

Repeal Reality - Downgrading ACA Vulnerable Stocks

Summary

GOP Triple Play, the worst possible outcome for HC stocks is a reality. We see extreme risk of ACA repeal/replace, loss of the Medicaid expansion, a primary driver of results for both hospitals and health plans, and reversal of the many value-based regulations that promote home health care. Only the potential for a Senate filibuster protects the ACA. We therefore are downgrading our Buys to Neutral and cutting PTs for our covered companies.

Key Points

Not only repeal, but we have no idea what will replace it: With the enmity between Trump & Ryan, we can't be sure that even the weak Congressional health plan will be the replacement for exchanges/ Medicaid expansions. On the other hand, we have to assume that the cuts, nearly \$1 trillion, will stay in place. And, the ACA also touched virtually every sub-sector through regulation in some way. Bundling, LTACH criteria, ACOs and a whole host of other programs whose legislative authority depends on the ACA. Thus, we are taking the pre-emptive step of downgrading our Buys (HCA, UNH, HLS and AMED) to Neutral until we can get some clarity on what will happen under a Trump administration and a GOP Congress. We are taking our price targets on our Neutral-rated stocks down to reflect what we expect to be a serious downward re-rating of the shares. We take none of these steps lightly, but the complete lack of visibility makes the shares very difficult to value. Generally, we take the hospitals down to 2017 EV/EBITDA less NCI multiples no higher than 7.3x and the post acute stocks down at least 1x to 8.1x (AMED and HLS) and taking our blended DCF (\$134) and P/E (14.8x) on UNH to \$135. HCA: now Neutral, \$78PT; HLS Now Neutral, \$38, AMED now Neutral \$33, CYH , U-P PT unchanged, QHC PT to \$3, LPNT PT to \$50, KND PT to \$5, THC PT to \$13 (7.3x EV/EBITDA less NCI on 17E).

As CYH and QHC, both have to sell hospitals, we are concerned that the uncertainty may stall those important transaction, further pressuring their ongoing EBITDA and delaying their restructuring progress. UNH impact is likely limited to risk to the Medicaid expansion. HCA has less dependence on Obamacare, but still has some (perhaps 5% of EBITDA), and THC, LPNT have more exposure to the expansion and exchanges. AMED depends on bundling and VBP and HLS depends on a stable Medicare business, which we can't necessarily predict at this time. Ditto for KND. We are lowering multiples, not estimates at this time. It will likely be some time before any policy change would take place, but the headlines and fear should takeover the trading in these stocks as the new administration announces its cabinet appointments and its agenda.

Company	Symbol	Price (11/08)	Rating		PT
			Prior	Curr	
Amedisys, Inc.	AMED	\$40.10	Buy	Neutral	\$33.00
Community Health Systems, Inc.	CYH	\$5.94	-	U-P	\$3.00
HCA Holdings, Inc.	HCA	\$80.88	Buy	Neutral	\$78.00
HealthSouth Corporation	HLS	\$41.05	Buy	Neutral	\$38.00
Kindred Healthcare, Inc.	KND	\$6.15	-	Neutral	\$5.00
LifePoint Health, Inc.	LPNT	\$61.05	-	Neutral	\$50.00
Quorum Health Corp	QHC	\$4.17	-	Neutral	\$3.00
Tenet Healthcare Corp.	THC	\$20.27	-	Neutral	\$13.00
UnitedHealth Group Incorporated	UNH	\$142.90	Buy	Neutral	\$135.00

