

Fourth Quarter 2009 Results
Teleconference Prepared Remarks
January 21, 2010
7:45 a.m. CDT

Moderator:

Good morning, I will be your conference facilitator today. At this time I would like to welcome everyone to the UnitedHealth Group Fourth Quarter and Full Year 2009 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer period. If you would like to ask a question during this time, simply press, "star" then the number 1 on your telephone keypad. If you would like to withdraw your question, press the "pound" key. We request you do not utilize a speaker phone or headset if you will be asking a question. This will aid in a better quality listening environment. For purposes of getting to as many participants as possible, we also ask those with questions to limit to one question per person. As a reminder, this conference is being recorded.

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Here is some important introductory information. This call will reference non-GAAP amounts. A reconciliation of non-GAAP to GAAP amounts is available on the "Financial Reports & SEC Filings" section of the Company's Investors page at www.unitedhealthgroup.com. This call contains "forward-looking" statements under U.S. federal securities laws. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from historical experience or present expectations. A description of some of the risks and uncertainties can be found in the reports that we filed with the Securities and Exchange Commission from time to time, including the cautionary statements included in our current and periodic filings.

Information presented on this call is contained in the Earnings Release we issued this morning and in our Form 8-K dated January 21, 2010 which may be accessed from the Investors page of the Company's website at www.unitedhealthgroup.com. I would now like to turn the conference over to the president and chief executive officer of UnitedHealth Group, Stephen Hemsley.

Stephen Hemsley:

Good morning and thank you for joining us.

Today we will focus our commentary in three key areas:

- 2009 financial performance and our early 2010 outlook.
- Our progress against some key market-facing themes discussed with you over the last two years.
- And lastly, some thoughts about market needs and requirements going forward.

The results from Massachusetts on Tuesday may have affected the legislative outlook, and we are not going to comment on the outcome of health reform today. Whatever the result, we continue to believe that the heart of the issue is a need to thoughtfully stage comprehensive efforts around controlling costs and modernizing the health system in order to expand and sustain access to affordable health. We will do our best to make whatever changes which may be enacted successful, to appropriately control costs, modernize and simplify the system and to improve access to affordable quality care in this country.

2009 Performance

As you read in our release this morning, the performance momentum that steadily progressed over 2009 continued in the fourth quarter. We reported solid fourth quarter results with earnings per share of \$0.81 and operating cash flows of \$1.3 billion. All key performance metrics for the quarter were in line or improved, relative to our expectations.

Full year 2009 results included just over \$87 billion in revenues, or 7 percent year over year growth. Earnings of \$3.24 per share and cash flows from operations of \$5.6 billion improved year over year by 10 percent and 16 percent, respectively. Cash flows were 1.5 times net earnings.

We managed through many unforeseen obstacles to achieve these results, including significantly higher unemployment trends, anemic short-term investment yields, the H1N1 outbreak, slower buying behaviors in the market for health services, COBRA benefit extensions, unexpected state tax actions on insurance premiums, and more.

The performance drivers in the quarter were consistent with those throughout the year: disciplined commercial pricing supported by better product positioning market to market; steady and effective management of medical and operating costs; strong membership growth and market share gains across public and senior products and markets; and double digit percentage revenue growth in our

services businesses. We see many of these performance drivers carrying forward into 2010.

Broad-Based Advances

While we are pleased to have exceeded our financial commitments in 2009, we are equally encouraged by our advances throughout 2009 in key areas where we are demonstrating our ability to better serve people, which enhances our potential for growth in 2010 and beyond.

In 2009, satisfaction levels improved meaningfully for every key constituency – consumers, physicians and care providers, employers and benefit sponsors, brokers and consultants. Our proactive engagement with regulators, medical societies and elected officials also had a meaningful and positive impact in 2009.

Service and response metrics, processing, and response accuracy all improved steadily each quarter. Integration efforts advanced. Some 93 percent of our total commercial, public and senior membership now resides on end state operating platforms. That percentage should be 95 percent by the end of 2010.

These are impactful advances, and we will continue to be unrelenting in our dedication to service and fundamental execution disciplines.

