

# UNITEDHEALTH GROUP®

## **UnitedHealth Group First Quarter 2019 Prepared Remarks April 16, 2019**

### **Moderator:**

Good morning, and welcome to the UnitedHealth Group First Quarter 2019 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 April 16, 2019, 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, and thank you for joining us. Today we reported a strong start to 2019, with revenues up 9%, adjusted earnings per share growing 23%, and return on equity of nearly 27%. Optum and UnitedHealthcare each contributed fully to this performance. With confidence in continued momentum, we are raising our earnings expectations for 2019.

The continued growth and earnings performance of our business is a byproduct of our focus on providing exceptional returns to society by improving health care affordability, outcomes and the patient experience – what some refer to as the Triple Aim. This

orientation frames our growth strategy, informs capital allocation decisions and shapes the operating plans for UnitedHealth Group's businesses – all directed toward attaining the promise of our mission.

It's that same mission, strategy and approach we have pursued since 1998 when UnitedHealth Group was well less than a tenth its current size... And when our strength and aligned capabilities and capacities did not nearly match our ambitions for the health system as they do today. Over that 20-year time period, UnitedHealth Group has applied competencies in data, technology, clinical insights and well-formed innovation and adaptive traits to drive change and grow strong market positions in the large and fast-growing health care end market. Our outlook for growth continues today as the pace of innovation and our capacities for change advance in a market restless for achieving improved value, access and coverage in a sensible and durable way.

The first quarter saw several developments illustrating some of the strongest progress yet on this journey, which we expect will build considerable shareholder value.

In pharmacy care services, OptumRx announced that point-of-sale consumer discounts on branded pharmaceuticals will be its fundamental approach to business, and UnitedHealthcare is well underway implementing point-of-sale discounts at scale for the more than 8 million consumers covered through its commercial risk business. At the counter, people are already saving about \$130 per eligible script. And we are prepared to participate in the CMS Demo Project for Part D effective January 1, 2020, to drive even greater pharmacy value for more people.

In digital health, our initiatives are accelerating. We completed beta testing of the Individual Health Record physician platform and have built over 5 million active consumer health records. Simultaneously, our enhanced Rally consumer digital health platform now integrates digital engagement, coaching, telemedicine and incentives with quality and advanced cost transparency and estimating capabilities. We provide access to both proprietary and third-party services in areas such as exercise, weight, sleep,

employee assistance, nutrition and other value-based programs. In its initial 1 million member deployment this year, the enhanced Rally experienced a 13% increase in consumer engagement. We expect those numbers to further advance, as the IHR and other functionality are added.

As part of our strategy to reinvent health care delivery, we apply Rally and the IHR together with OptumCare's practice capacities to advance efficacy and value. We are progressing toward the close of the Davita Medical Group transaction and we look forward to adding more markets, more doctors and clinical staff serving more patients. And we continue to modernize the financing of delivery systems, whether they are owned by Optum or accessed through more modern UnitedHealthcare benefit designs across all market segments. These benefit designs will be more consumer responsive and address social determinants of care, especially for those who are most affected ... and who have the greatest and most complex needs.

Nearly 80% of what influences a person's health relates to nontraditional medical and behavioral issues, such as food, housing, transportation and health care finances. Improving care for society is behind our partnership initiative with the American Medical Association to standardize how data regarding critical social and environmental factors is collected, processed and integrated. Nearly two dozen new ICD-10 codes will be used to trigger referrals to social and government services to better address people's unique needs, connecting them directly to local and national resources in their communities.

Finally, our Net Promoter Scores continued to advance meaningfully in the first quarter 2019 as we march toward an aggressive target of 70 by 2025. The people we serve will benefit as we advance quality and value, and in turn, provide growth and returns for shareholders.

Before I ask Andrew Witty to update you on Optum, I know there has been public discussion about "Medicare for All" proposals. We view the discussion first through the

prism of our mission, and how individuals can be better served and the health system can work better for all.

From that perspective, we welcome the contrast between these proposals and the kind of real progress we're talking about on this call and discussed with you at our November conference, founded on durable and modern information, technology and clinical capabilities. The wholesale disruption of American health care being discussed in some of these proposals would surely jeopardize the relationship people have with their doctors, destabilize the nation's health system, and limit the ability of clinicians to practice medicine at their best. And the inherent cost burden would surely have a severe impact on the economy and jobs – all without fundamentally increasing access to care.

