

## **UnitedHealth Group**

### **Second Quarter 2019 Prepared Remarks**

**July 18, 2019**

#### **Moderator:**

Good morning, and welcome to the UnitedHealth Group Second 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 "Earnings 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 July 18, 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 strong, well-balanced revenue and earnings growth across our businesses, continuing trends of the last several years. We have considerable momentum, improving the consumer, physician and customer experience, applying rigorous net promoter disciplines within a culture built to serve people's most fundamental need ... their health.

Executing on our mission – helping people live healthier lives and helping make the health system work better for everyone – produces value for people, the health system and society overall – and strong returns for our shareholders. In the first half of 2019, total revenues grew year-over-year by 9 percent or \$9.6 billion to \$121 billion. Adjusted earnings per share advanced 18 percent. Both UnitedHealthcare and Optum contributed strongly to these results, generating total enterprise operating cash flows of \$9.1 billion or 1.3x net earnings.

Confidence in our ability to continue to advance our fundamental performance and profitable growth leads us to increase our outlook for full-year adjusted earnings to a new range of \$14.70 to \$14.90 per share.

We are constantly developing and refining our differentiated set of core capabilities – enriching, integrating and applying deep proprietary information sets to improve engagement and clinical decision-making; embedding modern analytics and technologies across the system to make it more interoperable, transparent and efficient; and expanding the scope and effectiveness of our clinical capacities – and aligning with others’ – through value-based incentives to improve health outcomes while lowering costs. As we work in partnership with the care community and others, these competencies enable us to help develop the next generation health system in a socially conscious way, a system that provides high-quality, efficient and fair access for all.

You can see the latest evidence of our progress on a number of fronts.

Our recently completed combination with DaVita Medical Group meaningfully expands OptumCare’s nationwide network of physicians.

The John Muir Health strategic relationship announced yesterday is unique in its breadth of services, and demonstrates the role Optum can play when it is fully aligned with its customers serving the needs of local communities.

Continued OptumRx gains in employer, health plan and coalition markets reflect the distinctive, more wide-ranging and more modern consumer approaches OptumRx applies to deliver value – addressing one of the most challenging burdens of health care – excessive drug and biologic costs.

The first 20 million real-time, interoperable Individual Health Records are being scheduled for market deployment. We remain optimistic about the potential of these deeply personalized health records and associated next best action recommendations to improve the health of people we serve and the overall system performance.

Consumer engagement, aligned to this actionable health information, plays a critical role in developing the next generation health system. By the end of this year, Rally's digital engagement capacities will be available to nearly 20 percent of the U.S. population, solidifying its opportunity to advance individual health at scale.

Physician data sharing and value-based incentives round out a true end-to-end alignment of a progressive health system. Value-based payments to care providers are growing at more than 15 percent in 2019, aligning incentives to practice high-quality care, while improving the effective use of health system resources. We expect these value-based payments to ramp at an even more accelerated pace in the coming years.

All of these, and the examples offered by our business leaders today, are only a partial reflection of the steady progress we are making in advancing our enterprise mission – to make health care work for everyone – so everyone can live healthier lives.

The results are compelling. We are lowering cost trends, steadily improving NPS and achieving improved clinical outcomes, leading to continued, long-term sustainable performance and growth for our business.

With that I'll now turn to UnitedHealthcare's new chief executive officer, Dirk McMahon. Most of you know Dirk from when he first joined UnitedHealthcare in 2003. Having

worked in major leadership roles at UnitedHealthcare, Optum and UnitedHealth Group, he knows firsthand how to maximize the full capabilities of this enterprise including the clinical capacities of OptumHealth, the data, insights and advanced technologies of OptumInsight and the distinguished pharmacy care solutions offered by OptumRx.

Dirk?

## **Dirk McMahon**

Thank you, Dave. I'm glad to be back at UnitedHealthcare.

I am pleased with what I've seen in the first few weeks in the role. We don't need a major shift in direction, but we will sharpen our focus on delivering consistent growth performance across all market segments.

An essential step to drive growth is consistently achieving superior operating and medical cost structures. Cost impacts member health when it is a barrier to getting care, and we need to address that even better for people. It's the primary driver of consumer satisfaction and NPS. When we improve satisfaction and NPS, we drive growth.

We'll continue our intense focus on simplifying and improving the experience for people. Using our digital platforms and applications, we can improve our ability to help people navigate the complexities of health care and get people on effective care pathways. This creates a better clinical and service experience, which leads to better outcomes, cost containment and satisfied members.

