Date:___2/28/14_____

Analyst Name: <u>Anthony Ledesma & Mason Yang</u>

CIF Stock Recommendation Report (Spring 2014)

Company Name and Ticker: <u>UnitedHealth Group (UNH)</u>

Section (A) Investment Summary

Recommendation Buy: Yes No		Target Price: $86	Stop-Loss Price: $68
Sector: Health Care	Industry: Managed Health Care	Market Cap (in Billions): 74.5	# of Shrs. O/S (in Millions): 989.19
Current Price: $76.30	52 WK Hi: $77.32	52 WK Low: $52.89	EBO Valuation: $83.69
Morningstar (MS) Fair Value Est.: 76.00	MS FV Uncertainty: Medium	MS Consider Buying: 53.20	MS Consider Selling: $102.60
EPS (TTM): 5.50	EPS (FY1): 5.59	EPS (FY2): 6.11	MS Star Rating: ★★★
Next Fiscal Yr. End "Year": "Month": 2014 December	Last Fiscal Qtr. End: Less Than 8 WK: Y N	If Less Than 8 WK, next Earnings Ann. Date: N/A	Analyst Consensus Recommendation: 1.75 - Outperform
Forward P/E: 12.42	Mean LT Growth: 8.17	PEG: 1.52	Beta: 0.62
% Inst. Ownership: 98.46%	Inst. Ownership- Net Buy: Y N	Short Interest Ratio: 3.70	Short as % of Float: 1.9%

Ratio Analysis	Company	Industry	Sector
P/E (TTM)	13.83	17.26	32.27
P/S (TTM)	0.61	0.57	6.79
P/B (MRQ)	2.34	2.22	5.92
P/CF (TTM)	10.68	11.88	20.99
Dividend Yield	1.47	1.12	1.66
Total Debt/Equity (MRQ)	52.44	44.91	11.08
Net Profit Margin (TTM)	4.63	3.87	1.44
ROA (TTM)	6.97	6.37	7.84
ROE (TTM)	17.76	15.44	19.16

Investment Thesis	Summary
- We recommend the Cougar Investment Fund invest in UnitedHealth Group (UNH) - Stocks within the Health Care sector tend to outperform the market during a low or rising interest rate economy. Because UNH has a defensive position towards the business cycle, they are in a good position as interest rates begin rising. - The Affordable care Act gives much uncertainty to stocks in the Health Care sector. One potential negative impact it could have on UNH is rising costs. This will most likely decrease profit at least in the short term as UNH adjusts to the changing market regulations. - One aspect of the Affordable Care Act thought to benefit UNH is the increased market size. About 30 million people will be entering the market and since UNH is the largest health insurance company in America, they are believed to be in one of the best positions to	**Summary** Provide brief summary of your analysis in each section that follows **Company Profile:** UnitedHealth Group is a diversified Health and Well-being company that provides health care services as well information and technology services through its two primary businesses: UnitedHealthcare and Optum. **Fundamental Valuation:** Our Fundamental Valuation showed that the stock's current price is for the most part, in-line with the fundamental valuation. UNH generally has a higher ROE than the industry and the sector and after accounting for this, the analysis showed the stock may be somewhat undervalued. **Relative Valuation:** During our relative valuation analysis, we found that UNH's valuation ratios are generally the same as its competitors with the exception of a few. However, many of UNH's competitors operate in much narrower market segments and are less diversified. **Revenue and Earnings Estimates:** UNH's revenues and earnings have consistently grown over the past few years, either meeting or beating analysts' estimates. **Analyst Recommendations:** Analyst recommendations have overwhelmingly leant towards a strong buy. Currently, Reuters gives UNH a rating of 1.75 **Institutional Ownership:** UNH is largely held by institutions, accounting for 89.56% of total shares. **Short Interest:** Although UNH's short interest ratio is slightly higher than its competitors, they have a much larger market cap which may have an impact on higher short interest numbers.

|	
capitalize on this increased market size. UNH's CEO, Stephen Hemsley believes this will help offset the losses due to rising costs, and will constribute to significant growth in the future.	**Stock Price Chart:** The 3-month stock price chart has been up and down and generally has underperformed the market. We believe this was because of the uncertainty regarding the implementation of the Affordable Care Act at the beginning of the year. When looking at the 5-year chart, UNH has consistently outperformed the market.

Section (B)   Company Profile

(B-1) Profile

UnitedHealth Group was founded in 1977 and is headquartered in Minnetonka, Minnesota. It serves as a diversified Health and Well-being company offering products and services through two operating businesses: UnitedHealthcare and Optum. UnitedHealthcare provides health care coverage and benefits services to a variety of people and businesses ranging from individuals, families, veterans, as well as small and large businesses. Optum provides information and technology-enabled health services to a wide range of customers. Providers, employers and pharmaceutical companies all rely on technology services provided by Optum to help organize and make decisions regarding the health care system (UNH website). Through UnitedHealthcare and Optum, they managed over $160 billion in aggregate healthcare spending in 2013 (10-K). UnitedHealthcare serves as the larger of the two business units, accounting for around 75% of both total revenues and earnings.
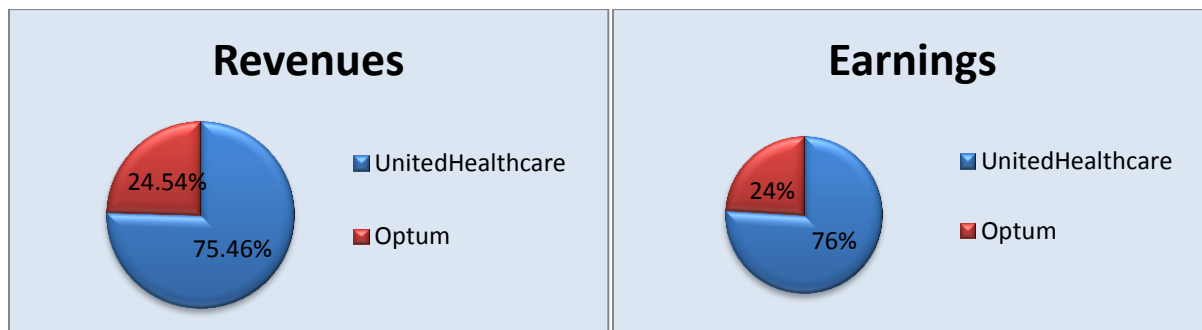
Although UNH is headquartered in the United States, it is one of the world's largest health and well-being companies and serves over 85 million people worldwide. UNH operates in all 50 states in the US as well as 20 other countries worldwide. In 2012, UNH acquired Brazil's largest health care company, Amil, which served as a growth platform in one of the world's fastest growing economies (UNH website).

