

**UnitedHealth Group  
Third Quarter 2018 Results  
Teleconference Prepared Remarks  
October 16, 2018**

**Moderator:**

Good morning, and welcome to the UnitedHealth Group Third Quarter 2018 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](http://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 October 16, 2018, which may be accessed from the Investors page of the Company's website. I will now turn the conference over to the chief executive officer of UnitedHealth Group, David Wichmann.

**David Wichmann:**

Good morning everyone and thank you for joining us.

Earlier today we reported strong operating and financial results across our enterprise. Those results provide a sense of the capacities to advance growth within our businesses – capacities rooted in the breadth and adaptability of our business approach and, above all, in our mission: helping people live healthier lives and helping make the health system work better for everyone.

Executing on this mission produces real value for the people we serve and for society, in the U.S. and globally, through higher-quality health care delivery with better outcomes at lower costs, leading to improved consumer satisfaction.

Executing on our mission also produces steadily advancing growth and financial value. Third quarter revenues grew 12 percent to \$56.6 billion and third quarter adjusted earnings per share grew 28 percent to \$3.41. We now expect our full year adjusted earnings per share to approach \$12.80, growth of about 27 percent. This increases our outlook by 17 cents per share from the midpoint of our range last quarter.

These results are grounded in persistently applying three core competencies – information, technology and clinical insights – across our businesses. At no time in our history has our work in these three competencies held more promise than today, as they powerfully combine to unlock health care value for those we serve.

We organize and align data, both clinical and administrative, around the health care consumer, using proprietary tools and technologies, which evaluate data and care patterns against evidence-based guidelines.

Pairing highly personalized data and best known science, we offer next best actions for consumers, while providing them full transparency into the quality and cost of services offered by their local health systems. We engage our own clinical care resources as well, to directly support consumers' individual health care needs.

We further use data to improve compliance with evidence-based medicine, raising overall satisfaction with care and reducing unnecessary resource consumption. We increasingly do this through employed and affiliated integrated care teams and in more-ambulatory care settings, sharing this knowledge at critical points of decision-making.

Building and applying these competencies persistently to serve each individual we touch, the broader communities and societies we are a part of, and you, our

shareholders, requires thoughtful continuing investment – internally and in alignment with others, through well-developed research and development, venture and M&A capacities.

You can see the broad impact of these competencies in each of our five growth pillars:

- In care delivery, we use data analytics in concert with our knowledge of local market clinical performance to get patients to the best doctors, care pathways and sites of service for particular conditions ... and to inform development of value-based care arrangements for our employed and affiliated care providers. Increasingly, these are shared risk and performance-based relationships.
- In consumer-centric health benefits, information is powering modern product designs, supported by performance networks, tools and incentive programs to advance quality and engagement, improving appropriate consumer access while reducing the cost of health care. Specific examples include our new on-demand health care and Colorado Doctor's Plan offerings, and our designs for the dually eligible and Medicare Advantage participants. All of these hold promise for continued growth across our benefits businesses.
- You see it in pharmacy care services, where we have integrated medical and pharmacy information, and provide point of care technologies to simplify administration, improve drug selection and adherence, and reduce not only pharmacy costs but medical care costs as well, all increasingly within the clinical workflow of doctors.
- You see it in digital health, where our consumer digital health platform Rally is now serving over 20 million registered users. Rally is synthesizing information and engaging people to better manage their health, helping consumers save money by selecting the highest-quality care providers, understanding their out-of-pocket costs upfront, and in some markets, even scheduling appointments for care. We will soon be releasing at scale a first-of-its-kind, fully integrated and fully portable individual health record that delivers personalized next best health actions to people and their caregivers.

- And finally, in global health care we are bringing payment integrity, analytics, and network and product innovations to key private health care markets in South America, in support of both our health benefits businesses as well as our extensive care delivery operations.

These are just a few examples of how we deploy these core competencies in our businesses. Taken more broadly, they give you a sense of UnitedHealth Group's potential to drive distinctive, constructive change, sustained growth and performance for those we serve. Now, let me turn to Andrew Witty to build on these comments and to update on our Optum businesses. Andrew ...