The path forward is to achieve universal coverage and it can be substantially reached through existing public and private platforms. Meaningful progress in health care lies in national and state leaders continuing to work collaboratively with the innovative and proven private sector solutions to achieve the goals we all want – a modern, reliable, informed and aligned health care system that offers the access, choice and coverage protections people seek at a fair cost to individuals and society as a whole.

Together, we need to operationalize real changes that promote an interoperable, secure digital infrastructure allowing information to be shared securely and widely so proper clinical decisions can be made and acted upon by qualified physicians with aligned incentives for achieving better outcomes ... changes that eliminate unnecessary and costly regulatory frameworks and taxes ... that address underinvestment in social determinants of health ... and changes that encourage people to take accountability to modify lifestyle behaviors that drive a significant percentage of their lifetime health care needs.

The best system is one which is informed, engaged and aligned, where people, their doctors and the private and public sectors work together to improve or sustain individual health, while improving the performance of the health system – for everyone.

We are encouraged to see that the United States is on an improving path. For 16 straight months, health care's relative economic burden on society has lessened. While recent year-over-year spending growth at just over 4% is still too high, it has lessened considerably due to the better management of price inflation and the earlier and more effective management of care in lower cost settings.

The progress and ideas we have and will discuss further today will take health care to an entirely new level of quality, cost, choice and coverage in a proven and lasting way, ensuring the U.S. health system better serves and supports all Americans. Now let me turn it to Andrew Witty, CEO of Optum, to discuss Optum's focus, strong operating and financial results and growing forward momentum. Andrew ...

### **Andrew Witty**

Thank you, Dave –

Our next chapter involves accelerating digital, transforming pharmacy care through OptumRx and reinventing health care services through OptumCare, while aligning all of Optum's resources to better serve patients directly, and supporting the work of physicians, hospitals and health plans who also serve them.

Primary care represents well under 10% of medical costs, but has a profound influence on the other 90% of the cost and quality of care. Within OptumHealth, we offer densely arrayed local care options, built on a foundation of owned and operated primary care, alongside aligned networks, together improving how the health system is accessed and used, downstream.

Today we serve millions of patients across approximately 80 health plans and payers, and this year virtually every local OptumCare practice will participate in advanced value-based care arrangements. Our clinical team continues to advance performance, with our physicians delivering:

- better quality outcomes, with 99% of seniors served through advanced value-based arrangements receiving a star rating of 4 stars or higher;
- delivering lower costs, with practices serving Medicare Advantage participants at as much as 30% lower cost than Original Medicare and 10 to 15% lower than typical Medicare Advantage;
- and with higher satisfaction, with an NPS of just under 80.

In addition to primary care in local communities, we own and operate surgical care centers, neighborhood urgent care centers, community pharmacy dispensaries – and, in some markets, hospitalists and specialty and ancillary care capabilities such as office-based infusion of specialty pharmaceuticals and oncology services.

For example, our new OptumCare Cancer Center in Nevada takes an integrated, multi-disciplinary approach to providing patient-centered care in a professional and compassionate setting. This outpatient program delivers integrated medical, surgical and radiation oncology, chemotherapy and immunotherapy, imaging, palliative care and 24-hour oncology urgent care. This is one of the ways we are exploring value-based specialty models that uniquely align to our primary care and ambulatory capabilities, grounded in a physician-led culture of evidence-based medicine and enhanced by academic and community partnerships.

All of these services produce better outcomes than outdated and costly facility-based alternatives and generate high NPS, because the patient experience is distinctively better. We are accelerating the process of connecting these elements to create informed, comprehensive, open market care systems, seamlessly supporting the patients we serve, all on a fiercely multi-payer basis, while supporting physicians seeking to operate practices at their fullest clinical capabilities.

Our journey of adding and enabling new locations to extend reach, while deepening our clinical offerings, will continue to improve our impact for years to come. We are architecting a more broadly informed, engaged and aligned health care system – one that responds better to consumer preferences while easing the burden of health care on society.

This quarter's growth in revenue per consumer served – 14% over last year – indicates we are taking responsibility for more of a consumer's health, and serving them more deeply and comprehensively,

On March 12 OptumRx extended our leadership on negotiated drug discounts by announcing that we will only serve new employer-sponsored pharmacy benefits businesses after January 1, 2020, that provides consumer discounts at the point of sale. This replaces the current system in which employers typically elect to flow rebates back to all plan participants to lower their premiums.

Benefits of this new approach are clear – our data shows patients' prescription adherence improves up to 16%, depending on plan design. And we know patients' health ultimately improves when they follow physicians' orders for drug regimens. This approach has been proven to achieve medical cost savings of up to \$300 per member per year. And we have received strongly positive feedback from employers, employer coalitions, industry observers, regulators and policy leaders.

