

Americas: Managed Care

Equity Research

Solid longer-term growth outlook; coverage view to Attractive

Near-term trends stable for managed care and providers

We upgrade our coverage view for Managed Care to Attractive from Neutral. We see a favorable setup with reasonable valuations, manageable near-term risks, and a solid long-term growth outlook. Upcoming catalysts should be neutral-to-positive: (1) 3Q earnings, (2) Nov. elections, (3) ACA/Medicare open enrollment, (4) resolution of M&A, (5) 4Q / 2017 guidance.

A relatively stable near-term outlook; 13% EPS growth to 2021

Now that the seasonally highest risk quarter (2Q) is behind us, downsides seem contained given: (1) neither merger nor election outcomes are pivotal for managed care, (2) less risk from ACA exchanges following market exits, (3) margins mostly stable with rational pricing bolstered by a dormant underwriting cycle and with medical cost trend only modestly higher this year for group commercial (lower for Medicare). Also, the major takeaway from our recent market review was increasing price discipline for 2017 (see *For 2017 renewals, price discipline is stronger this year*, 9/19). Finally, upcoming suspension of the ACA fee should be a source of earnings upside (or at least a buffer against the downside). Looking further out, we have revamped our industry model with pro forma projections for revenue and earnings growth to 2021. For the Big 5, we see an aggregate 5-year CAGR of 8% for revenue and 11% for after-tax income along with 13% avg. annual EPS growth (w/ HUM leading, ANTM lagging).

Cigna (CI, CL-Buy) remains our favorite; also Buy on ANTM, WCG

Buy-rated CI (on the CL) remains our favorite given the strategic upside we see from a successful completion of its proposed merger with Anthem (we do not take a view on the outcome), or, if that is blocked by antitrust regulators, earnings upside from capital deployment and recovery of group insurance. We also remain Buy-rated on ANTM and WCG. For ANTM, we reduce our 2017 EPS to reflect negative impact from ACA exchanges. However, we maintain our 2018 EPS at \$14.00, implying a sharp rebound as ANTM either benefits from a 'fix' of the ACA exchanges or exits exchanges altogether. For WCG, we remain positive as margins continue to expand, management points to cap allocation upside, and there is M&A potential reflected in our PT.

Where we could be wrong: political/regulatory and margin risks

Risks would include a major shift in health policy/politics (e.g., to a public option). Another would be margin disruption if acceleration in medical cost trend significantly outpaces pricing. However, even if that happens, we think price discipline is strong enough for a fairly rapid recovery.

Matthew Borsch, CFA
(212) 902-6784 matthew.borsch@gs.com Goldman, Sachs & Co.

Christopher Benassi
(212) 357-0617 christopher.benassi@gs.com Goldman, Sachs & Co.

Tejus Ujjani
(212) 902-5306 tejus.ujjani@gs.com Goldman, Sachs & Co.

Tyler Graver
(801) 741-5442 tyler.graver@gs.com Goldman, Sachs & Co.

UPCOMING EVENTS

Sept. 23: Main deadline for ACA exchanges 2017
Oct. 15-Dec. 7: Medicare open enrollment
Oct. 19: 3Q2016 earnings start with UNH
Nov. 1-Dec. 31: ACA open enrollment
Nov. 8: Election Day
Jan. 2017: Court rulings expected on mergers

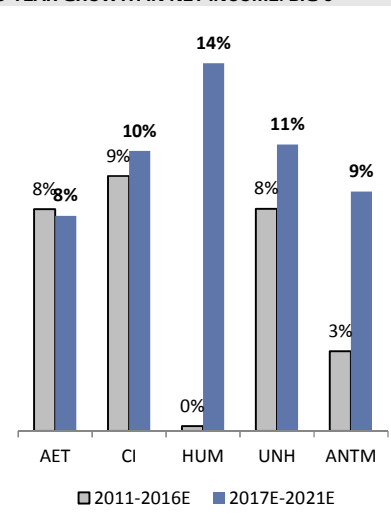
RELATED RESEARCH

For 2017 renewals, price discipline is stronger this year,
September 19, 2016

Commentary: Managed Care: our industry-wide aggregation of 2Q state insurance reports shows mixed trends,
September 8, 2016

Blue Cross plans show further improvement in 2Q,
September 1, 2016

5-YEAR GROWTH IN NET INCOME: BIG 5



Source: company data, Goldman Sachs Global Investment Research

Goldman Sachs does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html. Analysts employed by non-US affiliates are not registered/qualified as research analysts with FINRA in the U.S.

Solid longer-term growth outlook with downside risks manageable

Following a mostly better-than-expected 2Q earnings season, we see a positive environment for managed care given the apparently dormant pricing/underwriting cycle as well as so far mostly moderate medical cost trend. Meanwhile, we think neither merger resolutions nor election outcomes are pivotal to the sector.

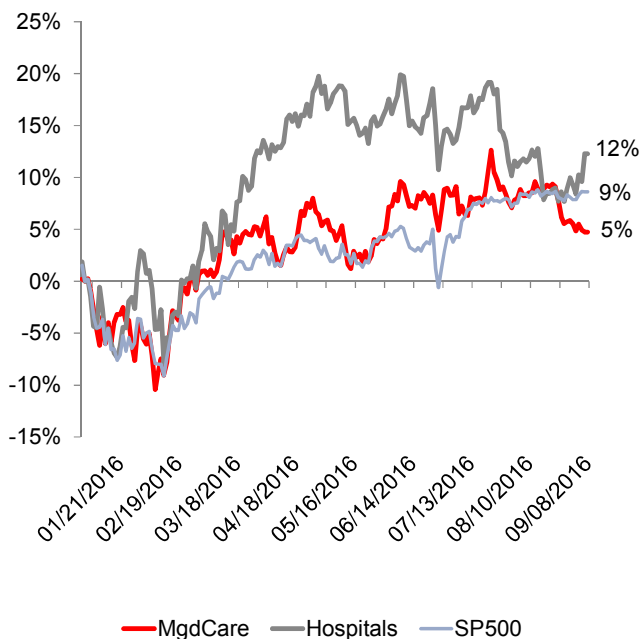
Across the group, Cigna (CI, CL-Buy) remains our favorite given the strategic upside we see if the proposed merger with Anthem completes successfully, or, if that is blocked by antitrust regulators, earnings upside from capital deployment and recovery of group insurance. We also remain Buy-rated on WCG (continued margin upside) and ANTM (low valuation).

Key upcoming catalysts include:

1. November elections.
2. M&A resolution (AET/HUM, ANTM/CI).
3. Medicare and ACA open enrollment.
4. 3Q-4Q16 earnings and 2017 guidance.

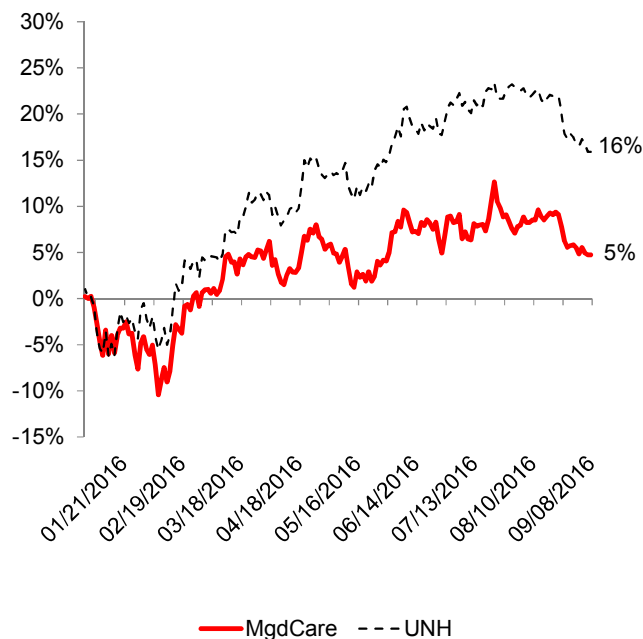
Valuations look reasonable with the stocks (market-cap. weighted) trading at ~14x on average and a ~20% discount to the S&P 500, partly reflecting modest underperformance so far this year (Exhibits 1-4).