### **Andrew Witty**

Thank you, Dave.

Taking a mission and competency approach enables us to think more deeply and holistically about the health care landscape. At Optum we are focused on building and developing a broad set of capabilities which support our vision of delivering better health care, more affordably. We are still early in the journey of releasing the full potential of our assets in both the digital and local care environments. Optum will lead by offering deeply customer-focused, simple-to-access, high-quality health care actions and options. We are seeing extensive opportunities to build out our capacities and are committed to stepping up our pace of innovation on behalf of our clients and consumers.

Looking at third quarter results, our revenues grew \$2.5 billion over last year to \$25.4 billion, with growth accelerating to 11 percent from 9 percent in the second quarter. This revenue advance was again well-balanced, with strong growth rates from both internal and unaffiliated customers, consistent with recent quarters.

Our metrics were indicative of this growth across the businesses – OptumRx fulfilled 331 million scripts in the quarter, generating revenue growth in excess of 9 percent. OptumHealth served 92 million people with revenues increasing over 15 percent, and OptumInsight's backlog grew nearly 13 percent to \$15.7 billion at quarter end.

Themes of productivity and operational excellence continued in the third quarter, as Optum's operating margin of 8 percent increased 60 basis points over last year, with each business strongly expanding operating margins year-over-year and sequentially. Earnings from operations grew \$334 million or nearly 20 percent to \$2 billion, with strength across OptumHealth, OptumInsight and OptumRx. This continues the long-standing trend of proportionately greater Optum earnings in the second half of the year and positions us well for 2019.

The businesses of OptumHealth engage people in their health and well-being, help them manage their health conditions and, increasingly, provide care through our high-value clinicians and care delivery sites. Growth at OptumHealth continues to be led by the development of the care delivery businesses as a primary-care driven, ambulatory care system. OptumCare provides primary care in 35 priority markets and serves 80 health plans and 14 million people, up 2.6 million patients or 23 percent compared to one year ago. Patient growth was driven by increases in our high-value sites of service businesses and growth in our existing primary care markets – and yet, many of our local efforts remain in an early investment stage. Building out this high-performing ambulatory care system will occupy us for the next decade, as we progressively deliver significantly improved outcomes, quality and value to patients.

At OptumInsight, we serve health plans, care providers, life science organizations and governments with data analytics, insights and innovative solutions to make better decisions and investments and to better manage performance, quality and their cost structures. Over the past several years, we have focused on the further development and growth of our care provider services and capabilities, an area where we see meaningful opportunity. Here in particular I'd note revenue management, outsourcing

solutions, and data analytics and advisory services as important contributors to our recent growth.

I'm enthusiastic about OptumRx and its differentiated integrated pharmacy care services approach. This business enables us increasingly to advance high-quality, high-value specialty pharmaceutical, e-commerce and site of service initiatives, combined with convenient local market dispensing – all centered on whole person care.

Launching the nation's first-ever scaled application of pharmacy discounts at the point of sale will further improve the value consumers receive. We are actively supporting efforts at HHS and CMS to transform pharmacy pricing by engaging in Part B drug and site of service management, formulary approaches and other initiatives to bring better health care value to people.

OptumRx is becoming increasingly diversified and capable, meeting consumers where their needs are greatest – with growing contributions from specialty medical management, to directly serving high-needs patients with critical access and adherence services through community-based dispensing and delivery, to offering fulfillment services for limited distribution specialty drugs.

I see OptumRx as a champion of the consumer, in an area where it's difficult for individuals to have a truly effective voice. Through our depth of insight, data and clinical capabilities, we can help inform and amplify their voice. Within our pharmacy care services approach stands an immense opportunity to transform what has been a challenging area of the health system and positively impact people's lives.

While it is early in my time at Optum, I'm struck by the sheer size and depth of the opportunity, resources and capacity Optum has to drive extraordinary innovation across health care – making people healthier and helping make health care systems work better. After more than three decades in health care, I have never seen an organization with the potential of Optum.

Now I'd like to turn the call over to Steve Nelson, UnitedHealthcare CEO.