Some of the essential elements of this include:

- Better information sharing with consumers and their doctors;
- Creating aligned incentives among consumers, care providers and UnitedHealthcare;
- Tailoring products to consumer needs;

- Providing digital and human navigators to support consumers in their health and care journeys; and
- Offering practical technology at key decision points.

Simplicity is vital to making health care easier. Our Navigate4Me offering simplifies and personalizes care for seniors with complex conditions. It provides them with a single point of contact for concierge services and a dedicated team of experts. Supported by a proprietary technology platform with integrated data, navigators help coordinate care through personalized care plans and address social determinants. Results have been positive, with a 14 percent reduction in hospitalizations and a 9 percent reduction in ER visits for patients with congestive heart failure. Navigate4Me dramatically improves NPS, now nearly 20 points higher than traditional approaches. With nearly 1,000 navigators now in place, we will continue to expand deployment and impact over the coming quarters.

We have created simplified paths enabling doctors to provide high-quality surgical procedures in ambulatory settings. These can be less than half the cost of traditional inpatient settings, with higher-quality outcomes and greater consumer satisfaction. And our recently launched preferred lab networks create paths for physicians and patients to use lower-cost testing facilities, make it easier to order labs electronically and provide prompt turnaround times for results. From these examples and more across inpatient and outpatient services, we see an opportunity for more than \$20 billion in potential annual savings in spend managed by UnitedHealthcare's Employer & Individual business alone in reducing unwarranted variations in care, converting care to the most appropriate site of service and aligning with high performing delivery systems.

We continue to diversify and extend our Employer & Individual business – organizing local systems of care physically, virtually and digitally; building collaborative relationships with care providers and sharing data bi-directionally with them; and innovating around product designs. For example, our partnership with Centura Health announced last year in the Colorado Doctors Plan is achieving price points 20 percent

lower than our broad access offerings. Some of the attributes driving this success include the use of effective referral patterns, timely texting with alternative care options when a patient registers at the emergency room, and virtual appointments. This is the type of total cost of care product innovation you should expect from us.

Likewise at Community & State, medical cost and operational improvements are advancing nicely, as planned. And, on the growth front, we are preparing to serve more people later this year with our recently awarded North Carolina opportunity.

Our businesses serving people who are dually eligible for Medicaid and Medicare continue to expand and perform well. The outlook for further growth in this category – and more broadly in group and individual Medicare Advantage – remains exceptional. Year-over-year, we've grown by more than 540,000 people across these important areas, greater than 10 percent. We see significant macro revenue growth opportunities in these categories for years to come. As such, we will continue to invest in many ways, ranging from stable benefits to better coordination of care. For example, in 2020 we will provide all dually eligible members with a personal care coordinator to help manage their Medicaid and Medicare benefits and coordinate clinical needs such as appointment scheduling, filling prescriptions and closing gaps in care.

UnitedHealthcare's financial performance continues to be strong. Revenues grew 6 percent to \$48.6 billion, while operating earnings advanced 12 percent to \$2.6 billion in the quarter.

I am looking forward to working with our team to further elevate UnitedHealthcare's performance from the strong position we hold today, delivering more value across multiple dimensions in health care.

Now let me turn it over to Andrew Witty, chief executive officer of Optum.

## **Andrew Witty**

Thank you, Dirk.

At Optum, we're developing and building a broad set of capabilities supporting a vision for providing better health care and increased affordability for more people. This compels us to rethink how care can be provided more holistically across the broad and changing health care landscape.

One significant opportunity for improvement comes in chronic disease care. The 30 million people in the U.S. with three or more chronic diseases account for two-thirds of health care spending today, and the number of people is expected to grow to 80 million by 2030. Managing these chronic patients requires the multi-disciplinary, hands-on approach Optum is building in its next generation condition management programs. These include the management of emerging high-cost specialty drugs, which are expected to continue to be a leading driver of medical cost inflation. We address these trends through a broad range of approaches, including direct delivery of home and office infusion services and direct delivery of specialty pharmacy prescriptions to the home with digital care services provided by Optum pharmacists, who educate patients on how to properly take their medications.