Source: Bloomberg and Mizuho Securities USA

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Exhibit 1: Valuations

UnitedHealth Group Stock Price (\$mm except per share, FY Dec)	Current Price \$142.90			Step 1: Target Price - Multiple Method \$135.00		
	2015A	2016E	2017E	2015A	2016E	2017E
Revenue	\$ 157,107	\$ 186,525	\$ 199,800	\$ 157,107	\$ 186,525	\$ 199,800
Cash EPS	\$ 7.00	\$ 8.01	\$ 9.10	\$ 7.00	\$ 8.01	\$ 9.10
FCF per share	\$ 8.46	\$ 10.21	\$ 11.69	\$ 8.46	\$ 10.21	\$ 11.69
Dividend per share	\$ 2.00	\$ 2.32	\$ 2.77	\$ 2.00	\$ 2.32	\$ 2.77
P/E	20.4x	17.8x	15.7x	19.3x	16.9x	14.8x
FCF Yield	5.9%	7.1%	8.2%	6.3%	7.6%	8.7%
P/FCF	16.9x	14.0x	12.2x	16.0x	13.2x	11.5x
Dividend Yield	1.4%	1.6%	1.9%	1.5%	1.7%	2.1%
Target Price from P/E and FCF Multiple						\$135.00
Step 2: Target Price, DCF Method						
DCF						
Terminal Growth Rate						1.3%
WAC Equity Capital						7.0%
After-tax Cost of Debt						0.2%
WACC						7.2%
Value of the firm (Unlevered FCF)						\$ 202,666
Value of debt						\$ 73,500
Value of NOL's						\$ -
Derived DCF Value of the Equity						\$ 129,166
Shares Outstanding						964
DCF Implied Equity value per share						\$133.99
Blended 50/50 Target Price						\$134.49

HCA Healthcare \$ in Millions, Mizuho Securities Estimates	2015A	2016E	2017E
Revenue	\$ 39,678	\$ 41,326	\$ 42,710
EBITDA	\$ 7,915	\$ 8,224	\$ 8,684
EBITDA Margin	19.9%	19.9%	20.3%
Growth rate			
EBITDA Less Minority Interest	\$ 7,348	\$ 7,707	\$ 8,114
EBITDA Less MI Margin	18.5%	18.7%	19.0%
Growth rate	6.0%	4.9%	5.3%
Cash Revenue			
Cash EBITDA Margin			
Cash EBITDA Less MI Margin			
Free Cash Flow (CFFO less Capex less Minority Distributions)	\$ 1,864	\$ 1,701	\$ 1,950
Current Share Price	\$ 80.88	\$ 80.88	\$ 80.88
Target Price	\$ 78.00	\$ 78.00	\$ 78.00
Net Debt at end-of-period, ending cash	29,747	30,811	29,060
Market Cap at current price	\$ 34,513	\$ 32,227	\$ 31,139
NCI	\$ 1,553	\$ 1,470	\$ 1,415
EV at current price EXCLUDING NCI	\$ 64,260	\$ 63,038	\$ 60,199
EV excluding NCI/EBITDA less NCI @ current price	8.7x	8.2x	7.4x
Market Cap at Target Price	\$ 33,284	\$ 31,080	\$ 30,030
EV excluding NCI at Target Price	\$ 63,031	\$ 61,891	\$ 59,090
EV excluding NCI/EBITDA less NCI @ Target Price	8.6x	8.0x	7.3x
EPS	\$5.56	\$6.74	\$7.25
YOY % Change	18%	21.3%	7.4%
P/E at current price	14.5	12.0	11.2
P/E at target price	14.0	11.6	10.8
PEG at target price	0.78	0.54	1.45
FCF per share	\$4.37	\$4.27	\$5.06
P/FCF per share at current price	18.5	18.9	16.0
FCF yield at current price	5.4%	5.3%	6.3%

Source: Company reports, Bloomberg and Mizuho Securities USA estimates

Exhibit 2: Valuations (continued)

