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Healthcare | Healthcare Services
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BLUEGRASS CAPITAL RESEARCH

UnitedHealth Group

Under Pressure, Built to Perform

After experiencing volatility for the past 1.5 years, UnitedHealth Group remains one of the largest healthcare companies in the United States. With continued growth across UnitedHealthcare and Optum, the company is positioned to recover from recent margin pressures. We initiate with a BUY rating and a one-year PT of $453, initiating a return of roughly 15%.

Thesis Point 1

UnitedHealth Group's solid healthcare ecosystem is one reason investors may consider buying UNH stock. Despite the highly publicized leadership crisis in December 2024 and the increased public and regulatory scrutiny that followed, the company's core business model and long-term market position remain largely intact. UnitedHealth continues to serve nearly 150 million individuals through its insurance, pharmacy, and healthcare service platforms, while expanding access to care through broader policy coverage and integrated healthcare services. Supporters argue that the company's vertically integrated structure creates a long-term competitive advantage by combining insurance, pharmacy benefits, and healthcare services under one ecosystem. In addition, Optum, the company's healthcare and pharmacy services division, continues investing in AI-driven patient care and operational efficiency initiatives ai med at improving healthcare accessibility and expanding patient outreach.

Thesis Point 2

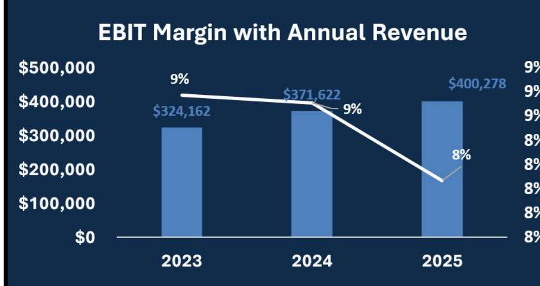
UnitedHealth Group reported strong revenue growth in 2025, generating $447.6 billion in revenue, up 12% year-over-year. The company produced $19.0 billion in operating earnings and expects more than $439 billion in revenue and over $24 billion in operating earnings in 2026. UnitedHealthcare served nearly 50 million consumers in 2025, while Optum supported more than 123 million people across its healthcare and pharmacy businesses. Management stated that the company spent the second half of 2025 improving operational discipline, pricing strategies, transparency, and leadership within Optum to support long-term growth.

Thesis Point 3

Recently, pharmaceutical costs have risen significantly, driven in part by the surge in demand for GLP-1 medications. This trend accelerated with the widespread off-label use of diabetes drugs such as Ozempic for weight loss, while rapid adoption and limited manufacturing capacity created supply shortages and upward pressure on prices. With annual treatment costs often exceeding $10,000 per patient, increased GLP-1 usage has materially raised claims expenses and pressured underwriting margins for insurers such as UnitedHealth Group. However, the counterargument is that the GLP-1 trend is not a temporary "craze," but rather a long-term shift in healthcare demand that could become more manageable over time. As additional GLP-1 medications and oral alternatives, such as Wegovy, entering the market, increased competition and expanded manufacturing capacity are expected to reduce costs per patient. With broader drug availability and sustained demand, investors argue that medical loss ratio pressures may eventually stabilize, limiting the long-term impact on UnitedHealth's profitability.

United Healthcare

TICKER:	$UNH
RATING:	BUY
PRICE:	$393.85
PRICE TARGET:	$452.66
MARKET CAP:	$$357,673/m
52-W RANGE:	$234.60 - $404.15
NTM P/E:	20.79x
IMPLIED UPSIDE:	14.93%



Risk 1 UnitedHealth Group continues to face cost pressures within its insurance segment. The company's adjusted medical care ratio rose to 88.9%, up 340 basis points year-over-year, showing that healthcare and claims costs are rising faster than premium pricing adjustments. Higher healthcare utilization, pharmaceutical costs, and growing demand for GLP-1's have continued to pressure both underwriting margins and profitability.

Risk 2 Another major risk for UnitedHealth Group is the growing regulatory and reputational pressure following the highly publicized 2024 leadership crisis. The incident intensified public scrutiny surrounding the company's dominant position across all sectors, and it is one of the largest vertically integrated healthcare companies in the United States. Increased attention could lead to stricter government oversight, legal investigations, or policy reforms that negatively affect profitability and operational flexibility. The controversy also created a surge in trading volume and stock volatility, reflecting rising investor uncertainty and reassessment of long-term risk. In the healthcare industry, where trust and public perception are critical, reputational damage can weaken consumer confidence and increase political pressure for reform. If regulatory agencies pursue additional investigations or impose stricter healthcare and pharmacy regulations, UnitedHealth may face higher compliance costs and slower earnings growth. These factors could pressure valuation multiples and reduce investor confidence.