Business Model and Competition

The business model of UNH comes from the diversification of its companies. The healthcare services provided by UnitedHealthcare and the innovation technology of Optum allows for a wide range of services and gives UNH an advantage over its competitors. Some of the biggest competitors for UNH include from WellPoint, Humana, and Aetna. Each of these competitors offer a much narrower range of products, primarily providing health insurance. UNH prides itself as being the most diversified health care company in the United States, particularly with its technology operations with Optum (UNH website).

Sensitivity & Macro Environment

Like many other companies within the health care sector, UNH is defensive-oriented, which means it does better in a late stage of the business cycle. As the economy begins to contract, there are still basic needs people pay for, health care being one of them. Interest rates do not have a very significant impact on Health care. People still need care and treatment regardless of how well the economy is doing, leading health care companies like UNH to outperform during a low or rising interest rate economy.

Current Events

As stated above, in 2012 UNH acquired the Brazilian health care company Amil for $4.9 billion. This acquisition was intended to enter the rapidly growing Brazilian market where only 20% of the population is insured (Scott).

The implementation of the Affordable Care Act has led to much uncertainty over companies within the health care sector and UnitedHealth Group is no exception. The largest negative impact is the budget cuts associated with private Medicare. While UNH will take a hit from these cuts and most likely see decreased profits for a short time, being that they are the largest health insurance company in the United States, UNH should be able to handle these cuts much better than competitors (Humer). Another aspect of the Affordable Care Act is that companies like UNH will now have a minimum medical care ratio (medical costs divided by premiums). This new minimum ratio could also potentially decrease profits, but because UNH is so large, they stand in a better position against the competition. Before the act was in place, 30 million Americans were uninsured and will now have to get health insurance. Because UNH is the US's largest insurer, accounting for 14% of total private health insurance enrollments, they are believed to be one of the best positioned companies to capitalize on this increased market size (How Obamacare).

(B-2) Revenue and Earnings History

Revenue Periods	2011	2012	2013	Trend	Earnings Per Share Periods	2011	2012	2013	Trend
March	25432	27282	30340		March	1.22	1.30943	1.15841	
June	25234	27265	30408		June	1.16	1.27455	1.39961	
September	25280	27302	30624		September	1.17	1.49856	1.5332	
December	25900	28769	31117		December	1.18	1.19961	1.40878	
Total	101846	110618	122489		Total	4.73	5.28215	5.5	

(Source Reuters/10-Q)

1) **What are your observations on revenue? Was there a notable up- or down-trend, year-over-year? Was there seasonable pattern?**

When looking at UNH's quarterly revenues, it is observable that revenues have consistently increased. Nearly every quarter has seen an increase in revenues while annual revenues have increased 20.07% from $101846M in 2012 to $122489M in 2013. There is not a significant seasonable pattern other than revenues growing slightly more in Q4. Both quarterly and annual revenues have seen consistent steady growth over the last three years.

2) **Likewise, what are your observations on earnings?**

Like revenues, earnings per share have also seen somewhat consistent growth. Although there is a little more fluctuation, most notably in the first quarter, overall it has shown steady growth, with annual earnings per share increasing from 4.73 to 5.5 or 16.28% over the last three years.

(B-3) Most Recent Quarterly Earnings Release

1) **When was the company's most recent earning release?**

Released January 16, 2014

2) **In that earnings report, was reported revenue a (1) beat, (2) match, or (3) miss from consensus estimate?**

Revenues for the fourth quarter year-over-year increased 8.1% which beat the consensus estimate.

3) **Likewise, was reported earnings a (1) beat, (2) match, or (3) miss from consensus estimate?**

   Although earnings slightly declined from Q3 to Q4, year-over-year earnings per share increased 17.44%. Earnings were generally in-line with the consensus estimate.

4) **What did the management attribute the beat/miss to?**

   UNH attributed much of the growth of revenue and earnings to a growing response to Optum's distinctive capabilities. Additionally, UNH has seen an increase in enrollment of 4.5 million people. This too, was seen as a key factor in revenues and earnings growth.

5) **Did the management provide guidance about their current quarter and their outlook for the year? What were the key points of the guidance?**

   Management emphasized that there is a certain level of uncertainty, particularly regarding government regulation and the Affordable Care Act. For reasons stated earlier, there is a possibility UNH my see higher costs and decreased profits for a short time in the future. However they do expect significant growth from the increasing market size in both domestic and international segments.

