UnitedHealth Group Incorporated

Just Getting Started: Raising PT to $235

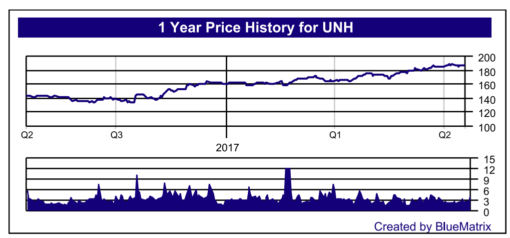
Rating	**Buy**
Previous Rating	No Change
Price (7/18)	**$186.85**
Price Target	**$235.00**
Previous Price Target	$200.00

Key Data

Symbol	UNH (NYSE)
52-Week Range	$188.66 - $132.39
Market Cap ($mm)	$180,060
Shares Outstanding (mm)	963.7
Float	948.2
Average Daily Volume	2,945,897
Dividend/Yield	$2.38/1.3%

Calendar Year-End: Dec 31

	2016A	2017E Prior	2017E Curr	2018E Prior	2018E Curr
Revenue ($bn) Diluted					
1Q	44.5A	–	48.7A	–	–
2Q	46.5A	–	50.1A	–	–
3Q	46.3A	–	50.3E	–	–
4Q	47.5A	–	50.8E	–	–
Yr	**184.8A**	**–**	**199.9E**	**211.8E**	**214.8E**
Earnings per Share ($) Non-GAAP Adjusted					
1Q	1.81A	–	2.37A	–	–
2Q	1.96A	–	2.46A	–	–
3Q	2.17A	–	2.49E	–	–
4Q	2.11A	–	2.50E	–	–
Yr	**8.05A**	**–**	**9.96E**	**11.33E**	**11.24E**
P/E	23.2x	–	18.8x	–	16.6x



Summary

In this report, we focus on what we see as the two most important things management said yesterday: 1) that UNH's growth 'just getting started' in key segments; and 2) that it is about to take a 'fresh focus at costs to drive better product price points. We present support for our view that UNH is not only uniquely positioned to fix the broken health care system, but also as a mega-cap early stage growth company, with the additional potential for both top line growth and expense efficiency to drive better than expected, consistent and sustainable earnings and FCF. We therefore raise our DCF/PE based 1-yr target to $235 and reiterate our Buy rating.

Key Points

*Just getting started...*Although President Dave Wichmann made that comment about the commercial business (monthly organic membership growth, in nearly every month for three years in the local group market, for example), we see that phrase as describing nearly every aspect of UnitedHealth Group's growth. For example, not only is Optum in the early stages, but the health plan's synchronization with Optum is just getting started in the commercial business too. More, UHC appears to be reaping only the early benefit on customer acquisition and retention of using Optum's tools to create 51 premier provider networks, up from 3 just a few years ago. UNH's opportunities are big and complex: as we see UNH's mission as fixing the broken US HC system, it makes sense to look at that opportunity. In 2016, we spent $3.2T on HC in the US - slightly under the GDP of Germany and almost 33% more than the GDP of the UK - and we know not all of that spending made sense. That's the UNH opportunity set, in our view. See our report for more specifics.

A fresh focus on costs: In our experience, when UNH's CEO makes that kind of statement on an earnings call, good things follow. In this case, we see that streamlining costs across the enterprise not only offsets some of the risk associated with the return of the health insurance industry fee, but also could drive more competitively priced products without the threat of pricing irrationally. More, we don't think any meaningful cost savings are yet included in most 2018 estimates for UNH, but we have made a first attempt at including it in our refined 2018 EPS.

Finally, UNH shares likely have scarcity value as a unique large-cap growth stock: if ever the broader market returns to HC, we think UNH has to be owned in large cap portfolios and at a premium multiple. Our blended DCF/PE methodology drives a $235 PT with an increased LT unlevered FCF growth rate of 4%, which we justify in this report. UNH remains the best managed company this analyst has ever followed - and we buy good management.

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A Winning Combination: An Early Stage Mega Cap Growth Company about to Embark on a New Phase of Streamlined and Effective Operations

Over the many years in which we have covered UNH, we've seen the company go through many phases – the brash, exciting young growth company, the maturing, but still driven mid-sized company, the company seemingly ready to devour scale in large simultaneous gulps, the scandal and disappointment-plagued company and the challenged company that looked inward, took its lumps, reorganized, repositioned and changed culture to become what it is today. Along the way, management learned, developed, changed and matured, just as we hope to have learned, developed, changed and matured. If we've learned one thing, it's that the best way to understand UNH is to listen very, very closely when management speaks. And that's particularly true when CEO Hemsley speaks, and especially when he speaks on the earnings calls. It's all there - the thesis, the strategy, the 'what's next' - one just has to listen and think. It's particularly hard to do that, we've found, when things are going well – the superlatives tend to wash over the listener, especially when we've heard it before, so that the exceptional becomes the usual, the hard becomes the easy and the new and important news gets missed. We try not to make that mistake.