Exhibit 1: Managed care has lagged the market this year
YTD: Managed Care vs. Hospitals vs. S&P HC vs. S&P 500



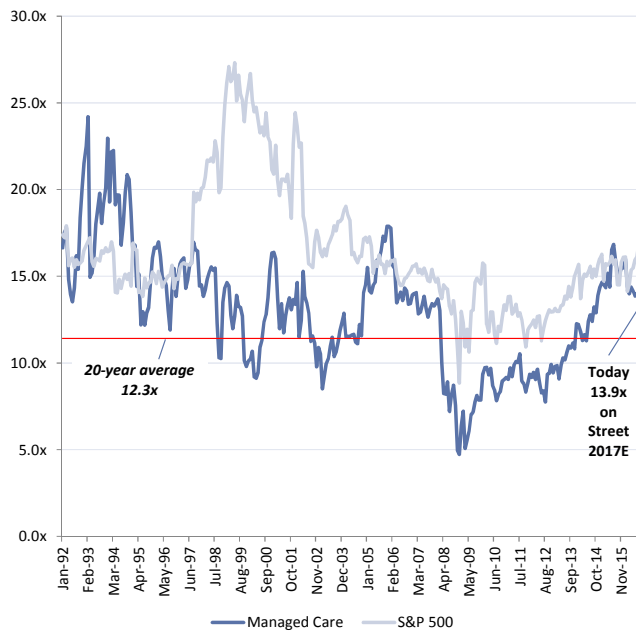
Source: FactSet.

Exhibit 2: Although UNH has outperformed
YTD: UNH vs. Managed Care (ex-UNH)



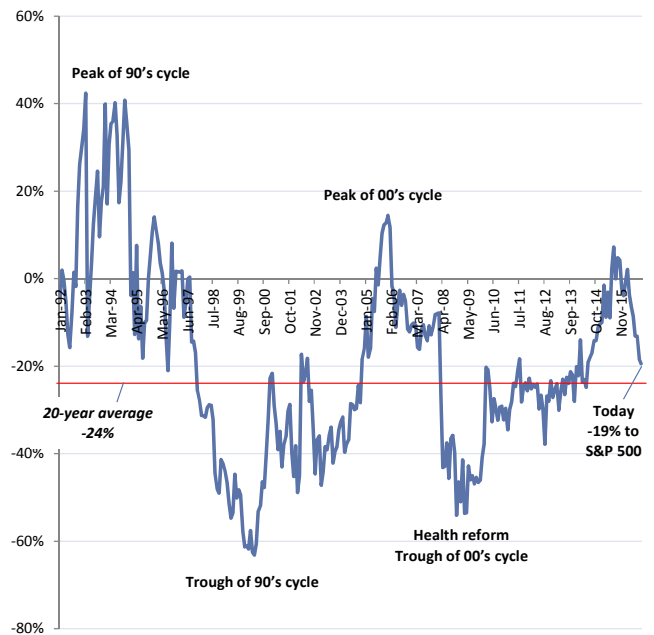
Source: FactSet.

Exhibit 3: PE ratio above LT average...
Managed Care and S&P 500 forward PE (on Street 2YF EPS)



Source: FactSet.

Exhibit 4: ... but market relative PE close to LT average
Managed Care forward PE as % of S&P 500 forward PE



Source: FactSet.

Exhibit 5: Upgrade Managed Care coverage view to Attractive from Neutral
Key factors

1. Diminished margin risk / stable margin outlook
 - Seasonal timing: second quarter risk behind us
 - Medical trend is up, but with moderate/manageable pace
 - Underwriting cycle remains dormant
 - Price discipline strengthening for 2017
2. Visibility on multi-year growth drivers: MCOs remain a “structural Buy”
3. Direct risk from ACA exchanges diminishing with exits (UNH, AET, HUM)
4. Reasonable valuations with incremental upside potential
5. Limited risk from elections and merger resolution(s)
6. 2017 EPS upside potential from suspension of ACA industry fee
7. Optionality on boost to investment income from higher interest rates

Source: Goldman Sachs Global Investment Research.

Exhibit 6: Why now?

Factors driving timing of our upgrade

- 1. Recent results confirm moderate pace to cyclical recovery of cost trends**
 - Still, our utilization model directionally correct as trend bottomed in 2013 and has moved up since then, but at moderate pace
- 2. Recent market review finds price discipline stronger for 2017 renewals**
 - Key finding from our 15th annual market review with WTW
 - Carriers appear to be using suspended industry fee as “trend buffer”
- 3. Failure of M&A deals now mostly “priced in”**
- 4. Rotation away from other healthcare sub-sectors**

Source: Goldman Sachs Global Investment Research.

Exhibit 7: Key actions

Actions taken in conjunction with our sector upgrade

- 1. Reaffirm CL-Buy on Cigna (CI)**
 - Should work under either merger scenario
 - \$10B capital allocation opportunity for 2017
 - Earnings recovery from fix to 2016 issues
- 2. Maintain Buy ratings on WellCare (WCG) and Anthem (ANTM)**
 - ANTM on valuation: cut 2017 EPS but maintain 2018 on ACA exchange recovery (or exit)
 - WCG on margin recovery momentum
- 3. Raise EPS for Humana (Not Rated)**
 - Raise EPS on Medicare margin recovery and growth
 - Above Street consensus: now see 16% EPS growth for next year
- 4. Upgrade Molina (MOH) to Neutral (from Sell)**
 - Investors ready to look towards margin recovery in 2017 and beyond
 - Asset value at least 2x current stock price (per member valuation under our M&A model)
- 5. Remain Neutral on UnitedHealth (UNH)**
 - Still see risk from 2015-2016 market share gains: impact of potential retrenchment on Optum
 - That said, UNH getting more disciplined and benefiting from low Medicare trend
 - Modestly raise 12-month price target: \$142 vs. prior \$135, implying 5% upside

*Source: Goldman Sachs Global Investment Research.***Still, there are key risks to watch ...**

Despite our overall comfort on the margin environment, we have a ‘yellow flag’ on the ‘core’ commercial group business where state insurance data show price increases lagging cost trends for both public and NFP plans, though so far only to a modest (and apparently manageable) degree.

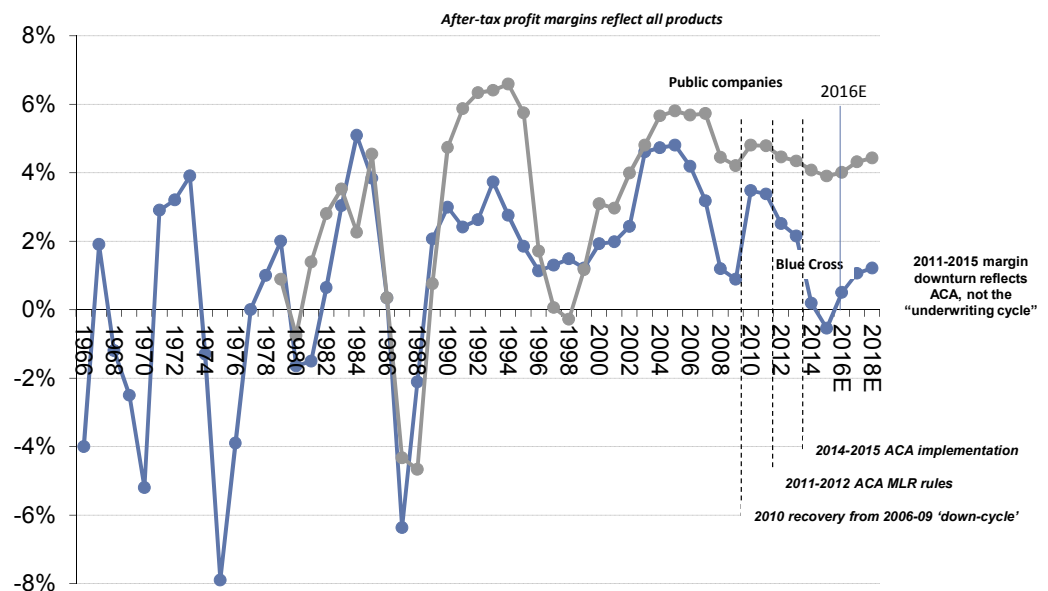
Here, we think UNH may face more risk than others given its market share gains over the past ~18 months that could indicate aggressive pricing.