6) **How did the stock react to that earnings release?**

   Trading volume rose slightly to just under 9 million while stock price fell slightly from $74.84 to $72.52 over the following two days.

Section (C)   Fundamental Valuation (EBO)

PARAMETERS	FY1	FY2	Ltg
EPS Forecasts	5.59	6.11	8.17%
Total Equity	32149.00		
Preferred Stock	0.00		
Book Value (end of last fye)	32149.00		
Common Equity Shr. O/S	989.19		
Book value/share (last fye)	32.500		
30- Year T-Bond Rate	3.63%		
E(rm)	9.50%		
Beta	0.62		
Discount Rate	7.27%		
Dividend Payout Ratio (POR)	19.00%		
Next Fsc Year end	2014		
Current Fsc Mth (1 to 12)	2		
Target ROE (industry avg.)	16.24%		

UNH

> **Fundamental Valuation (EBO)**
> Model 1: 12-year forecasting horizon (T=12).
> and a 7-year growth period.

> Please download and save this template to your own storage device
> You only need to input values to cells highlighted in "yellow"
> The rest of the spreadsheet is calculated automatically
> Please read "Guidelines_for_FundamentalValuation_ProfLee_Spreadsheet" file carefully

Year			2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Long-term EPS Growth Rate (Ltg)					0.0817	0.0817	0.0817	0.0817	0.0817					
Forecasted EPS			5.59	6.11	6.61	7.15	7.73	8.37	9.05					
Beg. of year BV/Shr			32.500	37.028	41.977	47.331	53.122	59.386	66.161					
Implied ROE				0.165	0.157	0.151	0.146	0.141	0.137					
ROE	(Beg. ROE, from EPS forecasts)		0.172	0.165	0.157	0.151	0.146	0.141	0.137	0.142	0.147	0.152	0.157	0.162
Abnormal ROE	(ROE-k)		0.099	0.092	0.085	0.078	0.073	0.068	0.064	0.069	0.074	0.079	0.085	0.090
growth rate for B	(1-POR)*(ROEt-1)		0.000	0.139	0.134	0.128	0.122	0.118	0.114	0.111	0.115	0.119	0.123	0.127
Compounded growth			1.000	1.139	1.292	1.456	1.634	1.827	2.036	2.261	2.521	2.821	3.169	3.573
growth*AROE			0.099	0.105	0.109	0.114	0.119	0.125	0.130	0.156	0.187	0.224	0.268	0.320
required rate (k)		0.073	0.073	0.073	0.073	0.073	0.073	0.073	0.073	0.073	0.073	0.073	0.073	0.073
Compound discount rate			1.073	1.151	1.234	1.324	1.420	1.524	1.634	1.753	1.881	2.017	2.164	2.321
div. payout rate (k)		0.190												
Add to P/B	PV(growth*AROE)		0.09	0.09	0.09	0.09	0.08	0.08	0.08	0.09	0.10	0.11	0.12	0.14
Cum P/B			1.09	1.18	1.27	1.36	1.44	1.52	1.60	1.69	1.79	1.90	2.03	2.17
Add: Perpetuity beyond current yr	(Assume this yr's AROE forever)		1.27	1.26	1.22	1.19	1.15	1.12	1.10	1.23	1.37	1.53	1.70	1.90
Total P/B	(P/B if we stop est. this period)		2.37	2.44	2.49	2.54	2.60	2.65	2.70	2.92	3.16	3.43	3.73	4.07
Implied price			77.83	80.31	81.99	83.69	85.41	87.14	88.88	96.09	104.07	112.92	122.76	133.74

Check:

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Beg. BV/Shr		32.500	37.028	41.977	47.331	53.122	59.386	66.161	73.490	81.937	91.694	102.995	116.115
Implied EPS		5.590	6.110	6.609	7.149	7.733	8.365	9.048	10.428	12.046	13.951	16.198	18.857
Implied EPS growth			0.093	0.082	0.082	0.082	0.082	0.082	0.152	0.155	0.158	0.161	0.164

Inputs (provide below input values used in your analysis)

EPS forecasts (FY1 & FY2):   __FY1: 5.59__FY2: 6.11__

Long-term growth rate: _____8.17%_____

*** Indicate next to the number if you made an adjustment to the consensus LTG estimate. Justify at the bottom of this panel how you derive the adjusted value, if any ***

Book value /share (along with book value and number of shares outstanding):

   Book value: _____32149.00_____

   # of shares outstanding: _____989.19_____

   Book value / share: _____32.5_____

Dividend payout ratio: _____19.00%_____

Next fiscal year end: _____2014_____

Current fiscal month: _____2_____

Target ROE: _____16.24_____

*** Indicate next to the number if you made an adjustment to the target ROE estimate. Justify at the bottom of this panel how you derive the adjusted value, if any ***

Discount rate _____7.27%_____

     Input for discount rate:

     Risk-free rate: _____3.63%_____

     Beta: _____0.62_____

     Market risk premium: _____5.87_____

Output

Above normal growth period chosen: _____3_____

*** Justify at the bottom of this panel your choice of abnormal growth period ***

EBO valuation (Implied price from the spreadsheet): ___$83.69_____

1) **Comment on the fundamental value obtained in relation to the stock's current price and its 52-week price range.**

     The EBO valuation indicates a value $83.69 which is higher than current price of $76.30. The stock is currently heading towards its 52-week high of $77.32 which the EBO valuation surpasses by about 6 points. This indicates that the stock may be slightly underpriced.

2) **What might be the "soft spots" of the inputs? And why?**

     A potential soft sport of the inputs may be the ROE. UnitedHealth Group has consistently had a higher ROE than the rest of the industry. While the industry average ROE is just above 16% as used in the analysis, UnitedHealth Group ROE is generally around 18 to 19 percent.