So in this report, we'll focus on those things that we heard in this quarter's call, tied back to our own due diligence and thoughts around the UNH opportunities and try to quantify the impact of some of those ideas or initiatives on earnings. We won't go into all that UNH said: we're not reporters. But we will focus on what we heard that we think investors should pay attention to. And there are really only two broad ideas/strategies that we think really matter.

"We're Still Just Getting Started…"

Although President Dave Wichmann made that comment about the commercial business (*monthly* organic membership growth, in nearly every month for three years in the local group market, for example), we see that phrase as describing nearly every aspect of UnitedHealth Group's growth.

It's there in the early renewal and expansion of the enterprise relationship with AARP. It's there in the market share gains in MA after making big mistakes with STARS and turning that business around in less than three years so that some think its growth is only possible if UNH is irrationally pricing (rather than the likely truth, i.e., that it offers consumers and employers value through a really strong combination of pricing, networks and benefits that's driving retention and new business). It's there in the new business models being developed within Optum, whether one considers OptumCare, OptumRx or the application in real clinical and business settings of the OptumInsight analytics and predictive modelling. It's there in the 'restless' drive for innovation, for combining business capabilities in new ways to transform and fix the health care economy. And it's there in the recognition that UNH can always do things better and more efficiently.

That phrase was, in our view, the single most stunning point of the entire earnings call, because it's right and because it answers the unasked question, i.e., whether UNH's superior long-term growth is sustainable given a $200 billion revenue run rate and a $180 billion market cap.

If it is true that UNH is just getting started, then it's a mega cap early stage growth company at a compelling valuation. So could it be true? Yes, in our view, and here are a few reasons why:

1. We're just starting to hear management of UHC talk about the benefits of using Optum's data, analytics, strategies, protocols, etc. That's in stark contrast to the lack of such commentary just a few years ago (2015). Given our long-held view that the Optumization of UHC was mission critical to the goal of fixing healthcare and growing UNH, we're obviously pleased. But it's more than that: Optum itself is dynamic and in the early stages of applying all of those great data, analytic and tech tools to the real world and its expertise seems to be expanding exponentially (especially as OptumCare adds 'practical' to the innovation effort).

2. UHC is in the early stages of leveraging its high performing networks. A few years ago, UHC had *three* provider networks. Now it has 51, all of which are chosen based on the quality/cost efficacy analysis done with Optum's tools. Customers can pick a premium network/cost sharing design that suits them, and can see the quality metrics first. That changes the decision from 'let's just save money' to 'let's get great care at the right price.' That concept, in turn, is part of a still-early conversation in the commercial market about value-based benefit design, one that we think will eventually dominate employer thinking about how to pick a health plan partner. We expect UNH to have an 'innovator's advantage.'

3. OptumHealth via OptumCare – UNH is clearly in the really early stages of growth here, which we think is or should be pretty obvious to the reader. We could 'wax eloquent' about OptumCare and our even stronger view that this is the money shot: if one is going to build a company around fixing health care, then being in partnership with the decision maker who controls the health care utilization process (choosing how much care, where it's delivered and when to achieve the best patient outcome feasible) is crucial and far reaching. It's a missionary effect: Optumizing care via OptumCare's relationships with other health plans fixes health care for more people than just UNH can do within UHC alone. That these clinicians may ultimately make decisions that disintermediate hospitals and other high cost assets, and that may eliminate waste and drive long term changes in treatment protocols, and that may materially lower cost trends while improving outcomes is not beside the point. It is the point.

4. The focus on net promoter scores (NPS) is also relatively new – and transformational, in our view. First, happy customers don't leave, so retention rates rise (something that's been happening for the last two years or so) and

second, focusing on delivering value that makes customers happy, along with great customer service, could keep UNH's prior tendency toward arrogance and hubris in check. So we could be in for a period of sustained growth that is not interrupted by periods of customer disruptions.

5. The market opportunities for UNH are many and really big. We start with our long-held premise that the goal of UNH is to fix the health care economy – not just some of it, but all of it. The US alone spent $3.2 *trillion* on health care in 2016 according to CMS.

    a. To put that in perspective, the nominal GDP of Germany was $3.4 trillion in 2015 and the nominal GDP of the UK was $2.5 trillion: they are the fourth and fifth largest economies in the world. We could fund a country on what we spend in health care in the US – which only goes to support our view that UNH's target market in the US alone, never mind its international opportunities, is really big.

    b. Moreover, US health spending rose 5.8% in 2016, also per CMS, and we know that the system doesn't use resources well, has a lot of waste and inefficiency and doesn't produce the best outcomes. The CDC tells us that there were 922.6 million physician office visits in the US in 2013, the most recent year for which data is available. To us, that means there were 922.6 million transactions that UNH, via Optum and UHC, could improve upon, plus a whole lot more (pharmacy, follow-up care in a different setting, etc.).

    c. In that same year, there were 130.4 million ER visits. Only 12.2 million resulted in a hospital admission. Could the other 91% be avoided? (Source: https://www.cdc.gov/nchs/fastats/emergency-department.htm) That's just part of the domestic opportunity that UNH can directly address through Optum and UHC.

