



UnitedHealth Group Inc. (UNH US)

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BUY

Target Price: US\$ 525.39 (+48% Upside)

Current Price: US\$ 355.00 (19 Oct)

Investment Horizon: 18 months

Executive Summary

UnitedHealth is the largest managed care organization and health technology company in the world

Street View

EPS recovery will remain slow as MA repricing takes several cycles to flow through

- Street believes UNH's mispricing in 2025 will weigh on margins for multiple years
- This is due to lagged bid cycles and utilization uncertainty, expecting margins to normalise only beyond FY 27.

Value-based care adoption remains too fragmented to materially improve margins

- Sell-side consensus views VBC as conceptually positive but practically limited.
- This is given integration hurdles, misaligned incentives, and the slow transition away from the fee-for-service model.

AI efficiency gains are distant and speculative

- Street treats AI adoption as a thematic noise and won't move the needle on EPS.
- This is due to the assumption of negligible cost impact before 2028, and viewing AI initiatives as PR-oriented rather than financially material.

Our View

MA margins are set to rebound much faster than Street expectations

- 2026 bids show UNH prioritizing profitability, exiting unprofitable markets, and fully repricing plans toward 3-5 % long-term margin guidance.
- CMS benchmark hikes and lower OTC benefit intensity support a faster rebound in EPS through FY26 and FY27.

UNH is the only MCO positioned to capture the VBC tailwind

- Its integrated Optum-UHC model aligns payer and provider incentives, enabling measurable cost containment and better outcomes.
- As U.S. health care spending becomes unsustainable, UNH's scale and data give it a structural edge in the shift to value-based reimbursement.

AI is becoming a tangible margin lever for UNH

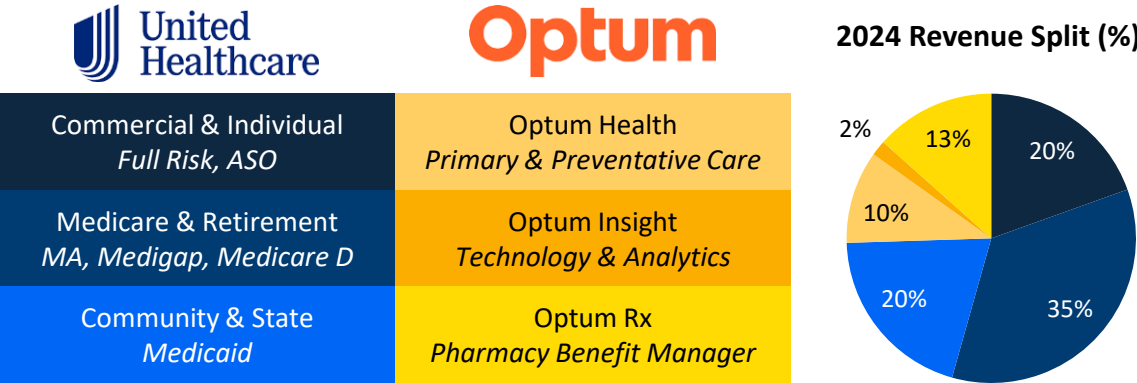
- OptumInsight's vast clinical data stack and automated claims infrastructure will drive quantifiable opex and MLR efficiency by FY26/
- Unlike peers, UNH's vertical integration allows direct capture of AI-driven productivity gains across the entire healthcare value chain.

We believe that street is undervaluing the stock fundamentally, and that clear near-term catalysts will induce a re-rating of the stock over the next 24 months

Company Overview

UnitedHealth is the largest managed care organization and health technology company in the world

UNH operates two separate divisions, UnitedHealthcare and Optum

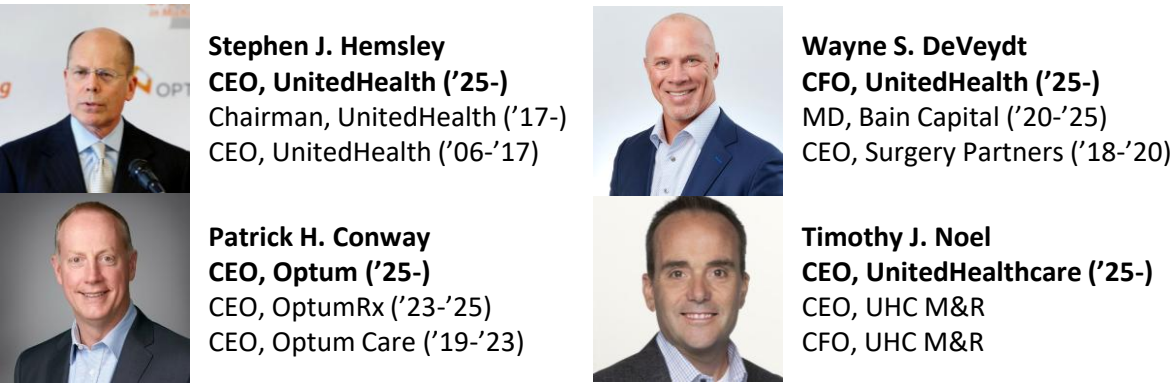


UnitedHealthcare (UHC) is an MCO while Optum is the healthcare-focused division

Key Developments and Major Milestones of UNH

1974 Chartered Med Incorporated, the precursor to UnitedHealth, is founded	1990s-2000s Acquisition of insurers to become the second biggest insurer in the US	2011 Consolidation of non-insurance business into Optum	2021 Acquisition of Change Healthcare for USD 13b
1998 Reorganised and renamed to UnitedHealth Group	2005 Acquisition of private insurer PacifiCare for USD 8.1b	2019 Optum surpasses USD100b in revenue and is the biggest revenue driver	2024 UnitedHealthcare CEO Brian Thompson fatally shot in New York City

UNH just had a management shuffle, and the new management is arguably stronger

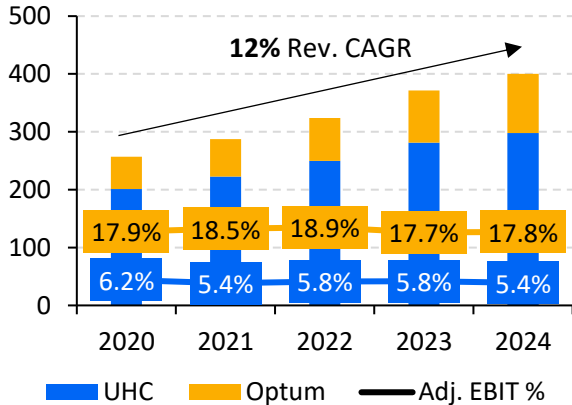


Long-time ex-CEO Hemsley returned with fresh faces to steer UNH out of recent crisis

Key Trading and Financial Metrics

52-wk Range (USD)	234.60 – 630.73
Market Cap. (USD mn)	321,061
Shares o/s (mn)	905.7
Free float	99.1%
ADTV (USD mn)	86.17
Div. Yield	2.5%
NTM P/E	22.02x
Total Debt/Capital	43.0%

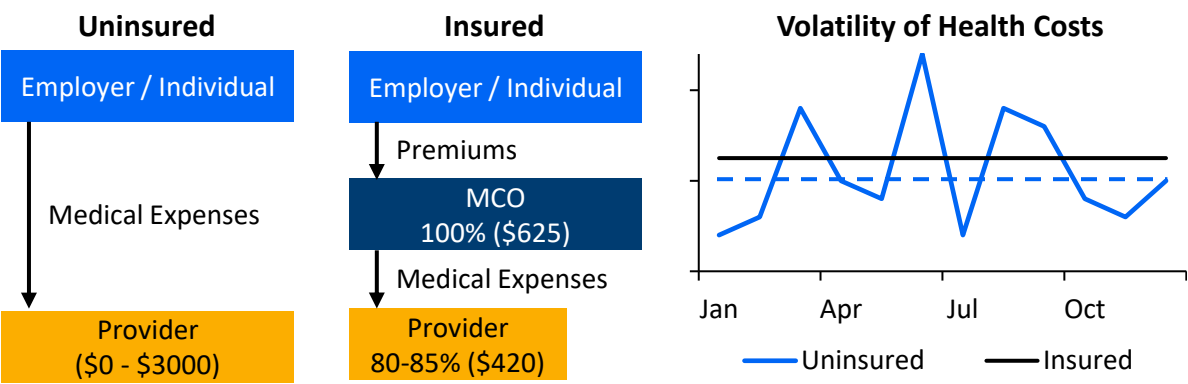
Segment Revenue (USD bn) & EBIT %



A Brief Primer on UnitedHealth's Business Model

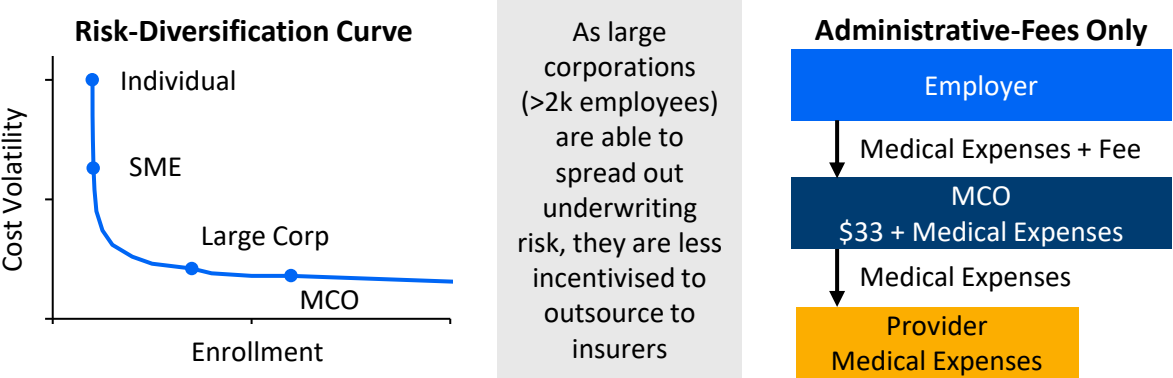
UnitedHealth's value proposition is to help corporations/individuals/governments manage the volatility of health costs

On an individual level, medical insurance offers cost stability in exchange for margin



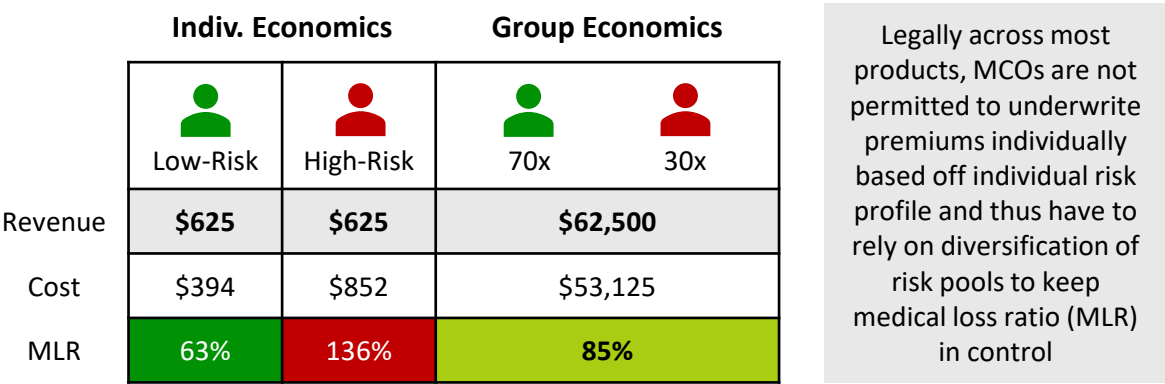
Corporations and Individuals are willing to pay more (theoretically 15%) for less volatility

The Law of Large Numbers can only get you that far – diversification will plateau



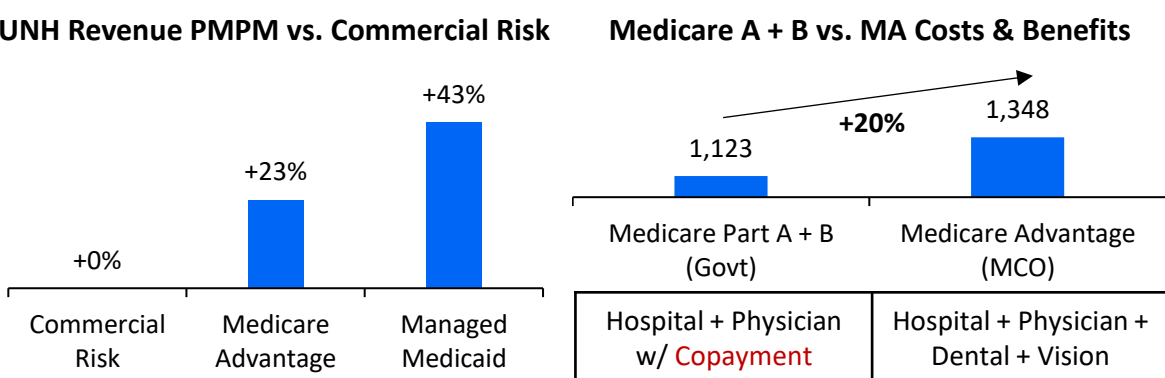
Large corporations outsources claims processing & benefit design to MCOs for flat fee

UNH enrolls customers with different acuity profiles and thus diversifies its risk



A time lag between pricing & enrolment means cost trend & risk pool have to estimated

The government pays MCOs to insure old (Medicare) and sick (Medicaid) populations