Sensitivity Analysis

1) **Explain the input values used in sensitivity analysis. Compare the fundamental values obtained here in relation to the value from the base case**
2) **Other observations worth noting**

EBO valuation would be (you can include more than one scenario in each of the following):

_____87.14_____ if changing above normal growth period to _____5_____

_____88.00_____ if changing growth rate from mean (consensus) to the highest estimate

_____11.00%_____

_____78.05_____ if changing growth rate from mean (consensus) to the lowest estimate

_____4.34%_____

_____74.90_____ if changing discount rate to _____8%_____

_____83.69_____if changing target ROE to _____18.50%_____

Because the stock's beta in on the lower side, any adjustments made to the discount rate has pretty significant changes to the valuation. Just raising the discount rate from 7.27 to 8 lowered the valuation by nearly 10 points. Adjusting the ROE, accounting for UNH as well as the sector having a slightly higher average ROE compared to the industry, resulted in minimal change in forecasting horizon we chose.

Section (D)   Relative Valuation

Copy/paste your completed relative valuation spreadsheet here

Cougar Investment Fund Relative Valuation Template

Please download and save this template to your own storage device

You only need to input values to cells highlighted in "yellow"

The rest of the spreadsheet is calculated automatically

Please read "Stock Recommendation Guidelines" document carefully

UNH

	Ticker	Name	Mkt Cap	Current Price	Mean FY2 Earnings Estimate (next fiscal year)	Forward P/E	Mean LT Growth Rate	PEG	P/B (MRQ)	ROE 5 yr ave	Value Ratio	P/S TTM	P/CF TTM
1	CVS.N	Caremark Corporation	$85,371.24	$71.91	$5.01	14.35	13.61%	1.05	2.25	10.30%	0.22	0.67	13.19
2	WLP.N	WellPoint Inc	$25,181.23	$88.93	$8.96	9.93	8.98%	1.11	1.07	13.10%	0.08	0.35	1.66
3	HUM.N	Humana Inc	$17,468.35	$110.39	$8.72	12.66	9.20%	1.38	1.82	13.10%	0.14	0.42	10.66
4	AET.N	Aetna Inc	$25,868.32	$73.36	$7.12	10.30	8.95%	1.15	1.90	13.10%	0.15	0.60	11.4
	UNH	UnitedHealth	$75,237.93	$75.89	$6.11	12.42	8.17%	1.52	2.34	18.28%	0.13	0.61	10.68

		Implied Price based on:				P/E		PEG	P/B		Value	P/S	P/CF
1	CVS.N	Caremark Corporation				$87.70		$52.64	$72.97		$129.51	$83.35	$93.73
2	WLP.N	WellPoint Inc				$60.64		$55.17	$34.70		$48.42	$43.54	$11.80
3	HUM.N	Humana Inc				$77.35		$68.69	$59.03		$82.37	$52.25	$75.75
4	AET.N	Aetna Inc				$62.95		$57.47	$61.62		$85.99	$74.65	$81.01
		High				$87.70		$68.69	$72.97		$129.51	$83.35	$93.73
		Low				$60.64		$52.64	$34.70		$48.42	$43.54	$11.80
		Median				$70.15		$56.32	$60.32		$84.18	$63.45	$78.38

Caremark Corporation (CVS): CVS Caremark is the largest pharmacy healthcare provider in the United States. CVS focuses on providing pharmaceutical health services.

WellPoint Inc. (WLP): WellPoint is a health care services company providing insurance to individuals and employers

Humana Inc. (HUM): Like WellPoint, Humana is a health insurance company but focuses more on individuals and families.

Aetna Inc. (AET): Aetna is very similar to Humana in that it is a health care services company with the intent of providing coverage to individuals and families.

1) **Discuss various valuation multiples of your stock and its peers. Comment if any of these stocks have multiples far off from the others and explain whether it makes sense.**

All the Forward P/E ratios of UNH and its competitors are generally the same. There are no significant outliers and the P/E ratio lies at about the average of its competition. Likewise, PEG ratios are for the most part consistent between companies. UNH has the highest PEG at 1.52. In addition to a slightly higher PEG, UnitedHealth Group P/B ratio is a little higher than its competitors although most are close. There are no outliers when for the P/S ratio. UNH lies at about the average compared to competitors. P/CF ratios are generally the same with the exception of WellPoint whose P/CF ratio falls far below the other at 1.66. UNH again is about average when compared to competitors at 10.68.

2) **Discuss the various implied prices of your stock derived from peers' ("Comparables") multiples. Compare these implied prices to current price and 52-week high and low. How different are the prices derived from the various valuation metrics? Note any valuation metrics that seem to yield outlier prices and explain whether it makes sense.**

Over the last 52 weeks, UNH's stock price has ranged from $52.89 to $77.32. Taking this into consideration when observing implied prices, it can be seen that the median implied price based on each ratio falls within this range. Although within the 52-week range, most implied prices fall slightly below the current price of $76.30 which may indicate the stock is somewhat overvalued. One implied price in particular that is far below the current price is the PEG at $56.32. This is due to the fact that UNH has a higher PEG ratio than its competitors. Our findings were generally in-line with analysts comments.