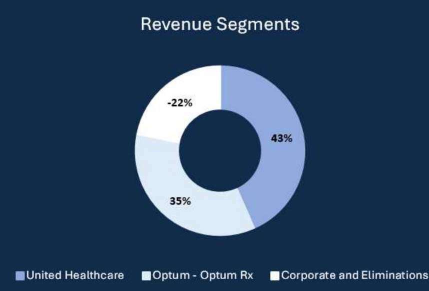
Catalysts The main upside catalyst for UnitedHealth Group is the stabilization of its medical loss ratio (MLR). If healthcare and pharmacy costs stabilize while premium pricing adjustments catch up to demand, UnitedHealthcare's profit margins could recover significantly. Because UNH operates on such a massive scale, even small improvements in medical costs can create billions of dollars in additional earnings. A declining MLR would signal that the company is regaining control over healthcare expenses, which could restore investor confidence and drive the stock higher.

Valuation

DCF Analysis ($mm)	FY2025 12/31/2025	FY2026 12/31/2026	FY2027 12/31/2027	FY2028 12/30/2028	FY2029 12/30/2029	FY2030 12/30/2030	FY2031 12/31/2031
Stub		0.37	1.37	2.37	3.37	4.37	5.37
Discount Period		0.31	1.13	2.13	3.13	4.13	5.13
Revenue	447,567	501,500	553,248	624,525	718,881	838,933	986,270
Revenue Growth	*12%*	*12%*	*10%*	*13%*	*15%*	*17%*	*18%*
United Healthcare	344,903	388,000	424,860	467,877	518,174	577,116	646,370
Optum - Optum Rx	276,100	311,500	344,208	381,640	424,575	473,931	530,803
Corporate and Elimin	(173,436)	(198,000)	(215,820)	(224,992)	(223,867)	(212,114)	(190,903)
EBIT	18,964	20,200	30,429	39,033	50,322	65,017	83,833
EBIT Margin	*4%*	*4%*	*6%*	*6%*	*7%*	*8%*	*9%*
Tax Expense	1,890	2,600	3,530	4,664	6,190	8,225	10,898
Effective Tax Rate	*10%*	*13%*	*12%*	*12%*	*12%*	*13%*	*13%*
NOPAT	17,074.00	17,600.00	26,898.89	34,368.38	44,132.11	56,792.63	72,934.69
D&A	2,699	2,000	3,319	3,591	3,954	4,404	4,931
Capex	3,499	3,400	4,426	4,684	5,032	5,453	5,918
Changes in NWC	(115)	(300)	2,213	1,717	1,078	210	(986)
UFCF	16,389	16,500	23,579	31,558	41,975	55,534	72,935
PV of FCF		16,154	21,852	27,337	33,987	42,031	51,597

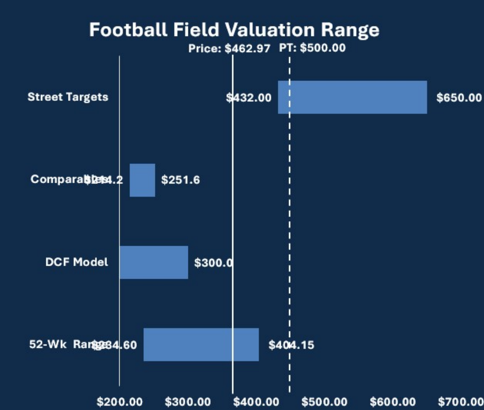
Our base case DCF projection assumes revenue growth across both UnitedHealthcare and Optum, supported by continued expansion in healthcare services, pharmacy care, and integrated value-based care initiatives. Revenue is projected to grow from approximately $447.6 billion in FY2025 to $986.3 billion by FY2031, while EBIT gradually improve from 4% to 9% as operational restructuring and efficiency initiatives improves profitability over time. These projections also assume sustained growth in Optum's healthcare and AI-driven patient care operations.

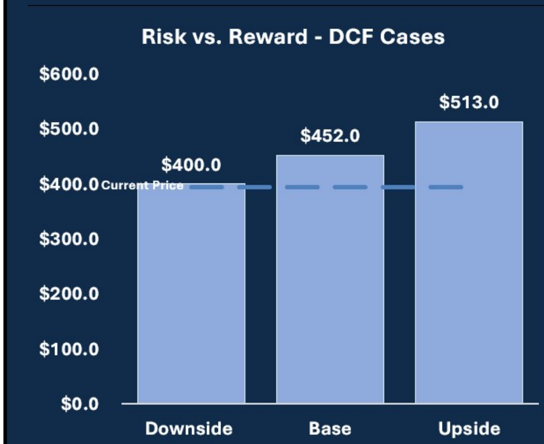
Conclusion our base case 5-year DCF model anticipates continued revenue growth driven by UnitedHealthcare and Optum, we believe the market may be overpricing near-term margin and regulatory concerns, and current cost pressures and restructuring challenges are short term catalyst for the current price. We therefore recommend a BUY rating and a one-year PT of $453, initiating a return of roughly 15%.