Our commitment to practical innovation over the past year or more resulted in the introduction of the Diabetes Health Plan, the Consumer Activation Index, the Personalized Health Score, the Integrated e-Sync Personalized Care platform and our Connected Care telehealth program. We have advanced our clinically integrated Premium networks across 20 clinical specialties in the vast majority of our markets. We are piloting new types of physician incentives to support improved care and developing medical home programs in more settings than any other payer, including the government.

UnitedHealthcare is benefitting from its work to more effectively translate local market insights into national level initiatives and, conversely, national imperatives into more effective local market execution. The results include stronger local market relationships, more effective local market deployment of new products, better recognition and response to serving local market needs and variations – all while steadily advancing national scale, productivity, and cost advantages.

We are consciously nurturing a more mature, externally oriented culture and expanding our social responsibility agenda. You can see these reflected in our own employee engagement levels, advancing 600 basis points over the past 24 months – which portends well for continuing improved performance.

Our health services businesses continued to steadily diversify. We edged into the next set of market adjacencies, including revenue and claims cycle

management, consumer health change consulting services, global employee assistance, and prescription decision support in Europe, while strengthening our position in electronic health record software.

Through these efforts individually and as a whole, we believe we are steadily elevating the value we bring to our customers and markets, and meaningfully strengthening the reputation of our company and our relationships with the people we serve.

These efforts will continue. Collectively, they are our “fundamentals.” We are committed to consistent execution and continuous improvement in these “fundamentals,” quarter by quarter as we have been emphasizing for nearly two years.

Our financial position also continues to strengthen. We have reduced our debt to total capital ratio by more than 8 percentage points over the past 18 months to 32 percent. We recently announced a \$750 million debt tender offer for a portion of our notes. This debt repurchase is expected to further improve our financial flexibility while reducing our net debt service cost in 2010.

Health Benefits and Health Services

Before we discuss our respective Health Benefits and Health Services businesses as we begin this new decade, it's worth looking back briefly. When we entered 2000, UnitedHealth Group revenues were just over \$19 billion. On a gross revenues basis, our business was about 60 percent commercial benefits, 35 percent public and senior benefits and 5 percent health services.

Entering 2010, we see over \$90 billion of revenues, with roughly 40 percent of gross revenues in commercial benefits, 40 percent in public and senior benefits and 20 percent in health services.

And over the next decade, we see opportunities to naturally diversify further into health care IT services, health care financial services, the deeper integration with primary care, the pursuit of international market settings and more.

The scope of our business model is unique and allows us to look at health care market opportunities very broadly. This includes our view of the coming health care modernization era, where we will pursue an opportunistic path and help enable change.

Health Services

In 2009, combined revenues in our Health Services businesses grew to

\$21.8 billion, a 13 percent year over year increase. Earnings from operations of \$1.6 billion increased 20 percent over last year.

The prime contributor to this growth was Prescription Solutions, where revenues reached nearly \$14.5 billion – a 15 percent year over year gain – and pre-tax earnings grew an impressive 90 percent to \$689 million.

Ingenix also grew strongly, even in a challenging economic environment. Ingenix increased revenues 17 percent in 2009 to \$1.8 billion and earnings from operations to nearly \$250 million, and this is after investing significant amounts in start-up efforts around payment and revenue cycle management, comparative effectiveness research, international markets and electronic health records.

OptumHealth revenues grew by 6 percent in 2009 and delivered the best overall external growth year in its history. The continued decline in UnitedHealthcare commercial enrollment obscured that external market growth and continued to impact OptumHealth's margins. New business from public sector customers tends to have lower margins than commercial risk products. That business mix dynamic should reverse as the overall commercial risk market strengthens.

Health Benefits

As we look across our health benefits businesses, 2009 played out largely in line with our original expectations – albeit somewhat weaker in commercial enrollment levels as national unemployment trends were more severe than we had anticipated. More than half of our 2009 commercial membership decline was driven by attrition. For the fourth quarter, our commercial enrollment was slightly ahead of our Investor Day outlook posting an underlying growth of 40,000 members before employment-related attrition. The full year commercial decline was offset by stronger than expected growth in the Medicare and Medicaid markets. And we are positioned to expand our services to the military in early 2011. In total, health benefits revenues increased 7 percent to more than \$81 billion.