However, within the individual business, ANTM has the most risk given its decision to remain in the ACA exchanges even as UNH/HUM/AET are exiting (such risks apply to CNC and MOH as well, but to a somewhat lesser degree as their focus is on the less-volatile 'near-Medicaid' enrollee population (see our report: *ACA exchanges: Risks to payers and providers following AET exit*, Aug. 23, 2016)).

Related to that, we highlight our reduction to our 2017 EPS for ANTM to reflect the downside risk of negative impact from the exchanges. However, our 2018 EPS implies a sharp yoy rebound as ANTM either benefits from actions that repair the exchanges or exits the exchanges altogether.

Finally, other risks include the regulatory policies of the next administration.

Exhibit 8: Recent decline in margins on ACA, not the underwriting cycle
Aggregate after-tax margin for the NFP Blues versus the public companies (1966-2018E)



Source: State insurance reports, company data, Goldman Sachs Global Investment Research.

Longer-term growth outlook is very solid

Looking further out, we see a solid growth outlook driven by three 'layered' drivers:

1. **Growth in overall health spending**, projected by CMS actuaries (July 2016 forecast) to grow about 6% per year to about \$4.5 trillion in 2021, up from an estimated \$3.3 trillion for 2016.
2. Within that, **private-sector managed care penetration** of the addressable (TAM) health spending, which we see increasing to 36% by 2021 up from about 33% today (here we measure penetration as the percent of spending captured as revenue).
3. Within that, **higher market share captured by the publicly-traded companies** (organic and acquisition-driven), which we see increasing to 56% by 2021, up from 52% today.

For the Big 5, we see an aggregate 5-year CAGR of about 8% for revenue, 11% for net income, and 13% average annual EPS growth.

As has been the case in recent years, we see growth led by managed care penetration of Medicare/Medicaid with slower growth on the commercial side. Reflecting that, we see growth highest at Humana (HUM, Not Rated) and lowest at Anthem (ANTM, Buy).

These high-level growth projections are reflected in our detailed industry model showing 6-year forward projections by company and major product area (Exhibits 9-12). The model is driven by three basic elements: enrollment, revenue per member, and after-tax margin.

Exhibit 9: Longer-term growth outlook is very good

Growth projections, penetration and market share by category, \$ billions

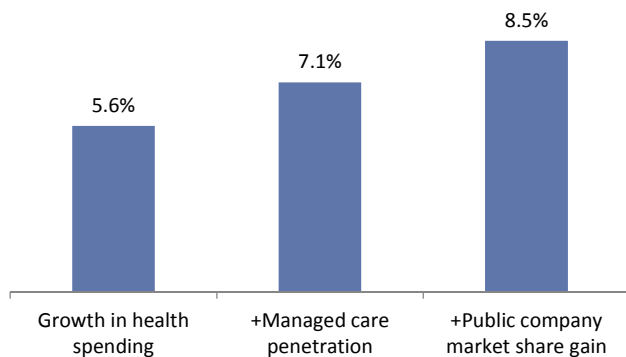
2016E						5-year CAGR 2016E-2021E		
	NHE (TAM) (a)	Managed care revenue		Industry penetration of TAM	Public co. share of industry	TAM	Industry revenue	Public co. revenue
		Total industry	Public companies					
Commercial	1,093	375	155	34%	41%	5%	4%	4%
Medicare	681	220	120	32%	55%	6%	10%	11%
Medicaid	578	190	135	33%	71%	5%	9%	11%
TAM	2,352	785	410	33%	52%	5.6%	7.1%	8.5%
Other (b)	999							
Total NHE	3,351							

2021E					
	NHE (TAM) (a)	Managed care revenue		Industry penetration of TAM	Public co. share of industry
		Total industry	Public companies		
Commercial	1,425	450	185	32%	41%
Medicare	925	360	202	45%	56%
Medicaid	740	295	230	43%	78%
TAM	3,090	1,105	616	36%	56%
Other (b)	1,367				
Total NHE	4,457				

(a) National Health Expenditure (NHE) data, historical and forecast from CMS figures.
 (b) Majority of "other" is consumer out-of-pocket spending (e.g., co-pays, OTC items).

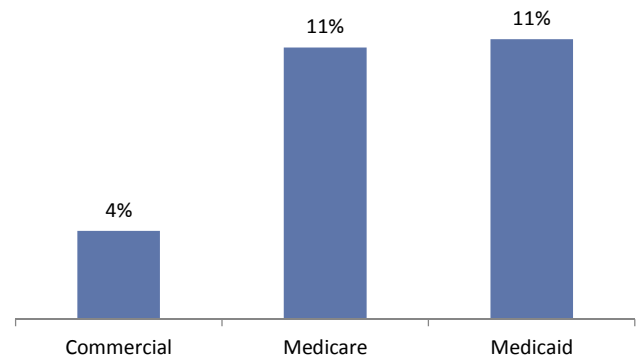
Source: CMS, company data, Goldman Sachs Global Investment Research.

Exhibit 10: Composition of blended revenue growth
 2016E-2021E CAGR by factor



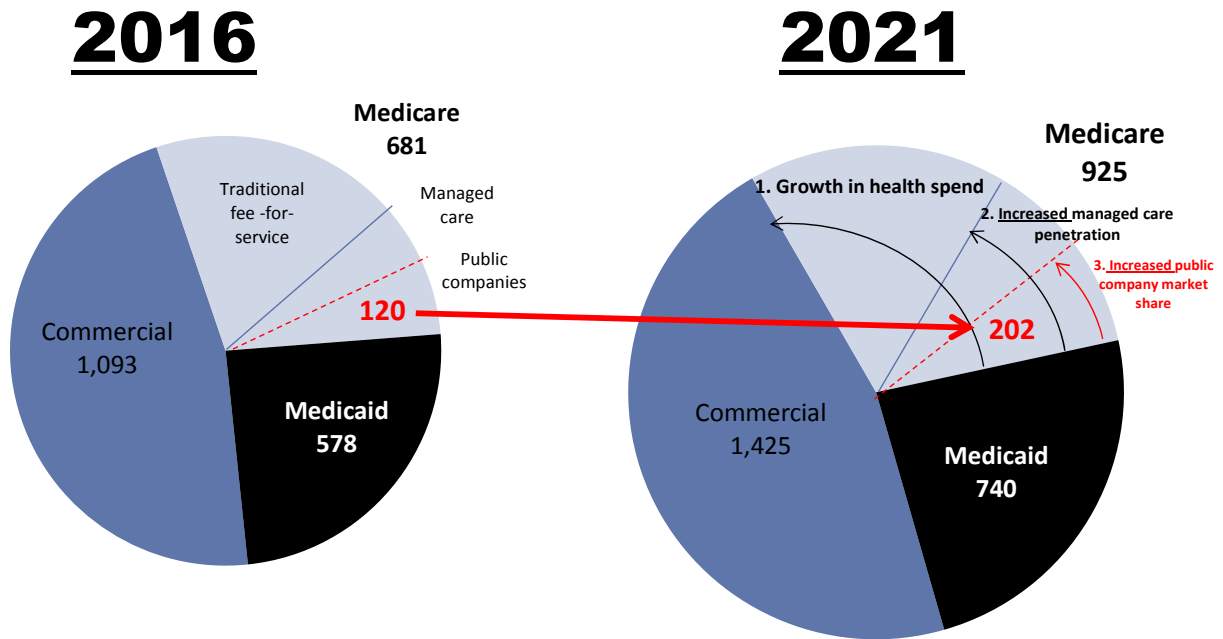
Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 11: Revenue growth by major product area
 2016E-2021E CAGR by program



Source: Company data, Goldman Sachs Global Investment Research.