Tenet Healthcare Valuation			EV/EBITDA Less NCI Method			
At Current Price			At Target Price			
	2015A	2016E	2017E	2015A	2016E	2017E
\$ in thousands, except per share						
Revenue	\$ 18,634	\$ 19,756	\$ 20,356	\$ 18,634	\$ 19,756	\$ 20,356
EBITDA margin	12.21%	12.39%	0.00%	12.21%	12.39%	0.00%
EBITDA less NCI	\$ 2,058	\$ 2,045	\$ 2,157	\$ 2,058	\$ 2,045	\$ 2,157
EBITDA less NCI multiple	8.0 x	8.2 x	7.7 x	7.6 x	7.8 x	7.3 x
EBITDA Guidance Basis	\$ 2,276	\$ 2,421	\$ 2,522	\$ 2,276	\$ 2,421	\$ 2,522
EBITDA Multiple Guidance Basis	7.2 x	6.9 x	6.6 x	6.9 x	6.6 x	6.3 x
Enterprise value	\$ 16,408	\$ 16,691	\$ 16,539	\$ 15,687	\$ 15,963	\$ 15,802
Less Debt	\$ 14,754	\$ 15,175	\$ 15,025	\$ 14,754	\$ 15,175	\$ 15,025
Plus Unrestricted Cash	\$ 356	\$ 512	\$ 543	\$ 356	\$ 512	\$ 543
Memo: 2016E Cash and Debt at 12/31/16						
Memo: Net Leverage on EBITDA	6.3 x	6.1 x	5.7 x	6.3 x	6.1 x	5.7 x
Equity value	\$ 2,010	\$ 2,028	\$ 2,057	\$ 1,289	\$ 1,301	\$ 1,320
Equity Value per share	\$20.27	\$20.27	\$20.27	\$13.00	\$13.00	\$13.00
Shares used	99.2	100.0	101.5	99.2	100.0	101.5

LifePoint Enterprise Value Multiple Valuation			
	2015A	2016E	2017E
\$ in thousands, except per share			
Revenue Est	\$ 5,214	\$ 6,426	\$ 6,845
EBITDA margin	13.32%	11.32%	11.44%
EBITDA less NCI	\$ 695	\$ 728	\$ 783
EV/EBITDA less NCI Multiple at Target	6.8 x	6.5 x	6.2 x
EV/EBITDA less NCI at Current Price	7.5 x	7.2 x	6.9 x
EBITDA	\$ 706	\$ 738	\$ 794
EV/EBITDA Multiple at Target	6.6 x	6.5 x	6.1 x
EV/EBITDA at Current Price	7.8 x	7.6 x	7.0 x
Enterprise value at target	\$ 4,690	\$ 4,765	\$ 4,885
Less Debt	\$ 2,669	\$ 2,915	\$ 2,885
Plus Unrestricted Cash	\$ 284	\$ 363	\$ 200
Equity value	\$ 2,305	\$ 2,213	\$ 2,200
FCF per share	\$ 7.61	\$ 1.96	\$ 1.87
FCF Yield at Current Price	12%	3%	3%
FCF Yield at Target Price	15%	4%	4%
Target Price	\$ 50.00	\$ 50.00	\$ 50.00
Current Price	\$ 61.05	\$ 61.05	\$ 61.05

CYH Enterprise Value Multiple Valuation		Current Price	Current Price	Current Price	At Target	At Target	At Target
	2015A	2016E PF	2017E PF	2015A	2016E PF	2017PF	
\$ in thousands, except per share							
Revenue	\$ 19,437	\$ 18,360	\$ 15,938	\$ 19,437	\$ 18,360	\$ 15,938	
EBITDA margin	13.07%	12.16%	12.02%	13.07%	12.16%	12.02%	
Adjusted EBITDA Guidance Basis		\$ 2,134	\$ 1,916		\$ 2,134	\$ 1,916	
EBITDA multiple guidance basis		6.9 x	7.6 x		6.7 x	7.4 x	
EBITDA Less NCI	\$ 2,540	\$ 2,008	\$ 1,816	\$ 2,540	\$ 2,008	\$ 1,816	
EBITDA Less NCI multiple	7.0 x	7.3 x	8.0 x	6.8 x	7.1 x	7.9 x	
Enterprise value	\$ 17,674	\$ 14,631	\$ 14,600	\$ 17,348	\$ 14,293	\$ 14,262	
Less Debt Pro Forma including CVR	\$ 17,187	\$ 14,093	\$ 14,093	\$ 17,187	\$ 14,093	\$ 14,093	
Plus Unrestricted Cash Pro Forma	\$ 184	\$ 133	\$ 164	\$ 184	\$ 133	\$ 164	
memo: net leverage vs EBITDA	6.0	6.5	7.3	6.0	6.5	7.3	
Equity value	\$ 671	\$ 671	\$ 671	\$ 345	\$ 333	\$ 333	
Equity Value per share	\$5.94	\$5.94	\$5.94	\$ 3.00	\$ 3.00	\$ 3.00	