We effectively managed both medical and operating cost trends. These cost containment capabilities are becoming more mature and consistent, particularly as our benefit businesses become more integrated and simpler, using more shared services and common clinical care management processes.

Early 2010 Readings

Turning to our early outlook, momentum from 2009 is carrying through in our earliest 2010 indicators. We expect first quarter commercial membership to be slightly stronger than our Investor Day outlook. We should be flat to slightly positive in first quarter fee-based business even after attrition. On the risk-based side we should come in slightly favorable to our prior guidance of a decrease of

about 500,000 members in the first quarter. Attrition continues to run at a high level and will be a concern all year in this economy.

Across our Medicare portfolio, more than 8 million consumers chose a UnitedHealth Group Medicare product in 2009. The recent enrollment period demonstrated once again the value of privately managed Medicare products to America's seniors. Going into the enrollment period there was considerable uncertainty about the Medicare Advantage program caused by benefit reductions, premium increases, plan closures and the ongoing health care reform debate. In spite of that uncertainty, demand for Medicare Advantage plans industry-wide remains solid.

Our Medicare Advantage business is expected to grow nicely for 2010. We attribute that growth to a focus on affordability, managing our portfolio of benefit offerings with a steady long term view, and our ability to adapt our plan offerings to the challenging rate environment. Seniors continue to recognize the real value of our Medicare Advantage products and have voted their convictions by trusting their health care to our plans and our strong network of quality providers.

We expect first quarter net growth to be above 100,000 seniors in Medicare Advantage, with strong mix toward network-based products, and 225,000 Part D stand-alone participants. That is a stronger start than we originally expected in this sector, and the Health Net of the Northeast acquisition will add further to our totals.

First quarter Medicaid membership should grow in the area of 100,000 to 125,000 people, in line with our 2010 plans.

Our services businesses are all stronger as we move into 2010 than when we entered 2009, and we are on track to achieve 2010 revenue growth plans here as well.

We expect consolidated 2010 revenues to grow to above \$90 billion. We have reconfirmed our 2010 earnings outlook at \$2.90 to \$3.10 per share. That outlook does not include any proposed federal health care reform elements that could potentially be phased in this year. We believe this earnings range to be appropriate, given the Medicare and Medicaid rate pressures, the loss of Part D performance based pricing at Prescription Solutions, ongoing COBRA costs and lower commercial membership levels going into the year.

These headwinds will be strongest in the beginning of the year before any mitigating efforts can get full traction. This pattern does not appear to be fully reflected in the first quarter consensus earnings estimates.

For 2011 and beyond, we will factor in business and market changes driven by health care reform and modernization, whether incremental or comprehensive.

We believe coverage will expand and increasing health care costs will continue to make our work to promote access to quality care even more important. No matter what form change ultimately takes, there will continue to be very strong market demand for affordable, quality care – demand that will create the next generation of growth in our markets.

That future includes new ideas and committed actions around payments and incentives for quality care, development of integrated accountable care capabilities, transparency around quality and performance, and paperless end-to-end defect-free service, further innovation around product designs to achieve lower price points, a much stronger commitment to drive outcome-based payment arrangements, and a clear need in the seniors market for continuous improvement on total cost and value, which would encompass both operating and medical cost performance gains.

There will be companies who can and will respond to these needs. We intend to be one of them. Doing so will require the focus on fundamental execution and intelligent adaptation we described at Investor Day last month. We see that more than 300 million Americans will continue to need to get care, and that this care needs to be intelligently coordinated, financed, delivered and documented across the system. Our goal is to be involved in that process, through both our services businesses and our benefits businesses. In total, there is an exceptional opportunity to build an enterprise that successfully serves these important social needs.

We are interested in your questions this morning, with the understanding that the health reform situation is very fluid and sensitive. As usual, we ask that you limit yourself to one question topic today, in deference to time, and I thank you for your interest in UnitedHealth Group.

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