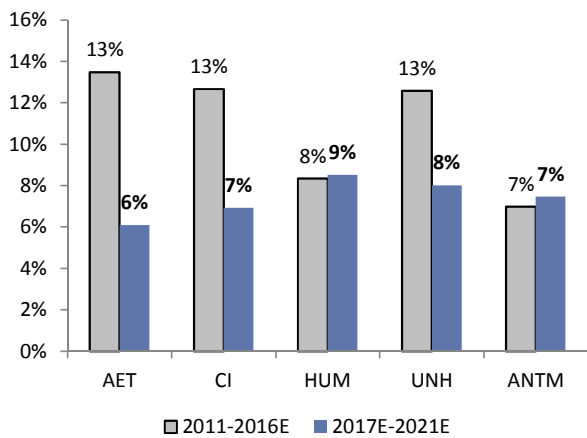
Exhibit 12: Three layered drivers of growth: public company Medicare revenue to >\$200 billion by 2021
 Illustration of drivers of projected 11% CAGR in public company Medicare revenue, \$ billions



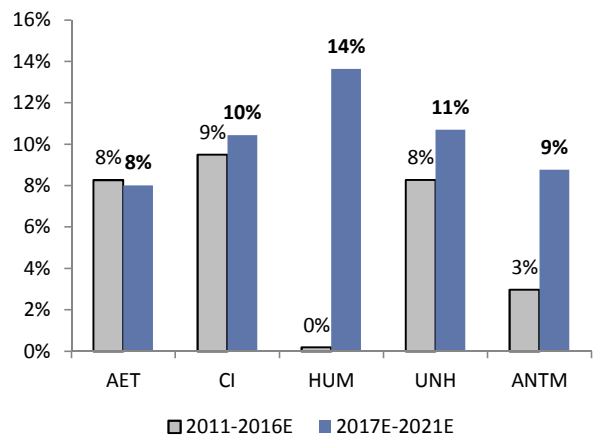
Source: Company data, CMS, Goldman Sachs Global Investment Research.

Exhibit 13: Revenue and earnings growth by company
 Big 5

Revenue growth by company



After-tax earnings growth by company



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 14: Potential earnings upside in 2017 from suspension of ACA insurer fee (HIF)

Range of magnitude scenarios for HIF upside in 2017

	AET	ANTM	CI	HUM	UNH
EPS	\$9.10	\$12.00	\$10.00	\$10.90	\$9.00
Scenario 1					
HIF savings assumption	100%				
Per share impact	\$2.35	\$4.65	\$1.63	\$5.31	\$2.24
Commercial impact	\$1.07	\$2.35	\$0.42	\$0.66	\$0.66
Medicare impact	\$0.87	\$0.54	\$0.44	\$4.25	\$0.59
% share impact	26%	39%	16%	49%	25%
Commercial impact	12%	20%	4%	6%	7%
Medicare impact	10%	5%	4%	39%	7%
Scenario 2					
HIF savings assumptions					
Commercial premiums	20%				
Medicare premiums	40%				
Per share impact	\$0.56	\$0.69	\$0.26	\$1.83	\$0.37
Commercial impact	\$0.21	\$0.47	\$0.08	\$0.13	\$0.13
Medicare impact	\$0.35	\$0.22	\$0.17	\$1.70	\$0.24
% share impact	6%	6%	3%	17%	4%
Commercial impact	2%	4%	1%	1%	1%
Medicare impact	4%	2%	2%	16%	3%

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 15: Key risks: ACA exchange impact to ANTM, CI, CNC, and MOH, following exits of UNH, AET, HUM

Range of magnitude scenarios for ACA exchange impact in 2017

2017E EPS

	Current model		Alternate scenarios for 2017E				EPS growth (2017E)				
	2016E	2017E	Moderate	Bad	Worst	Best	Current	Moderate	Bad	Worst	Best
ANTM	\$ 11.00	\$ 12.00	\$ 12.75	\$ 12.27	\$ 9.85	\$ 13.64	9%	16%	12%	-10%	24%
CI	\$ 8.25	\$ 10.00	\$ 9.97	\$ 9.70	\$ 9.33	\$ 10.19	21%	21%	18%	13%	24%
CNC	\$ 4.10	\$ 4.80	\$ 4.69	\$ 4.69	\$ 2.51	\$ 4.98	17%	14%	14%	-39%	22%
MOH	\$ 2.10	\$ 3.25	\$ 3.06	\$ 3.06	\$ (2.62)	\$ 3.94	55%	46%	46%	NMF	88%

ACA exchange impact to 2017E EPS

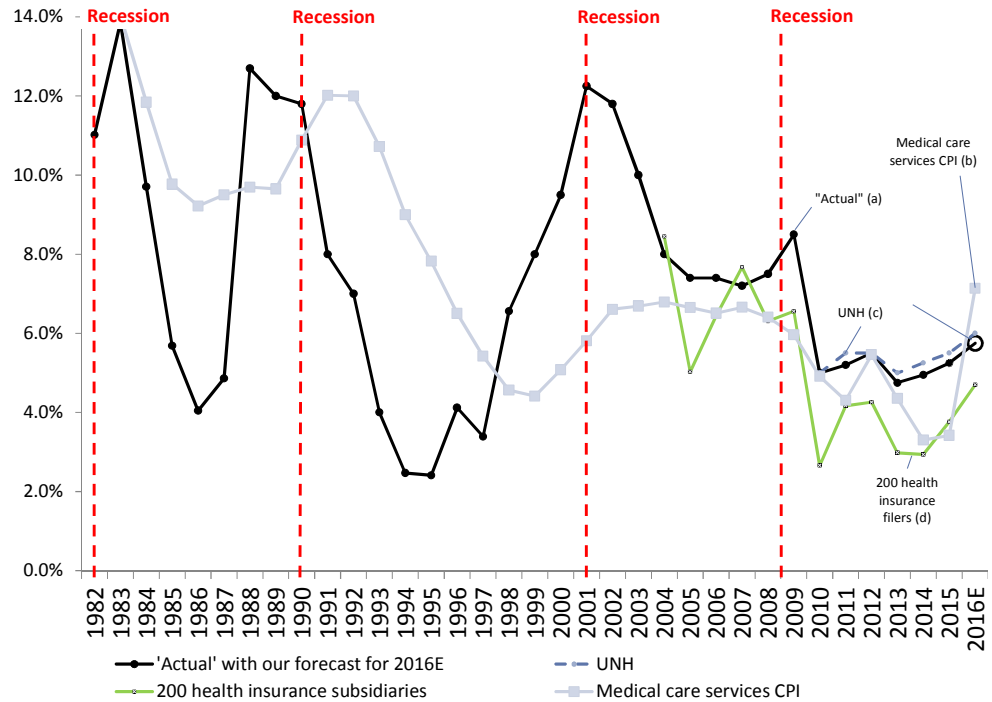
	Current model		Alternate scenarios for 2017E			
	2016E	2017E	Moderate	Bad	Worst	Best
ANTM	\$ (0.50)	\$ (0.70)	\$ (0.45)	\$ (0.93)	\$ (3.35)	\$ 0.45
CI	\$ (0.15)	\$ (0.09)	\$ (0.12)	\$ (0.39)	\$ (0.76)	\$ 0.10
CNC	\$ 0.30	\$ 0.39	\$ 0.28	\$ 0.28	\$ (1.90)	\$ 0.57
MOH	\$ 0.70	\$ 0.82	\$ 0.63	\$ 0.63	\$ (5.04)	\$ 1.51

For more detail, see ACA exchanges: Risks to payers and providers following AET exit, Aug. 23, 2016.