**Steve Nelson**

Thank you, Andrew.

UnitedHealthcare's market position is supported by a foundation of consumer value – drawn from the breadth and diverse array of health benefit choices, competitive costs, distinctive care quality and market-responsive consumer service. Together, these deliver stability, peace of mind and value to the nearly 50 million people we serve. Our agenda is to drive a higher NPS and increase value by advancing our service experience, market-leading innovations and the total cost of care. Our approach and mindset across the enterprise enable UnitedHealthcare to serve each individual with compassion while addressing the evolving health care needs of society, driving growth and returns for shareholders.

In the third quarter, UnitedHealthcare revenues grew to \$45.9 billion – an increase of \$5.2 billion over last year and accelerating to 13 percent growth. Over the past 12 months, we have been privileged to serve 2.8 million more people by way of organic growth and an expanded presence in South America.

UnitedHealthcare's earnings from operations were \$2.6 billion, with a 5.6 percent operating margin. Overall, medical cost trends remain well-managed, predictable and consistent with expectations. In operations, we are delivering a better and more modern consumer and care provider experience while driving productivity and affordability improvements in our cost structure through technology, better processes and the benefits of growth and scale.

In UnitedHealthcare Medicare & Retirement we continue to innovate and grow. UnitedHealthcare served 125,000 more people through Medicare Advantage offerings

in the third quarter, including the 65,000 members of Peoples Health in Louisiana, the highest Medicare Star quality plan in that state.

And we expect strong growth again next year. With the 2019 marketing season now underway, we are receiving positive feedback on our new offerings from brokers and consumers. This year, more than 50 million people nationwide will have a choice of multiple plans from UnitedHealthcare. And we are emphasizing our stability and value for seniors. Well more than 90 percent of our current Medicare Advantage members – more than 4.5 million people – will see either no premium increase or a premium decrease – even as we provide personalized navigation, introduce new value-added benefits at no additional cost, and increase and modernize access for seniors to fitness and wellness services, virtual visits and reliable transportation for medical appointments.

Today Medicare Advantage programs serve only about 20 million people nationally, in a growing senior population of 60 million people. We deliver Medicare medical benefits at an average cost that is more than 20 percent lower than Original Medicare, with costs in our higher-performing markets as much as 30 percent below Original Medicare. We convert these cost advantages into highly valued benefits and services for seniors, filling the significant gaps in coverage within Original Medicare. Our programs focused on higher-acuity populations like Medicare Advantage remain an extraordinary growth opportunity for UnitedHealthcare, because we can offer such strong value.

UnitedHealthcare Employer & Individual grew to serve 65,000 more people through risk-based commercial products in the third quarter. Our growing market share in fully insured products in recent years reflects our rising NPS with customers, consumers, care provider partners and our distribution partners. Strong customer retention rates and the increasing value we deliver with consumer-centric products, tailored networks, and greater consumer engagement are important drivers of growth. In 2019 and 2020, we expect to introduce additional products supported by performance networks and will



launch advanced digital capabilities, providing even greater personalization, simplicity and value for consumers.

In UnitedHealthcare Community & State, growth over the past year was led by higher need and therefore higher-revenue membership, such as those who are dually eligible or participate in long-term services and support programs. Medicaid membership grew organically by 5,000 people in the quarter, offset by the divestiture of our plan representing 85,000 community-based members in New Mexico. We continue to focus on delivering value to our state partners by advancing health and improving our total cost of care and operating cost positions in Medicaid.

At UnitedHealthcare Global, our integrated delivery systems, primary care health center model and progressive use of information and technology are creating value for our customers in South America. We continue our disciplined approach of pricing health benefits to their expected costs, and our hospitals in Brazil continue to improve their performance, as measured by health outcomes, NPS and financial returns.

UnitedHealthcare Global is creating value with our Banmedica colleagues in Chile, Peru and Colombia, with early progress in population health management, clinical management and analytic capabilities. Initial focus areas include the adoption of evidence-based clinical guidelines and site of care strategies for high-utilizing patients.

