



UNITED HEALTH GROUP (UNH)

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Business Overview

- Diversified health and well being company
- Largest health insurance company in the United States run through UnitedHealth division
 - ▣ Offers both risk and fee based health insurance products
- Offers health care services business under Optum subsidiary brand
- Recently purchased by Third Point LLC and Greenlight Capital

UnitedHealth Insurance

Employment and Individual (Private)

- Provides healthcare to individuals and family members, and employers who take care of employee benefits
- Risk-based product - UNH assumes risk of medical costs for customers in return for monthly premium
- Service-based product- UNH receives a fixed service fee for individual when providing administrative services to customers that self-fund health care costs for employees

Medicare and Retirement

- Provides government-run Medicare healthcare services primarily to AARP members and individuals aged 65 or older
- Offers AARP endorsed insurance program, which is marketed primarily to AARP members
- Programs
 - ▣ Medicaid Advantage – Provides health insurance coverage for Medicare recipients in exchange for fixed monthly premiums from CMS (2.2 MM members)
 - ▣ Prescription Drug Benefit (Part D) – (7.1 MM members)
 - ▣ Medicare Supplement

Community and State (Medicaid)

- Provides Medicaid managed care solutions to economically disadvantaged or medically underserved individuals and those without the benefit of employer-funded health care coverage
- Offers programs in 23 states and the District of Columbia
 - ▣ States award contracts through a formal bid process typically
- Coordinates resources among family, physicians, other health care providers, and government and community based organizations to facilitate continuous and effective care

Statistics

	Three Months Ended (\$B)		
	Q3'12	Q2'12	Q3'11
Revenues	\$25.5	\$25.5	\$23.6
Earnings From Operations	\$2.2	\$1.9	\$1.8
Net Margin	8.60%	7.50%	7.40%

Segment Revenue

	Q3'12	Q2'12	Q3'11
Employer and Individual	\$11.6	\$11.6	\$11.4
Medicare and Retirement	\$10.0	\$10.1	\$8.8
Community and State	\$3.9	\$3.8	\$3.5

Optum

Technology-Enabled Health Services

OptumHealth

- Focus on health management, clinical services and financial services
 - ▣ Care solutions - Addresses physical health needs such as treatment options
 - ▣ Behavioral solutions - Addresses emotional health needs such as substance abuse or anxiety
 - ▣ Financial Services – Helps organizations and individuals address their health care finances through care-related lending and financial risk protection

OptumInsight

- Provides analytics, technology and consulting services to enable better decisions and results
- Emphasize consistency in clinics, lowering costs, and making health care systems easier to use
 - ▣ Efficiency– Improve physician performance and early disease identification
 - ▣ Cost cutting – Streamlines administration through bulk analysis of claims to minimize waste
 - ▣ Ease of use – Empowers patients to have role in selecting physician and provides small clinics access to SaaS electronic record system

OptumRX

- Specializes in delivery, clinical management, and affordability of prescription drugs and consumer health products
 - ▣ Convenience – ease of ordering prescriptions online: refill and reorder, dedicated mobile app
 - ▣ Management – Option to assign individuals to regulate household or caregiver accounts
 - ▣ Affordability – drug pricing tools to compare drug prices and view lower cost alternatives when available

Statistics

	Three Months Ended					
	Q3'12	% Total	Q2'12	% Total	Q3'11	% Total
OptumRx						
Revenue	\$4,454	16.3%	\$4,605	16.9%	\$4,874	19.3%
Operating Income	\$114	4.4%	\$102	4.6%	\$114	5.5%
Margin	2.6%		2.2%		2.3%	
OptumHealth						
Revenue	\$2,054	7.5%	\$2,025	7.4%	\$1,723	6.8%
Operating Income	\$168	6.4%	\$123	5.5%	\$115	5.6%
Margin	8.2%		6.1%		6.7%	
OptumInsight						
Revenue	\$718	2.6%	\$671	2.5%	\$625	2.5%
Operating Income	\$126	4.8%	\$95	4.3%	\$91	4.4%
Margin	17.5%		14.2%		14.6%	

