UnitedHealth Group
Fourth Quarter and Full Year 2017 Results
Teleconference Prepared Remarks
January 16, 2018

Moderator:

Good morning, I will be your conference operator today. Welcome to the UnitedHealth Group Fourth Quarter and Full Year 2017 Earnings Conference Call. A question and answer session will follow UnitedHealth Group's prepared remarks. As a reminder, this call is being recorded.

Here is some important introductory information. This call contains "forward-looking" statements under U.S. federal securities laws. These 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 file with the Securities and Exchange Commission, including the cautionary statements included in our current and periodic filings.

This call will also reference non-GAAP amounts. A reconciliation of the non-GAAP to GAAP amounts is available on the "Financial Reports & SEC Filings" section of the Company's Investors page at www.unitedhealthgroup.com.

Information presented on this call is contained in the Earnings Release we issued this morning and in our Form 8-K dated January 16, 2018, which may be accessed from the Investors page of the Company's website. I would now like to turn the conference over to the chief executive officer of UnitedHealth Group, David Wichmann.

Dave Wichmann:

Good morning and thank you for joining us today.

This morning we reported 2017 results that are ahead of the outlook we shared with you at our Investor Conference at the end of November.

Full year 2017 revenues exceeded $201 billion, increasing more than $16 billion year-over-year. Operating cash flows grew to $13.6 billion. And adjusted earnings per share grew 25 percent to $10.07 per share, with operating earnings from both UnitedHealthcare and Optum ahead of the forecast we provided at our Conference.

We had an active December on the growth front. We wrapped up the fourth quarter serving the benefit needs of nearly one-half million more consumers, completing another successful sales season in individual and group MA and dual special needs plans as we turn into 2018, and advancing our strategic positions in two of five growth categories by signing both Banmedica and DaVita Medical Group, while maintaining our operating focus to both close 2017 strongly and we expect to carry that momentum into a healthy start to 2018.

We know the effects of tax changes for 2018 are top of mind for many, so we will begin there today with Corporate Tax Reform. Our starting point for determining our approach was with our mission, helping people live healthier lives and helping make the health system work better for everyone – and our recognition of the enormous gap between where health care is today and where it could and should be. We concluded that our ambitions for better health and a better health system are best achieved through investment in ways that will make health care far more affordable and of far higher quality.

More specifically Corporate Tax Reform is expected to improve earnings and cash flows by $1.7 billion in 2018. That's after an estimated $400 to $500 million reduction in premium revenues due to minimum loss ratio and lower net health insurers fee recapture effects and a $200 to $300 million additional investment in operating costs, as we accelerate existing initiatives in artificial intelligence, data analytics, individual health record custodianship, digital health, Net Promoter Score improvements and health-related initiatives in local communities.

We expect to invest the remaining increased cash flows to better fulfill our mission and, in turn, to grow and diversify our enterprise, for the long-term, all aligned to the ambitious agenda we discussed with you on Investor Day.

We now expect adjusted 2018 earnings of $12.30 to $12.60 per share, and cash flows from operations in the range of $15 to $15.5 billion. John Rex will offer more details later in this call and, as usual, we will be available by phone throughout the day.

Before leaving taxes, I would note that we continue to advocate strongly for a multi-year deferral and ultimately the repeal of the Health Insurance Tax, given its high cost to consumers and society. If a deferral for 2018 occurs, we plan to return the value to those impacted by the tax.

As highlighted at our Investor Conference, we are pursuing growth and diversification in five key areas:

- Health Care Delivery
- Pharmacy Care Services
- Consumer-Centric Benefits
- Digital Health Care, and
- Global

Our busy December helped us to advance these goals.

The combination of OptumCare with DaVita Medical Group establishes primary and ambulatory health care delivery in several new local care markets for OptumCare.

Through Banmedica, and with Amil and Americas Medical Services in Brazil, we are establishing a foundation for growth in South America for decades to come.