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 16: Potential for acceleration in medical cost trend

Our regression model: yoy change in commercial medical cost trend per member

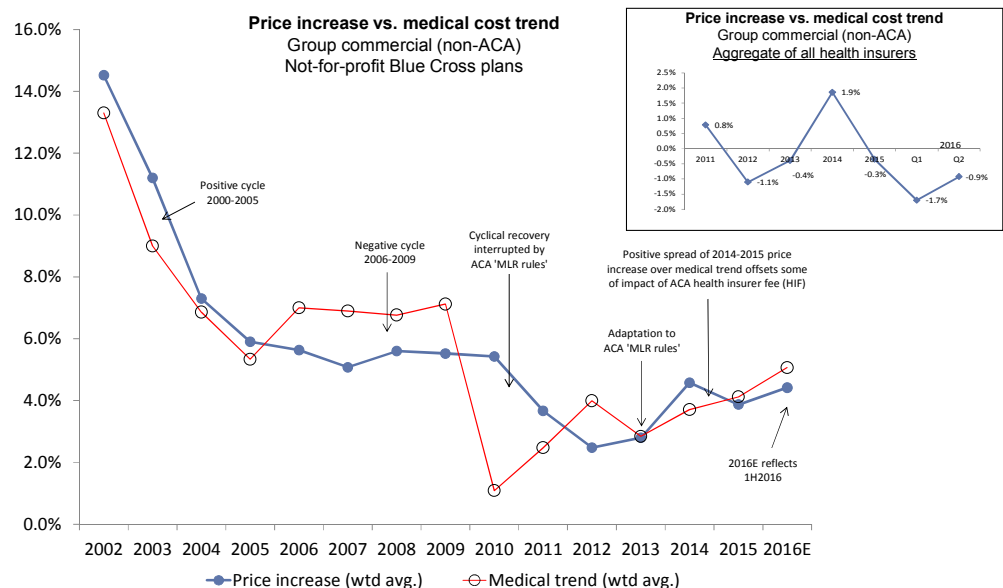


- (a) Historical values are a blend of company and survey data. 2016E forecast is from our regression model
- (b) Medical care services CPI reflects a 3-year moving average for years prior to 2010. The 2016E value reflects the Aug. 2016 figure.
- (c) For UNH, the 2016E figure of 6% reflects the mid-point of management guidance. Prior year figures are based on "actual" as presented at the annual (year-end) investor conference.
- (d) For the 200 health insurance filers, the 2016E figure is based on 1H2016 actual.

Source: Company data, industry surveys, CMS, Goldman Sachs Global Investment Research.

Exhibit 17: Key risks: state insurance data show negative price-to-cost trend spread

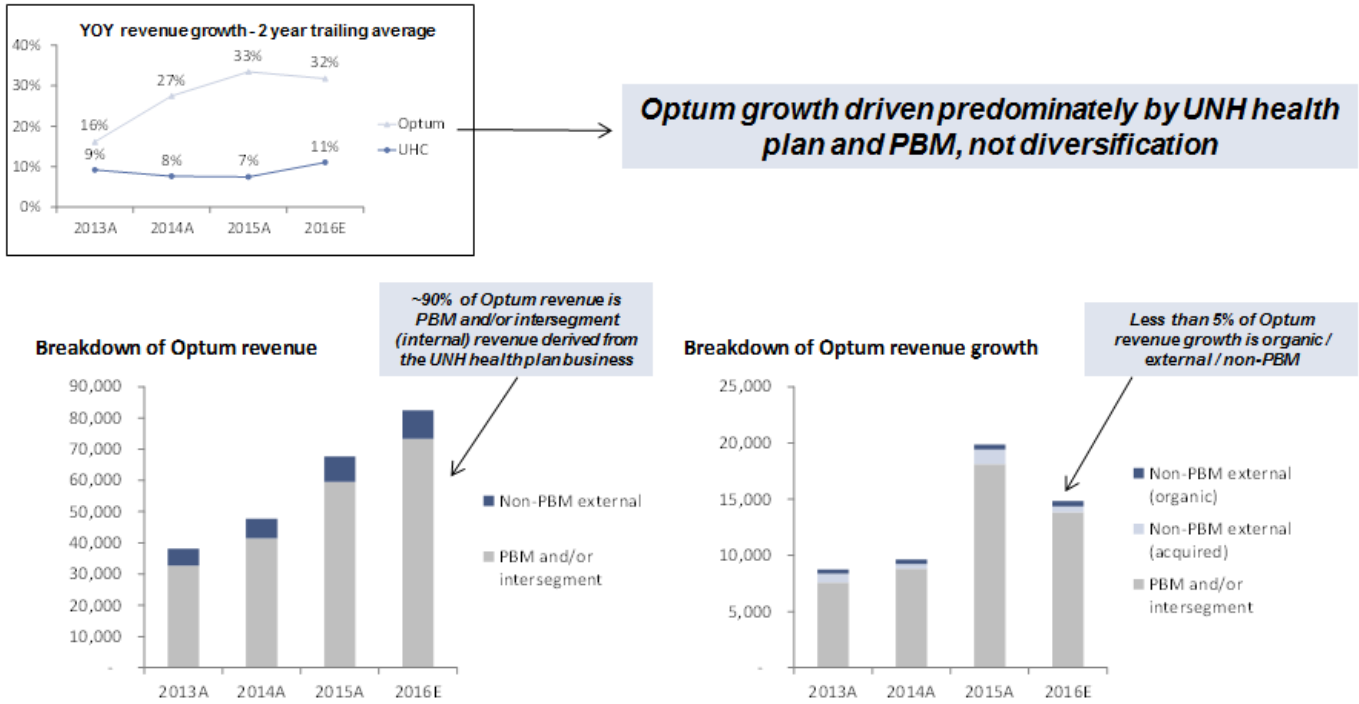
Blue Cross plans and all plans (insert) group insured price increase vs. medical cost trend



Source: Company data, state insurance reports, Goldman Sachs Global Investment Research.