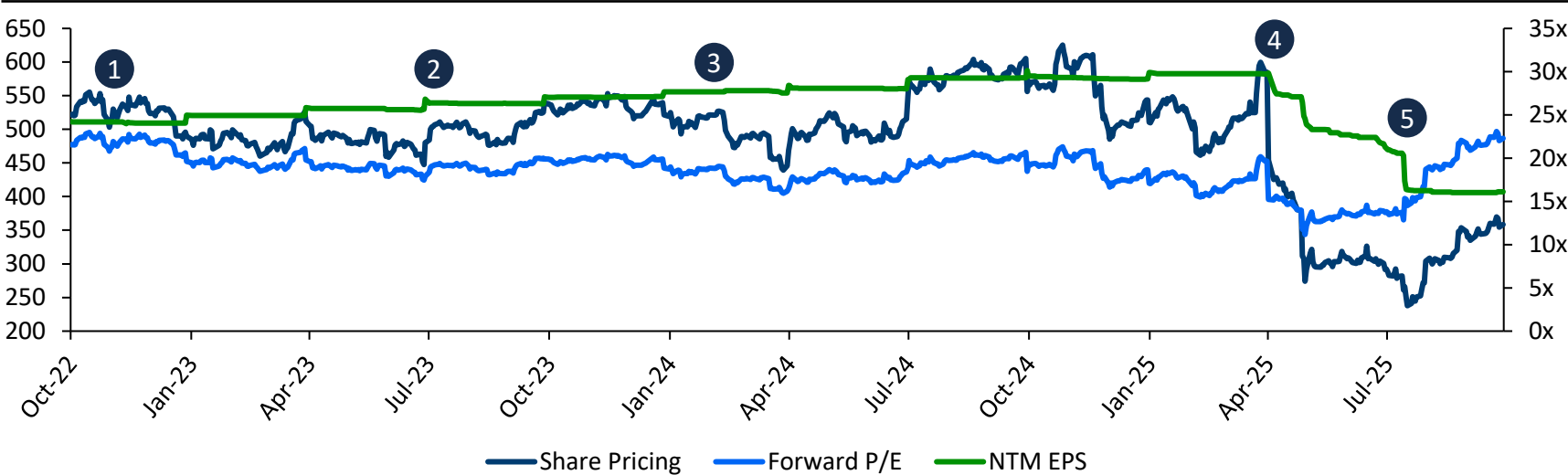


UNH and other MCOs can insure high-risk populations more efficiently vs. government

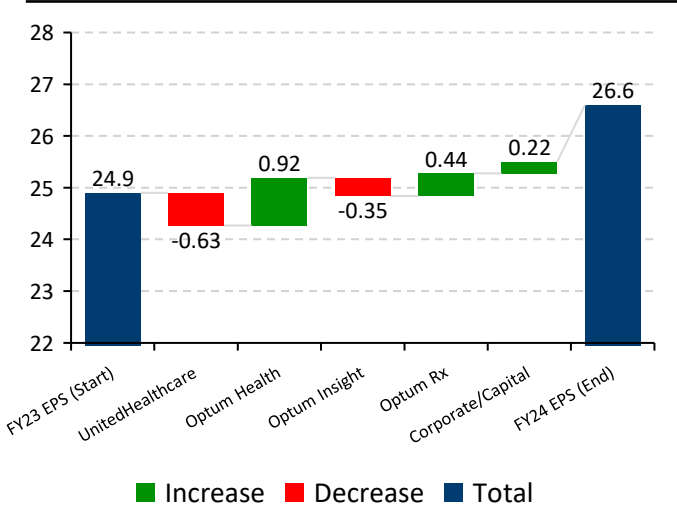
Share Price Performance

Shaped by growth reaffirmation, recovery and outperformance

UnitedHealth had “compounder” status until a disastrous 1H2025 led to a big 60% drawdown in the stock



2023 to 2024 Guidance EPS Bridge

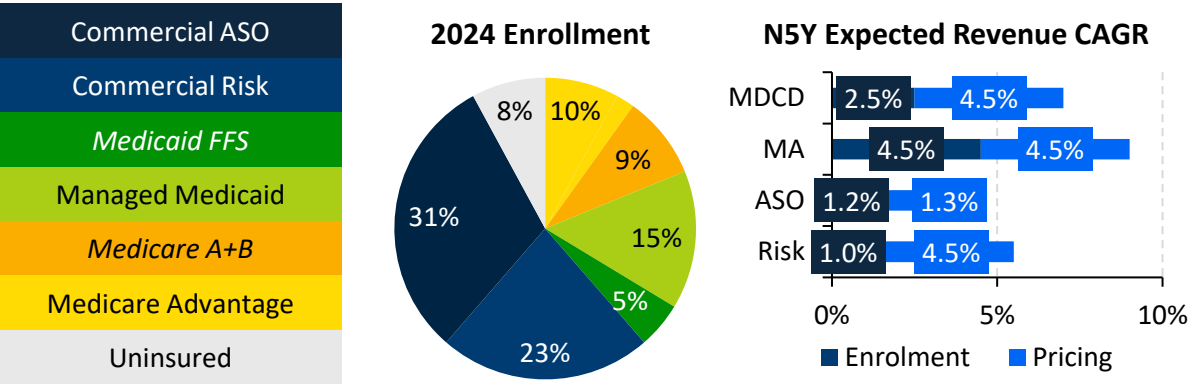


- 1 Post-Pandemic Defensive Rotation Lifts UNH**
Investors rotated toward defensive healthcare as macro uncertainty rose. UNH outperformed early, expanding Optum earnings, and resilient cash flows.
- 2 Weak Q1 2025 Strong Q2 Results Reinforce Growth Leadership**
Q2 2023 earnings topped Street expectations with broad Optum contribution. The beat reaffirmed UNH’s structural advantages in cost control and data-driven care delivery.
- 3 Utilization Spike Triggers Sector-Wide Derating**
Concerns over elevated medical cost ratios and higher outpatient volumes led to a sharp correction. Valuations compressed as investors priced in persistent margin headwinds.
- 4 Capitulation on Cost Inflation Headlines**
Reports of sustained high utilization and CMS reimbursement risk caused the steepest sell-off in years. Trading volumes spiked as valuation multiples fell to multi-year lows.
- 5 Buffett Stake and MA Star Ratings Spark Relief Rally**
UNH rallied after Berkshire Hathaway disclosed a new stake, CMS announced favorable 2026 star ratings, restoring confidence in earnings recovery and easing policy concerns.

Industry Overview

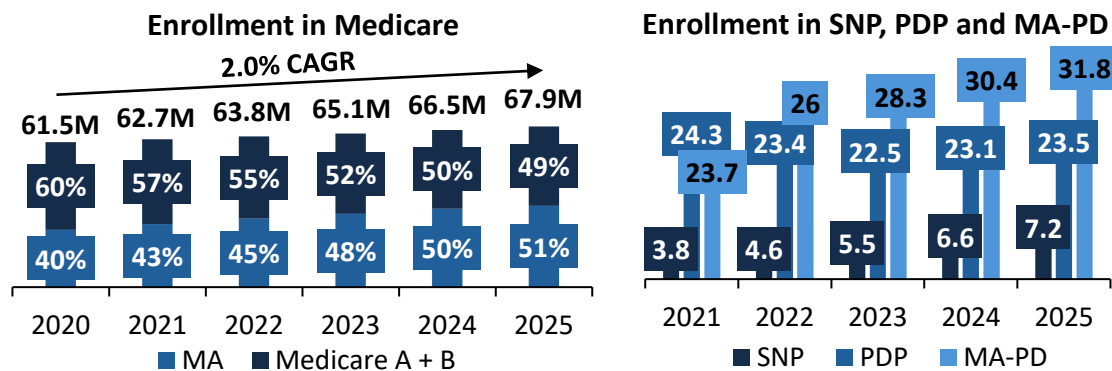
The managed care industry is constantly shifting while growing

Majority of population in Commercial ASO & Risk, but MA & MDCD growing fast



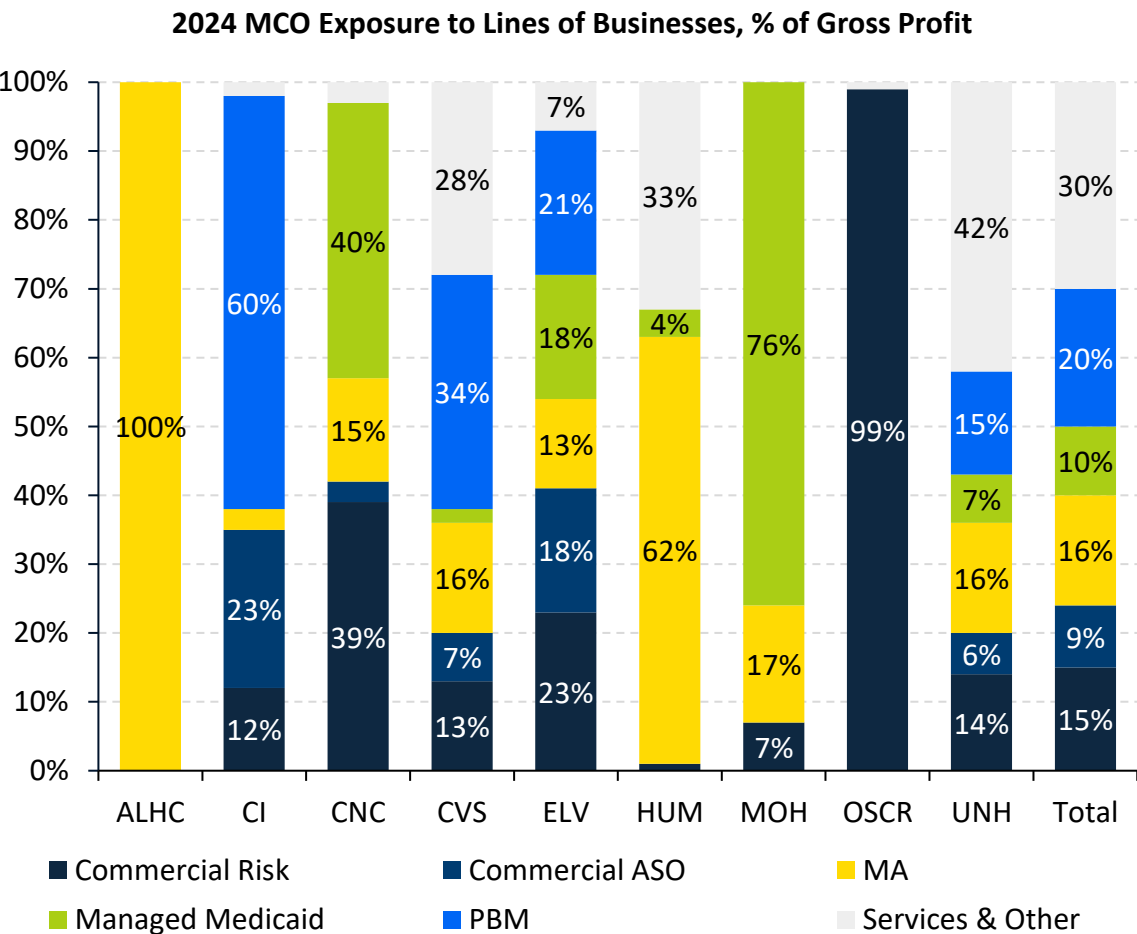
As insurance is well penetrated, growth comes from shift in product mix and pricing

MA, SNP, and MA-PD Momentum Compounds UNH's growth in High-Acuity Segments



Higher-acuity populations remain a key growth driver for MCOs

MCOs have varying exposure to the different products, with some in single markets



We see diversified insurers as a way to hedge any policy risk that affects single products

Competitive Landscape

UnitedHealth is the most vertically integrated player in the MCO space; CVS and HUM a distant second and third



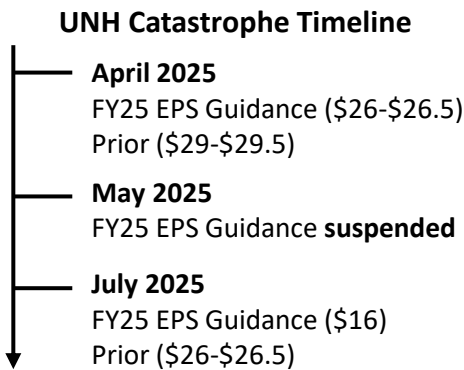
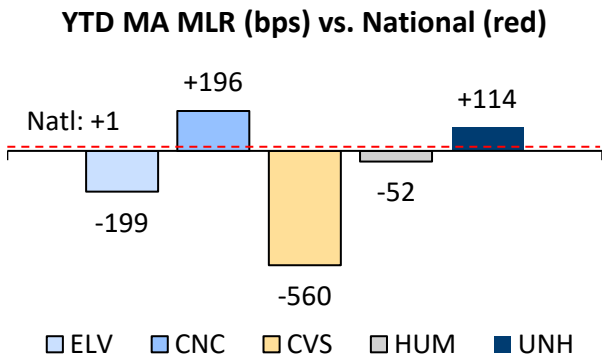
	UnitedHealth (UNH US)	Cigna (CI US)	Humana (HUM US)	Centene (CNC US)	Elevance Health (ELV US)	Molina (MOH US)	CVS (CVS US)	Oscar (OSCR US)
Market Cap ¹ (USD mn)	321,061	80,647	31,464	17,562	79,542	10,517	98,803	4,847
LTM Revenue ¹ (USD mn)	422,818	262,023	123,110	159,673	189,254	41,703	384,329	10,726
FY24 EBIT Margin ² (%)	8.1%	4.6%	2.6%	3.4%	5.2%	4.4%	2.2%	0.6%
Largest Product (in GP\$)	MA	PBM	MA	Medicaid	Medicaid	Medicaid	Pharmacy	Individual ACA
Non-Premium Revenue ³	23%	81%	5%	13%	27%	5%	33%	2%
Total Enrollment ³ (mn)	50.6	3.8	5.7	28.6	45.7	5.5	27	1.7
Medical Loss Ratio ⁴ (%)	89.4%	83.2%	89.9%	93.6%	88.9%	90.4%	89.9%	91.1%
Market Exposure								
Pharm. Benefit Manager								
Doctors								
Healthcare IT								
Home Health								
Other Providers								
Urgent Care								

Notes: ¹ As of 13 October 2025. ² Extracted from Capital IQ. ³ 2024 Annual Filings from respective companies. ⁴ Q2 2025 Earnings Release from respective companies.