And as Steve Nelson will discuss, UnitedHealthcare's 2018 growth in individual and group Medicare Advantage and dual special needs plans should again lead the market.

Now let's turn to the businesses, starting with Optum's chief executive, Larry Renfro.

Larry Renfro

Thank you, Dave –

Delivering strong results for Optum customers in 2017 enabled us to drive strong revenue and earnings growth, and to create opportunities for further growth in 2018.

Full year 2017 Optum revenues increased 9 percent, exceeding $91 billion. 2017 earnings from operations grew by nearly $1.1 billion, or 19 percent, with individual businesses' earnings growth rates ranging from 16 percent to 28 percent.

We again balanced innovation investments in our businesses and strategic acquisitions with business simplification and focused cost management. The result is improved margin performance. Our full year operating margin expanded by 70 basis points to 7.4 percent, including 9.1 percent in the fourth quarter.

Fourth quarter earnings from operations grew by more than 20 percent for every reporting business.

We enter 2018 with positive indicators for our business outlook – OptumHealth served 91 million people at year end – strong 10 percent growth on a large and growing base. In the fourth quarter, OptumRx fulfilled 333 million adjusted scripts and OptumInsight advanced its backlog, producing full year backlog growth of 19 percent, to $15 billion.

Our strategic relationships continued to advance, as we became more deeply involved with an increasing number of sophisticated customers. Let me give you a few highlights:

- In state government services, West Virginia became the first state to engage Optum to integrate program eligibility across all state-sponsored health benefits programs. Over half of the state population, or about 900,000 people, will access Medicaid as well as other human service benefits through Optum's new Integrated Eligibility platform.

- We expect to build on our strong and differentiating capabilities serving health plans. Our health plan customers' members – our patients – received quality care from our physicians at local clinics and ambulatory sites of service, we had strong growth in data analytic work related to risk and quality, and we received a multi-year award to manage the technology platform modernization for Triple S Blue Cross Blue Shield Puerto Rico.

- The Healthcare Transformation Alliance relationship is off to an excellent start, with 10 companies selecting OptumRx, driven by their interests in quality, cost transparency and total cost management.

- Finally, with the full implementation for Quest Diagnostics, completed at exceptional performance levels, we now manage more than $65 billion in annual billings on behalf of our diverse revenue management customers, and the new client pipeline is vibrant.

Acquisitions this past year added market-leading platforms, strengthening our capabilities and depth of resources.

- Surgical Care Affiliates, with its leading ambulatory surgical care practice, grew revenues 7 percent on a same-store basis, driven by ever more complex surgical procedures shifting to nonhospital settings. We plan to accelerate center development in 2018 and 2019.

- We expanded OptumCare primary-care driven practices into 10 new major metropolitan areas.

  This includes our pending acquisition of DaVita Medical Group, with more than 2,000 employed or affiliated physicians serving 2 million patients annually. Like our OptumCare doctors, DMG physicians are well known for delivering high-quality care to their patients and are seasoned in working in a value-based care context on behalf of a diverse group of the most respected payers.

  Combined with DMG, OptumCare will be in 35 local care delivery markets, nearly one-half of the 75 markets targeted for engagement or development. And these market operations are still in the early stages of growth and development – a fraction of the size they are targeted ultimately to be.

- And we combined with The Advisory Board, the market leader in health care research, consulting and technology. We expect Optum to bring further resources, capabilities and value, serving the 4,000 hospitals and health systems that comprise The Advisory Board's membership, and we look forward to accelerating their engagement in the next six months.

Finally, we continued to innovate to better serve market needs.

We doubled the number of people with Rally ID's in 2017, now more than 15 million, while administering more than $400 million in consumer incentives. Market interest for this type of scale-tested solution is growing. A large, local health plan selected Rally as its consumer technology platform, and several renowned hospitals are now using Rally for everything from searching for a physician to pricing the appointment and appointment scheduling.

We launched PreCheck MyScript, connecting patients, physicians and health plans with useful information at the point of prescribing, right in the physician's workflow.