Section (E)   Revenue and Earnings Estimates

Historical Surprises

HISTORICAL SURPRISES

Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions)				
Quarter Ending Dec-13	31,070.50	31,117.00	46.54	0.15
Quarter Ending Sep-13	30,779.40	30,624.00	155.44	0.51
Quarter Ending Jun-13	30,494.50	30,408.00	86.46	0.28
Quarter Ending Mar-13	30,512.20	30,340.00	172.16	0.56
Quarter Ending Dec-12	28,222.30	28,769.00	546.71	1.94
Earnings (per share)				
Quarter Ending Dec-13	1.40	1.41	0.01	0.52
Quarter Ending Sep-13	1.53	1.53	0.00	0.22
Quarter Ending Jun-13	1.25	1.40	0.15	11.76
Quarter Ending Mar-13	1.14	1.16	0.02	1.64
Quarter Ending Dec-12	1.19	1.20	0.01	0.54

UNH has had relatively small surprises as actual revenues and earnings have been relatively close to estimates. Although the differences tend to be small, all differences were positive. One quarter to note is the earnings of Quarter Ending June-13 which had a surprise of 11.67%. The market reacted positively to this, with stock price jumping 7.6% the day the earnings report came out. Overall UNH has had consistent steady growth over the past two years.

Consensus Estimates Analysis

CONSENSUS ESTIMATES ANALYSIS

Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

	# of Estimates	Mean	High	Low	1 Year Ago	% Difference High&Mean	% Difference Low&Mean
SALES (in millions)							
Quarter Ending Mar-14	17	32,502.70	36,755.30	31,598.00	33,922.30	13.08%	-2.78%
Quarter Ending Jun-14	17	32,603.90	37,176.30	31,671.00	34,193.90	14.02%	-2.86%
Year Ending Dec-14	20	130,856.00	149,131.00	128,090.00	136,156.00	13.97%	-2.11%
Year Ending Dec-15	17	139,937.00	162,662.00	133,248.00	157,405.00	16.24%	-4.78%
Earnings (per share)							
Quarter Ending Mar-14	22	1.09	1.2	1.03	1.29	10.09%	-5.50%
Quarter Ending Jun-14	21	1.33	1.41	1.17	1.46	6.02%	-12.03%
Year Ending Dec-14	25	5.59	5.65	5.4	5.98	1.07%	-3.40%
Year Ending Dec-15	21	6.11	6.7	5.8	6.8	9.66%	-5.07%
LT Growth Rate (%)	5	8.17	11	4.34	10.94	34.64%	-46.88%

Divergence is seen much more in revenues than in earnings with a difference between high and the mean in the range of 13%-16%. As for earnings, a larger divergence is seen in Quarter ending Mar-14 and Year Ending Dec-15. The number of analysts providing LT growth rate estimate (5) is far less than analysts providing revenues and earnings estimates, which explains why the LT growth rate has such a large divergence.

Consensus Estimates Trend
CONSENSUS ESTIMATES TREND

Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

	Current	1 Week Ago	1 Month Ago	2 Month Ago	1 Year Ago
SALES (in millions)					
Quarter Ending Mar-14	32,502.70	32,502.70	32,514.60	32,736.70	33,922.30
Quarter Ending Jun-14	32,603.90	32,603.90	32,615.60	32,828.80	34,193.90
Year Ending Dec-14	130,856.00	130,858.00	130,898.00	131,063.00	136,156.00
Year Ending Dec-15	139,937.00	139,938.00	140,054.00	140,983.00	157,405.00
Earnings (per share)					
Quarter Ending Mar-14	1.09	1.09	1.10	1.19	1.29
Quarter Ending Jun-14	1.33	1.33	1.33	1.36	1.46
Quarter Ending Dec-14	5.59	5.59	5.60	5.62	5.98
Quarter Ending Dec-15	6.11	6.11	6.11	6.24	6.80

Consensus estimates are trending slightly downward, however most of these trends are very small. We found the trend is more notable in earnings but there is no notable difference between time periods.

Estimates Revisions Summary

ESTIMATES REVISIONS SUMMARY

	Last Week		Last 4 Weeks	
Number Of Revisions:	Up	Down	Up	Down
Revenue				
Quarter Ending Mar-14	0	0	0	1
Quarter Ending Jun-14	0	0	0	1
Year Ending Dec-14	0	1	0	2
Year Ending Dec-15	0	1	0	2
Earnings				
Quarter Ending Mar-14	0	0	0	0
Quarter Ending Jun-14	0	0	0	0
Year Ending Dec-14	0	0	0	0
Year Ending Dec-15	0	0	0	0

UNH has had very few revisions over the last four weeks. There were only two down revisions for FY1 and FY2 and one down revision for Quarter Ending Mar-14 and Quarter Ending Jun-14. Because there are so few revisions, we are not able to observe a noticeable trend. There were no revisions for earnings in the last four weeks.

(E-5) *"Consensus Earnings Revisions"* from *CNBC*

Revision Date	Revision Type	Revision Up/Down	Current	Previous	% Change	# of Analysts Reporting
2/12/14	Down	1/10	$1.09	$1.10	-0.27	22
2/3/14	Down	1/18	$1.10	$1.10	-0.18	23

The most recent earnings report date for UNH was January 16, 2014 and the next earnings report will be April 18, 2014. UNH had only two revisions over the last month, both of which were not around the earnings reporting date. No revision was over 10%. Both consensus revisions were very small, with the maximum revision being -0.27%. Both revisions had no impact on stock price.

Section (F)   Analysts' Recommendations

ANALYST RECOMMENDATIONS AND REVISIONS

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	12	12	11	11
(2) OUTPERFORM	8	9	9	9
(3) HOLD	3	3	5	5
(4) UNDERPERFORM	0	0	0	0
(5) SELL	1	1	0	0
No Opinion	0	0	0	0
Mean Rating	1.75	1.76	1.76	1.76

Review the trend of analyst recommendations over the last three months. Is there a notable change of analyst opinions, turning more bullish or bearish?