Thesis 1 – MA margins ready for rebound, and much faster than expectations

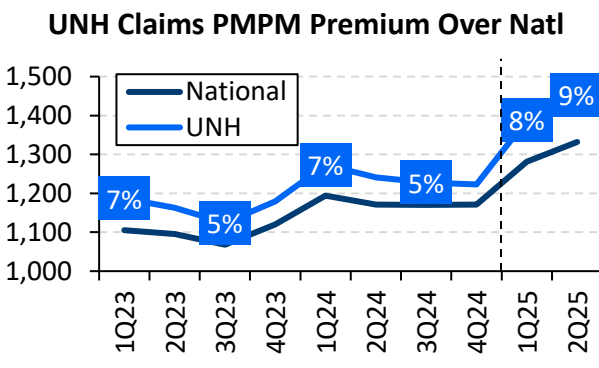
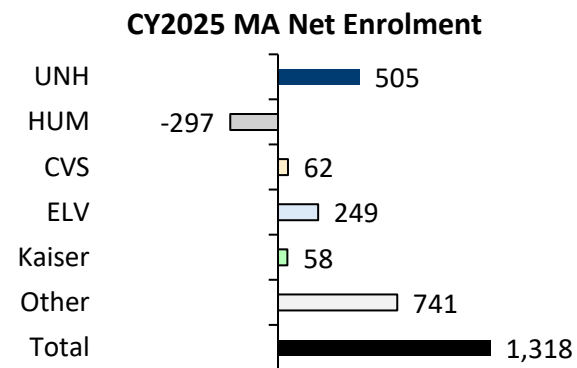
Looking at how did UNH get here and the fundamental natures of the risk business

UNH FY25 EPS guidance went from \$29 to \$16 in 3 months, with YTD MLR above peers



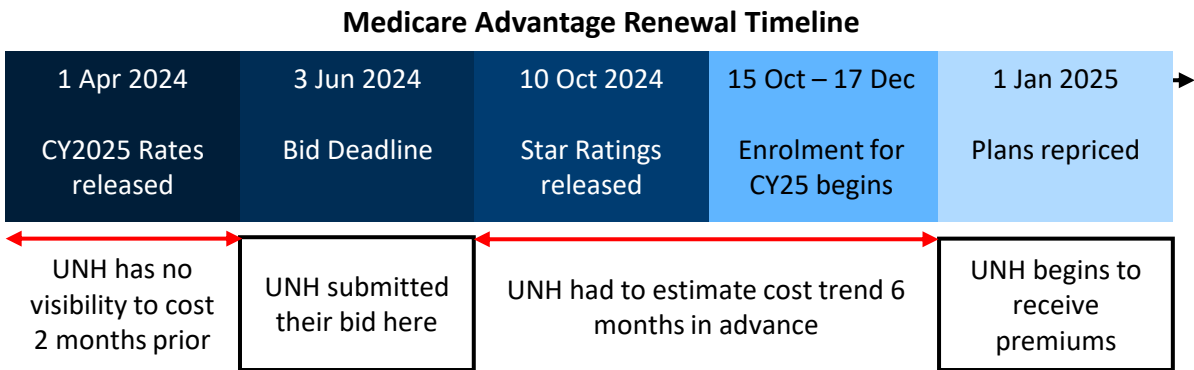
While heightened medical utilization is a nationwide issue, UNH is dealing with worse

UNH market share of MA grew ~3% and accounted for ~40% of all net enrolment



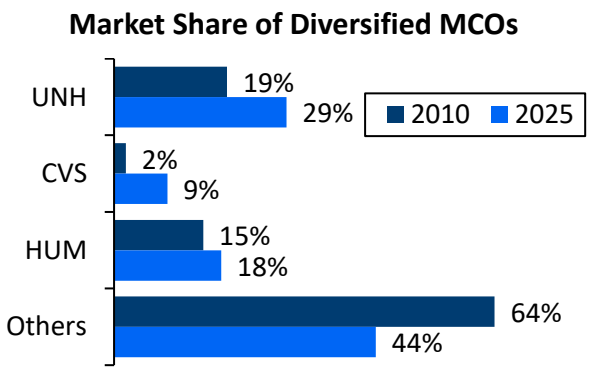
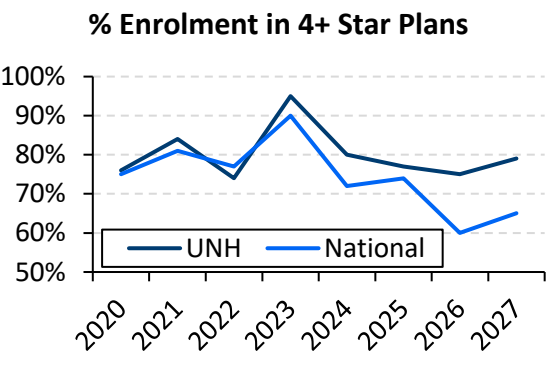
Double whammy adverse selection effect led to a deterioration of UNH's risk pool

UNH mis-estimated cost trends beginning summer '24, and led to big mispricing in '25



UNH wrongfully assumed cost trend will be in line with FY24 (~5%) but it was 7.5%

While the actuarial side of business has been poor, no doubts on UNH's execution



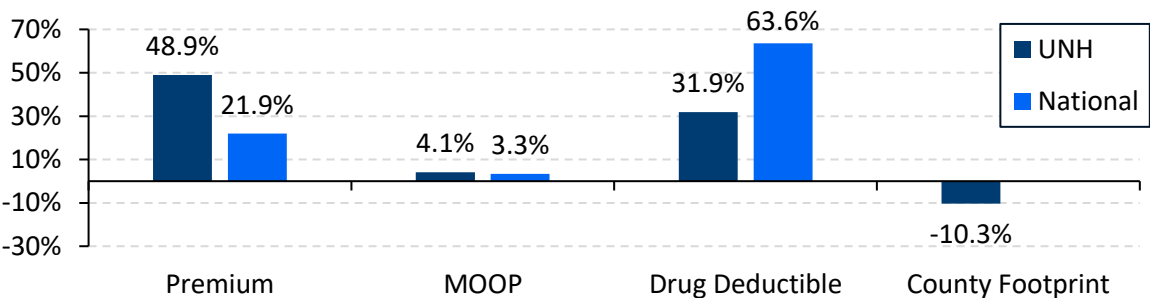
We continue to expect UNH and other diversified MCOs to gain share sustainably LT

Thesis 1 – MA margins ready for rebound, and much faster than expectations

We see UNH fully pricing their MA book back to upper end of LT guidance of 3 – 5% margins by FY27

UNH is exiting unprofitable markets and bidding more conservatively for 2026

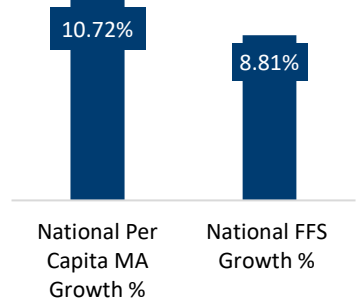
UNH 2026 MA Plans Key Statistics vs. 2025



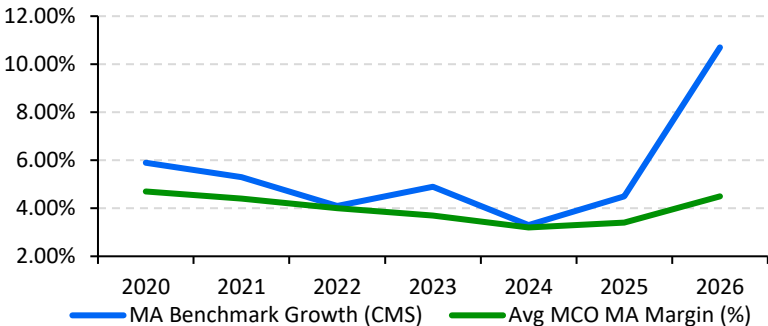
We believe UNH strategy is to exit unprofitable markets and drive up margin / member

Policy environment remains stable with limited downside risk

National Per Capita MA Growth vs. FFS Growth



Long-term CMS trends show MA rate resilience



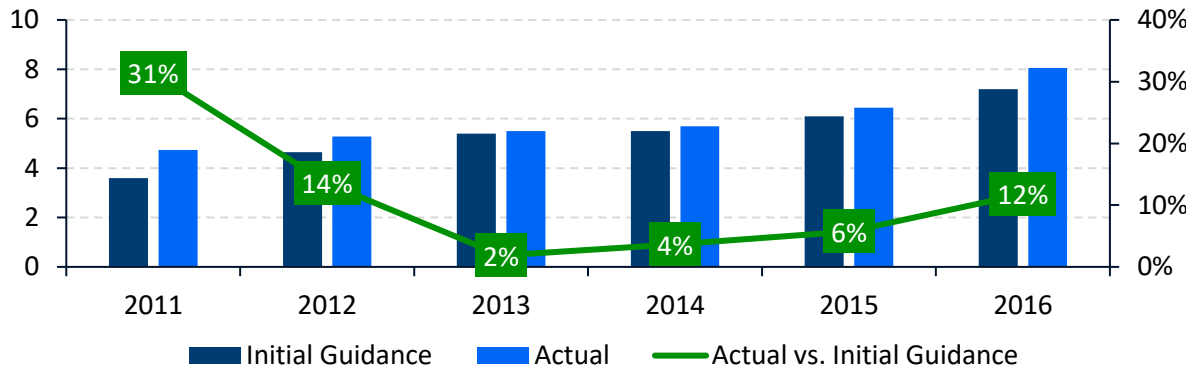
CMS rate hikes signal policy stability and support margin rebound ahead

We see strong correlation between OTC benefits and enrolment and share price

	OTC Benefits YoY								Enrolment			Share Price		
	2023		2024		2025		2026		2023	2024	2025	2023	2024	2025
	Indiv.	D-SNP	Indiv.	D-SNP	Indiv.	D-SNP	Indiv.	D-SNP	Enrolment			Share Price		
UNH	31%	54%	-26%	4%	-11%	1%	-36%	-18%	12%	20%	9%	-1%	-4%	-31%
HUM	129%	2%	-58%	-44%	-48%	-17%	11%	-13%	19%	5%	-8%	-11%	-45%	2%
CVS	45%	116%	32%	61%	-65%	-20%	-50%	3%	4%	42%	-7%	-15%	-43%	71%

We see adverse selection coming from UNH exits into HUM for D-SNP and CVS for Indiv.

We see that street expectations are anchored to the “low-ball” guidance of Hemsley



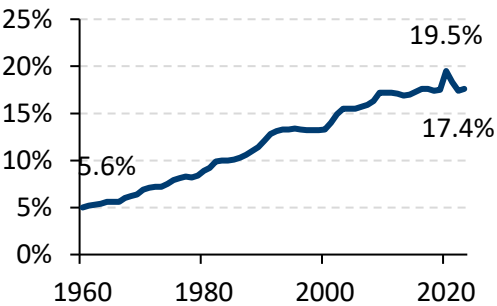
Hemsley is a “beat-and-raise” CEO: UNH delivered ~17% TSR CAGR during his 1st tenure

Thesis 2 – Value-Based Care still a big tailwind that only UNH can capitalise on

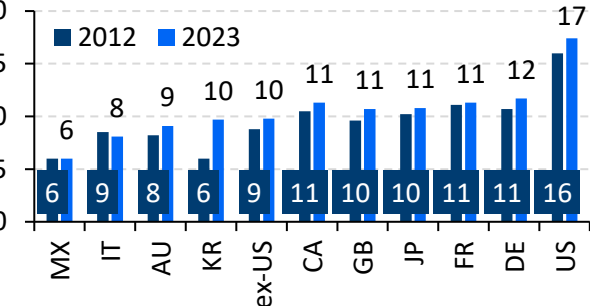
VBC is increasingly taking center-stage in US healthcare as both insurers and policymakers find ways to decrease costs

US healthcare spending has been growing to unsustainable levels

Healthcare Spending % of US GDP



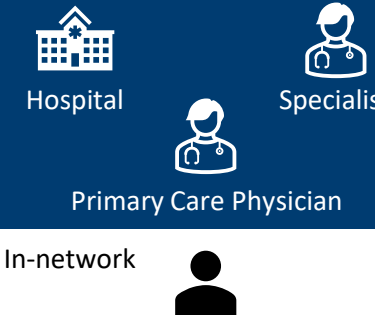
Healthcare Spending % of GDP, US vs OECD



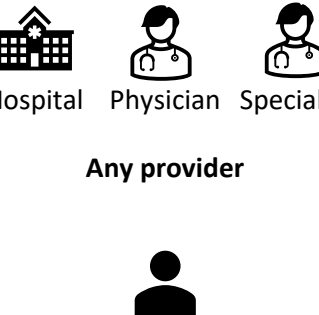
US is increasingly strangled by healthcare, and something has to be done to rein costs in

Health Maintenance Organization plans were the first step, but lack popularity

Health Maintenance Org.



Preferred Provider Org.