Looking ahead, we expect sustained strong growth and improved earnings performance from UnitedHealthcare. Our investments in innovative products, capabilities and the consumer experience will increasingly be brought to market, even as we focus on delivering market-leading total cost of care. And we believe UnitedHealthcare is uniquely positioned to serve in the high-growth, higher-acuity submarkets, like Medicare, Duals, or patients with complex and chronic conditions.

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

## **John Rex**

Thank you, Steve.

To bring all of the previous comments together, this morning we reported \$56.6 billion in third quarter revenues, growth of 12.4 percent over last year.

Earnings from operations of \$4.6 billion grew 12.3 percent on strong operating margins of about 8 percent. Adjusted earnings per share increased 28 percent to \$3.41.

Third quarter adjusted cash flows were \$6.1 billion or 1.9 times net income. Of note, we made a \$2.6 billion dollar payment to the U.S. Treasury on October 1 for our customers' portion of the nation's health insurance tax for 2018, which will factor into our fourth quarter cash flow results.

With nine months of 2018 complete, our original outlook for commercial medical cost trend of 6 percent plus or minus 50 basis points is biasing just slightly lower than 6 percent. In the third quarter, our consolidated medical care ratio of 81 percent compares to 81.4 percent in the year ago quarter and reflects the impact of the health insurance tax, offset by changes in business mix and development.

Medical reserves developed favorably in the quarter by \$50 million. Within that result, we had approximately \$120 million of favorable development for 2018, and \$70 million in unfavorable prior year development.

Our third quarter operating cost ratio of 15 percent increased only 30 basis points over last year, despite bearing about 1 percentage point of cost increase from the return of the health insurance tax, as well as higher investments in innovation and business development. We offset that pressure with operating expense discipline across the board and strong revenue growth in lower operating cost ratio businesses such as Medicare and Medicaid.

Turning to our balance sheet, return on equity for the third quarter reached nearly

26 percent, and our debt-to-total-capital ratio was 38.9 percent at September 30. We have repurchased \$3.7 billion of stock year-to-date, for approximately \$233 per share, and we continue to apply capital to our businesses through M&A, venture investments and organic development, to strengthen our offerings for customers and further diversify our enterprise.

Taken together, our strong and diversified growth, disciplined cost management and strategic use of capital are combining to produce another year of meaningful financial performance. As Dave mentioned, we now expect 2018 adjusted earnings approaching \$12.80 per share, growth of approximately 27 percent.

Dave ....

**Dave Wichmann**

Thank you, John.

As we close out the third quarter, attention naturally turns to 2019. We will reserve the majority of this conversation for our November 27 Investor Conference, but I can offer a few high-level observations at this time.

The environment in 2019 will contain, as always, a mix of elements common to the broad marketplace and those unique to us.

Overall, our individual businesses are building from a fundamentally strong foundation, and we continue to create strong momentum heading into next year. We will continue to advance NPS, supporting continued growth across our businesses. Our accelerating investment levels will fund the delivery of compelling innovations into 2019 and 2020. And, as we evaluate the many opportunities we see over the next number of years, we believe our long-term performance will remain aligned with our long-term goal of earnings per share growth of 13 to 16 percent.

We enter 2019 with energy and optimism for the future. And I would offer at this distance, the current market consensus estimate for adjusted earnings per share captures our 2019 outlook, within a typically sized range. As always, we will seek to perform to our full potential.

Advancing distinctive, constructive change in health care is an enormous and complex undertaking. We believe we have a lot to offer – advancing more value for consumers while mitigating costs for those who pay for care.

Our strategies do not depend or reside on a single piece of technology, database, distribution system, clinical approach, funding mechanism or any other singular view of what it takes to make a durable and meaningful difference in health care.

Rather, our potential resides in the combination of our diverse market presence; our data, technology and clinical competencies; the compassion, integrity and deep health care knowledge and skills of our nearly 300,000 people; the millions of trusted relationships we have earned over time; and our understanding of and full alignment to the rapidly advancing standards of performance individuals and health systems worldwide demand from their health care.

Our people and this deeply motivated, restless, diverse and adaptable leadership team are fully engaged in improving value for society and delivering consistent, distinctive financial results.