Rev, EBITDA, Cash & Debt are end of period estimates PF for asset sales

Source: Company reports, Bloomberg and Mizuho Securities USA estimates

Exhibit 2: Valuations (continued)

QHC Valuation		At Current Price		Upon Sale of 4 Hospitals		At Target	
\$ in millions, except per share		2015PF	2016E PF	2016E PF	2016E	2016E	2016E
Revenue		\$ 2,185	\$ 2,140	\$ 2,140	\$ 2,140	\$ 2,140	\$ 2,140
EBITDA - Guidance Basis		\$ 264	\$ 170	\$ 186	\$ 170	\$ 170	\$ 170
EBITDA Guidance Basis multiple		5.3 x	8.4 x	6.7 x	8.2 x	8.2 x	8.2 x
EBITDA less NCI			\$ 165	\$ 185.08	\$ 165	\$ 165	\$ 165
EBITDA less NCI Multiple			8.6 x	6.7 x	8.4 x	8.4 x	8.4 x
Enterprise value		\$ 1,385	\$ 1,427	\$ 1,246	\$ 1,393	\$ 1,393	\$ 1,393
Less Debt Pro Forma		\$ 1,286	\$ 1,252	\$ 1,252	\$ 1,252	\$ 1,252	\$ 1,252
Plus Unrestricted Cash Pro Forma		\$ 21	\$ 55	\$ 92	\$ 55	\$ 55	\$ 55
Equity value		\$ 120	\$ 120	\$ 86	\$ 86	\$ 86	\$ 86
Current Price		\$ 4.17	\$ 4.17	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00
QHC Shares (mm)		28.7	28.7	28.7	28.7	28.7	28.7
FCF per share			\$ (0.91)	\$ (0.91)	\$ (0.91)	\$ (0.91)	\$ (0.91)
FCF Yield			NMF	NMF	NMF	NMF	NMF

HealthSouth Valuation		Current Price			Target Price		
\$ in thousands, except per share		2015A	2016E	2017E	2015A	2016E	2017E
Estimated Revenue		\$ 3,115.7	\$ 3,655.8	\$ 3,805.3	\$ 3,115.7	\$ 3,655.8	\$ 3,805.3
Assumed EBITDA margin		21.57%	21.79%	21.78%	21.57%	21.79%	21.78%
Adjusted EBITDA (excludes NCI)		\$ 672.0	\$ 796.7	\$ 828.7	\$ 672.0	\$ 796.7	\$ 828.7
EV/Adjusted EBITDA multiple		11.1 x	8.9 x	8.5 x	9.9 x	8.5 x	8.1 x
Enterprise value		\$ 7,473	\$ 7,083	\$ 7,026	\$ 7,166	\$ 6,780	\$ 6,721
Less Debt		\$ 3,135	\$ 2,935	\$ 2,932	\$ 3,135	\$ 2,935	\$ 2,932
Plus cash		62	34	113	62	34	113
Plus NPV NOL use to offset cash taxes		\$262	\$102	\$102	\$262	\$102	\$102
Equity value		\$ 4,138	\$ 4,080	\$ 4,105	\$ 3,830	\$ 3,777	\$ 3,800
Equity Value per share		\$ 41.05	\$ 41.05	\$ 41.05	\$ 38.00	\$ 38.00	\$ 38.00
FCF per share		\$ 3.33	\$ 3.85	\$ 4.14	\$ 3.33	\$ 3.85	\$ 4.14
P/FCF		12.3 x	10.7 x	9.9 x	11.4 x	9.9 x	9.2 x
FCF Yield		8.1%	9.4%	10.1%	8.8%	10.1%	10.9%
EPS		\$ 2.02	\$ 2.56	\$ 2.87	\$ 2.02	\$ 2.56	\$ 2.87
P/E		20.3 x	16.0 x	14.3 x	18.8 x	14.9 x	13.2 x
PEG		NMF	0.6 x	1.2 x	NMF	0.6 x	1.1 x