Exhibit 18: Key risk – UNH: The case for Optum valuation is overdone, in our view

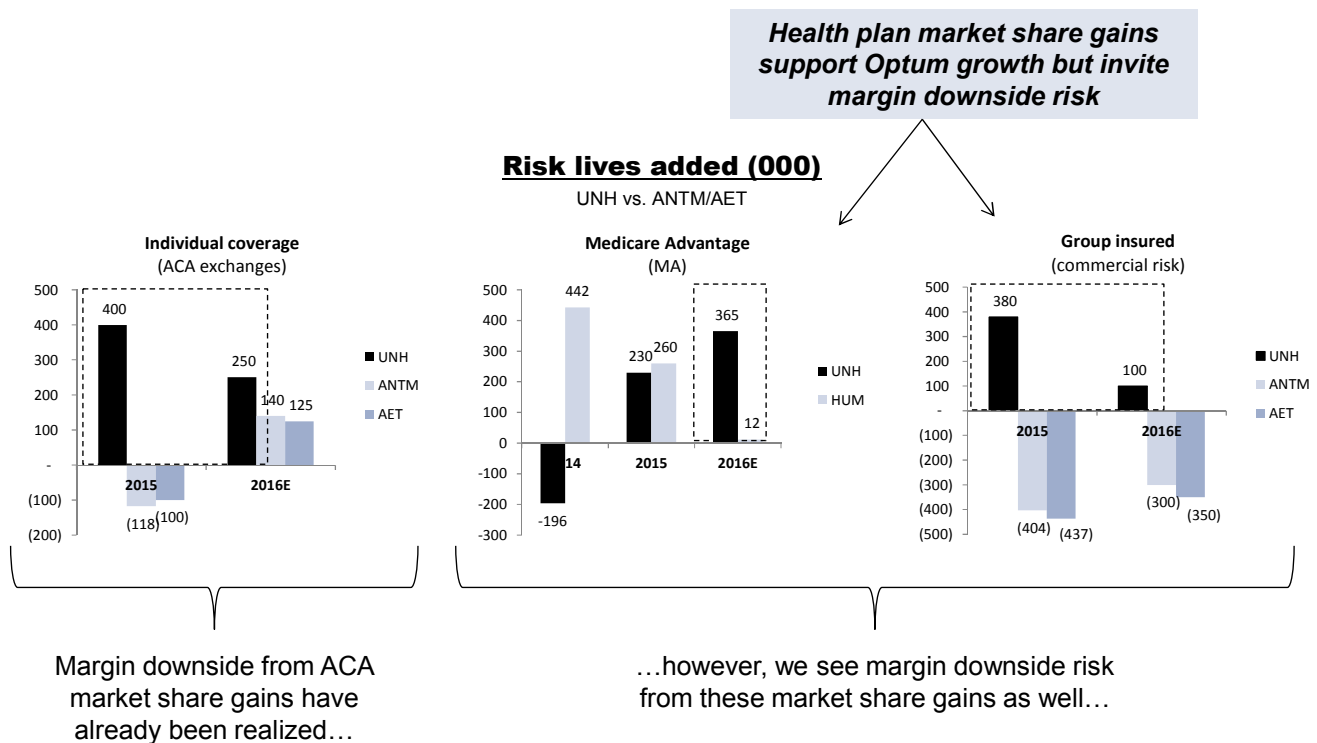
Our analysis of Optum revenue growth, \$ millions



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 19: Key risk – UNH: recent market share gains in price-sensitive segments invite margin downside risk

Lives added in price-sensitive segments: UNH vs. ANTM and AET



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 20: Our valuation model for managed care: a blend of SOTP and M&A

Price target derivation across our core managed care coverage universe, stock prices as of 9/16/16

Rating	Stock price	EPS 2017E	Sum of the parts (SOTP)								Price target = SOTP+M&A									
			Target multiple and earnings mix								Adj. factor (a)	SOTP target PE	Value (b)		Mix (c)		Price target (d)(e)	Implied upside %	PE (2017E)	
			c-Risk	c-ASO	MA	Mcaid	PDP	Other earn.		SOTP			M&A	SOTP	M&A	Current			Target	
			13.0x	14.0x	16.0x	15.0x	11.0x	%	Tgt.											
UNH	Neutral	\$138.47	\$9.00	22%	10%	20%	15%	5%	28%	18x		15.8x	\$142	\$135	100%	0%	\$142	3%	15.4x	15.8x
ANTM	Buy	\$125.52	\$12.00	46%	24%	4%	26%	1%			-6%	13.0x	\$155	\$172	100%	0%	\$155	23%	10.5x	12.9x
AET	Not Rated	\$115.06	\$9.10	40%	25%	16%	8%	5%	6%											
CI	Buy*	\$131.99	\$10.00	15%	39%	15%	0%	2%	30%	16x	+9%	16.0x	\$160	\$176	100%	0%	\$160	21%	13.2x	16.0x
HUM	Not Rated	\$174.62	\$10.90	17%	0%	68%	0%	8%	7%											
CNC	Sell	\$67.30	\$4.80	23%	0%	5%	62%	0%	10%	14x	-12%	12.7x	\$61	\$89	85%	15%	\$65	-3%	14.0x	13.5x
MOH	Neutral	\$55.74	\$3.75	0%	0%	0%	90%	0%	10%	14x	-7%	13.9x	\$52	\$95	85%	15%	\$58	4%	14.9x	15.5x
WCG	Buy	\$110.96	\$6.25	0%	0%	40%	60%	0%			+16%	17.9x	\$112	\$165	70%	30%	\$128	15%	17.8x	20.5x
MGLN	Neutral	\$53.85	\$4.00	0%	0%	0%	0%	0%	100%	14x		13.2x	\$53	\$69	85%	15%	\$55	2%	13.5x	13.8x
Average																	9%	14.2x	15.4x	

(a) SOTP target PEs are adjusted to reflect company specific factors (where the adjustment is more than 5%):

ANTM	-6% ACA exchange overhang
CI	+9% Trough earnings from issues in non-core segments
CNC	-12% HNT integration risk; exchange risk.
MOH	-7% Multiple includes outer-year assumption of EPS improvement
WCG	+16% Increased potential for operation leverage and capacity for capital deployment

(b) Derived from M&A valuation model.

(c) Percentage of M&A value applied to PT varies by company according to our estimate of the probability of an acquisition

under our M&A model: 30% or 50% for M&A probability rank of '1', 15% for M&A rank of '2' and 0% for M&A rank of '3' or '4'.

(d) Key risks to our price targets include price competition, regulation, and the company specific risks.

(e) Price targets are based on a 12-month timeframe.

* on the Americas Conviction List

* on the Americas Conviction List

Source: FactSet, Company Data, Goldman Sachs Global Investment Research.

AET: We are Not Rated on AET stock.**ANTM: We maintain our 12-month price target of \$155 based on 12.9x 2017E EPS. Our lower 2017 EPS of \$12 reflects the ACA risk to earnings we have outlined above. Key risks include utilization, ACA exchanges, MMC margins, pending M&A, policy.****CI: We maintain our 12-month price target of \$160 based on a target multiple of 16.0x our 2017 EPS of \$10.00. Risks include disability results, MA sanctions, pending M&A, pricing.****Exhibit 21: Our revised M&A valuation model for managed care**

\$ millions, except per-share and enrollment figures, stock prices as of 9/16/16

	Valuation of members (a)					Valuation of non-mbr. earnings				Total valuation members + other	Balance sheet adjust.			Balance sheet adjusted valuation	M&A value	% upside	
	Value per member (VPM)					Valuation of members	Non-member earnings		Valuation non-mbr. earnings		Parent cash	Total debt	Net debt				
	c-Risk	c-ASO	MA	Mcaid	PDP		Pretax	After-tax									Target mult.
	\$1,750	\$1,250	\$8,000	\$2,000	\$800												
UNH	110%	100%	100%	115%	120%	86,552	4,089	2,658	29x	76,541	163,093	489	33,198	32,709	130,384	\$135	-3%
ANTM	120%	100%	100%	110%	100%	58,629	-	-	x	-	58,629	2,100	14,642	12,542	46,086	\$172	37%
AET																	
CI	100%	153%	230%		100%	35,482	1,199	780	16x	12,473	47,955	2,750	5,089	2,339	45,616	\$176	33%
HUM																	
CNC	65%		100%	110%		17,968	169	110	16x	1,775	19,743	196	4,494	4,298	15,445	\$89	32%
MOH			100%	70%		5,908	55	36	14x	505	6,413	466	1,627	1,161	5,252	\$95	70%
WCG			75%	100%	95%	7,607	-	-		-	7,607	833	1,097	264	7,343	\$165	49%
MGLN						-	142	92	21x	1,944	1,944	236	477	240	1,704	\$69	29%
Average						30,306	808	525	16x	13,320	43,626	1,010	8,661	7,651	35,976		45%

(a) Valuation per member is based on an approximate average of recent and historic M&A comps.