Overall the analyst recommendations between the current month and three months ago are consistent and there are only a few changes between the three months of analyst recommendations. From three months ago to the current month, the mean ratings are 1.76, 1.76, 1.76, and 1.75 respectively. Reuters believe that UnitedHealth Group Inc. is going to outperform the market. Compare ratings of three month ago with current ratings, the recommendation numbers have moved in favor of outperform over the choice of buy which is supporting our stock "buy" recommendation. Both two and three months ago the company has a five on "hold" rating while Current and lost month rating on hold is three. We also can see a slight difference on sell and buy rating comparing current and last month with two and three months ago with 12 , 11 on buy and 1, 0 on sell respectively.

How many different ratings out of the five possible ones did the company receive currently, one, two, and three months ago?

UnitedHealth group Inc. revived four out of five possible rating in this analyst. In current and last three months the company received zero on underperform rating. In the last three months, the rating on outperform has consistently been nine while the current rating on outperform is eight.

Cross check (1) _Morningstar_ analyst's research report; and (2) media or other analysts' comments from online financial sites. Is what you see here consistent to comments elsewhere?

Morningstar analyst's research report was consistent with the reports from Reuters and Yahoo finance. All the analysts have strong on buy and moderate opinion on hold.

Ownership Activity	# of Holders	% Beg. Holders	Shares	% Shares
Shares Outstanding			988,116,415	100.00%
# of Holders/Total Shares Held/% Shares	1,264	104.98%	884,957,061	89.56%
# New Positions	124	10.30%		
# Closed Positions	64	5.32%		
# Increased Positions	536	44.52%		
# Decreased Positions	495	41.11%		
Beg. Total Inst. Positions	1,204	100.00%	891,908,549	90.26%
# Net Buyers/3 Mo. Net Chg	41	51.99%	-6,951,488	-0.70%

Ownership Information	% Outstanding
% Institutional Ownership	**89.46%**
Top 10 Institutions % Ownership	39.14%
Mutual Fund % Ownership	53.61%
5%/Insider Ownership	0.8300%
Float %	99.00%

> 5% Ownership			
Holder Name	% Change	% Outstanding	Report Date

Fidelity Management and Research Company	-4.3	5.16	12/31/2013
Wellington Management Company, LLP	0.62	5.04	12/31/2013
State Street Corp	-0.26	4.8	12/31/2013
Vanguard Group, Inc.	0.63	4.8	12/31/2013

Combine information provided in all three sections to discuss:

1) **Whether institutions, on net basis, have been increasing or decreasing ownership and whether the change can be considered as substantial**
   On a net basis the institutions have slightly decreasing ownership. However the change cannot be considered substantial since the number of net buyer decrease is lower than 1% while the total institutional holders still holds almost 90% of total shares.

2) **Whether the stock has sizable institution interests/support**
   Even though the top institutional holder Fidelity Management and Research Company decreased their holding by 4.3% 2184605 shares, JPMorgan Chase & Co has increased their holding by 14% with 4045348 shares and PRICE T ROWE ASSOCIATES INC increased their holding by14.11% with 4522321 shares. In conclusion, the company still has a very sizable institutional holding as 89.46% and sustainable institution support.

3) **The extent of the (> 5%) owners by adding up all >5% ownership, and make an attempt to identify those that are mutual funds**
   Together the top two holders with a >5% ownership hold a total of 10.20% of the shares. There is no single mutual fund that holds more than 5% of shares, but Fidelity low- price fund, a mutual fund under Fidelity Investments, holds 2.77% of the total shares. Also Vanguard, through a few different funds, holds a total of 5% of shares.

Section (H) Short Interest

UnitedHealth Group Inc.

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
2/14/2014	19,472,149	5,339,732	3.646653
1/31/2014	19,086,802	5,287,282	3.609946
1/15/2014	22,644,312	5,342,642	4.238411
12/31/2013	15,306,190	3,569,759	4.287738
12/13/2013	16,766,805	4,857,834	3.451498
11/29/2013	16,552,524	3,798,437	4.357720
11/15/2013	17,690,862	3,931,083	4.500251
10/31/2013	15,977,686	9,108,895	1.754075
10/15/2013	14,465,992	4,089,523	3.537330
9/30/2013	14,607,638	5,346,360	2.732259
9/13/2013	17,825,730	3,355,997	5.311605
8/30/2013	23,721,818	3,443,687	6.888494
8/15/2013	16,214,824	2,957,332	5.482923
7/31/2013	18,072,219	6,149,555	2.938785
7/15/2013	16,208,012	4,275,551	3.790859
6/28/2013	11,855,526	5,698,829	2.080344
6/14/2013	13,506,790	4,693,175	2.877964
5/31/2013	16,767,639	5,099,396	3.288162
5/15/2013	18,860,196	5,792,779	3.255811
4/30/2013	13,007,282	6,743,757	1.928789
4/15/2013	21,907,997	7,563,951	2.896370
3/28/2013	17,376,705	5,752,996	3.020462
3/15/2013	13,686,232	5,277,624	2.593256
2/28/2013	13,488,354	7,628,703	1.768106

UnitedHealth Group Inc.