Then there are the intangible factors that we think must be considered as well: CEO Hemsley's comment, "knowing the next 10 years hold more opportunity than the last 10," i.e., when UNH grew from $75 million in revenue in 2007 to $185 million in 2016 or by 2.5x, seems extraordinary given that it's a lot harder to grow a big company than a small one, especially a big successful company. But is anyone in a better position to see the future of UNH than its CEO? We don't think so. And then there's also his comment, made several times before, about a "strong, deep and *restless* leadership team…" that we find fascinating (emphasis added by MSUSA). It speaks to us of the qualities of a management group that doesn't rest in its quest to excel, adapt, innovate, grow and change. And that, perhaps, is the factor most likely to support the view that UNH's growth is still just getting started: if management is consistently reinvigorated with the new, while driving the old toward excellence by blending with the new, then market opportunities are created time and again by the actions of the company itself. And that, in turn, creates the unusual: an early-stage mega-cap growth company.

The Next New Thing: It's Time to Consider Efficiency and Costs

The other important thing we heard, reflected in our earnings call question, was Mr. Hemsley's comment that in 2018 and beyond there would likely be a 'fresh focus on costs to drive better product price points." Now, in our experience, when the CEO of UNH says something like that on an earnings call, real things happen. So let's put some context around this: in 2018, UNH and we assume that the health insurance tax comes back and creates even more than the $0.25 per share headwind that it would have been in 2017. That's a non-trivial $247mm after tax and about $395mm pre-tax of headwind just at $0.25 per share. Also consider that there's been a fair amount of acquisition-driven growth at Optum – and while One Optum surely has led to considerable cost savings from combining and streamlining operations, it's likely that the business could benefit from that again. Ditto at UHC, although less of the growth there has been via acquisition. On top of that, as the business mix shifts toward direct provision of services (either at OptumCare or outside of it) and as the PBM grows, the operating cost ratio will likely rise. So bringing a 'fresh focus' to costs not only makes sense to us, it's the right thing to do now, i.e., while the business is still growing. That way, UNH gets the benefit of both strong topline growth and a more streamlined and efficient cost structure.

But the real opportunity is to continue to focus on bringing down medical and other costs to drive lower price points, just as UNH said. It sustains organic growth and drives better retention. It sustains the company's competitive advantages. And, given the pressures on the health care economy, driving product prices lower is the right thing to do for the system as a whole, especially when the price move is driven by costs and not irrational market share grabs.

Our Estimate for 2018 is Therefore Above the Street as We Include Cost Savings Across the Enterprise

Finally, we draw attention to this issue because we seriously doubt that expectations for cost containment have made it into anyone's models as yet. We've attempted to do so by modeling both the impact of the health insurance tax and cost reduction efforts on the MLR and operating cost ratio in 2018. Of course, given the timing, we're doing this without the benefit of guidance, but our recast 2018 estimates now show a 10 bp improvement in the operating cost ratio YOY versus flat previously and 30 bp of improvement in product costs, along with a 20 bp improvement in MLR versus our 2017 estimates. Even so, we're modeling a reduction in the adjusted EPS growth rate from 24% in 2017E to 13% in 2018E to reflect the impact of the return of the industry tax. Please see our model at the end of this report.

Scarcity, FCF and Expectations for Continued Excellence Drive Our $271 per Share DCF Valuation

We feel as if we've written this note before: look how innovative and special UNH is…look at how big the opportunity is…here's why you should not only own UNH but own more of it because the growth opportunities are 'huge' and management execution is superior. Indeed, in March 2015 when we initiated coverage of UNH here at MSUSA, we argued for a DCF approach to valuation precisely because UNH can't or shouldn't be pigeon-holed as a managed care company, it's not an IT story, it's not a PBM and it's not an outpatient/doc practice company. It's all of those things and more than just the sum of its parts because it's the synergy and synchronization between and among those parts that creates the unique enterprise that is UNH. The only common factor with its peer group, in our view, is that UNH generates EPS and FCF as they do.

So when we initiated coverage, we put a $140 PT on the stock versus a then-current $118 stock price, but we noted that the DCF generated a $200 PT. We took a fair amount of heat for that DCF as some investors argued with our long-term growth rate assumption. But now most P/E based price targets for UNH are around $200 and both earnings and cash flow growth have remained strong, even accelerating a little.

For what it's worth, our then-current estimate for 2015 EPS was $6.26, with $7.12 for 2016E and $8.24 for 2017E on a GAAP basis. UNH did $6.01 GAAP in 2015 including the exchange disaster, and did 5% better than our original estimate for 2016, reporting $7.47 GAAP EPS.

The point is that DCFs are meaningful here and, we think, will become more meaningful the more UNH continues to move away from being just a traditional managed care company. There is no other company like it in our view and, as more time passes, no other company that can come close to it in capabilities, consistency, market opportunities and superior management and execution. Thus, the use of comparable multiples is at best a flawed guide, even with the broad market acceptance that UNH deserves a premium multiple. Indeed, as we have long held that cash flows are the key to all things good for investors, it seems even more compelling today to base valuations on DCFs than on P/Es or even FCF multiples. In short, if we really believe that UNH is unique, then the only valuation method that's valid is one that values UNH uniquely.