(b) Percentage of standard VPM applied is adjusted from 100% in some cases for company-specific circumstances.

Source: FactSet, Company Data, Goldman Sachs Global Investment Research.

CNC: We maintain our 12-month, \$65 price target, which implies 13.5x our 2017 EPS estimate of \$4.80. Our price target is based on an 85/15 blend of SOTP (\$61) and M&A valuation (\$89). Key upside risks include faster margin expansion, RFPs, and HNT integration benefits.

HUM: We are Not Rated on HUM stock. We raise our 2018 EPS to \$12.35 from \$12.00 on the back of sales exposure to beneficial long-term trends in our updated industry model as well as reduced ACA exchange exposure.

MGLN: We lower our 12-month price target to \$55 (from \$65) on an unchanged 85%/15% SOTP/M&A value blend, which implies a 13.8x multiple on 2017E EPS (prior 14.4x). The lower multiple reflects execution risk following another recent contract loss (PBM contract with \$325mn annual sales). Our 85% weighted SOTP value is \$53, which is based on 13.2x 2017E EPS, with our 15% weighted per-member based M&A valuation at \$69. Key risks include asset integration, regulation, underwriting margin, and drug pricing.

Exhibit 22: M&A rationale for price targets with M&A component to valuation

Ticker	Rating	M&A		% of PT based on M&A target
		probability	Rationale for M&A probability	
UNH	Neutral	4	Too large.	0%
ANTM	Buy	4	Too large.	0%
AET	Not Rated			
CI	CL-Buy	3	Greater appeal to strategic buyer.	0%
HUM	Not Rated			
CNC	Sell	2	Attractive Medicaid markets, but integration risk.	15%
MOH	Neutral	2	Small but family ownership might be a barrier.	15%
WCG	Buy	1	Acquirable size, attractive MA/MMC/PDP book.	30%
MGLN	Neutral	2	Acquirable size, but amidst business transformation.	15%
Average				11%

(a) Our M&A probability ranking is as follows:

- 1 30%-50% probability
- 2 15%-30% probability
- 3 10%-15% probability
- 4 Less than 10% probability

Source: FactSet, Company Data, Goldman Sachs Global Investment Research.

MOH: We increase our 12-month price target to \$58 from \$51, based 85% on SOTP of \$52 (from \$43) and 15% on a per member M&A value of \$95 (unchanged). This implies 15.5x (from 15.7x) our 2017E EPS of \$3.75 (from \$3.25), reflecting a faster earnings recovery in 2017-18. Key risks to our Neutral rating include margins and M&A. Please see *Upgrade to Neutral; expect investors to focus on 2017-2018 growth*, 9/19/16 for full analysis.

UNH: We raise our 12-month price target to \$142 (prior \$135) based on 15.8x our 2017E EPS (vs. prior target multiple of 15.0x). The expanded multiple reflects sales exposure to beneficial long-term trends in our updated industry model as well as reduced ACA exchange exposure. Risks include health reform impact, pricing, medical cost trends.

WCG: We increase our 12-month price target to \$128 (from \$120) on an unchanged 70%/30% SOTP/M&A blend. This implies 20.5x our 2017E EPS (from 19x), with a per member M&A value of \$165 and sum-of-the-parts value of \$112. The higher multiple is driven by MA/MMC product mix, which we expect to grow at a ~12% CAGR according to our industry model as our confidence in the MA/MMC products have improved after the

deep dive industry model analysis. Key risks include: offset of industry fee, MMC rates, medical costs, effective use of capital, and execution.

Financial advisory disclosures

Goldman Sachs and/or one of its affiliates is acting as a financial advisor in connection with an announced strategic matter involving the following companies or one of their affiliates: Aetna Inc; Humana Inc.

Disclosure Appendix

Reg AC

We, Matthew Borsch, CFA, Christopher Benassi, Tejus Ujjani and Tyler Graver, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Goldman Sachs' Global Investment Research division.

Investment Profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

GS SUSTAIN

GS SUSTAIN is a global investment strategy aimed at long-term, long-only performance with a low turnover of ideas. The GS SUSTAIN focus list includes leaders our analysis shows to be well positioned to deliver long term outperformance through sustained competitive advantage and superior returns on capital relative to their global industry peers. Leaders are identified based on quantifiable analysis of three aspects of corporate performance: cash return on cash invested, industry positioning and management quality (the effectiveness of companies' management of the environmental, social and governance issues facing their industry).

Disclosures

Coverage group(s) of stocks by primary analyst(s)

Matthew Borsch, CFA: America-HCManaged, America-Healthcare Services:Facilities.

America-HCManaged: Aetna Inc., Anthem Inc., Centene Corp., Cigna Corp., Humana Inc., Magellan Health Services Inc., Molina Healthcare Inc., UnitedHealth Group, WellCare Health Plans Inc..

America-Healthcare Services:Facilities: Adeptus Health Inc., American Renal Associates Holdings, Amsurg Corp., Community Health Systems Inc., DaVita Inc., Envision Healthcare Holdings, HCA Holdings, LifePoint Health Inc., Surgery Partners Inc., Surgical Care Affiliates Inc., Team Health Holdings, Tenet Healthcare Corp., Universal Health Services Inc..

Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global Equity coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	31%	54%	15%	66%	60%	50%

As of July 1, 2016, Goldman Sachs Global Investment Research had investment ratings on 2,963 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by the FINRA Rules. See 'Ratings, Coverage groups and views and related definitions' below. The Investment Banking Relationships chart reflects the percentage of subject companies within each rating category for whom Goldman Sachs has provided investment banking services within the previous twelve months.

Regulatory disclosures

Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; for equity securities, market making and/or specialist role. Goldman Sachs trades or may trade as a principal in debt securities (or in related derivatives) of issuers discussed in this report.

The following are additional required disclosures: **Ownership and material conflicts of interest:** Goldman Sachs policy prohibits its analysts, professionals reporting to analysts and members of their households from owning securities of any company in the analyst's area of coverage. **Analyst compensation:** Analysts are paid in part based on the profitability of Goldman Sachs, which includes investment banking revenues. **Analyst as officer or director:** Goldman Sachs policy prohibits its analysts, persons reporting to analysts or members of their households from serving as an officer, director, advisory board member or employee of any company in the analyst's area of coverage. **Non-U.S. Analysts:** Non-U.S. analysts may not be associated persons of Goldman, Sachs & Co. and therefore may not be subject to FINRA Rule 2241 or FINRA Rule 2242 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

Distribution of ratings: See the distribution of ratings disclosure above. **Price chart:** See the price chart, with changes of ratings and price targets in prior periods, above, or, if electronic format or if with respect to multiple companies which are the subject of this report, on the Goldman Sachs website at <http://www.gs.com/research/hedge.html>.

