Company Description:

UnitedHealth Group, the largest private health insurer in the U.S., provides a diverse and comprehensive array of health and well-being services to people through all stages of life. The company provides medical benefits to over 50 million members through employer-sponsored, self-directed, and government-backed insurance plans in the U.S. and internationally. UnitedHealth has two operating units: UnitedHealthcare (77% of Revenue) and Optum (23% of Revenue).

Name	Ticker	Yield	Growth	D + G
UnitedHealth Group Incorporated	UNH	2.84%	8.75%	11.59%

Highlights:

What Happened? There were two different news stories that led to price degradation in the stock:

1. *Poor Earnings Report*: Management noted that many of the new members at Optum Health were from non-UNH payors and had lower risk scores and less engagement than expected, likely exacerbated by market-specific plan exits from the bigger MA players. This unhappy circumstance can, in theory, be mitigated through updated risk coding, and we would expect a decent margin recovery in 2026, with help from a healthy final rate notice and, perhaps, lower engagement costs. Additionally, management noted difficulty navigating the V28 headwind with a disproportionate impact on their special needs/higher risk members - this issue seems more persistent as it's a permanent feature of V28. Lastly, management noted a significant increase in certain discrete categories of utilization (2x the increase of 2024 levels), particularly in their group MA book, driven by significant premium increases as patients felt the need to utilize what they are increasingly paying for.
2. *Andrew Witty Steps Down as CEO and Guidance is Withdrawn*: The company's CEO, Andrew Witty stepped down immediately, which was a huge surprise to everyone. UNH named Stephen J. Hemsley as the new CEO. Hemsley had served as the CEO of the company from 2006-2017 and will remain chairman of the Board. Hemsley had joined UNH as chief operating officer in 1997 and went on to become president in 1999 and later became a board chair in 2017. Further, UNH has suspended its 2025 outlook citing "care activity continued to accelerate while also broadening to more types of benefit offerings than seen in the first quarter, and the medical costs of many Medicare Advantage beneficiaries new to UnitedHealthcare remained higher than expected." Our take - we see the replacement of the CEO as a proactive step to address the combination of operational missteps and policy pressures. Steve Hemsley was the COO during the last big turnaround of UNH in 1998 and helped lead the turnaround which set the stage for creation of Optum and 20 yrs of growth. We expect Hemsley will be a temporary CEO for 1-2 years while they reprice the MA business and identify a long-term CEO.

Bull Case:

- ***Competitive Moat*** – UnitedHealth is top two or three market share in nearly every health insurance line of business. Scale is essential to compete in Managed Care and UnitedHealth is the biggest out there with the best leverage through its sheer number of members and a top three PBM (through OptumRx) helping the company to achieve industry best unit costs year in and year out.
- ***Long Runway for Growth*** – Health care spending has grown consistently for many years and comprises approximately 18% of U.S. GDP. This trend is likely to continue as baby boomers continue to age.
- ***Diversification in Earnings Stream*** – We believe every Managed Care company is striving to chase the holy grail of what UnitedHealth has established, which is owning nearly every substantial part of the healthcare payor to provider ecosystem. UnitedHealth has created this through OptumHealth, OptumRx and OptumInsight, and we believe this provides UnitedHealth with industry leading data insight, care coordination and clinical cost management.

Bear Case:

- ***The Downside Focus is All on Optum*** – The stock's share price has shown that investors may put a pause on the long-term OptumHealth story as the path forward in mitigating v28 appears much larger and more difficult than previously expected. While OptumHealth was supposed to be the value-based-case ("VBC") engine driving a new era of growth for UNH, there could be doubt on the long-term story as whether UNH has the necessary level of margin offsets heading into year three of v28 phase-in (2026) and the extent of recovery efforts needed to fix a potentially structural risk coding headwind. Over time, we are optimistic UNH can navigate these headwinds and potentially see a recovery in OptumHealth unit economics, but the situation may worsen with the final phase-in of v28 before it gets better.
- ***Medicaid RFP Procurement Risk*** – The company faces risk in procuring and reprocuring state Medicaid contracts. Every state operates its own Medicaid program and launches an RFP process when its existing contract expires.
- ***Medicare Advantage Rate Environment Risk*** – The company faces risk related to Medicare Advantage's annual rate setting process.
- ***Healthcare Utilization Risk*** – The company faces risk from healthcare utilization. If there are unexpected periods of elevated cost trends driven by healthcare utilization, this could impact its earnings.

Overall Thesis:

It's no secret that UNH has been a very difficult stock to own lately, but we want to give the management team the benefit of doubt, as they have decades of strong execution. But the stock may be in the penalty box for the near-term. At the end of the day, investors are grappling with the multiple to ascribe to UNH's enigmatic business portfolio. And, at the current multiple of 13.8x forward earnings (which have been heavily lowered by ~25%), we believe that the medicine has already been taken and that UNH is trading at a trough valuation.

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