Investment Thesis

- Well positioned to capitalize on changes in health insurance market caused by Affordable Care Act and other healthcare legislation
- Purchased Amil, a market leader in the fast growing private Brazilian health care market
- Strong Optum health service segment is growing rapidly, offers high margins, and is well positioned to lead in growing healthcare IT market



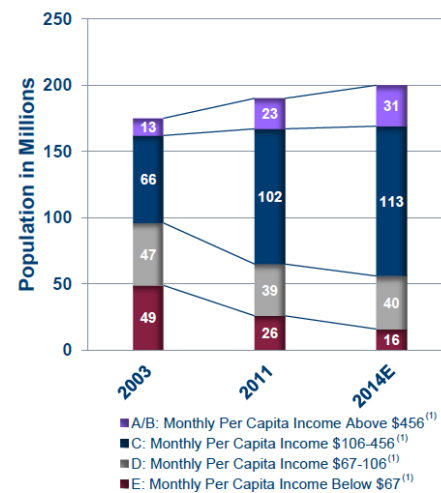
Amil Acquisition

- On October 8, Amil agreed to buy a 90% stake in Amil, a market leader in Brazil's managed care market for \$4.9 B in cash (\$.6 B tax benefit)
 - ▣ Plan to purchase 60% of shares in Q4'12 and 30% in Q3'11
 - ▣ The remaining 10% will be held by Amil's founder and CEO, who has additionally committed to investing \$470 MM in UNH shares, making him the largest private shareholder in UNH
- Expected to be slightly accretive to earnings initially, but will not be a large factor in earnings until 2014
- On October 23, Brazilian regulators non-conditionally approved the deal
- On October 24, UNH issued \$2.5 B worth of bonds in four equal size tranches with semiannual coupons varying from .85% (matures 2015), 1.4% (2017), 2.75% (2023), and 3.95% (2032)
 - ▣ Graded A3 by Moodys, A by S&P, and A- from Fitch

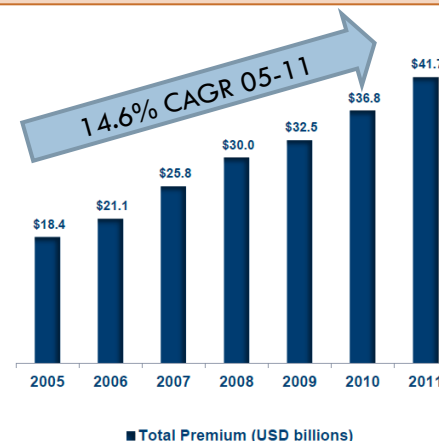
Amil Acquisition (cont.)

- Offers UNH a leading position in a high growth market as well as a great platform for the Optum business line
 - 9% market share
- Amil offers a variety of products for each income class through the largest private healthcare network in Brazil
- Brazil offers rapid growing middle class seeking access to higher quality private health care
 - Health care spending at 9% of GDP, up from 7.2% of GDP 10 years ago
- Market penetration for private coverage is low at 25% of Brazilian population
- Increasing regulatory standards for quality and capital is leading to market consolidation
 - 2,003 private health insurers in 2000 vs 1,178 in 2012