In HMO plans, members are required to use only the providers in the network

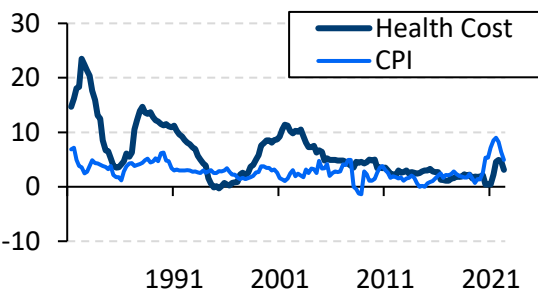
In PPO plans, members are free to choose which provider they use

Members prefer a wider network and choice of provider, instead of being limited to one

Perverse interests between payors and providers are the root of the issue

Lower Back Pain	Line of Treatment	Revenue for Providers
Sufficient	Consultation NSAID Rx Monitoring	~\$150
Actual	Consultation MRI Orthopedic Steroid Injection	~\$2,500

Employer Health Cost Index vs. CPI



Healthcare providers are incentivised to charge more services under the FFS model

There is a shift within healthcare to better align provider and payor incentives

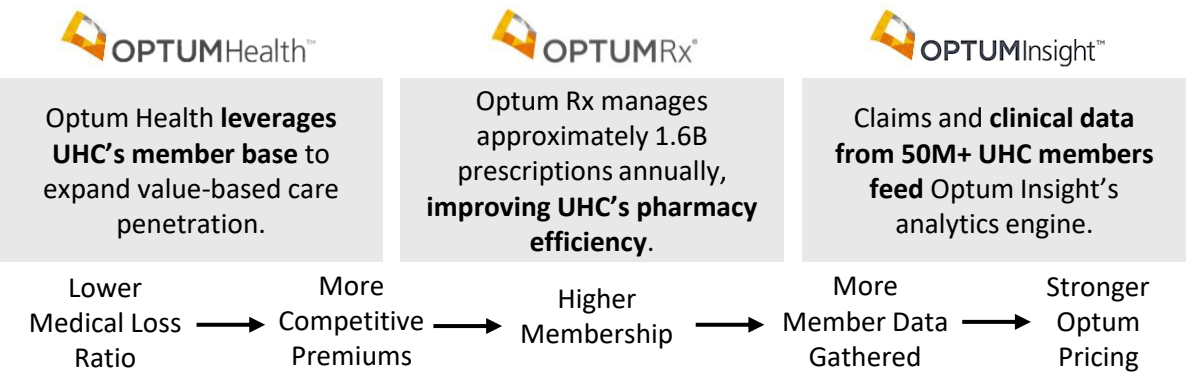
Increasing financial risk for providers				
Fee-for-service	Bundled /episodic payment	Shared Savings (Upside-Only)	Shared Risk (Upside-Downside)	Capitation (Full Risk)
Provider charges per service rendered	Provider charges per episode of care rendered	Provider shares profit with payor for \$ saved through less care	Provider shares profit if spending lower, splits cost if spending higher	Provider receives fixed premium and manages its medical cost

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Thesis 2 – Value-Based Care still a big tailwind that only UNH can capitalise on

UNH is the only payor that can sustainably introduce VBC to their members, no other payor has the capability to do so

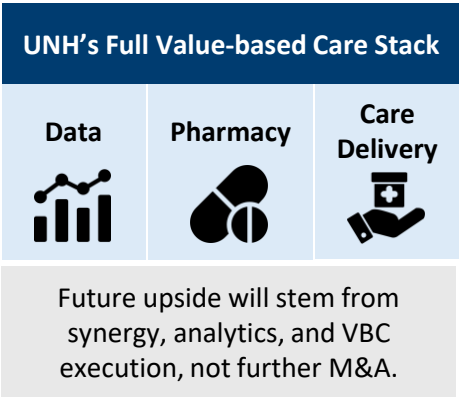
UNH has in place the infrastructure and capabilities to push into VBC through Optum



VBC creates a virtuous cycle of lower MLR which translate in sustainable, better pricing

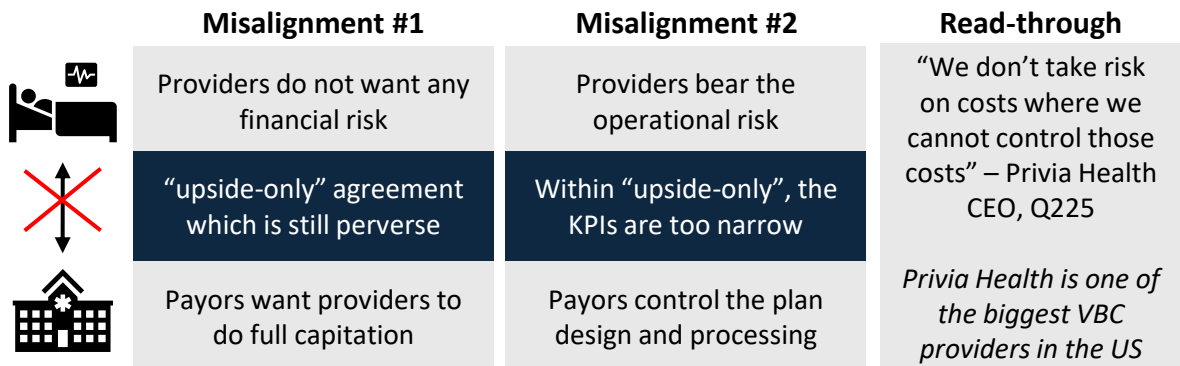
UNH's roll-up playbook has matured, incremental value coming in from integration

2011: Optum established Launch of vertically integrated platform
2019: Acquired DaVita Medical Group & Equian Expanded into care delivery and payment analytics
2022: Acquired LHC Group & Change Healthcare Added home health and data/payment backbone
2023: Acquired EMIS Group (UK) Expanded global data integration capabilities
2024: Integration of Amedisys underway Focus shifts to margin synergy and VBC monetisation



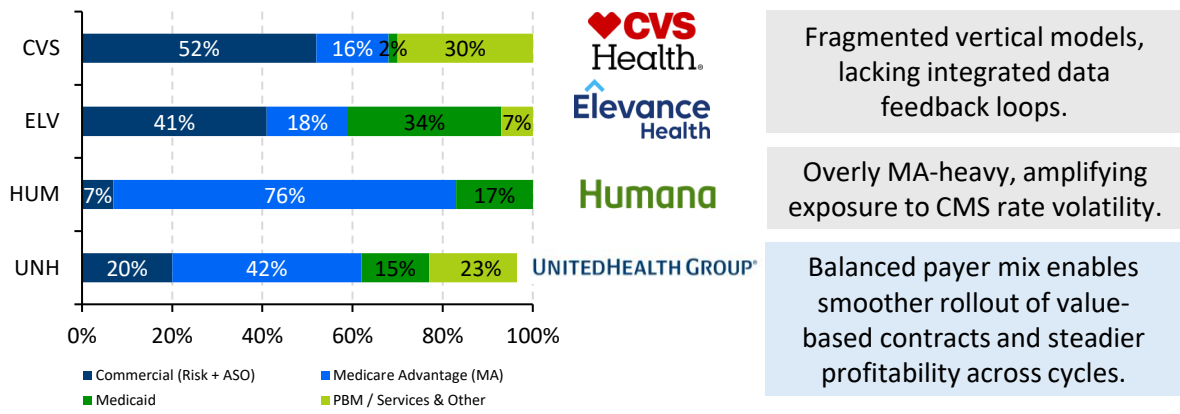
UNH's next phase is extracting margin from the infrastructure it already owns.

Peers have been trying to get into VBC through partnerships, we see it as ineffective



We see vertical integration as the only way to align incentives in pursuing VBC

MCO's product mix drives divergent exposure to policy and margin risk



Fragmented vertical models, lacking integrated data feedback loops.

Overly MA-heavy, amplifying exposure to CMS rate volatility.

Balanced payer mix enables smoother rollout of value-based contracts and steadier profitability across cycles.

UNH's diversified mix enables broader VBC scalability than peers

Thesis 3 – UNH presents an AI opportunity that is underappreciated by market

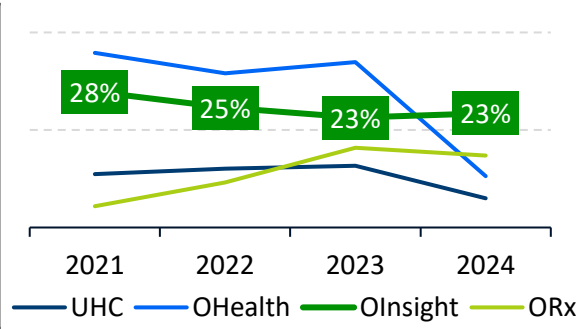
We see UNH as the only MCO able to effectively implement AI

Aside from being the largest MCO, UNH is also the largest healthcare IT company

OptumInsight Peer Comps

Company	LTM Rev (USD bn)	Public / Parent
OptumInsight	18,757	UNH
IQVIA	6,160	Public
Veeva Systems	2,968	Public
NextGen Healthcare	695	T. Bravo

UNH Segments Growth YoY



UNH is in prime position to make healthcare more efficient through AI development

UNH has been acquiring companies for OInsight since 2011, giving it a rich data stack

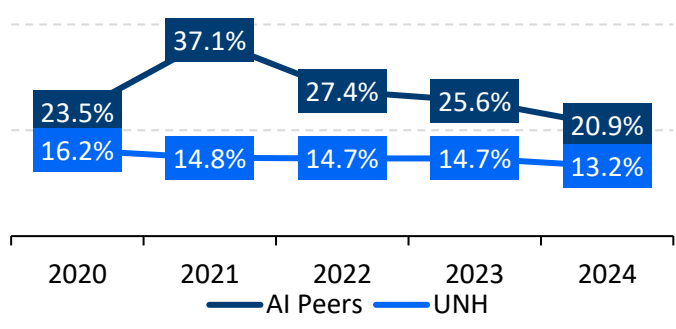
OptumInsight Key Prior M&A Transactions

Company	Closing Date	Tx Size (USD mn)	EV/EBITDA (NTM)	Notes / Commentary
EMIS Group	Oct '23	1,629	22.1x	Data of over 1t clinical events
Change Healthcare	Oct '22	13,685	13.5x	Processes 15b claims annually
naviHealth	May '20	N.D	N.D.	AI analytics for plan coverage
Equian	Sep '19	3,200	N.D.	Analytics for \$500b claims

UNH's M&A strategy for OptumInsight has always been to go after where the data is

Many of the "AI" health insurers that promise AI efficiencies are not that efficient

UNH vs. AI Peers Operating Ratio



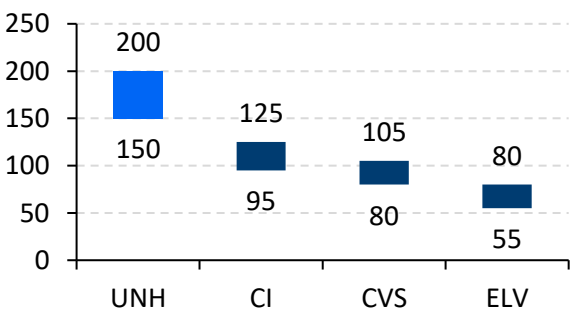
>50%
of clinical data captured by **Clover Health** has no risk-score impact

3P Data
used by **Oscar Health** to build models for claims/pricing

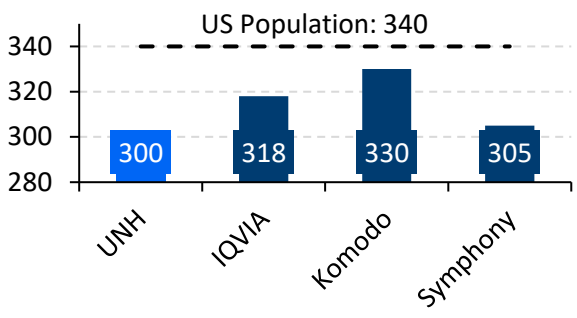
Data is a clear bottleneck in healthcare AI development, and UNH has the clear edge

Cumulatively, we believe UNH has the biggest patient databases in the US

Est. Identifiable DB # of Patients (mn)



De-identified DB # of Patients (mn)

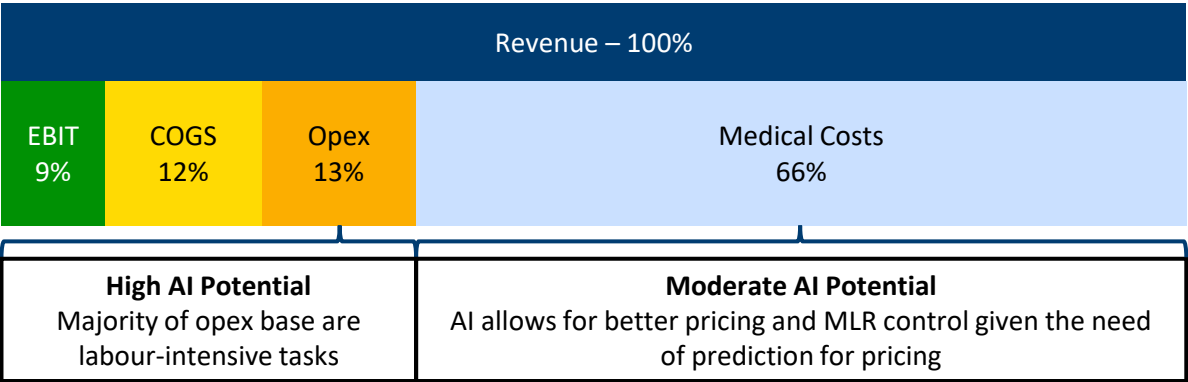


No other MCO will ever come close to having the magnitude of UNH's data

Thesis 3 – UNH presents an AI opportunity that is underappreciated by market

We see UNH as being more aggressive in AI now as the upstream AI market becomes much more efficient than before

The potential cost savings for UNH are huge because of low EBIT% base



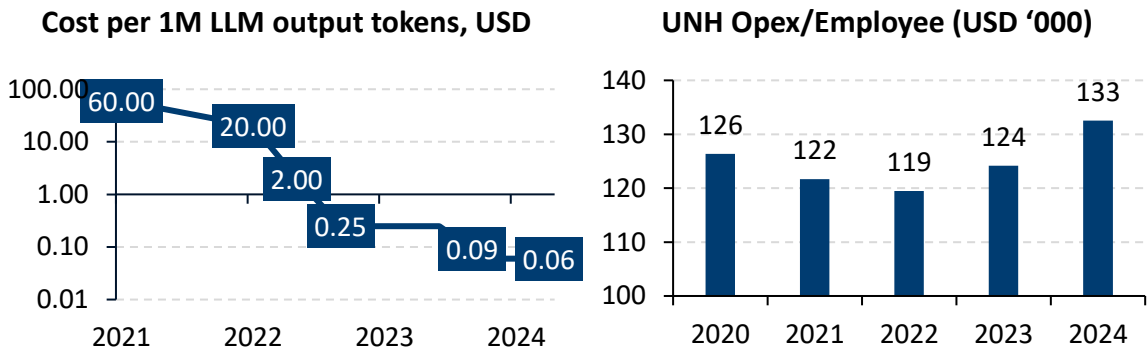
We see tangible and realistic cost savings of adopting AI for UNH