The foregoing thought process lead us to consider revisions to our DCF model based not only on our revised 2017 estimates, but also on our revised 2018 estimates given that we are now half way through the year.

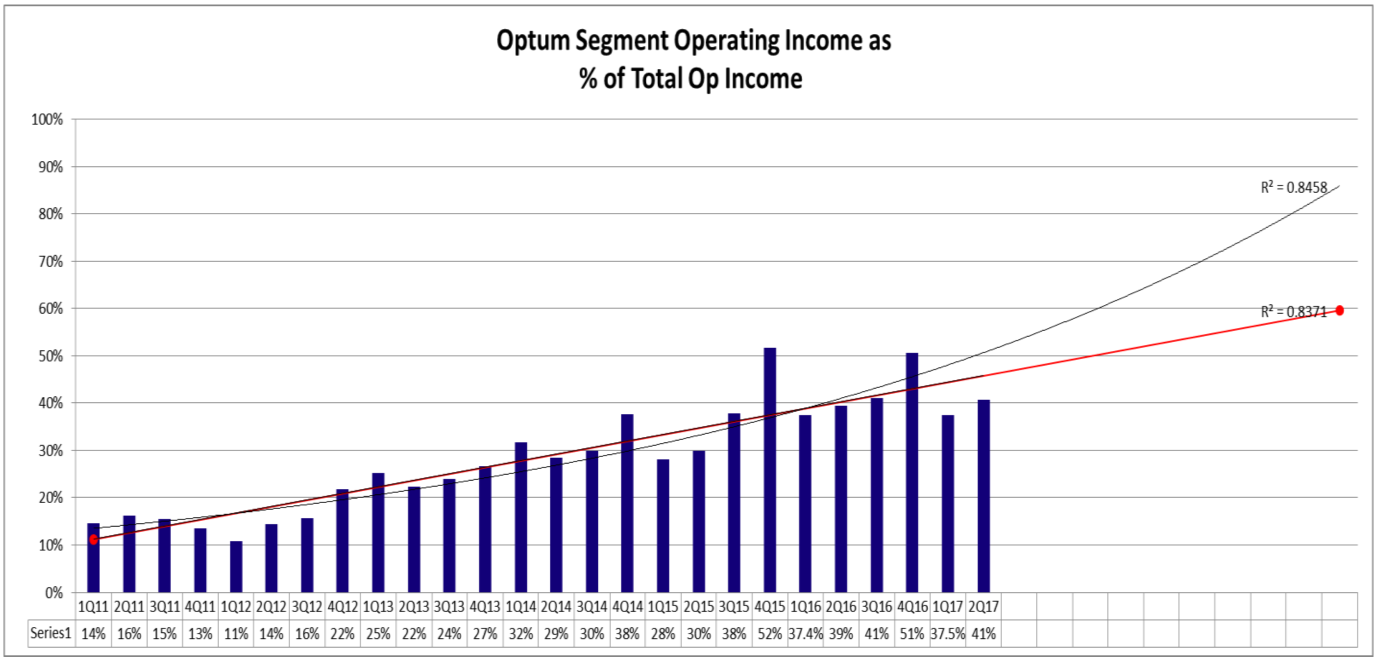
As before, we use Bloomberg's calculated WACC for UNH, which has now risen to 7.8% on a higher cost of equity capital. We're not going to challenge this, although a nearly 9% cost of equity for UNH seems a bit high to us. No, to us the more meaningful discussion to be had is around the appropriate terminal growth rate to use for FCF growth. We had been using 2.75%. We're now using 4%. There are a few key reasons:

1. The average growth rate of unlevered FCF for the last 5 years (2011 to 2016) was 8%. The average growth rate of unlevered FCF going back to restated 2005 is 11%. Said differently, 2016 unlevered FCF was 2.5x bigger than that in 2005, 11 years earlier. While those longer-term growth metrics are interesting, we think that 2011 is the relevant base period: that was when Optum was unveiled.

2. The projected unlevered FCF growth for 2017 is 36% and for 2018 is 13% using a 13% adjusted EPS growth rate in 2018E.

3. As most of the growth is coming in the services segment, we expect the 'cash flow productivity' of a dollar of unregulated revenue growth to be better than that of the regulated businesses (higher margins, less capex and no reserve requirement) as those services businesses mature. This suggests a higher FCF growth rate in the future than in the past.

Exhibit 1: Optum Operating Income as a Percent of Total Operating Income



Sources: Company reports and MSUSA estimates

4. Finally, we consider that management's goal for EPS growth longer term is 13% to 16% (even as the CAGR over the last 17 years through 2016 was an astounding 19%) and the fact that its market opportunities today are bigger, richer and more diversified than ever before. In the context of that guidance, historic performance and our estimates, we think that the 4% long-term unlevered FCF growth rate, which is half that achieved during the build-out period for Optum, is valid.