Middle Class Growth



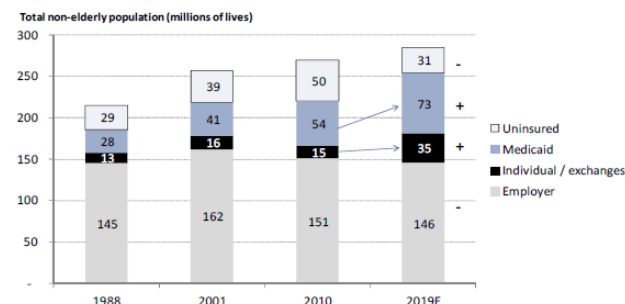
Market Growth



Impact of Affordable Care Act

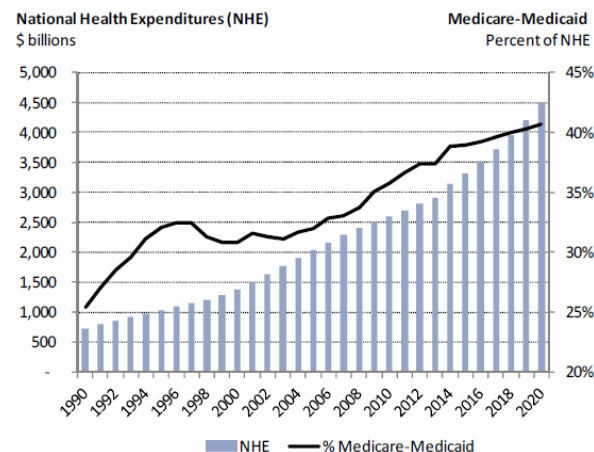
- “Obamacare” brings both negatives and positives to UNH’s stock price, but we expect it to have a positive net effect
- Healthcare spending is expected to increase as coverage is extended to 30 million Americans
 - Expansion of Medicare services to individuals living below 133% of the poverty line is expected to account for half of the new coverage
 - Those living within 133%-400% of poverty line will qualify for federal subsidies for private insurance
 - Aggregate revenue expected to grow 15% by 2014
- All companies with over 50 employees must offer employee health insurance or pay a fine
- 2014 Industry Tax of \$8B, on basis of 2013 market share (UNH MS = 15%)
 - Pass-through pricing into structure of premiums is not explicitly prohibited under ACA
 - UNH noted that pricing of the fee into renewals for next year should provide an incremental tailwind to 2013 earnings and boost EPS by \$0.05 or 1%

Exhibit 4: Coverage expansion to enlarge individual and Medicaid-covered populations
Breakdown of US non-elderly population by source of health insurance coverage



Source: CBO, EBRI, Kaiser, Goldman Sachs Research estimates.

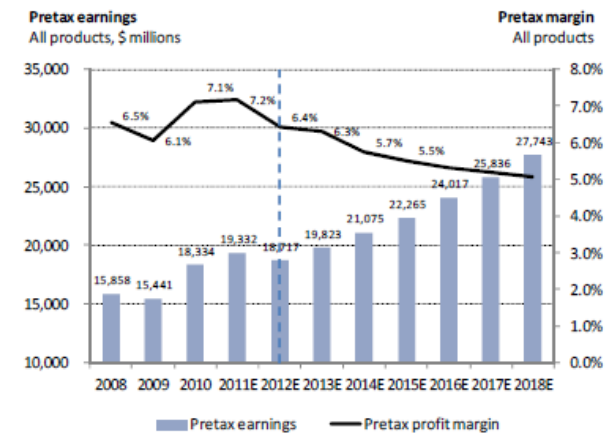
Exhibit 5: National health spending to reach \$4.5 trillion by 2020 from \$2.8 trillion today
Based on HHS/CMS projection revised June 2012



Impact of Affordable Care Act (cont.)

- Managed care companies must operate under set medical loss ratios which is expected to contract premium margins
 - Medical loss ratios require company to spend 80%-85% of every premium dollar earned on clinical services or activities that improve health care quality
- Insurers must accept all applicants for coverage in the individual and small group market without varying rates
 - Unable to remove unique risk when providing insurance, insurers will offer services with simplified pricing bands for all members, with a much lower price ratio from the cheapest to the most expensive policies
 - Insurers will need to compete not through pricing or by excluding risk but by differentiating products and identifying customers in a sophisticated way
- States will set up online Health Insurance Exchanges where individuals and small employers will shop and compare health insurance
 - CBO estimates only 7% of employees covered by health insurance will have to switch to exchanges
 - According to McKinsey research, for companies offering employee sponsored insurance, differentiation through products and services will be more important than costs, so more comprehensive or value-added plan designs will be essential
 - UNH will compete effectively due to strong brand, broad product offerings, and leading technology enabled health services
- The Budget Control Act of 2011 will partially counteract the increase in Medicare and Medicaid spending

Exhibit 8: Base case: new revenues offset lower margin
Aggregated pretax earnings and margin for core companies



Source: Company data, Goldman Sachs Research estimates.