PreCheck MyScript has already been used by tens of thousands of prescribers for nearly one-and-a-half million transactions. We will offer it to all OptumRx members, expecting to reach 80 percent of active prescribers by the end of 2019.

And we unified our unique data science and analytics capabilities under the OptumIQ brand.

We are optimistic about our current progress and our long-term opportunities to continue to advance NPS, to raise quality, to innovate and develop and grow relationships – making the health care system work better for everyone. Optum was built over 20 years, but we are only just beginning to get a glimpse of its potential.

Now let me turn it over to Steve Nelson, the CEO of UnitedHealthcare….

Steve Nelson
Thank you, Larry.

Like Optum, we are pleased to report strong growth and performance across our businesses, on behalf of those that we serve.

UnitedHealthcare's 2017 revenues exceeded $163 billion, and grew 10 percent year-over-year. Three of our four businesses posted percentage growth rates in the mid-teens or higher, and Employer and Individual offerings performed exceptionally well, growing 9 percent absent the $5.3 billion negative impact of reduced participation in ACA individual insurance products and the 2017 health insurance tax moratorium.

Medical costs were well-managed for the year and our full year medical care ratio was near the lower end of our original forecast. The full year 2017 commercial medical cost trend was about 5 and one-half percent, and we continue to forecast a trend of 6 percent, plus or minus 50 basis points for 2018.

Operating costs were well controlled in 2017, as operating margins strengthened 30 basis points to 5.2 percent, with fourth quarter operating margin seasonally lower, as expected.

We improved our positioning for 2018 and for the long term:

- Together with Optum, we renewed early the AARP relationship, a key long-term positive for growth serving the seniors community.

- We also strengthened our ability to address the social determinants of health care to better serve people with complex needs.

- And we are seeing strong interest from multi-site employers in the Nexus ACO product, the first national ACO product targeted to large, self-funded customers looking for higher quality and cost performance. Nexus ACO leverages UnitedHealth Premium physicians to achieve cost savings of up to 15 percent as customers see reductions in readmissions, ER visits, inpatient lengths of stay and hospital admissions.

- We expanded into several new markets – including the Western Slope of Colorado and Upstate New York, and will enter Minnesota and the Northern Plains in the second half of 2018.

- And we began to advance the next generation of digital health and wellness management, which is available for seniors, based on connected, wearable devices and wireless technology. Participants in the UnitedHealthcare Motion wellness program have used activity trackers to walk 65 million miles, earning nearly $20 million in incentives to cover out-of-pocket medical expenses.

In 2017 we served 2 million more people in the U.S. employer group, Medicare and Medicaid market segments, including almost one-half million more people in the fourth quarter.

In Medicaid, we grew by more than 800,000 people in 2017, reflecting entries into new states, support for 110,000 more dual special needs plan members, and a significant late year expansion in Iowa. In 2018 we expect further growth from our 2017 entries into California and Virginia, from further acceleration in serving dual special needs plans and from continued in-market organic growth. The Medicaid pipeline for 2019 and beyond continues to be robust, as states increasingly look to managed care for innovation, effective service and cost containment.

In Medicare, we served nearly 1 million more seniors in 2017, and we again expect strong growth in 2018 consistent with our expectations – based on performance in the annual enrollment period, high customer retention, and continued success serving employer group retirees through our national 4-star quality plan.

In UnitedHealthcare Employer & Individual, commercial group full-risk offerings grew to serve 130,000 more people this quarter and 465,000 over the past year. We expect some modest pullback in membership in the first quarter, followed by sequential quarterly growth over the balance of the year, led by strength in small group, fully in line with our Investor Conference growth projections.

In Global, our Brazil businesses had strong, positive 2017 performance and carry that momentum into 2018. We expect to add Banmedica in the first quarter 2018. Banmedica is a provider of health care services and health benefits in Chile, Columbia and Peru, serving 2.1 million people and operating 13 hospitals with 1,900 beds and 143 medical centers.