Additional disclosures required under the laws and regulations of jurisdictions other than the United States

The following disclosures are those required by the jurisdiction indicated, except to the extent already made above pursuant to United States laws and regulations. **Australia:** Goldman Sachs Australia Pty Ltd and its affiliates are not authorised deposit-taking institutions (as that term is defined in the Banking Act 1959 (Cth)) in Australia and do not provide banking services, nor carry on a banking business, in Australia. This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act, unless otherwise agreed by Goldman Sachs. In producing research reports, members of the Global Investment Research Division of Goldman Sachs Australia may attend site visits and other meetings hosted by the issuers the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Goldman Sachs Australia considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting. **Brazil:** Disclosure information in relation to CVM Instruction 483 is available at <http://www.gs.com/worldwide/brazil/area/gir/index.html>. Where applicable, the Brazil-registered analyst primarily responsible for the content of this research report, as defined in Article 16 of CVM Instruction 483, is the first author named at the beginning of this report, unless indicated otherwise at the end of the text. **Canada:** Goldman Sachs Canada Inc. is an affiliate of The Goldman Sachs Group Inc. and therefore is included in the company specific disclosures relating to Goldman Sachs (as defined above). Goldman Sachs Canada Inc. has approved of, and agreed to take responsibility for, this research report in Canada if and to the extent that Goldman Sachs Canada Inc. disseminates this research report to its clients. **Hong Kong:** Further information on the securities of covered companies referred to in this research may be obtained on request from Goldman Sachs (Asia) L.L.C. **India:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (India) Securities Private Limited, Research Analyst - SEBI Registration Number INH000001493, 951-A, Rational House, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India, Corporate Identity Number U74140MH2006FTC160634, Phone +91 22 6616 9000, Fax +91 22 6616 9001. Goldman Sachs may beneficially own 1% or more of the securities (as such term is defined in clause 2 (h) the Indian Securities Contracts (Regulation) Act, 1956) of the subject company or companies referred to in this research report. **Japan:** See below. **Korea:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (Asia) L.L.C., Seoul Branch. **New Zealand:** Goldman Sachs New Zealand Limited and its affiliates are neither "registered banks" nor "deposit takers" (as defined in the Reserve Bank of New Zealand Act 1989) in New Zealand. This research, and any access to it, is intended for "wholesale clients" (as defined in the Financial Advisers Act 2008) unless otherwise agreed by Goldman Sachs. **Russia:** Research reports distributed in the Russian Federation are not advertising as defined in the Russian legislation, but are information and analysis not having product promotion as their main purpose and do not provide appraisal within the meaning of the Russian legislation on appraisal activity. **Singapore:** Further information on the covered companies referred to in this research may be obtained from Goldman Sachs (Singapore) Pte. (Company Number: 198602165W). **Taiwan:** This material is for reference only and must not be reprinted without permission. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. **United Kingdom:** Persons who would be categorized as retail clients in the United Kingdom, as such term is defined in the rules of the Financial Conduct Authority, should read this research in conjunction with prior Goldman Sachs research on the covered companies referred to herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risks warnings, and a glossary of certain financial terms used in this report, are available from Goldman Sachs International on request.

European Union: Disclosure information in relation to Article 4 (1) (d) and Article 6 (2) of the European Commission Directive 2003/125/EC is available at <http://www.gs.com/disclosures/europeanpolicy.html> which states the European Policy for Managing Conflicts of Interest in Connection with Investment Research.

Japan: Goldman Sachs Japan Co., Ltd. is a Financial Instrument Dealer registered with the Kanto Financial Bureau under registration number Kinsho 69, and a member of Japan Securities Dealers Association, Financial Futures Association of Japan and Type II Financial Instruments Firms Association. Sales and purchase of equities are subject to commission pre-determined with clients plus consumption tax. See company-specific disclosures as to any applicable disclosures required by Japanese stock exchanges, the Japanese Securities Dealers Association or the Japanese Securities Finance Company.

Ratings, coverage groups and views and related definitions

Buy (B), Neutral (N), Sell (S) -Analysts recommend stocks as Buys or Sells for inclusion on various regional Investment Lists. Being assigned a Buy or Sell on an Investment List is determined by a stock's return potential relative to its coverage group as described below. Any stock not assigned as a Buy or a Sell on an Investment List is deemed Neutral. Each regional Investment Review Committee manages various regional Investment Lists to a global guideline of 25%-35% of stocks as Buy and 10%-15% of stocks as Sell; however, the distribution of Buys and Sells in any particular coverage group may vary as determined by the regional Investment Review Committee. Regional Conviction Buy and Sell lists represent investment recommendations focused on either the size of the potential return or the likelihood of the realization of the return.

Return potential represents the price differential between the current share price and the price target expected during the time horizon associated with the price target. Price targets are required for all covered stocks. The return potential, price target and associated time horizon are stated in each report adding or reiterating an Investment List membership.

Coverage groups and views: A list of all stocks in each coverage group is available by primary analyst, stock and coverage group at <http://www.gs.com/research/hedge.html>. The analyst assigns one of the following coverage views which represents the analyst's investment outlook on the coverage group relative to the group's historical fundamentals and/or valuation. **Attractive (A).** The investment outlook over the following 12 months is favorable relative to the coverage group's historical fundamentals and/or valuation. **Neutral (N).** The investment outlook over the following 12 months is neutral relative to the coverage group's historical fundamentals and/or valuation. **Cautious (C).** The investment outlook over the following 12 months is unfavorable relative to the coverage group's historical fundamentals and/or valuation.

Not Rated (NR). The investment rating and target price have been removed pursuant to Goldman Sachs policy when Goldman Sachs is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances. **Rating Suspended (RS).** Goldman Sachs Research has suspended the investment rating and price target for this stock, because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon. **Coverage Suspended (CS).** Goldman Sachs has suspended coverage of this company. **Not Covered (NC).** Goldman Sachs does not cover this company. **Not Available or Not Applicable (NA).** The information is not available for display or is not applicable. **Not Meaningful (NM).** The information is not meaningful and is therefore excluded.

Global product; distributing entities

The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs on a global basis. Analysts based in Goldman Sachs offices around the world produce equity research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy. This research is disseminated in Australia by Goldman Sachs Australia Pty Ltd (ABN 21 006 797 897); in Brazil by Goldman Sachs do Brasil Corretora de Títulos e Valores Mobiliários S.A.; in Canada by either Goldman Sachs Canada Inc. or Goldman, Sachs & Co.; in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs New Zealand Limited; in Russia by OOO Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in

the United States of America by Goldman, Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union.

European Union: Goldman Sachs International authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman Sachs AG and Goldman Sachs International Zweigniederlassung Frankfurt, regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, may also distribute research in Germany.

General disclosures

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. The information, opinions, estimates and forecasts contained herein are as of the date hereof and are subject to change without prior notification. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division. Goldman, Sachs & Co., the United States broker dealer, is a member of SIPC (<http://www.sipc.org>).

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and principal trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, principal trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

The analysts named in this report may have from time to time discussed with our clients, including Goldman Sachs salespersons and traders, or may discuss in this report, trading strategies that reference catalysts or events that may have a near-term impact on the market price of the equity securities discussed in this report, which impact may be directionally counter to the analyst's published price target expectations for such stocks. Any such trading strategies are distinct from and do not affect the analyst's fundamental equity rating for such stocks, which rating reflects a stock's return potential relative to its coverage group as described herein.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research.

The views attributed to third party presenters at Goldman Sachs arranged conferences, including individuals from other parts of Goldman Sachs, do not necessarily reflect those of Global Investment Research and are not an official view of Goldman Sachs.

Any third party referenced herein, including any salespeople, traders and other professionals or members of their household, may have positions in the products mentioned that are inconsistent with the views expressed by analysts named in this report.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options disclosure documents which are available from Goldman Sachs sales representatives or at <http://www.theocc.com/about/publications/character-risks.jsp>. Transaction costs may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Not all research content is redistributed to our clients or available to third-party aggregators, nor is Goldman Sachs responsible for the redistribution of our research by third party aggregators. For research, models or other data available on a particular security, please contact your sales representative or go to <http://360.gs.com>.

Disclosure information is also available at <http://www.gs.com/research/hedge.html> or from Research Compliance, 200 West Street, New York, NY 10282.

© 2016 Goldman Sachs.

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of The Goldman Sachs Group, Inc.