Terminal Value	
Perpetuity Growth Method	
2034 FCF	$72,935
Growth	1.00%
Terminal Value	$1,219,025
PV of Terminal Value	$862,390
PV of Projection Period	$192,958
PV of Terminal Value	$862,390
Implied TEV	$1,055,347
(-) Debt	$43,467
(+) Cash	$24,365
Implied Equity Value	$1,036,245
Basic Shares Outstanding	908
Implied Share Price	$1,141.06
Upside/Downside	189.72%

Implied Exit BF EV/EBIT	12.6x





Income Statement ($mm)	2025A	2026E	2027E	2028E	2029E	CAGR%
Revenue	447,567	501,500	561,600	644,067	752,604	13.9%
EBITDA	21,663	22,200	37,066	47,178	60,585	29.3%
EBIT	18,964	20,200	33,696	43,475	56,445	31.3%
NOPAT	17,074	17,600	29,787	38,279	49,503	30.5%

Margin & Growth Data	2025A	2026E	2027E	2028E	2029E	AVG%
EBITDA Margin	4.8%	4.4%	6.6%	7.3%	8.1%	6.2%
EBIT Margin	4.2%	4.0%	6.0%	6.8%	7.5%	5.7%
Revenue Growth	11.8%	12.1%	12.0%	14.7%	16.9%	13.5%
EBIT Growth	-41.3%	6.5%	66.8%	29.0%	29.8%	18.2%

Valuation Metrics	2025A	2026E	2027E	2028E	2029E	AVG%
P/FCF	21.8x	21.7x	13.5x	10.1x	7.6x	14.9x
EV/Sales	0.8x	0.8x	0.7x	0.6x	0.5x	0.7x
EV/EBITDA	17.4x	17.0x	10.2x	8.0x	6.2x	11.7x
FCF Yield	4.6%	4.6%	7.4%	9.9%	13.2%	7.9%

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Elevance Health, Inc. (NYSE:ELV)	$71,273	$93,598	14.0x	$200,416	$8,541
Humana Inc. (NYSE:HUM)	$26,100	$35,250	22.1x	$129,664	$3,569
The Cigna Group (NYSE:CI)	$72,428	$95,320	12.4x	$274,900	$12,047
CVS Health Corporation (NYSE:CVS)	$97,953	$167,473	55.0x	$399,834	$14,625
United Healthcare	$321,072	$387,299	26.7x	$447,567	$21,625

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Elevance Health, Inc. (NYSE:ELV)	11.0x	25.9%	4.3%	3.9%	9.4%
Humana Inc. (NYSE:HUM)	9.9x	14.5%	2.8%	2.5%	10.1%
The Cigna Group (NYSE:CI)	7.9x	9.3%	4.4%	3.7%	11.2%
CVS Health Corporation (NYSE:CVS)	11.5x	13.3%	3.7%	2.5%	7.9%
United Healthcare	17.9x	18.5%	4.8%	0.0%	11.8%
High	17.91x	25.9%	4.8%	3.9%	11.8%
75th Percentile	11.45x	18.5%	4.4%	3.7%	11.2%
Average	11.62x	16.3%	4.0%	2.5%	10.1%
Median	10.96x	14.5%	0.0%	2.5%	10.1%
25th Percentile	9.88x	13.3%	3.7%	2.5%	9.4%
Low	7.91x	9.3%	2.8%	0.0%	7.9%

United Healthcare		
Implied Enterprise Value (25th Percentile)	$	213,583
Implied Enterprise Value (Median)	**$**	**236,980**
Implied Enterprise Value (75th Percentile)	$	247,631
Implied Share Price (25th Percentile)	$	214.15
Implied Share Price (Median)	**$**	**239.92**
Implied Share Price (75th Percentile)	$	251.64

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	0.66
Risk Free Rate	4.60%
Cost of Equity	6.29%
Weighted Average Cost of Debt	5.00%
Tax Rate	11.60%
Cost of Debt	0.69%
Total Equity	$357,673
Total Debt	$19,102
Equity/Total Capitalization	84.39%
Debt/Total Capitalization	15.61%
WACC	6.98%

Downside Case: Assuming rising medical costs, continued GLP-1 drug demand, and pressurized UnitedHealth Group's underwriting margins. Under this scenario, EBIT margin expansion remains limited near 6–7% and applying an EV/EBITDA exit multiple of 10x (below the company's current 17.9x LTM multiple), the downside case implies a share price of $214.

Upside Case: Assuming medical cost trends stabilize and considering Optum's operational restructuring (AI-driven patient care initiatives), Revenue is projected to grow at a 13.5% CAGR and EBITDA margins improving toward 8%+. Applying an EV/EBITDA exit multiple of 17x–18x consistent with comparative healthcare companies, the upside case implies a share price of $252+.