There is large upside for UNH EBIT% if AI initiatives reduce costs

UHC Costs	2024	2030	Chg
Medical Costs	85%	84%	-1%
Admin & IT	6%	5%	-15%
Customer Svc	2%	2%	-25%
Marketing	2%	1%	-5%
Operating Ratio	94%	92%	-2%
EBIT %	6%	8%	42%

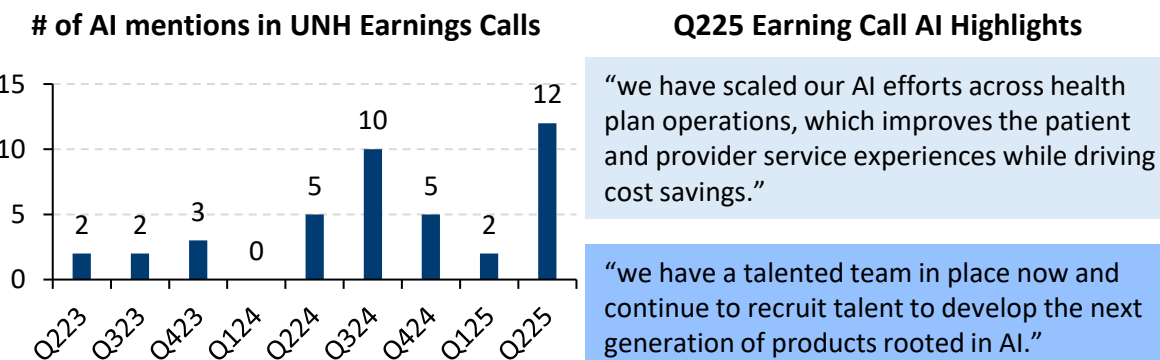
We see 42% incremental EBIT uplift from 2024 EBIT due to cost savings in opex

Technological & cost advancements in AI makes it even more attractive for UNH



The ROI on AI training is now is incredibly attractive, and we see UNH capitalising on this

UNH have been more aggressive in its AI investments and product development

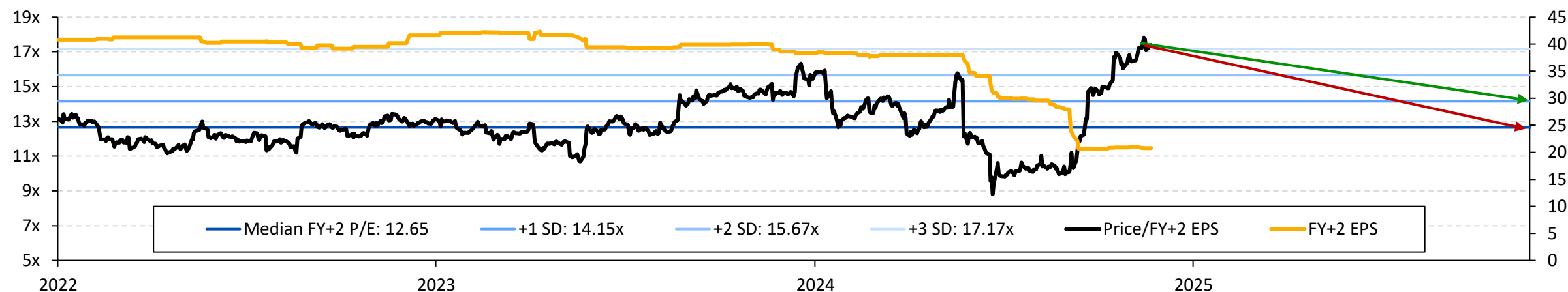


Management has refused to give guidance on AI cost savings, affecting expectations

Valuation

UNH's FY+2 multiple is at +3SD, as we see front running of buy-side consensus vs. sell-side consensus

We see FY+2 P/E to decrease to +1SD in our base case and median in our bear case, with the upside driven by earnings growth rather than multiple expansion



We see a 4.8x risk-to-reward ratio for UNH on a 12-month horizon

	Base Case	Bear Case
FY+2 P/E Multiple	14.15x	12.65x
FY28 EPS	37.13	25.35
Share Price Target	525.39	320.68
Upside / (Downside)	48%	(10%)

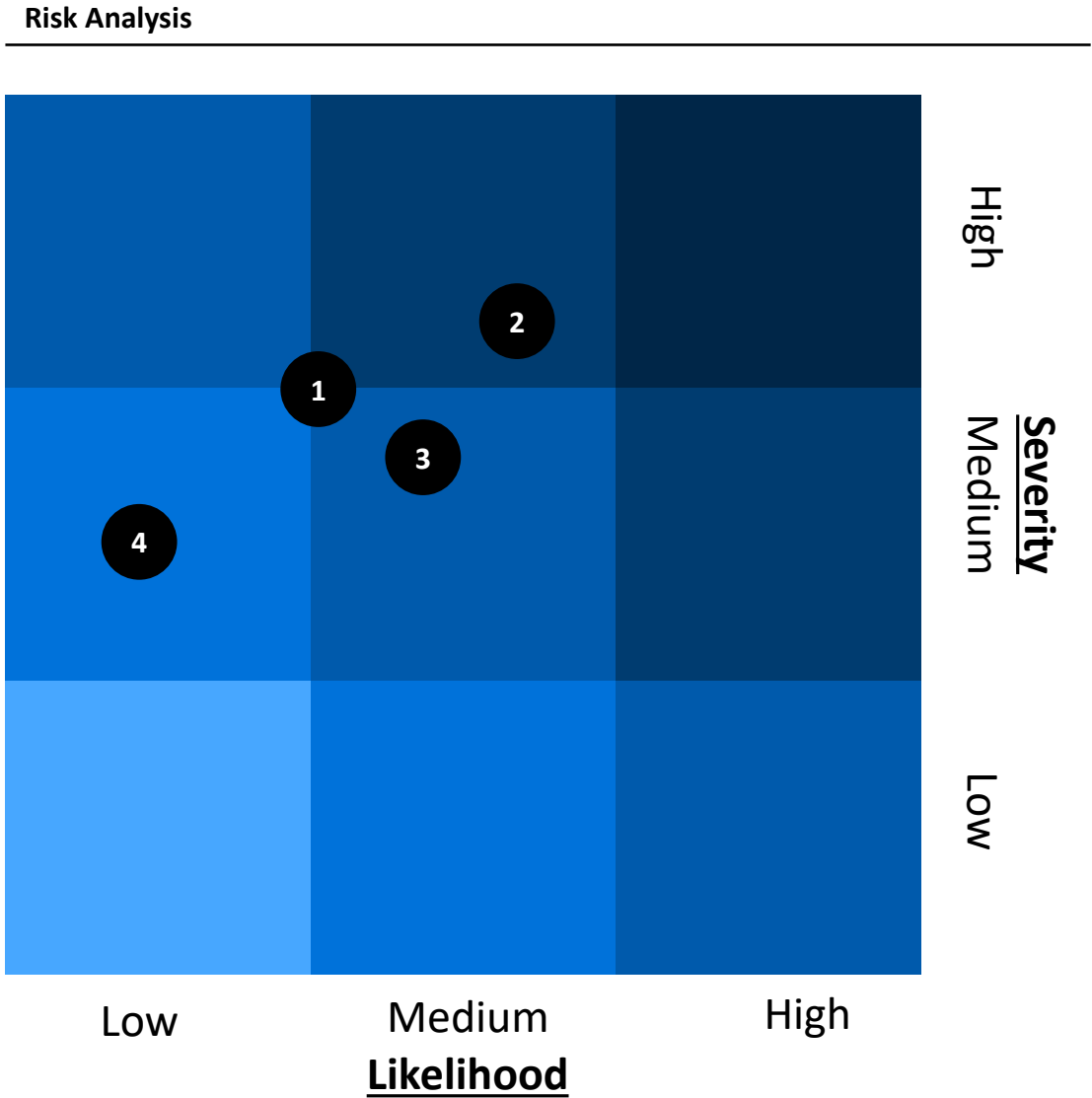
We see consensus as pessimistic and expect upward revisions as outlook improves

Cons. Vs. Ours	FY25		FY26		FY27		FY28	
Revenue (USD bn)	447.8	443.6	459.0	463.9	482.6	498.1	515.1	537.2
MLR (%)	89.21	89.00	89.12	87.00	88.78	86.00	87.98	86.00
EBIT Margin (%)	4.83	5.00	5.10	6.50	5.51	7.90	6.15	8.50
Adj. EPS (USD)	16.23	16.34	17.59	23.07	20.75	31.65	25.35	37.13

Investment Overview

Potential risks and foreseeable mitigations

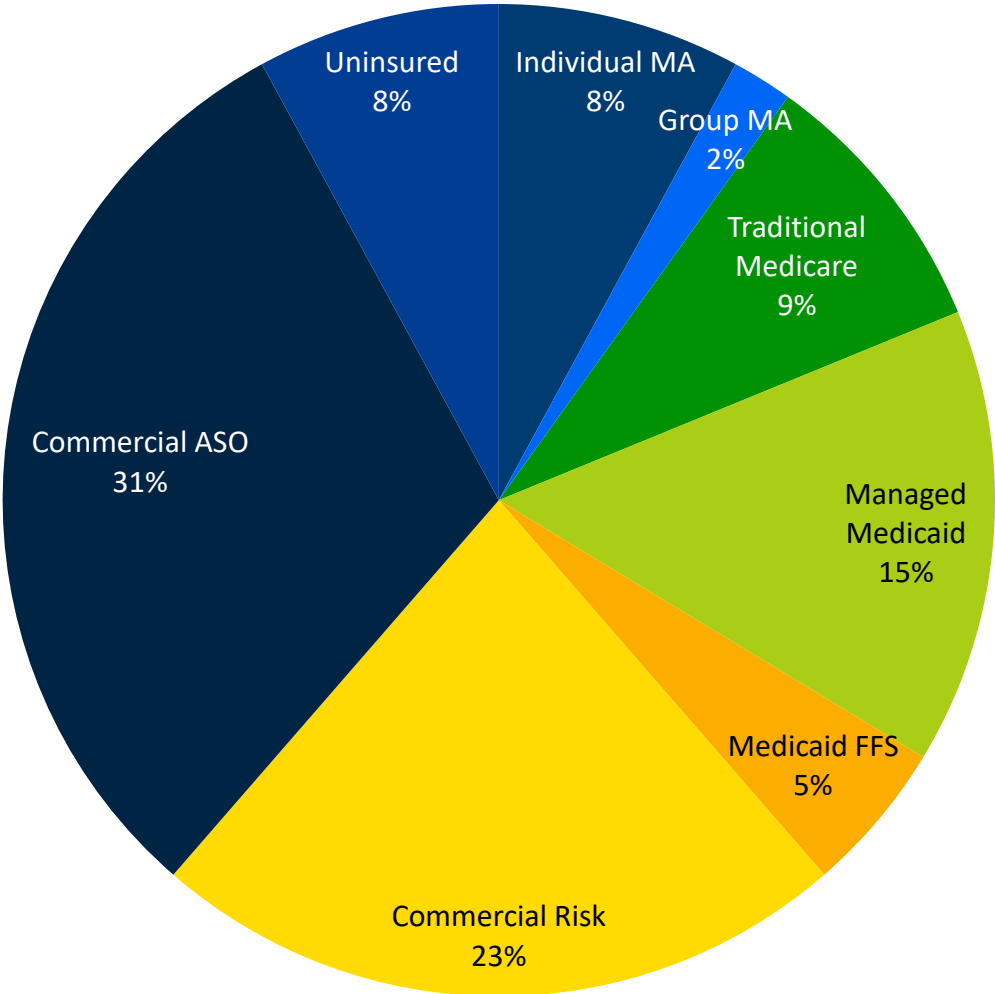
Risk Description		Mitigation
1 CMS Policy & Rate Risk		
A larger-than-expected CMS benchmark cut or unfavorable risk-adjustment recalibration could pressure MA margins for FY2026+ bids		CMS’s long-term rate framework is stabilizing post-RAF changes, and UNH’s diversified MA mix and conservative bidding strategy limit downside.
2 Elevated Medical Utilization Trend		
Persistently higher outpatient and post-acute utilization could keep medical cost ratios (MLR) above guidance.		UNH’s size enables rapid repricing and benefit design. Historical track record shows 1-2 year recovery lag with pricing discipline and Optum analytics adjusting forecasting models.
3 OptumInsight Cyber Execution Risk		
Integration of Change Healthcare and cyber resilience challenges may impact Optum Insight’s recovery and margins		Segment is rebounding post-incident, additional cybersecurity capex and modularized architecture expected to restore client confidence and EBIT by FY26.
4 Regulatory Scrutiny on Vertical Integration		
Growing payer-provider consolidation may draw DOJ or FTC scrutiny over data usage and competitive leverage.		UNH maintains structural separation between UHC and Optum. Regulatory filings emphasize patient-outcome benefits and open-date compliance posture.



