

UnitedHealth Group

Sustainable Growth Hypothesis:

As the largest healthcare management organisation in the US, UnitedHealth (UNH) plays a crucial role in allocating scarce resources, improving patient outcomes, and containing costs. As the population ages, it is leading the industry in a shift to more integrated care.

1. Growth: How likely is the company to deliver 10% p.a. profit growth over the next decade?

- With ~15% market share, UNH is the largest player in a market underpinned by three growth drivers: the shift to value-based care, medical cost inflation, and demographics, where ten thousand Americans a day are becoming eligible for Medicare. This makes the company's goal of mid-teens earnings growth eminently achievable.

2. Resilience: How much control does the company have over its own success?

- This is a heavily regulated business that attracts particular attention in election years, however the core business is very stable with sticky customers, reliable revenue growth and a benign competitive environment.

3. Valuation: What is our insight?

- We think that market concerns regarding election cycles are overblown and this is leading to a shrouded view of the long-term opportunity. As such, we don't believe the current valuation to be demanding for a steady compounding company with a durable competitive edge.

4. Products: To what extent will the core products & services create value for society over the next decade?

- The US pays more for healthcare than any other market, with consistently worse outcomes. Health insurance giants like UNH help keep these costs contained, while allocating scarce resources and improving patient outcomes.

5. Practices: Does the company show leadership in its business practices?

- UNH has helped drive the move to value-based care with its Optum model. Competitors are now emulating this, which is testament to the firm's influence as an industry role model.

6. Ambition: What is the company's purpose, and how ambitious are they?

- UNH's financial success is well-aligned with its societal impact. We believe there to be evidence that UNH puts people's outcomes over profits – notably passing on all the savings from biosimilars and cutting costs individuals pay out-of-pocket for life saving drugs.

7. Trust: Should we trust the company with our clients' capital?

- The company has delivered consistent shareholder returns over a long period, with capital allocation broadly sensible. There is a good range of skills on the board, which is 80% independent.

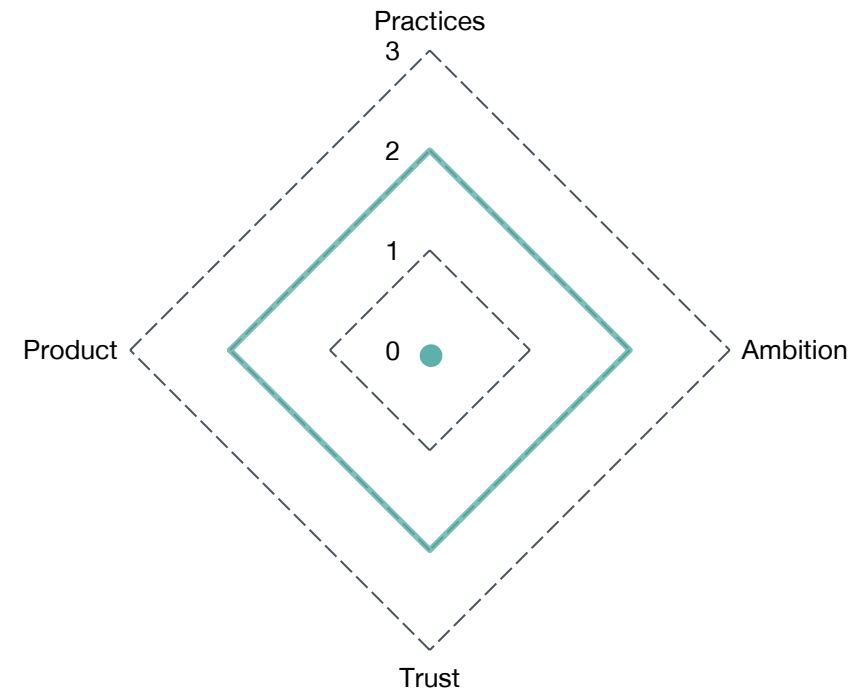
8. Engagement: No company is perfect, what should be our engagement priority?

- As a large operator in a heavily politicised sector, UNH experiences a steady stream of minor controversies. Our task is one of sorting through these headlines for meaningful deviations from our expectations of the business and engaging as required.

9. Milestones: What developments should we pay most attention to? Where could we be wrong?

- Meaningful share losses within the Medicare/Medicaid businesses would be a cause for concern, as would a slowing of organic growth within the profitable Optum business.

Compass Scores



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**BGI Principal Office: Calton Square, 1 Greenside Row,
Edinburgh EH1 3AN, Scotland
Telephone: +44 (0)131 275 2000**

**780 Third Avenue, 43rd Floor, New York, NY 10017
Telephone: (212) 319 4633**

**BGE Head Office: 4/5 School House Lane East, Dublin 2
D02 N279, Ireland
Telephone: +35 315 294 150**

**BGE Frankfurt Branch: WINX Tower, Neue Mainzer Str. 6-10, 60311 Frankfurt,
Germany**

**BGE Amsterdam Branch: Atrium Building, Strawinskylaan 3051, 4th Floor, 1077
ZX Amsterdam, The Netherlands**

**BGE Representative Office: Bahnhofstr. 10 / Börsenstr. 18
CH - 8001 Zürich, Switzerland**

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