Amedisys Valuation and PT Calculation		Current			At Target		
(\$ in thousands except per share)		2015A	2016E	2017E	2015A	2016E	2017E
Estimated EBITDA		\$ 111,705	\$ 105,844	\$ 145,617	\$ 111,705	\$ 105,844	\$ 145,617
EBITDA multiple		12.6x	13.6x	9.7x	10.5x	11.1x	8.1x
Enterprise value		\$ 1,409,964	\$ 1,442,163	\$ 1,418,395	\$ 1,175,536	\$ 1,174,773	\$ 1,177,350
Total Debt		\$ 113,444	\$ 94,094	\$ 72,000	\$ 113,444	\$ 94,094	\$ 72,000
Less: Cash		\$ 27,502	\$ 8,915	\$ 15,000	\$ 27,502	\$ 8,915	\$ 15,000
Net Debt		\$ 85,942	\$ 85,179	\$ 57,000	\$ 85,942	\$ 85,179	\$ 57,000
EV less Net Debt		\$ 1,324,022	\$ 1,356,984	\$ 1,361,395	\$ 1,089,594	\$ 1,089,594	\$ 1,120,350
Less: Estimated Fine, net of tax		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Implied Equity Value at Share Price		\$ 1,324,022	\$ 1,356,984	\$ 1,361,395	\$ 1,089,594	\$ 1,089,594	\$ 1,120,350
Implied Price per Share		\$40.10	\$40.10	\$40.10	\$33.00	\$33.00	\$33.00
EPS		\$ 1.47	\$ 1.46	\$ 1.96	\$ 1.47	\$ 1.46	\$ 1.96
YOY % Change		102%	-1%	34%	102%	-1%	34%
Diluted Shares Outstanding		33,018	33,840	33,950	33,018	33,840	33,950
PE (x)		27.2	27.4	20.5	22.4	22.6	16.9
PEG		0.3x	-42.1x	0.6x	0.2x	-34.6x	0.5x

Source: Company reports, Bloomberg and Mizuho Securities USA estimates

Exhibit 3: Valuations (continued)

Kindred Healthcare	Current Price		At Target Price	
	2015A	2016E	2015A	2016E
Revenue	\$ 7,054,907	\$ 7,155,871	\$ 7,054,907	\$ 7,155,871
Core EBITDAR	980,327	948,198	980,327	948,098
Core EBITDAR less NCI	937,763	894,857	937,763	894,857
Core EBITDA	597,718	557,460	597,718	557,460
Core EBITDA less NCI	555,154	504,119	555,154	504,119
FCF	41,331	(18,539)	41,331	(18,539)
FCF per share	\$ 0.47	\$ (0.21)	\$ 0.47	\$ (0.21)
Core EPS	\$ 1.30	\$ 0.69	\$ 1.30	\$ 0.69
Diluted Shares	87,232	88,000	87,232	88,000
Equity Value	536,477	541,200	436,160	440,000
Debt (EOP)	3,161,655	3,344,063	3,161,655	3,344,063
Capitalized Leases	2,295,654	2,344,428	2,295,654	2,344,428
Cash(EOP), 3Q16	98,758	139,430	98,758	139,430
EV including cap leases	\$ 5,895,028	\$ 6,090,261	\$ 5,794,711	\$ 5,989,061
EV/EBITDAR	6.0	6.4	5.9	6.3
EV/EBITDAR less NCI	6.3	6.8	6.2	6.7
EV/Core EBITDA	9.9	10.9	9.7	10.7
EV/Core EBITDA less NCI	10.6	12.1	10.4	11.9
P/Core EPS	4.7	9.0	3.8	7.3
P/FCF	13.0	-29.2	10.6	NMF
Stock price	\$ 6.15	\$ 6.15	\$ 5.00	\$ 5.00
Notes: We treat the Mandatory Conv Pref as debt until exchanged;				
Sources: Company reports, MSUSA estimates and Bloomberg LLP				