Thus, our DCF model supports a $271 per share value for the UNH enterprise. And the kicker is that this target price might prove to be conservative.

Exhibit 2: DCF Valuation Model

Discounted Cash Flow Projections	2014A	2015A	2016A	2017E	2018E
Unlevered Free Cash Flow	7,222	8,974	9,157	12,478	14,099
YOY growth	13.0%	24.3%	2.0%	36.3%	13.0%
Combined FCF	7,222	8,974	9,157	12,478	399,973
Long term grow th rate		4.00%			

DCF Calculation

Value of the firm	$ 355,761
Value of debt	$ 88,940
Value of NOL's	**$ 0**
Value of the equity	**$ 266,821**
Shares Outstanding	*983*
Equity value per share	**$ 271.44**

WACC

	Cost of Equity	**7.5%**
	After tax debt rate	0.3%
WACC, discount rate		**7.800%**

Sources: Company reports, Bloomberg Finance LP and MSUSA estimates

Having argued for DCF as a better valuation methodology than P/E, we are realistic enough to understand that it takes the market a long time to adapt to non-traditional valuation metrics. Consequently, we continue to blend our DCF with a P/E target, but with the premise that the scarcity value of a mega cap early stage growth company deserves a premium to purported peers.

Our target multiple is now 20x our 2017E Adjusted EPS of $9.96 (above the high end of guidance, but still achievable in our view given the growth metrics across the business units and 17.8x our new 2018 Adjusted EPS estimate of $11.24, which represents 13% YOY growth versus our 2017 estimate and is consistent with the low end of UNH’s long-term EPS growth guide of 13% to 16% annually. Note that the average adjusted EPS growth rate for the 2015-2018E period would be about 17.5% if our estimates prove to be correct, so our target multiple for 2018 is consistent with that average growth rate. The P/E method yields a target price of $199.50 for UNH shares.

Exhibit 3: Blended Valuation Yields New $235 PT, Up 26% from Current Levels

UnitedHealth Group	Current Price				Step 1: Target Price - Multiple Method			
Stock Price	**$186.85**				**$199.49**			
($mm except per share, FY Dec)	**2015A**	**2016A**	**2017E**	**2018E**	**2015A**	**2016A**	**2017E**	**2018E**
Revenue	$ 157,107	$184,828	$199,851	$214,075	$157,107	$ 184,828	$ 199,851	$214,075
Cash EPS	$ 7.00	$ 8.05	$ 9.96	$ 11.24	$ 7.00	$ 8.05	$ 9.96	$ 11.24
YOY Growth		15.1%	23.7%	12.9%		15.1%	23.7%	12.9%
PEG		**1.5x**	**0.8x**	**1.3x**		**1.6x**	**0.8x**	**1.4x**
FCF per share	$ 8.46	$ 8.36	$ 11.49	$13.18	$ 8.46	$ 8.36	$ 11.49	$13.18
Dividend per share	$ 2.00	$ 2.50	$ 3.00	$ 3.54	$ 2.00	$ 2.50	$ 3.00	$ 3.54
P/E	**26.7x**	**23.2x**	**18.8x**	**16.6x**	**28.5x**	**24.8x**	**20.0x**	**17.8x**
FCF Yield	4.5%	4.5%	6.1%	7.1%	4.2%	4.2%	5.8%	7.1%
P/FCF	22.1x	22.4x	16.3x	14.2x	23.6x	23.9x	17.4x	14.2x
Dividend Yield	1.1%	1.3%	1.6%	1.9%	1.0%	1.3%	1.5%	1.9%
Target Price from P/E and FCF Multiple							**$199.49**	
Step 2: Target Price, DCF Method								
DCF								
Terminal Growth Rate						4.0%		
WAC Equity Capital						7.5%		
After-tax Cost of Debt						0.3%		
WACC						7.8%		
Value of the firm (Unlevered FCF)						$ 355,761		
Value of debt						$ 88,940		
Value of NOL's						$ -		
Derived DCF Value of the Equity							$ 266,821	
Shares Outstanding							983	
DCF Implied Equity value per share							**$271.44**	
Blended 50/50 Target Price							**$235.46**	

Sources: Company reports, MSUSA estimates and Bloomberg

Finally, we offer the following reasons why, in summary, we think that investors should continue to buy UNH shares:

- UNH is a long-term large cap growth stock, a company whose mission is to fix the broken health care system in the US and lead change abroad. The more broken health care is, the better it is for UNH, who is uniquely positioned to fix it and make money doing it. (By the way, our thesis hasn't changed since March of 2011, the first time we wrote on and figured out Optum.)

- Scarcity value – there aren't many companies across any sector with UNH's profile, i.e., a 19% 17-year earnings growth CAGR, a recent 21% ROE and 30% EPS growth rate, a consistent commitment to innovation or one with UNH's likely prospects. So while it's well-owned by health care types, there isn't likely to be selling anytime soon and any new money into health care likely has to buy UNH.