We are also seeing strong response to PreCheck MyScript, which offers care providers instant information on efficacy, costs and alternative drug choices directly within the physician's workflow. Nearly 150,000 physicians are using this technology now – up 77% since December.

Our near-term plans for pharmacy care services remain focused on achieving the highest quality outcomes, the lowest net cost of drugs for patients and the best patient

experience. Market response continues to be outstanding. 2019 was a good sales year for us and, with robust RFP activity and a couple of significant wins already, 2020 should be even better.

OptumInsight, the technology and analytics engine of our enterprise, continues to provide our customers strategic insights to improve health system performance. We are in the process of launching newly developed services and technology offerings with our state customers. These end-to-end approaches use advanced technologies to modernize traditional Medicaid administrative offerings, including the comprehensive integration of cutting-edge Optum analytic services and capabilities, deeply enhancing the breadth, depth and effectiveness of these state-administered offerings.

As Dave mentioned, in consumer digital health we have started beta testing the consumer version of the IHR and envision a staged deployment starting around mid-year. We also have studied the impact of deploying the IHR for people in the Medicare, Medicaid and commercial markets, and found better outcomes, lower costs and improved patient experience. When placed in the hands of a qualified, high-performing doctor in a value-based system, the IHR meaningfully reduces health care costs.

In a similar vein, on March 28 we launched the consumer version of the PreCheck MyScript technology, called My Script Finder.

Rally now has over 24 million registered users, having grown adoption by over 2 million people in this quarter alone. Consumers earned a record \$200 million in rewards in the first quarter, demonstrating their high engagement. And forward-thinking employers have made more than \$1 billion in annual rewards available to people for taking actions to improve their own health.

Our software engineers are now building digital payment and physician office visit scheduling capabilities, and applying artificial intelligence and biometric data to improve post-acute patient recovery and reduce hospital re-admissions.



Rally and platforms like the IHR are just two critical elements of a more modern, information- and digitally-enabled health system, particularly when coupled with rewards and support tools that enable physicians to more effectively manage their patients at scale.

Turning to Optum's financial results, first quarter revenues of \$26.4 billion grew 12%, led by OptumHealth growth of 17%. We added 7 million adjusted scripts, achieved 14% growth in backlog, and now serve 2 million more people at OptumHealth. Optum's operating margin of 7.1% expanded 10 basis points over last year's first quarter, contributing to 14% growth in operating earnings to nearly \$1.9 billion in the quarter. These results illustrate our steady momentum, as customers respond to the innovation, insight and the value that Optum provides.

Now I will turn the call over to Steve Nelson, UnitedHealthcare's CEO.

**Steve Nelson**

Thank you, Andrew.

The market is responding to UnitedHealthcare's practical innovations, personalization and service performance on behalf of those we serve. Within just the past quarter, we have been awarded contracts to serve Medicaid beneficiaries in North Carolina and Arizona, and again drove strong growth in serving people in Medicare Advantage and dual special needs plans.

Our innovative Navigate4Me service addresses the personalized, holistic care needs of our senior population. Medicare Advantage seniors with complex health issues like diabetes, congestive heart failure or multiple chronic conditions receive concierge service from nearly 1,000 dedicated experts. Each serves as a single point of contact for their seniors. Our navigators provide support for clinical and administrative needs, help patients follow their personalized care plans, coordinate care and address social

determinants of health. Key to delivering this flexible, personal service is a proprietary technology platform that supports navigators with integrated data, analytics and information specific to each patient. And results have been impressive. We have seen a 14% reduction in hospitalizations for people with congestive heart failure, and overall a 19 point increase in NPS from patients who receive our direct support.

We are also better coordinating medical services through locally organized systems of care, highly capable of physical, digital and virtual care delivery. Our data shows that seniors in our Medicare Advantage plans see on average about one-half the number of doctors as similar seniors using Original Medicare. This means a simpler, less confusing experience and better outcomes for patients and better use of scarce health system resources overall.

It is not a coincidence that seniors are enrolling in private Medicare plans at a record pace, with one-third of the nation's seniors served today by the private market. Collectively, Medicare Advantage plans provide significant savings and invest those savings in superior benefits not available under Original Medicare. Medicare Advantage fills in the significant gaps left by Original Medicare, including coverage for pharmacy, dental, vision, hearing and personal wellness and fitness needs – again, none of them are covered by Original Medicare.

This strong trend toward greater use of private services includes the state Medicaid programs, where states are increasingly asking the private sector to take responsibility for the care of their most complex and chronically ill beneficiaries. Managed care has a track record of reducing costs by better coordinating care for these people while helping them become healthier.