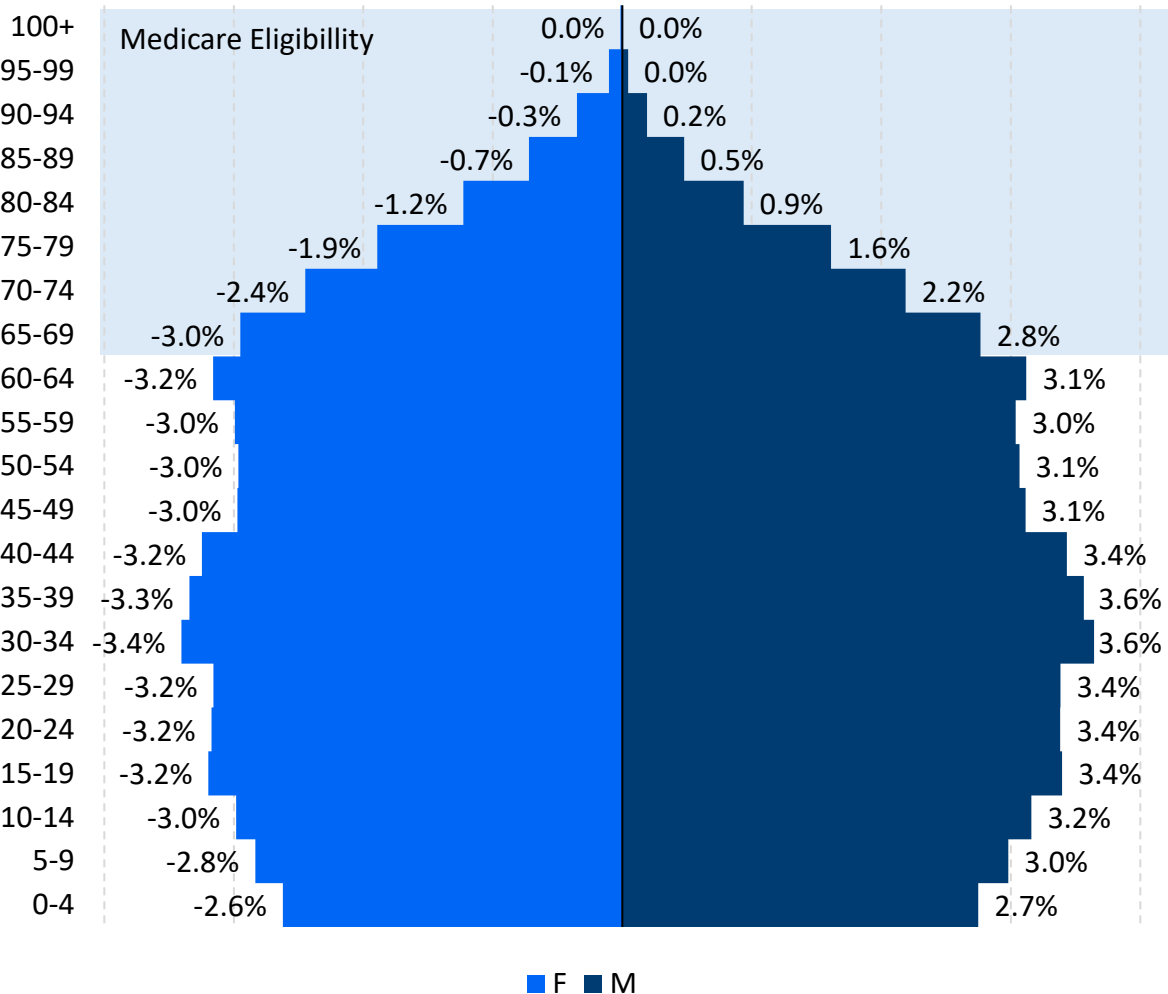
Appendix – Managed Care

% Product in Population & Population Pyramid

Commercial Enrollment still the biggest – ASO is a headwind for MCO



US population starting to age: this is a tailwind to products like MA and to premiums



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Appendix – Managed Care

Introduction & Growth Algorithm of Products

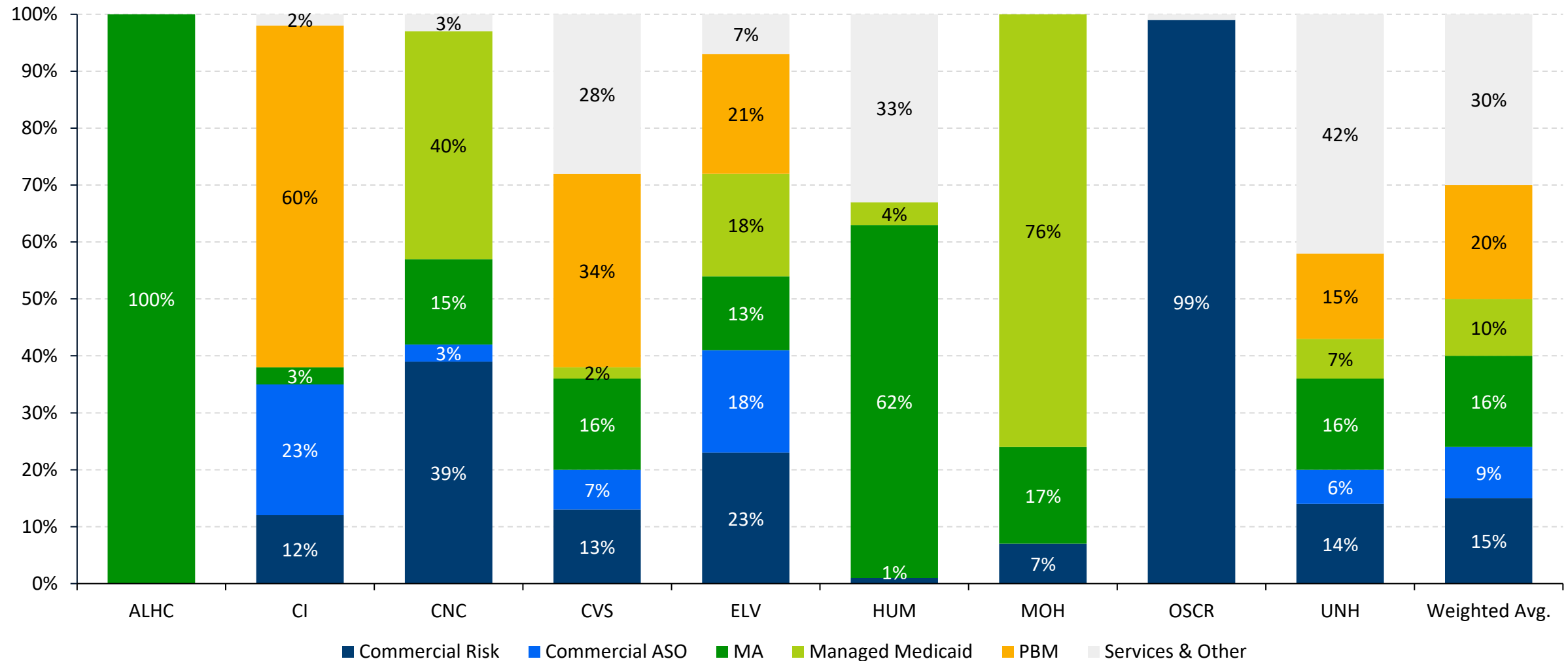
Different products have varying unit economics and change of mix in products will lead to underlying changes in MCO numbers

Product	Description	Market Size (USD bn)	Total Enrollment (mn)	Revenue PMPM (USD)	EBIT margin (%)	Profit PMPM (USD)	Expected 5Y Revenue CAGR (%)
Commercial Risk	Normal Insurance – Pays a premium in exchange for medical insurance. Largely employer-based but a few individual products as well (HIX)	623	83	625	4	25	5 – 6
Commercial ASO	Non-risk product – Employers with a large enough coverage take on the risk of insuring their employees but pay an administrative fee to MCO to process claims etc.	44	114	32	15 – 20	4	2 – 3
Traditional Medicare	Government Insurance – Government pays for insurance for elderly above 65+, however there is a co-pay component that elderly has to pay	Government Product					
Medicare Advantage	Government product – Elderly above 65+ can choose their insurance plan which is fully/partially subsidised by the government	567	35	1350	3	40	9
Medicaid FFS	Government Insurance – Government pays for insurance for certain groups of population (extremely sickly/children etc.)	Government Product					
Managed Medicaid	Government product – Government outsources Medicaid coverage to MCO (ie MCO takes on the risk of insuring) and pays them a premium PMPM	468	60	375 – 3000	3	7 – 60	7

Appendix – Managed Care

Company Exposure % to Product

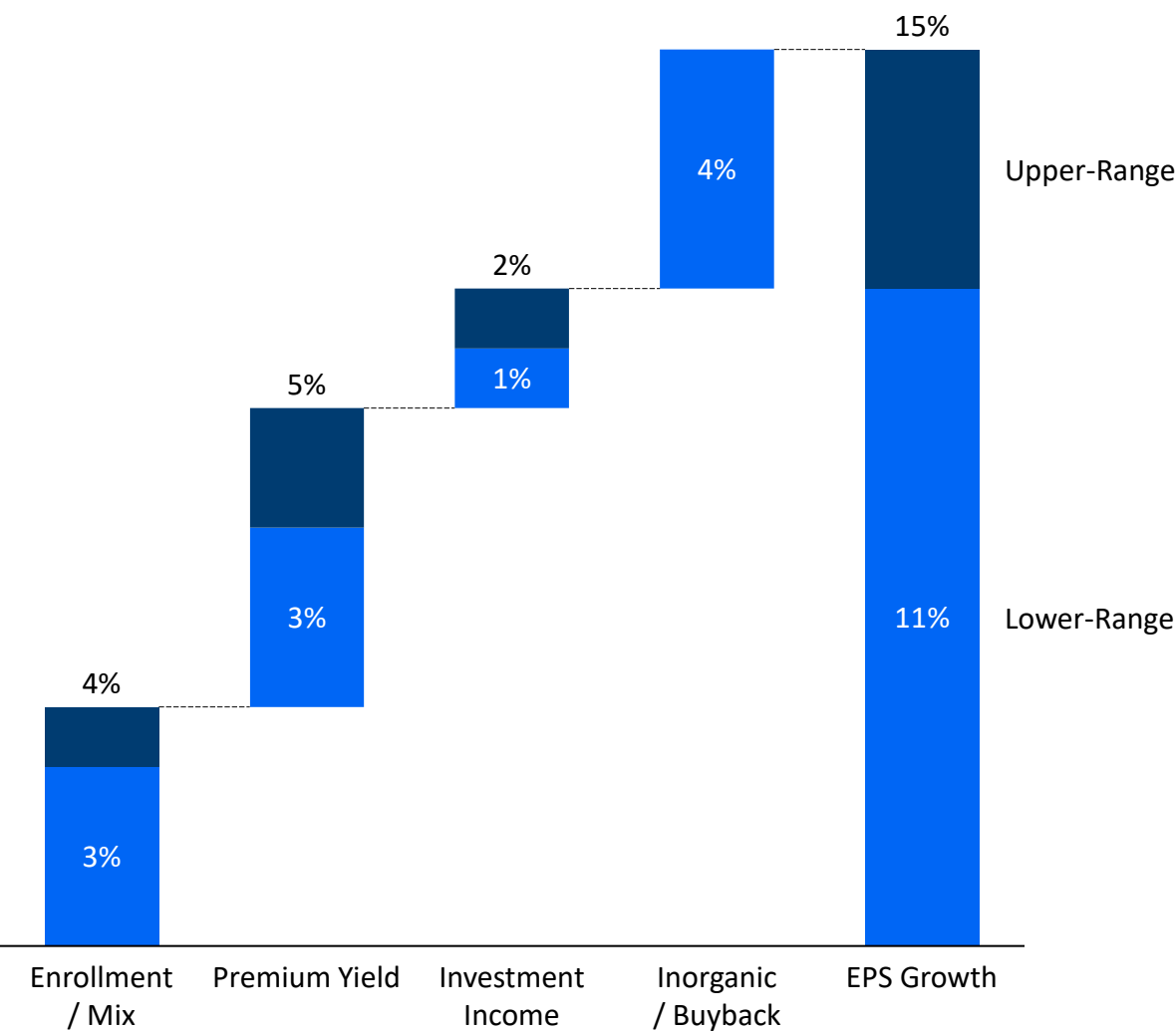
Each of the publicly-listed MCOs have varying degrees of product exposure – some are very concentrated in a single product and some are very diversified