- It's the best managed company this analyst has ever followed and it's still at the early stages of its next round of growth. And we buy good management.

Exhibit 4: Cash Flow Model

($ in millions)	2015A	1Q16A	2Q16A	3Q16A	4Q16A	2016A	1Q17A	2Q17A	2017E	2018E
OPERATING ACTIVITIES										
Net Earnings	5,868	1,627	1,760	1,978	1,708	7,073	2,191	2,350	9,230	10,489
Non-cash Items										
Depreciation & Amortization	1,693	502	511	515	527	2,055	533	556	2,214	2,350
Deferred Income Taxes & Other	(308)	151	(312)	(312)	554	81	(46)	(43)	(500)	(200)
Stock based compensation	406	157	105	107	116	485	196	136	550	580
Net Change in Other Operating Items (net of AARP)	-				(82)	(82)		-	-	
Accounts Receivable & Other Assets	2,081	(119)	(381)	4,915	(4,232)	183	3,582	(828)	1,500	1,500
Medical Costs Payable	-	-	-	-	-	-	-	-	-	-
Accounts Payable & Accrued Liabilities	-	-	-	-	-	-	-	-	-	-
Other Policy Liabilities	-	-	-	-	-	-	-	-	-	-
Unearned Premiums	-	-	-	-	-	-	-	-	-	-
Cash Flows From Operating Activities	**9,740**	**2,318**	**1,683**	**7,203**	**(1,409)**	**9,795**	**6,456**	**2,171**	**12,994**	**14,719**
LTM CFO	**9,740**	**9,789**	**10,309**	**14,715**	**9,795**	**9,795**	**13,933**	**17,760**	**12,994**	**14,719**
LTM FCF	**8,184**	**8,181**	**8,656**	**13,011**	**6,959**	**8,090**	**12,146**	**14,745**	**11,294**	**12,919**
Unlevered FCF	8,974					9,157				
INVESTING ACTIVITIES										
Cash Paid for Acquisitions, net	(16,164)	(1,697)	(338)	(692)	967	(1,760)	(468)	(236)	(250)	(250)
Purchases of Property, Equipment & Capitalized Software	(1,556)	(425)	(388)	(407)	(485)	(1,705)	(507)	(418)	(1,700)	(1,800)
Proceeds from disposal of Property, Equiptment & Capitalized Software		-	-	-	-		-	-		
Cash received for divestiture / other	(144)	14	2	(41)	62	37	25	30	25	
Purchases of Investments	-	-	-	-	-		-	-	-	-
Net Sales and Maturities/ (Purchases) of Investments	(531)	(2,073)	(1,508)	(1,188)	(1,158)	(5,927)	(1,339)	(743)	(4,000)	500
Cash Flows Used For Investing Activities	**$ (18,395)**	**$ (4,181)**	**$ (2,232)**	**$ (2,328)**	**$ (614)**	**$ (9,355)**	**$ (2,289)**	**$ (1,367)**	**$ (5,925)**	**$ (1,550)**
FINANCING ACTIVITIES										
Proceeds from Common Stock Issuance	402					-				-
Common Stock Repurchases	(1,200)	(500)	(480)	(137)	(163)	(1,280)	(682)	(363)	(4,600)	(5,000)
Acquisition of noncontrolling interest shares	(118)				(257)	(257)				
(Repayments) Issuances of Commercial Paper, net	3,666	1,599	(591)	69	(1,459)	(382)	(189)	(1,982)	(2,200)	(1,000)
Interest rate swap termination	-					-			-	-
Payments for Retirement of Long-Term Debt	(1,041)				(2,596)	(2,596)				(500)
Proceeds from Issuance of Long-Term Debt	11,982				3,968	3,968				-
Proceeds from issuance of common stock-based comp					429	429				
Stock based comp excess tax benefits	-					-			-	-
Checks outstanding										
Customer funds administered	768				1,692	1,692	2,992	732	3,217	3,500
Dividends Paid	(1,786)	(477)	(594)	(595)	(595)	(2,261)	(596)	(724)	(2,713)	(3,120)
Other	(434)	880	(196)	362	(1,370)	(324)	-	-	-	100
Cash Flows Used For Financing Activitites	**$ 12,239**	**$ 1,502**	**$ (1,861)**	**$ (301)**	**$ (351)**	**$ (1,011)**	**$ 1,525**	**$ (2,337)**	**$ (6,296)**	**$ (6,020)**
Effect of exchange rate changes on cash and cash equivalents	**$ (156)**	**$ (85)**	**$ 150**	**$ 5**	**$ 8**	**$ 78**	**$ 20**	**$ (27)**	**$ 80**	**$ 80**
INCREASE (DECREASE) IN CASH	3,428	(446)	(2,260)	4,579	(2,366)	(493)	5,712	(1,560)	853	7,229
CASH, BEGINNING OF PERIOD	7,495	10,923	10,477	8,217	12,796	10,923	10,430	16,142	10,430	11,283
CASH, END OF PERIOD	**10,923**	**10,477**	**8,217**	**12,796**	**10,430**	**10,430**	**16,142**	**14,582**	**11,283**	**18,512**
FCF per share	**$8.46**	**$1.96**	**$1.34**	**$7.01**	**($1.95)**	**$8.36**	**$6.10**	**$1.78**	**$11.49**	**$13.18**