Looking at our first quarter financial performance, UnitedHealthcare's revenues grew 8% to \$48.9 billion, serving three-quarters of a million more people domestically with medical benefits in the quarter, led by growth in Medicare Advantage and in serving self-funded employers. UnitedHealthcare's operating earnings grew 23% over last year

to nearly \$3 billion in the quarter, with operating margins expanding 70 basis points to 6%.

We are hard at work on enabling our business for future growth. In Medicare Advantage, we believe we are well positioned to advance our market share. Further, implementation work for recent Medicaid awards is in progress. Coupled with our strong activity in the commercial, group Medicare and global markets, we expect to continue to drive sustained and diversified growth.

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

**John Rex**

Thank you, Steve.

Our initial quarter for 2019 positions us well to deliver on our full-year financial commitments.

To recap: Revenues grew 9.3% to \$60.3 billion, even after considering the negative 1.4% impact related to the health insurance tax deferral for 2019. In the first quarter alone, this deferral helped improve affordability for the people we serve by more than \$700 million dollars. This tax adds billions in costs to the system and constrains access and benefits for Americans. We continue to advocate and are hopeful for its permanent repeal.

In the quarter, the more than \$5 billion dollar revenue increase was led by same-store growth, well-balanced across our benefits and services platforms.

Medical cost trends continue to be well-managed and consistent. Our view of forward trends and our first quarter medical care ratio of 82% continue to support our full year outlook for an MCR of 82.5%, plus or minus 50 basis points. Favorable reserve

development of \$300 million was consistent with the year ago level. And medical payables at 49 days were also stable with the year ago level.

Earnings growth in the quarter was also driven by improvements in our operating cost position. While the health insurance tax deferral lowers the operating cost ratio, beyond this factor, strong improvements in productivity more than offset our ongoing investments to drive growth for the future. We will continue to pursue such investments, as our focus remains firmly on the decade ahead.

Overall, operating margins expanded 70 basis points over last year to 8%, and first quarter adjusted earnings per share of \$3.73 grew 23% over last year.

First quarter cash flows of \$3.2 billion were consistent with our expectations, recognizing that comparison with last year is affected by the health insurance tax deferral. Recall that reported cash flows were elevated in the first three quarters of 2018 by collecting the health insurance tax from customers over the course of the year, and then impacted in the fourth quarter by the \$2.6 billion dollar payment to the U.S. Treasury.

Additionally, we would note certain government payments received in the second quarter of 2018 are not scheduled to be received until the third quarter of this year, simply due to calendar timing. All in, we expect second half 2019 cash flows will be meaningfully above last year's, most notably in the third quarter, with second quarter commensurately lower. We continue to expect double digit percentage growth in cash flows from operations in 2019, to a range of \$17.3 billion to \$17.8 billion.

We continue to put capital to work to build the business for the benefit of both society and our shareholders with a robust organic and inorganic growth agenda. We are currently active in each of the five growth pillars we previously detailed as we looked ahead 10 years, and expect to grow and diversify our earnings streams inside this focused, dedicated health care company.

We also returned \$3.9 billion dollars to shareholders this quarter through dividend and share repurchase activity. And return on equity was strong at 26.8%, rising 300 basis points from one year ago.

Looking forward, we entered the second quarter with strength, flexibility and rising confidence in the positive impact we can have – this year, and far into the future. We continue to expect strong growth in adjusted net earnings in 2019, and have increased our outlook to a range of \$14.50 to \$14.75 per share. That would bring our one-year earnings growth rate to 13 to 15%, and our five and 20 year compound earnings growth rates to approximately 20% per year. Dave ....

**Dave Wichmann**

Thank you, John.

Over the past 45 years UnitedHealth Group has grown consistently through the full range of macroeconomic, health care, legislative and policy conditions – adapting and adjusting to deliver value for all those we serve in every changing environment. That value is rising at an accelerating pace, as we execute against our multi-dimensional growth agenda in health care delivery, pharmacy, digital, consumer-responsive benefits and global. These efforts – pursued at scale – position us uniquely as a technology-enabled health care company, delivering distinctive results to our customers and to society.

Taken together, with our commitments to service, quality and NPS, our investments in the coming wave of health care innovation – a movement we intend to lead – and our multi-year, multi-billion dollar effort to improve our medical and operating cost bases for the benefit of our customers, we expect sustained growth and performance for UnitedHealth Group, this year, in 2020, and for many years beyond.

Thank you.