Coverage expansion

Medicaid coverage expansion (to 133% FPL)	643
Commercial coverage expansion (subsidies to 400% FPL)	798
Commercial coverage expansion (subsidies to 400% FPL)	177
SPENDING ADDITIONS	1,618

Reductions to Medicare / Medicaid spending

Lower Medicare provider reimbursement	(415)
Lower Medicare Advantage program funding	(156)
Medicare/Medicaid DSH payment reductions and other	(156)
SPENDING CUTS	(727)

HealthCare IT

- Recent federal healthcare laws have required the digitalization of healthcare records
 - ▣ While other insurers signed vendor deals, seeing IT as an obligation, UNH bought small vendors, seeing it as an opportunity
- Blue Button initiative announced in 2010 provides patients with a digital copy of their health history
- UNH has access to this information through its subsidiary Optum to provide additional information when calculating risk structures as well as incentivizing certain procedures
 - ▣ The Office of the National Coordinator (ONC) of Health IT in HHS's implemented a Blue Button Mash-Up Challenge to encourage companies to integrate the Blue Button tool with actual clinical data from physician-managed electronic health records (EHRs), in which doctors input data on medical conditions and medications
- UNH can utilize the information provided by Optum to their advantage and such behavior is, arguably, endorsed by the government because it increases competition to cut costs
- Google Health was shut down this year because private sector data management did not provide the same level of patient confidentiality as those by health care providers under HIPAA

Comparable Company Analysis

Profitability

Name	EPS T12M	Operating Margin (LF)	Pretax Margin (LF)	Dividend Pay-Out LF	Return on Equity (LF)	2012E Commercial Pretax Profit Margin	2012E Medicare Pretax Profit Margin	2012E Medicaid Pretax Profit Margin	2012E Medicare Part D Pretax Profit Margin
UNITEDHEALTH GROUP INC	5.33	9.56%	8.98%	13.94%	19.07%	6.5%	6.6%	4.0%	5.7%
WELLPOINT INC	7.40	7.57%	6.81%	14.64%	10.53%	5.4%	3.5%	3.0%	5.5%
CIGNA CORP	5.32	9.76%	9.76%		17.43%	6.1%	6.4%		5.7%
AETNA INC	5.33	10.23%	8.68%	11.74%	17.18%	6.1%	6.0%	4.0%	5.8%
HUMANA INC	7.57	7.26%	6.99%	9.80%	14.85%	3.9%	5.2%	2.0%	6.3%
COVENTRY HEALTH CARE INC	3.26	4.61%	4.83%	15.74%	9.92%	5.1%	6.0%	(1.2%)	5.3%
HEALTH NET INC	2.13	1.98%	1.06%		11.81%	(0.6%)	3.6%	(2.0%)	
AMERIGROUP CORP	3.06	2.81%	2.33%		11.04%				
WELLCARE HEALTH PLANS INC	5.14	3.48%	3.43%		19.24%		6.4%	4.9%	5.0%
Average	4.95	6.36%	5.87%	13.17%	14.56%	4.6%	5.5%	2.1%	5.6%