Source: Company reports, Bloomberg and Mizuho Securities USA estimates

Price Target Calculation and Key Risks

Amedisys, Inc.

Our \$33 one-year PT is based on a PEG of 0.5x on 34% projected EPS growth from '16E to '17E and an 8.1x EV/EBITDA multiple on 2017E.

Risks to our target include: repeal/replacement of the ACA and bundling, execution, reimbursement, investigation (an active hospice investigation is ongoing in New England and West Virginia and AMED currently operates under a corporate integrity agreement) and legislative risk, among others.

Community Health Systems, Inc.

Our valuation of \$3 is based on 6.5x our 2016E EV/EBITDA and 7.8x our 2017E EBITDA on a guidance basis, including the assumed \$850mm in sale proceeds as cash. We now expect FCF to be negative in 2016, along with further margin compression in 2016 and 2017, which argues for a below peer multiple. However, the high degree of leverage prevents the multiple from going much below 6.5x. These reflect likely volume and mix pressures, coupled with high leverage as well as the remaining CVR risk.

Risks to our rating and price target include, but are not limited to, better than expected asset sale results or the involvement of an activist investor, or the acquisition of shares by deep value investors. Factors weighing on valuation include, but are not limited to, relief of the following: pricing pressure from government and private payers, continued soft volume growth, additional labor cost pressures, further deterioration of bad debt, integration of HMA and turnaround of HMA, physician losses, competition for acquisitions, the pending spin-off and a highly levered balance sheet. However, CYH may be more successful at cost cutting and growing volume than we think and that could cause upside surprise to be reflected in the stock price. CYH has not yet finalized the value of the CVR, which could result in unexpectedly higher settlement and/or legal costs above the reserve level.

HCA Holdings, Inc.

Our valuation of \$78 is based on 7.3x our 2016E EV/EBITDA less NCI.

Risks to valuation include, but are not limited to, repeal/replacement of the ACA, pricing pressure from government and private payors, continued soft volume growth, further deterioration of bad debt, competition for acquisitions, increasing labor costs and labor market shortages, HITECH payment risk, a levered balance sheet and the implementation of all of the provisions of the ACA and other recent legislation (MACRA and IMPACT).

HealthSouth Corporation

Our 12-month price target of \$37 is based on 8.1x our 2017E EBITDA, at the below the low end of post-acute facility trading ranges of 9-11x due to the risks around Medicare reimbursement and repeal/replacement of the ACA.

Risks to valuation include, but are not limited to, repeal/replacement of the ACA, cuts in reimbursement from private payors and the government, competition, government investigations and litigation, increasing costs (including but not limited to labor costs), increased government regulation and investigations, and potential bundling of payments.

Kindred Healthcare, Inc.

Our one-year PT of \$5 for KND shares is based on 11.9x EV/Core EBITDA less NCI and 6.3x EV/Core EBITDAR. Given our post-acute sector concerns, we see these multiples as reasonably valuing KN, especially given risks to LTACH criteria, bundling and potentially Medicare reimbursement.