WELLPOINT Inc

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
2/14/2014	11,635,649	2,583,530	4.503779
1/31/2014	5,906,705	3,544,387	1.666496
1/15/2014	5,814,834	2,090,899	2.781021
12/31/2013	5,742,928	1,663,410	3.452503
12/13/2013	5,770,848	2,127,613	2.712358
11/29/2013	6,835,840	2,283,384	2.993732
11/15/2013	7,937,548	2,328,812	3.408411
10/31/2013	6,972,994	2,694,054	2.588290
10/15/2013	7,365,575	1,618,404	4.551135
9/30/2013	7,973,400	2,603,844	3.062165
9/13/2013	7,184,644	1,599,780	4.491020
8/30/2013	7,919,855	1,318,551	6.006484
8/15/2013	6,656,588	1,876,927	3.546535
7/31/2013	5,358,359	2,257,359	2.373729
7/15/2013	6,362,648	1,867,305	3.407396
6/28/2013	5,170,780	2,378,737	2.173750
6/14/2013	5,289,065	1,699,077	3.112905
5/31/2013	5,258,527	1,536,657	3.422056
5/15/2013	5,502,616	1,880,868	2.925573
4/30/2013	5,573,038	2,264,977	2.460527

WELLPOINT Inc

Aetna Inc.

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
2/14/2014	3,817,784	3,938,744	1.000000
1/31/2014	4,293,029	2,335,272	1.838342
1/15/2014	4,897,543	2,341,827	2.091334
12/31/2013	4,022,135	2,050,373	1.961660
12/13/2013	4,724,484	3,393,778	1.392102
11/29/2013	5,361,627	2,553,878	2.099406
11/15/2013	5,427,677	2,610,851	2.078892
10/31/2013	5,361,274	4,141,519	1.294519
10/15/2013	5,220,000	2,341,996	2.228868
9/30/2013	5,450,271	3,298,001	1.652598
9/13/2013	5,403,224	2,385,422	2.265102
8/30/2013	3,754,847	1,999,092	1.878276
8/15/2013	3,500,670	1,930,251	1.813583
7/31/2013	2,905,534	3,437,224	1.000000
7/15/2013	3,847,413	2,547,775	1.510107
6/28/2013	5,147,832	3,179,218	1.619213
6/14/2013	4,656,192	2,924,792	1.591974
5/31/2013	4,321,459	2,655,477	1.627376
5/15/2013	4,798,736	3,162,335	1.517466

Aetna Inc.

(H-2) Short Interest Data From http://finance.yahoo.com/

UnitedHealth Group Inc.

Avg Vol (3 month)	Avg Vol (10 day)	Shares Outstanding	Float
4915260	5221340	989.19M	972.52M

Shares Short (Most recent date)	Short Ratio (Most recent date)	Short % of Float (Most recent date)	Shares Short (2 weeks prior)
19.09M	3.70	1.90%	22.64M

WELLPOINT Inc

Avg Vol (3 month)	Avg Vol (10 day)	Shares Outstanding	Float
2479340	2861880	282.46M	280.58M

Shares Short (Most recent date)	Short Ratio (Most recent date)	Short % of Float (Most recent date)	Shares Short (2 weeks prior)
5.91M	2.10	2.00%	5.81M

Aetna Inc.

Avg Vol (3 month)	Avg Vol (10 day)	Shares Outstanding	Float
2715090	2276300	362.20M	360.38M

Shares Short (Most recent date)	Short Ratio (Most recent date)	Short % of Float (Most recent date)	Shares Short (2 weeks prior)
4.29M	1.9	1.4%	4.9M

1) **Make note of the company's (1) last earnings reporting date, and (2) next earnings reporting date.**

   UnitedHealth Group INC the most recent earnings reporting date was January 16, 2014 and estimated to report next earning on March 17, 2014.

   WellPoint INC the most recent earnings reporting date was January 29, 2014 and estimated to report next earning on March 23, 2014.

   Aetna INC the most recent earnings reporting date was February 6, 2014 and estimated to report next earning on March 24, 2014.

2) Discuss market sentiment on the stock based on the short interest statistics, recent trend reported in in (H-1) and (H-2)? Has the sentiment turned more bullish or bearish over the last year? How about in more recent month and why?
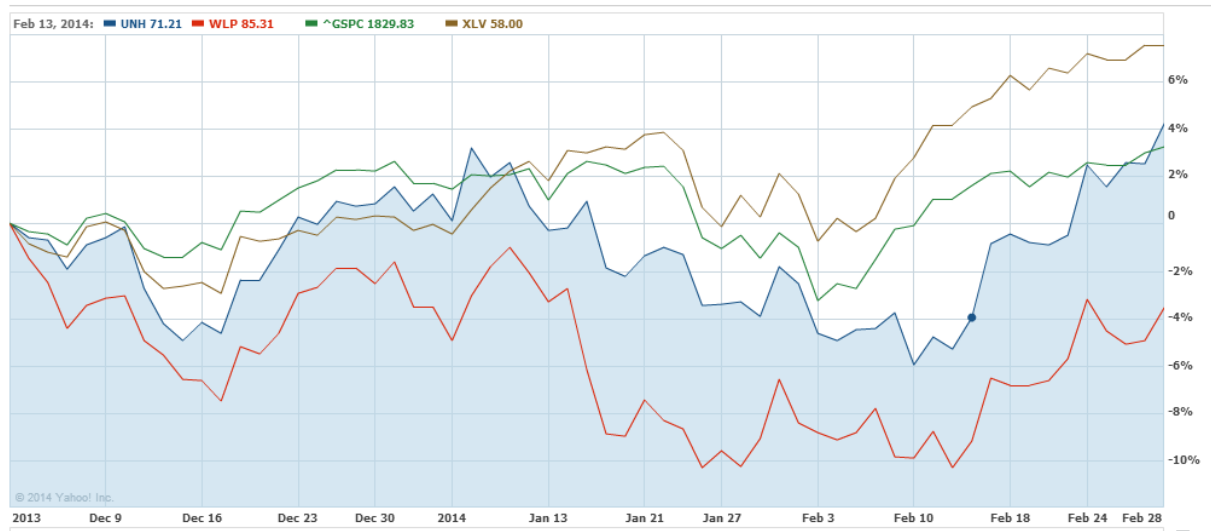
In the last year UnitedHealth Group's days to cover ratio has a peaked at 6.8 days and it has been up and down around 3.5 days. In the past few months UNH's days to cover ratio declined from 3.02 to 1.76 indicating a bullish sentiment. Basic on the chart above seems like there are a lot of share short, but compared with the market cap that UNH has the shares actually are pretty low.

