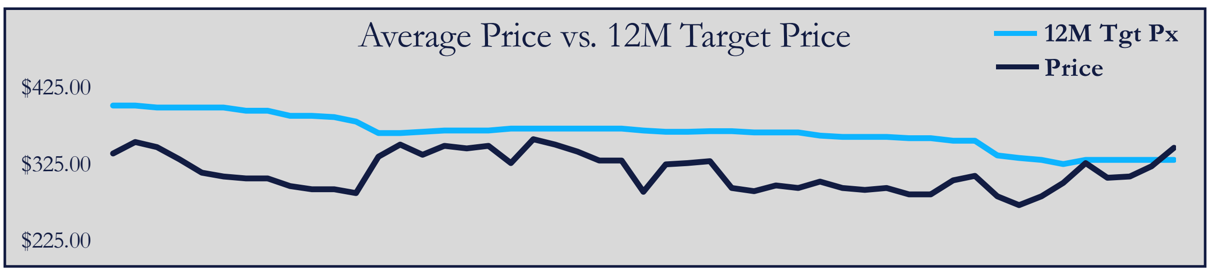
Deutsche Bank — **Price Target: $368**
Rating: HOLD

- Deutsche Bank recently trimmed projected earnings from $44.6B to $44.1B in light of legislative and regulatory risk
- MCO utilization issues caught up to MOH in 2024, and are expected to persist
- On a management and execution level, the company continues to provide strong performance, ultimately keeping DB at a hold rating, with hope for an opportunity to gain positivity

Research Team

- George Hill, *Research Analyst*

Price Analysis



Consensus Rating

BUY:	37.5%
HOLD:	50%
SELL:	12.5%

Comparative Analysis ($367.07)	Date	Analyst	Firm	Rating
$356	4/4/25	Sarah James	Cantor Fitzgerald	OW
$376	4/2/25	Ann Hynes	Mizuho	OUT
$340	2/19/25	David Macdonald	Truist	BUY
$333	2/12/25	John Stansel	J.P.Morgan	Neutral
$342	2/9/25	Ryan Langston	TD Cowen a division of TD Securities	BUY
$279	2/7/25	David Windley	Jefferies	HOLD
$339	2/6/25	Andrew Mok	Barclays	EQ
$331	2/5/25	Michael Ha	Baird	OUT

Sources: Bloomberg, JP Morgan, Deutsche Bank

TEAM OUTLOOK

The managed care industry proves to be an attractive investment opportunity as it is forecasted to grow to $4.37 trillion by 2028 based on a compound annual growth rate of 6.09%, ahead of the healthcare expenditure CAGR of 5.62% by 2028. Managed care represents the majority share in the national health expenditure alongside out-of-pocket expenses, investments, and others. Growth in the industry is fueled by increases in urbanization, an aging population, and the escalating adoption of insurance. The Trump Administration and its substantial increases in Medicare Advantage reimbursement rates create a key tailwind for the managed care industry. The Centers for Medicare and Medicaid Services announced a 5.1% boost in payments for Medicare Advantage plans in early April 2025, which is more than double the initial proposed increase. This is projected to inject more than $25 billion into the industry, which will benefit private insurers such as Humana (HUM), CVS Health (CVS), and UnitedHealth Group (UNH). Among many strong-performing companies, UnitedHealth Group stands out as the most attractive investment opportunity within both the managed care industry and the healthcare sector. The company has seen high revenue growth with steady margins. The stock has seen constant growth over the last five years, with the name up nearly 110% since 2020. Overall, we are confident in the market opportunity that is present in the managed care industry given a variety of macroeconomic factors and have identified our strongest investment recommendations in this report.