Risks to our PT and rating include but are not limited to: repeal/replace the ACA, execution risk, reimbursement risk, changes in upstream (hospital volume) and referral patterns in response to changing reimbursement methods (especially for KND's LTACHs) and incentives, changes in regulations and the potential for M&A (both as a buyer and as a target).

LifePoint Health, Inc.

Our valuation of \$56 is based on a blend of a 7x multiple on our 2016E EV/EBITDA less NCI and a target 3% FCF yield using our 2016E FCF per share of \$1.89 reflecting likely inpatient volume pressures, the dilutive impact of acquisitions in the near term plus capex commitments associated with them and balanced by its moderately levered balance sheet and smaller, but still positive, FCF. Risks to valuation include pricing pressure from government and private payors, continued soft volume growth, further deterioration of bad debt and competition for acquisitions, excess dilution from acquisitions due to slower than expected improvement in margins and execution risk.

Quorum Health Corp

With our below-guide \$170mm EBITDA estimate and with serious total net leverage of 6.0x our corresponding \$233mm LTM CA EBITDA estimate, the EV multiple explodes in our target price model. At our new target of \$3, the stock would trade at 8.2x guidance-basis EBITDA. But if the assets are sold, \$3 is only 6.7x our new estimate.

Risks to our rating and price target include, but are not limited to: repeal/replace the ACA, execution, reimbursement, litigation, regulation, investigation and other market and government-based risks. In addition, QHC, formed through a spin-off from CYH, is a very new company just having been formed on 4/29/15. Thus, it has a limited track record and has not laid out its strategic plan. Our estimates, and therefore our rating and price target, are thus based on extremely limited company-specific information. We expect the shares to be very highly volatile given the small float and high degree of leverage, and the risk of repeal of the Medicaid expansion.

Tenet Healthcare Corp.

Our \$13.00 PT is based on 7.3x our 2017E EBITDA less NCI of \$2.157B, which corresponds to 6.6x our 2016E EBITDA and 6.3x our 2017E EBITDA. Risks to our price target include, but are not limited to, repeal/replace the ACA, pricing pressure from government and private payors, continued soft volume growth, HITECH payment risk, execution risk (including closing transactions in a timely fashion) and further deterioration of bad debt.

UnitedHealth Group Incorporated

Price Target Methodology: Our \$135 one-year PT is based on a 50/50 blend of our DCF model using a 1.25% long-term growth rate, of \$135; and a target P/E of 14.8x our 2017E Adjusted EPS of \$9.10. Blending the two equally yields our \$135 1-year price target for UNH shares.

Key Risks: Among the key risks to our rating and price target are repeal/replace 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 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. Should tax subsidies for Federal Exchange premiums be overturned by the Supreme Court, there could be meaningful downside to multiples, earnings and the stock price. The US election and congressional inquiries into drug pricing/PBMs are also risks to our rating, price target and estimates.

Companies Mentioned (prices as of 11/08)

Amedisys, Inc. (AMED- Neutral \$40.10)	Community Health Systems, Inc. (CYH- Underperform \$5.94)
HCA Holdings, Inc. (HCA- Neutral \$80.88)	HealthSouth Corporation (HLS- Neutral \$41.05)
Kindred Healthcare, Inc. (KND- Neutral \$6.15)	LifePoint Health, Inc. (LPNT- Neutral \$61.05)
Quorum Health Corp (QHC- Neutral \$4.17)	Tenet Healthcare Corp. (THC- Neutral \$20.27)
UnitedHealth Group Incorporated (UNH- Neutral \$142.90)	

IMPORTANT DISCLOSURES

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Rating Distribution

(As of 11/08)	% of coverage	IB service past 12 mo
Buy (Buy)	43.87%	44.92%
Hold (Neutral)	54.28%	32.19%
Sell (Underperform)	1.86%	20.00%

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