3) From (H-1), observe "short interest" and "# of days to cover" values for two reporting dates immediately before and one reporting date immediately after earnings report. (1) Were there notable increase or decrease in the values, right before or right after earnings report? (2) Observe stock price chart and comment on how stock traded around those dates.

There are only 0.4 days drop and cannot be consider as significant changes on number of days to cover values after the report days. Even though the company had a 1.4 earing per share which is a 16% increase compared with last year at the same period in their earning report as the analysts have forecasted, but it was not able to break the overall whole market momentum as the S&P 500 and overall sector were moving downward.
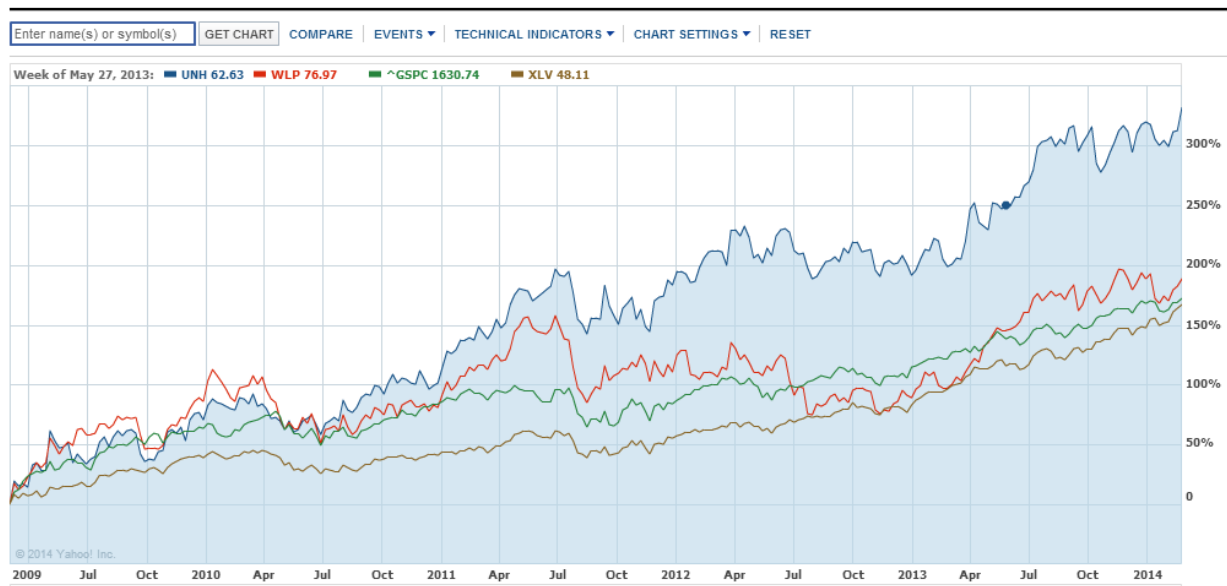
Section (I)   Stock Charts

(I-1)   A three months price chart

Feb 13, 2014:   ■ UNH 71.21   ■ WLP 85.31   ■ ^GSPC 1829.83   ■ XLV 58.00

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2013   Dec 9   Dec 16   Dec 23   Dec 30   2014   Jan 13   Jan 21   Jan 27   Feb 3   Feb 10   Feb 18   Feb 24 Feb 28

(I-2)   A one year price chart

Feb 3, 2014:   ■ UNH 70.74   ■ WLP 85.62   ■ ^GSPC 1741.89   ■ XLV 54.86

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2013   Apr   May   Jun   Jul   Aug   Sep   Oct   Nov   Dec   2014   Feb

27

(I-3)   A five year price chart

For the three month stock chart, UNH has been overall underperformed both SP 500 and the health care sector. We believe this is due to the uncertainty surrounding the implementation of the Affordable Care Act This is the reason why UnitedHealth Group as an insurance provider company has been underperformed in the recent 3 months. However, on the 5 year and the 1 year chart UNH has been outperformed both SP 500 and the sector impressively.

(I-4)   Technical Indicators ("Moving Average" and "Relative Strength Index" from http://finance.yahoo.com/)

UnitedHealth Group Incorporated — UNH, 10-day MA, 50-day MA (Feb 28, 2014)

UnitedHealth Group Incorporated — UNH, 200-day MA, 50-day MA (Feb 28, 2014)

On the 6-month chart, we can clearly see there was market support on $71 and a market resistance on $75. However in the last week the stock broke through the market resistance with new high on $78 and hopefully becomes the new market support. On the 2 year chart it shows a cup and handle which indicates a bullish continuation pattern. From the moving average stand point, we can see it seems every time the two moving averages crosses through another means a trend reversal. Also the bottom line seems indicate the market support. The technical analysis seems to support our findings with the fundamental analysis, indicating that the stock is in a rising motion.

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