Sources: Company reports, Bloomberg & MSUSA estimates

Exhibit 5: Income Statement Model

($ in millions except per share data)											
FY December	**1Q16A**	**2Q16A**	**3Q16A**	**4Q16A**	**2016A**	**1Q17A**	**2Q17A**	**3Q17E**	**4Q17E**	**2017E**	**2018E**
Premium Revenues	$ 34,811	$ 36,413	$ 36,142	$ 36,740	$ 144,106	$ 38,938	$ 39,585	$ 39,700	$ 39,900	$ 158,123	$ 167,000
Services	3,140	3,269	3,264	3,563	13,236	3,434	3,797	3,800	4,000	15,031	18,250
Products	6,393	6,610	6,696	6,959	26,658	6,129	6,415	6,500	6,600	25,644	28,000
Investment Income	183	193	191	261	828	222	256	275	300	1,053	825
Total Revenues	**44,527**	**46,485**	**46,293**	**47,523**	**184,828**	**48,723**	**50,053**	**50,275**	**50,800**	**199,851**	**214,075**
YOY Growth	24.5%	28.2%	11.6%	9.0%	17.6%	9.4%	7.7%	8.6%	6.9%	8.1%	7.1%
Medical Costs	28,430	29,872	29,040	29,696	117,038	32,079	32,549	32,713	32,878	130,218	137,274
Medical Loss Ratio	**81.7%**	**82.0%**	**80.3%**	**80.8%**	**81.2%**	**82.4%**	**82.2%**	**82.4%**	**82.4%**	**82.4%**	**82.2%**
SG&A	6,758	6,793	7,033	7,455	28,039	7,022	7,328	7,390	7,518	29,259	31,041
Costs of Products Sold	5,877	6,106	6,125	6,308	24,416	5,676	5,889	5,928	5,973	23,466	25,312
Depreciation and Amortization	502	511	515	527	2,055	533	556	560	565	2,214	2,350
Total Operating Expenses	41,567	43,282	42,713	43,986	171,548	45,310	46,322	46,591	46,934	185,157	195,977
Operating Profit	**2,960**	**3,203**	**3,580**	**3,537**	**13,280**	**3,413**	**3,731**	**3,684**	**3,866**	**14,694**	**18,098**
Margin	6.6%	6.9%	7.7%	7.4%	7.19%	7.0%	7.5%	7.3%	7.6%	7.4%	8.5%
Interest Expense	259	271	269	268	1,067	283	301	300	300	1,184	1,180
Pretax Income	2,701	2,932	3,311	3,269	12,213	3,130	3,430	3,384	3,566	13,510	16,918
Pretax Margin	6.1%	6.3%	7.2%	6.9%	6.6%	6.4%	6.9%	6.7%	7.0%	6.8%	7.9%
Income Taxes	1,074	1,172	1,333	1,341	4,920	939	1,080	1,066	1,195	4,279	6,429
Tax Rate	39.8%	40.0%	40.3%	41.0%	40.3%	30.0%	31.5%	31.5%	33.5%	31.7%	38.0%
Net Income	1,627	1,760	1,978	1,928	7,293	2,191	2,350	2,318	2,371	9,230	10,489
Less earnings attributable from NCI	16	6	10	24	56	19	66	16	55	156	175
Net income applicable to common	1,611	1,754	1,968	1,904	7,237	2,172	2,284	2,302	2,316	9,230	10,489
GAAP Net Income available to Com	**1,611**	**1,754**	**1,968**	**1,904**	**7,237**	**2,172**	**2,284**	**2,302**	**2,316**	**9,230**	**10,489**
Exchange & 'Caid Loss											
Intangible Amortization, net of tax	**140**	**140**	**139**	**139**	**558**	**137**	**139**	**140**	**140**	**556**	**525**
Adjusted Net Income	**1,751**	**1,894**	**2,107**	**2,043**	**7,795**	**2,309**	**2,423**	**2,442**	**2,456**	**9,786**	**11,014**
GAAP EPS	**$ 1.67**	**$ 1.81**	**$ 2.03**	**$ 1.96**	**$ 7.47**	**$ 2.23**	**$ 2.32**	**$ 2.34**	**$ 2.36**	**$ 9.39**	**$ 10.70**
Adjusted EPS	**$ 1.81**	**$ 1.96**	**$ 2.17**	**$ 2.11**	**$ 8.05**	**$ 2.37**	**$ 2.46**	**$ 2.49**	**$ 2.50**	**$ 9.96**	**$ 11.24**
GAAP EPS for Part D	*$ 1.67*	*$ 1.81*	*$ 2.03*	*$ 1.96*	*$ 7.47*	*$ 2.23*	*$ 2.32*	*$ 2.34*	*$ 2.36*	*$ 9.39*	*$ 10.70*
% chg. year/year*	14.2%	-68.2%	39.3%	19.6%	24.4%	33.7%	27.8%	15.4%	20.3%	25.6%	14.0%
Diluted Shares Outstanding	967,000	967,000	969,000	970,000	968,250	975,000	985,000	982,000	981,000	983,000	980,000
Margins											
Operating Expense Ratio	93.4%	93.1%	92.3%	92.6%	92.8%	93.0%	92.5%	92.7%	92.4%	92.6%	91.5%
SG&A	15.2%	14.6%	15.2%	15.8%	15.2%	14.4%	14.6%	14.7%	14.8%	14.6%	14.5%
Costs of Products Sold	91.9%	92.4%	91.5%	89.0%	91.6%	92.6%	91.8%	91.2%	90.5%	90.7%	90.4%
Net	3.6%	3.8%	4.3%	4.0%	3.9%	4.5%	4.6%	4.6%	4.6%	4.6%	4.9%