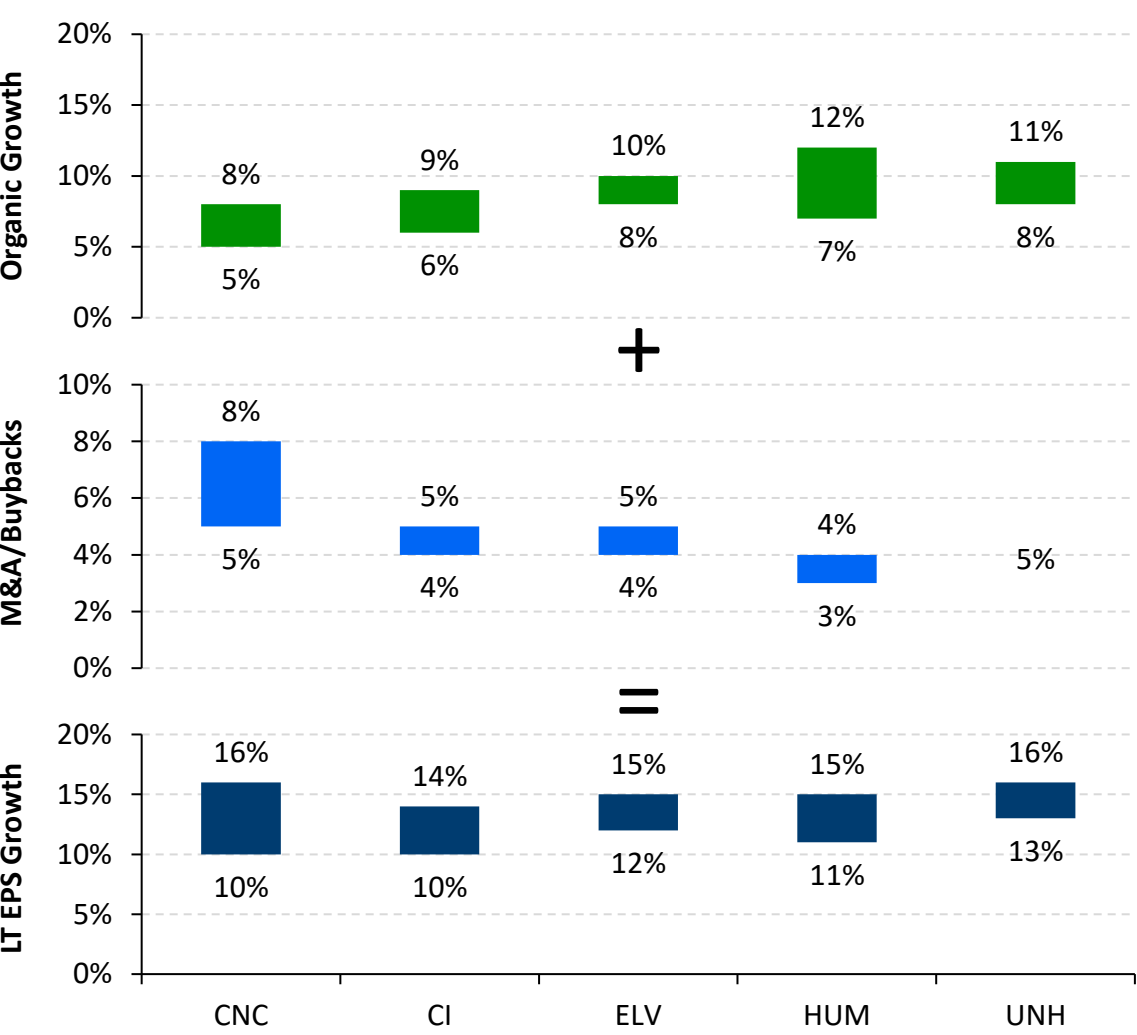
Appendix – Managed Care

Industry EPS Growth Algorithm & Company Guidance

Majority of EPS growth algorithm comes from topline and capital deployment



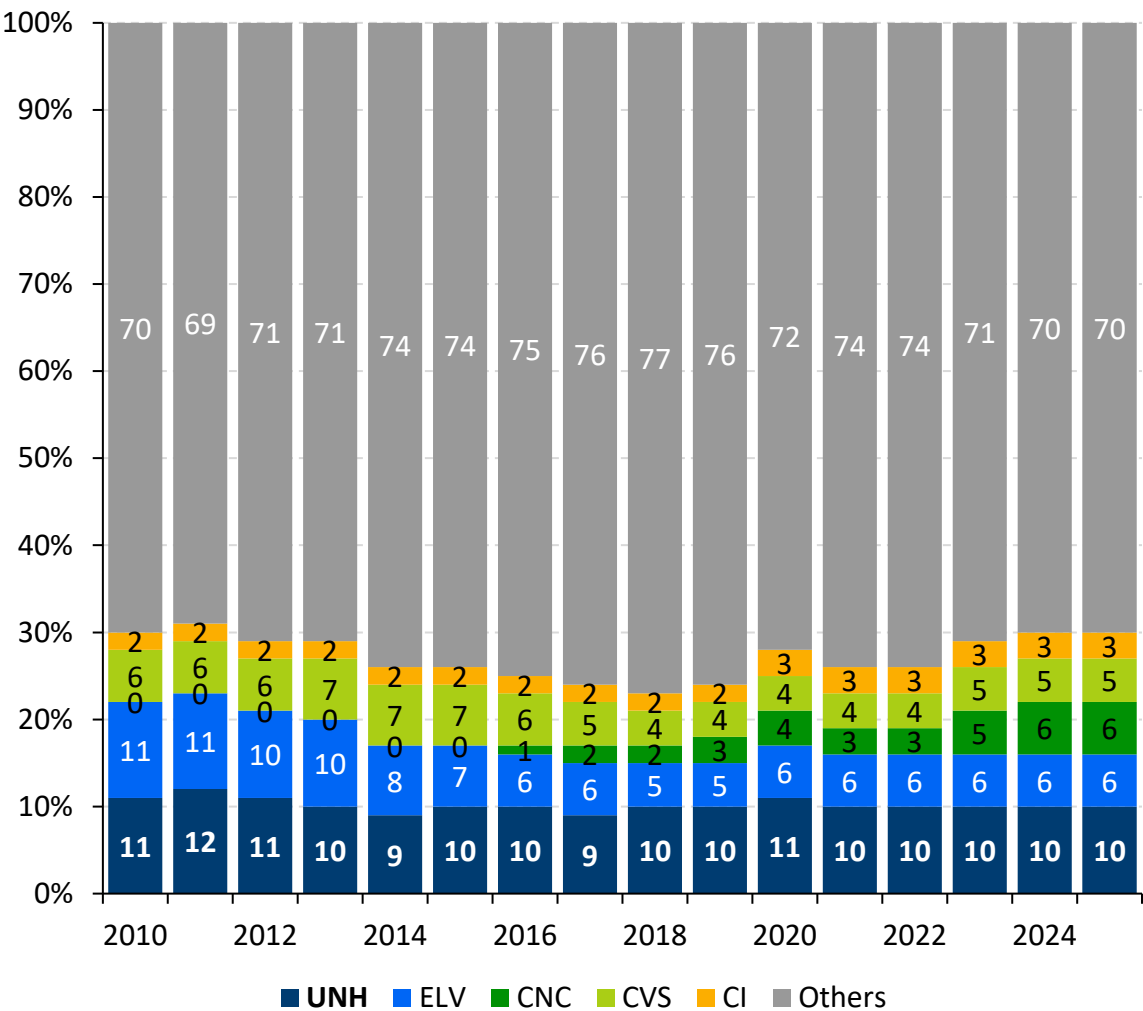
The different product mix within business shows in its LT EPS growth guidance



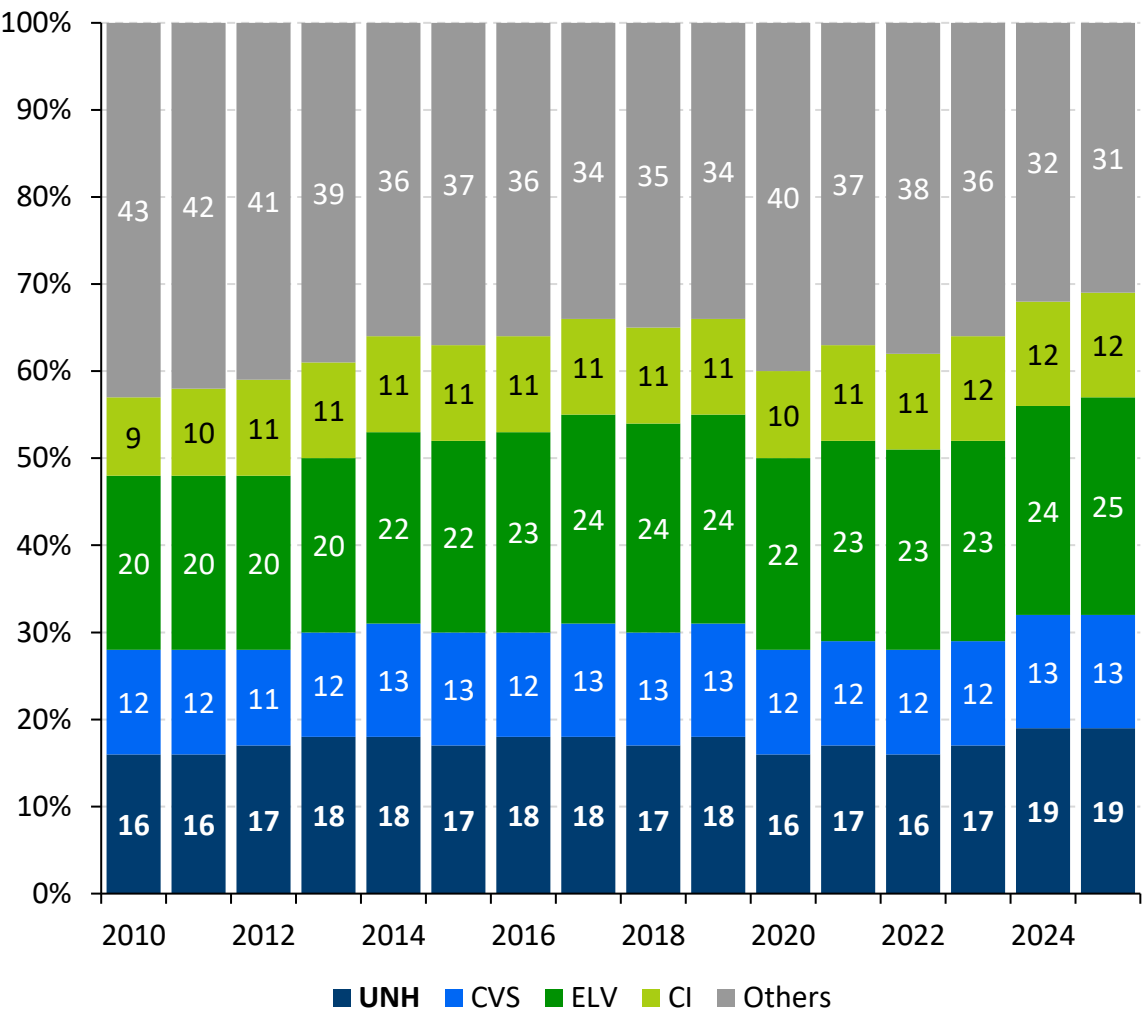
Appendix – Commercial & Individual

Historical & Current Product Market Share

In commercial risk, market share is quite fragmented as scale is not favoured

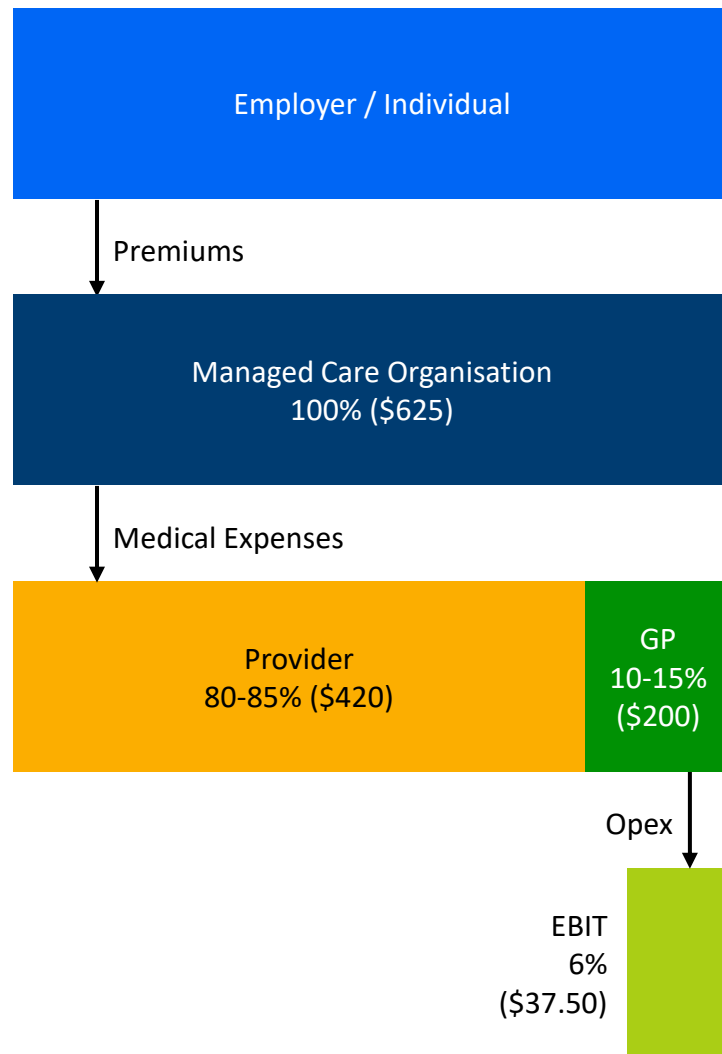


Commercial ASO is much more consolidated as scale is needed to grow



Appendix – Commercial & Individual Business Model, Key Drivers & Important Legislation

Commercial risk business model is intuitive



Comments

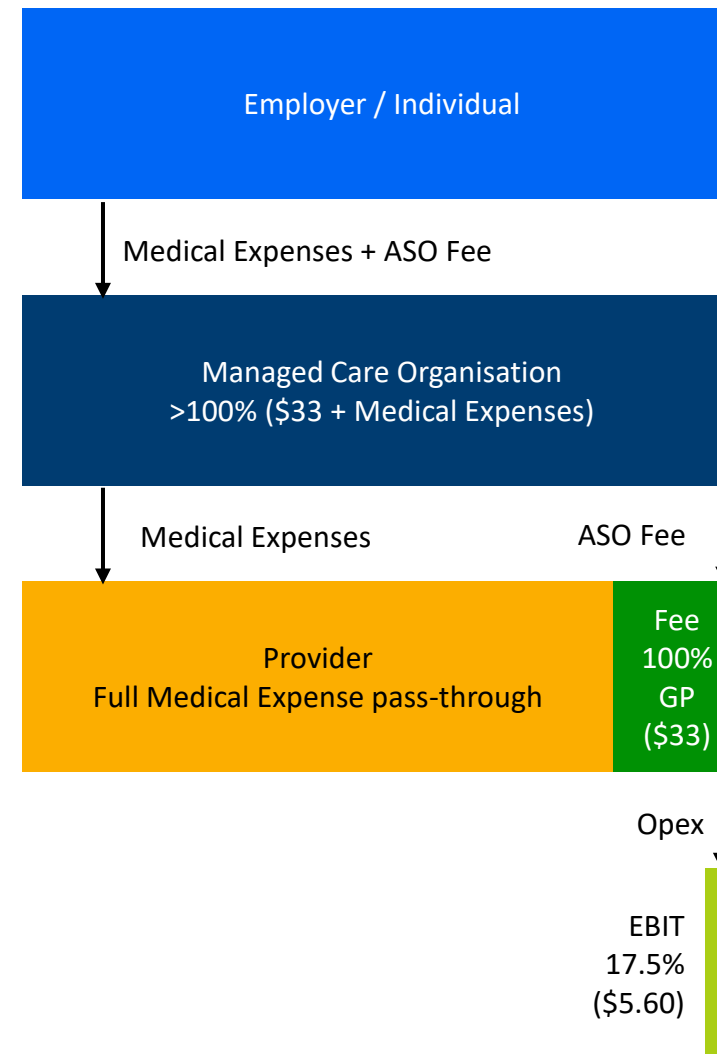
Regulation + Unemployment
Employers >50 employees are legally bound to purchase employee health insurance

Pricing
MCOs have to forecast cost trend because of lag between pricing and claims

Medical Loss Ratio (MLR)
GP margin cap @ 10/15% by Obamacare (GAAP GP cap ~20%)

Modest SG&A Leverage
Variable costs are quite high – majority of SG&A is claims processing and customer svc

No underwriting risk involved in ASO model



Comments

Large vs. Small Corporates
Larger corporates who can spread the underwriting risk usually go for ASO