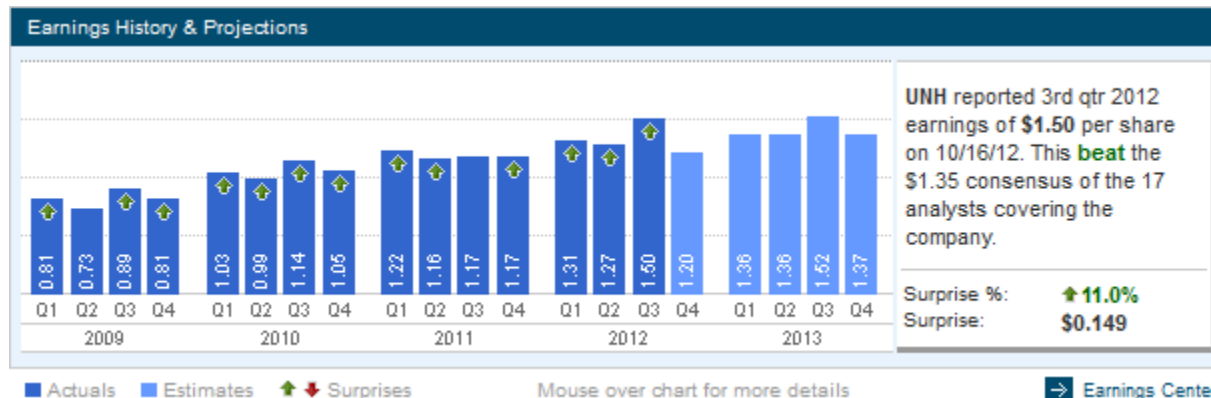
Valuation

Capital Structure

Name	Price/Earnings	P/FCF	EV/EBITDA T12M	P/B LF	P/EBITDA	Debt/Assets LF	Net Debt/Equity (LF)	LTM EBITDA Growth 3-YR	Medical Cost Ratio	2013E Premium Market Share	2014E Premium Market Share	Market Cap
UNITEDHEALTH GROUP INC	10.67	14.39	5.57	1.86	5.57	18.13%	3.45%	48.21%	80.80%	14.7%	14.9%	\$57.6 B
WELLPOINT INC	8.42	7.73	2.11	0.88	4.12	20.44%	(38.76%)	20.40%	85.10%	9.7%	10.0%	\$19.9 B
CIGNA CORP	9.61	11.25	6.37	1.42	5.34	9.74%	28.50%	112.71%	80.47%	2.2%	2.8%	\$15.2 B
AETNA INC	8.59	11.32	4.34	1.22	4.07	11.76%	13.79%	35.44%	79.60%	5.3%	5.7%	\$14.9 B
HUMANA INC	8.97		1.93	1.28	5.25	10.07%	(86.62%)	30.49%	82.10%	6.5%	6.3%	\$12.0 B
COVENTRY HEALTH CARE INC	13.73		6.63	1.21	6.63	18.21%	3.40%	37.14%	82.10%	2.3%	2.4%	\$5.9 B
HEALTH NET INC	19.08		2.59	1.19	8.97	13.10%	(96.05%)	(29.76%)	86.40%	1.9%	2.1%	\$2.1 B
AMERIGROUP CORP	31.53	31.07	13.39	2.27	14.11	16.21%	(22.08%)	10.43%	83.70%	2.0%	2.2%	\$4.5 B
WELLCARE HEALTH PLANS INC	8.26		2.47	1.92	5.48	5.45%	(89.01%)	162.38%	80.90%			\$2.1 B
Average	13.21	15.15	5.04	1.47	6.62	13.68%	(31.49%)	47.49%	82.35%			\$14.9 B

Recent Q3 Results

- Raised 2012 profit forecast to \$5.20-\$5.25 a share, due to increased enrollment in Medicare and Medicaid plans while medical costs stayed stable
- UnitedHealth added 2.1 million members to its medical plans from a year earlier
- Has beat earnings consensus every quarter going back to 2008



Risks

- PPACA – Minimum medical care ratio
 - ▣ Medical expenses to premium revenue
- Regulatory measures
 - ▣ Budget Control Act 2011: issues with the debt ceiling
- AARP – Expiration of partnership with AARP in 2014
 - ▣ Could drive away significant base: 4 million of 10 million Medicaid enrollments from AARP
- Increase in competition – Health insurance exchanges in 2014
 - ▣ Push to drive down prices through price focus

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