Sources: Company reports and MSUSA estimates

Price Target Calculation and Key Risks

Price Target Methodology: Our $235 one-year PT is based on a 50/50 blend of our DCF model using a 4% long-term growth rate, of $271 and a target P/E of 20x our 2017E Adjusted EPS of $9.96 or $200 per share. Blending the two equally yields our $235 1-year price target for UNH shares.

Key Risks: Among the key risks to our rating and price target are repeal/replace of the ACA, execution risk; reimbursement and regulatory risks; competitive risks and market risk. Further, UNH is modestly exposed to exchange rate risk, with less than 5% of its revenue derived from its global businesses, principally in Brazil. Execution risk includes, but is not limited to, risks in both the benefits and services businesses. In the benefits business, estimation of cost trends and other actuarial calculations are critical activities as they influence pricing and reserves for the Company's insurance products. Any misstep there could result in a material and negative effect on the stock price. In addition, the Optum services business is highly innovative and technology driven. Missteps there could lead to the potential for material disappointments in results and multiple compression. Reimbursement and regulatory risk could not only affect pricing, but also members served. The timing and extent of such changes are usually out of the Company's control and therefore could represent exogenous events with negative earnings and stock price implications. UNH is also the subject of a DOJ investigation into Medicare risk adjustment practices, the outcome of which cannot be determined at this time. Political/health policy risks could be significant and future national health policy remains highly uncertain. In particular, Congress has not yet given relief on the sunset of the industry tax moratorium after 2017.

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Hold (Neutral)	50.58%	33.59%
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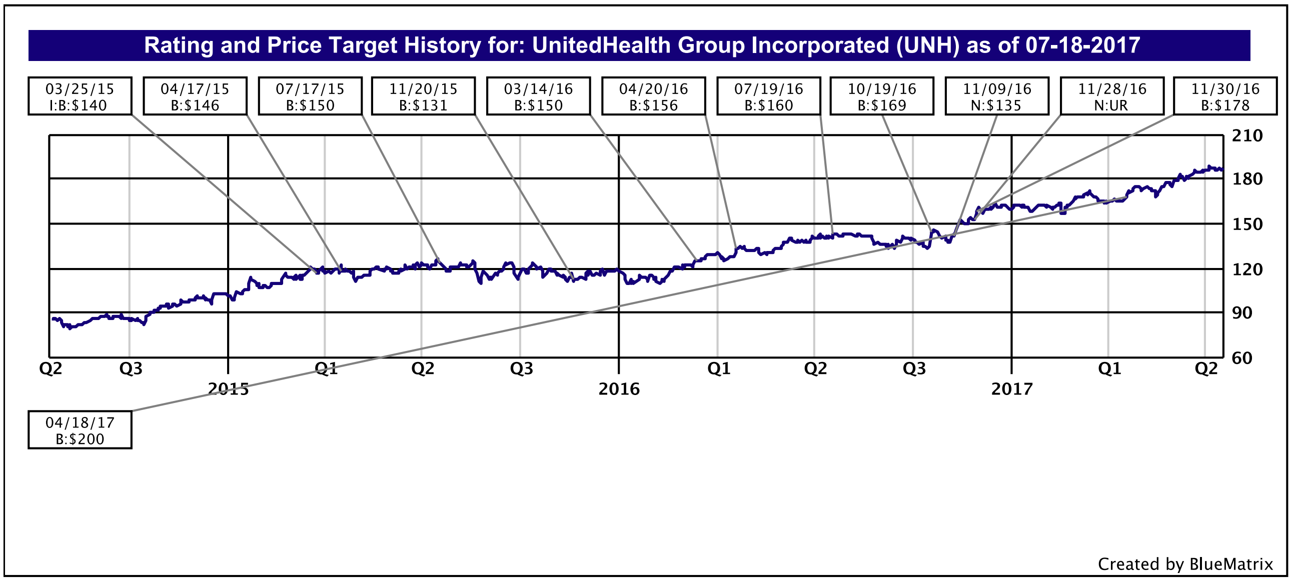

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