Pricing
While ASO model favours big MCOs, pricing is quite stiff because it is a pure service

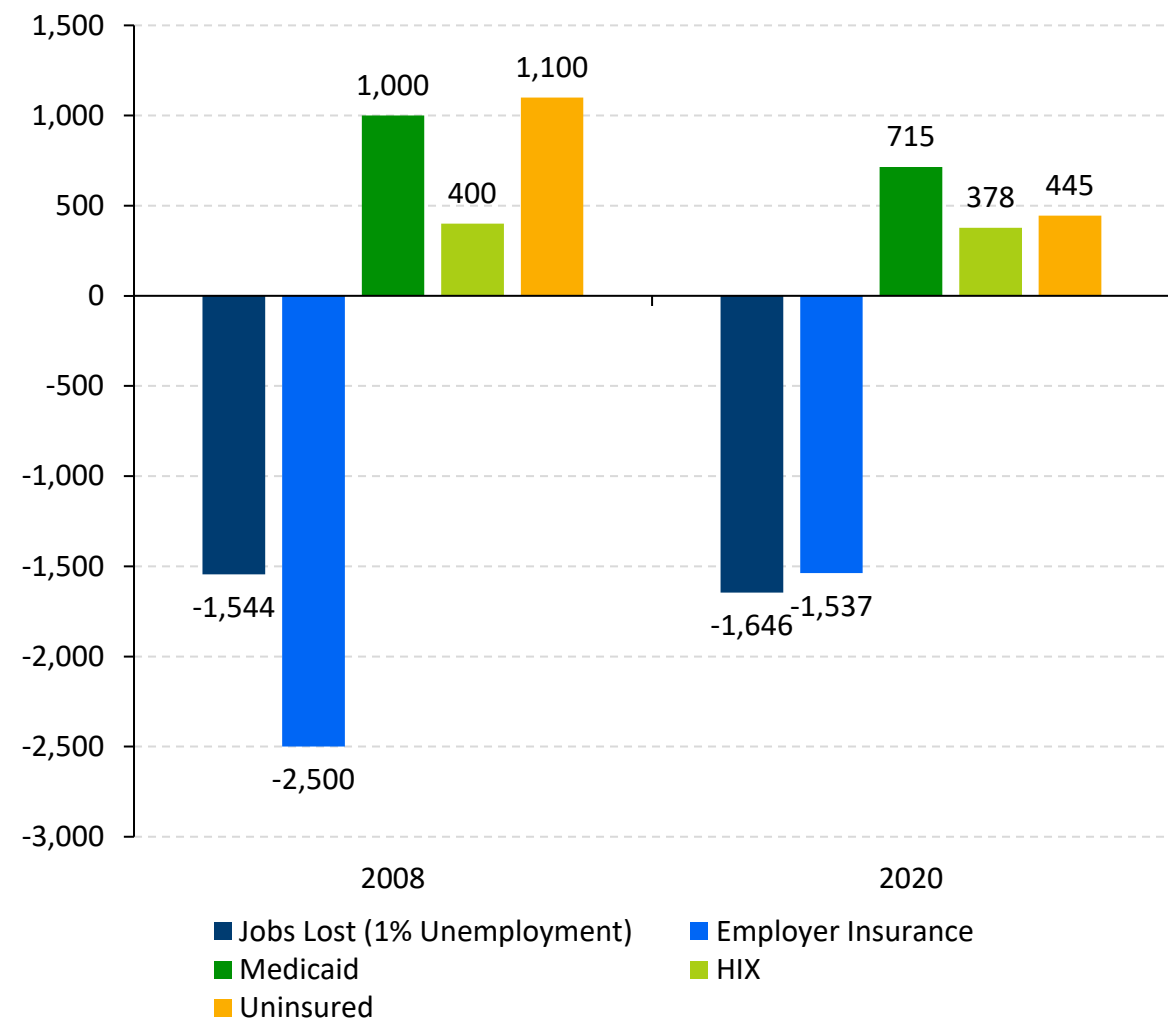
Accounting Treatment
MCO does not book the medical expense as revenue as they are full pass-through

Modest SG&A Leverage
Variable costs are quite high – majority of SG&A is claims processing and customer svc

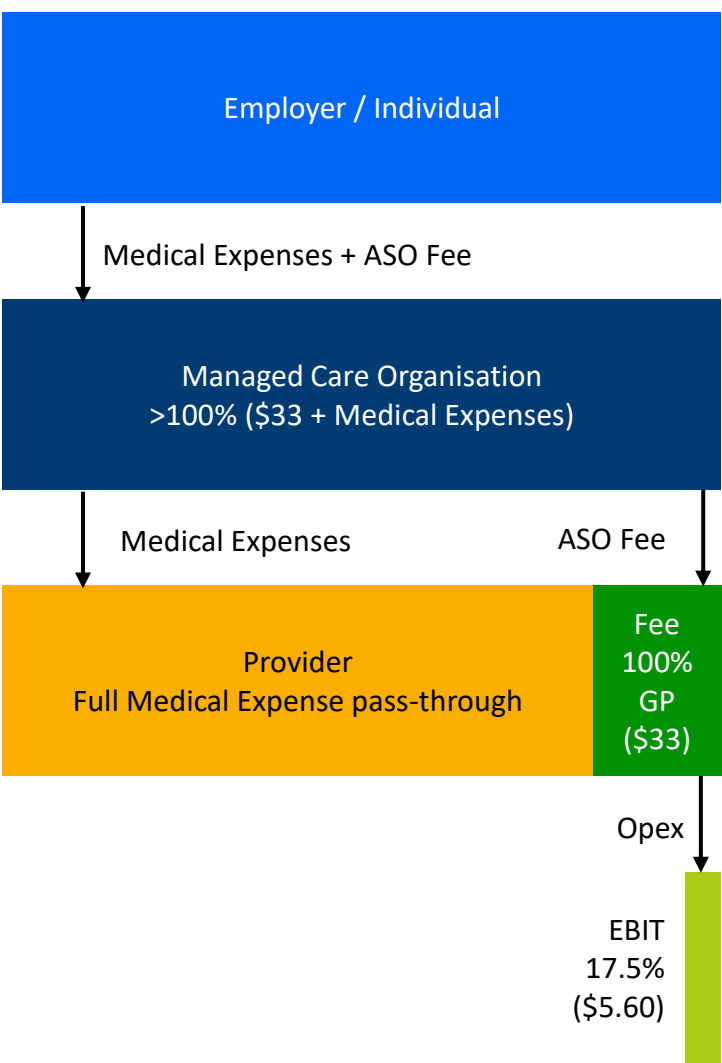
Appendix – Commercial & Individual

Impact from Unemployment Changes

Commercial business much more insulated to unemployment now vs. 10 years ago



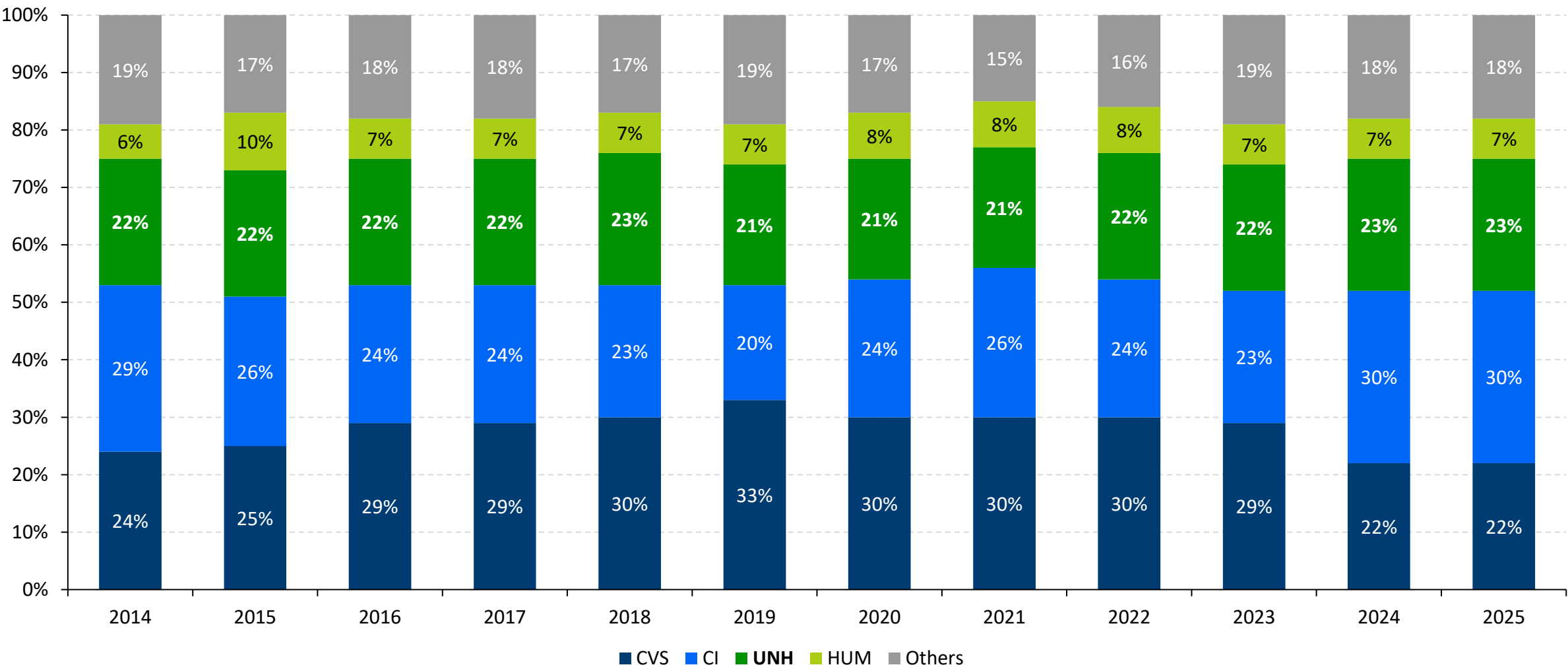
No underwriting risk involved in ASO model



Appendix – Pharmacy Benefit Managers

Market Share, 2014 – 2025

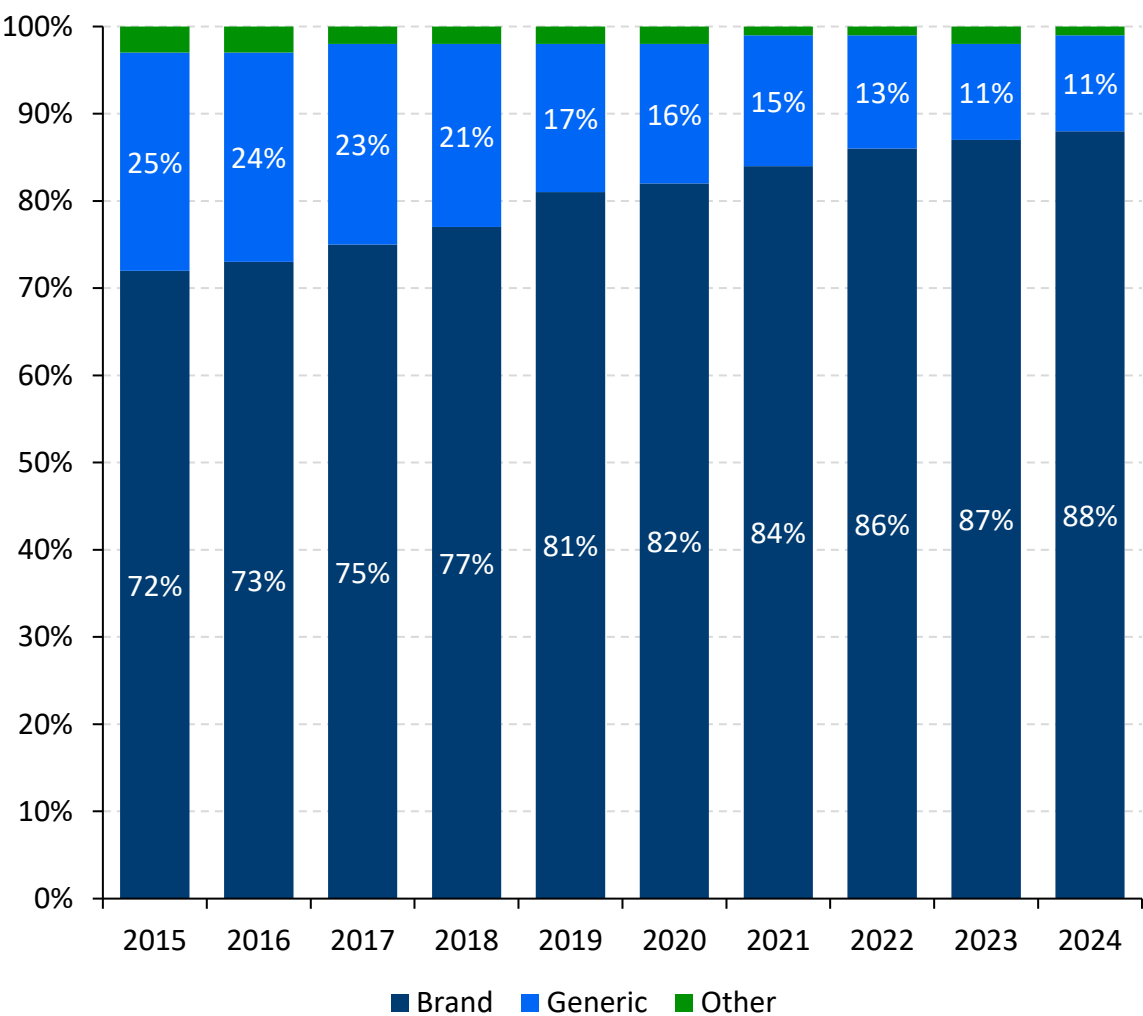
Top 4 PBMs account for c.82% of market share, UNH-OptumRx is #2 player



Appendix – Pharmacy Benefit Managers

Traditional Drug Spending vs. Volumes per Type

Generic drugs account for 11% of traditional drug spending...



But account for 85% of traditional prescription volumes