In many ways, the growth opportunities apparent in these South American markets are reminiscent of the opportunities in health care markets in the U.S. two decades ago, when consumers and benefit sponsors were seeking better managed benefits and access at lower costs, Medicare Advantage plans and managed Medicaid were nascent, and Part D did not exist. We expect opportunities for growth in these markets to advance, as they have in the past two decades or more in the U.S.

Our 2017 growth and our 2018 outlook demonstrate the competitive value our offerings bring to consumers and the market. Rising rates of customer retention and strong new business generation reflect the sustaining value of innovative benefit and network designs, improved service, rising NPS, distinguished clinical engagement and effective cost control.

Now I'll turn the call over to John Rex, UnitedHealth Group's chief financial officer.

John Rex

Thank you, Steve.

We delivered strong, well-balanced performance again in 2017. Consolidated revenues exceeded $201 billion, cash flows from operations were $13.6 billion and adjusted earnings per share of $10.07 increased 25 percent, on top of 25 percent earnings growth in 2016.

We revalued our U.S. deferred tax liabilities to reflect the newly enacted federal statutory rate of 21 percent, which added $1.2 billion in non-cash earnings in 2017. We have excluded this from adjusted earnings per share.

Our expectations for 2018 have been revised solely to reflect the lower expected tax rate, now approximately 24 percent, the incremental investments Dave referred to, and items such as rebate obligations related to loss ratio requirements triggered by the lower tax rate.

The change affects several line items which I will step through.

We now expect adjusted net earnings per share of $12.30 to $12.60 in 2018, with cash flows from operations rising $1.7 billion dollars from our prior outlook, to a range of $15 to $15.5 billion.

Dave referenced the $400 to $500 million dollar impact on premium revenues, which we expect to accommodate within the existing $223 to $225 billion revenue range we set at our November Investor Conference.

We now expect UnitedHealth Group earnings from operations to be in the range of $16.7 to $17.3 billion in 2018. This is reduced by $700 million from the prior range, roughly $400 - $500 million of which is driven by the premium effects of the new, lower tax rate, with greater than half attributed to a lower Insurers Fee gross up.

The other factor within the $700 million reflects the in-year P&L impact from the investments Dave noted to better serve people and improve the health care system, while strengthening our growth and innovation value. We expect these accelerated investments will result in $200 to $300 million in incremental operating expense. Our current plans, while still maturing, allocate these investments to both businesses, leaning toward Optum.

We now expect our 2018 medical care ratio to run in a range of 81.5 percent plus or minus 50 basis points, with the midpoint increasing as much as 30 basis points from our prior outlook, again driven solely by mechanics related to the tax rate change.

In addition, with these impacts, we expect our 2018 operating cost ratio to run in a range of 15.3 percent, plus or minus 30 basis points, with the mid-point 10 basis points above our prior outlook.

With respect to our overall capital position and outlook, we expect to continue to follow our long-standing approach to capital allocation. This includes maintaining a consistent approach of investing in the business and returning capital to shareholders, steadily pacing toward a market-rate dividend, while targeting a debt to total capital ratio in the 40 percent range over the long-term. All of the above is contained in a revised 2018 guidance table included in our supplemental information package this morning.

The takeaways are that we enter 2018 with growth and earnings momentum and strong financial flexibility, a significantly improved cash flow outlook, and a debt to total capital ratio below 39 percent at year end 2017, with clear opportunities to put capital to work.

Dave…?

Dave Wichmann
Thank you, John.

2017 was a strong year for UnitedHealth Group by virtually every measure – topline growth, rising NPS, strengthening culture and service, strategic advances, operational execution, and, as a result, strong financial performance.

We are entering 2018 with solid momentum and a clear direction, and much to get done. We plan to sustain this ambitious pace, most importantly, because our mission and culture, and those we serve, require it.

Our goal remains realizing the full growth, service and social potential of this remarkable enterprise. Thank you for your investment and interest in support of that goal.