Another challenge Optum is meeting head on is the dramatic rise in oncology drug spending. In the U.S. health system, misaligned incentives lead to administering higher-cost oncology drugs unnecessarily. We do think there's a better way. Early results from our integrated OptumCare Cancer Center in Nevada suggest that decoupling oncology drug payments from doctor compensation can reduce pharmaceutical spending for seniors by nearly 30 percent. It drives improved clinical quality based on the best science, while keeping the patients' comfort, care and dignity as the highest priority and ensuring physicians administering the care are paid fairly for their excellent work.

We're exploring other new approaches along therapeutic lines such as chronic heart failure and musculoskeletal conditions to more comprehensively address care needs of those with significant health challenges. Direct delivery of care by physicians will be pivotal to this agenda, as OptumCare seeks to coordinate each patient's care journey, with a focus on proactive, preventive medicine ... especially for those with the most acute needs.

Creating value for those we serve translates to stronger financial performance. Over just the last three years, the revenue per consumer served by OptumHealth has grown by nearly 50 percent. In the quarter, OptumHealth's total revenues grew 20 percent to \$7.1 billion, while operating earnings advanced 21 percent to \$688 million.

Like OptumHealth, OptumInsight's positioning and capabilities have evolved over many years. OptumInsight has advanced from what was once primarily a point solution provider of technology to a diversified, enterprise solutions organization. The business has deep and broad expertise to solve some of the biggest challenges in health care for payers, providers, life science companies and governments.

Our new, multi-year relationship with John Muir Health is distinctive in its comprehensive nature. John Muir is nationally recognized for quality of care as a major independent health system in the San Francisco Bay Area. Our relationship spans revenue cycle, information technology, ambulatory care coordination, analytics, procurement and consulting services. The partnership will deliver broad performance improvement at John Muir, and for its patients and physicians.

With this and other new relationships, OptumInsight's second quarter backlog grew 20 percent year-over-year or more than \$3 billion to \$18.5 billion. Revenues advanced 7 percent to \$2.3 billion and operating income increased 16 percent to \$525 million.

OptumRx continues to evolve from a traditional PBM to a diversified pharmacy care services organization, deeply focused clinically and enabled by vast data and ever-



improving technologies. This quarter we introduced a new and transparent digital consumer pricing tool. MyScript Finder puts lower cost pharmaceutical alternatives and coverage status at people's fingertips. It offers instantaneous consumer-relevant cost transparency with actual out-of-pocket costs based on pharmacy location, benefit plan design and deductible status. So far, consumers have conducted over 1 million searches in the first 60 days of usage.

OptumRx continues to win in the market – its value is resonating with health plans, large employers, and purchasing coalitions. We're driving greater pharmacy and medical care alignment, better service quality, lower costs, improved transparency and an expanding breadth of services at the local market level, including home infusion, e-commerce, specialty and community-based dispensing services.

As a result, OptumRx continues to profitably expand share. In the second quarter, revenues advanced by 12 percent to \$18.9 billion, and OptumRx added 11 million adjusted scripts year-over-year.

These are just a few examples of the progress we've made and how the Optum businesses are advancing the way they serve in both their individual market segments, and together as they deploy broad-based market solutions. And yet, we remain at the very early stages of what Optum could be.

Now, I'll turn to John Rex, CFO of UnitedHealth Group.

## **John Rex**

Thank you, Andrew.

Our first half positions us to perform well for the rest of the year. In the quarter, revenues grew 8 percent to \$60.6 billion and net earnings from operations grew

13 percent to \$4.7 billion. All of the business segments contributed strongly to these well-balanced results.

With previously discussed business transitions now effective as of mid-year, we're updating our full year revenue outlook. With these incorporated, we expect 2019 revenue to be at – or just slightly below – the original \$243 to \$245 billion range. This reflects the transition of a large OptumRx client due to a business combination and our voluntary withdrawal from a state Medicaid program, partially offset by the DMG combination.

Cash flows from operations were \$5.9 billion in the quarter and year-to-date are \$9.1 billion or 1.3x net income. For the full year, we continue to expect cash flow from operations of \$17.3 billion to \$17.8 billion or 1.2 to 1.3x net income.

Medical costs remain well-managed with our 2019 medical care ratio tracking well to the range we shared with you back in November of 82.5 percent, plus or minus 50 basis points. Unit cost remains a core driver of overall trend and we continue to advance our efforts to optimize both site of service and use of the highest-performing clinicians. We continue to expect that 2019 will mark the 11th consecutive year of declining inpatient admissions per 1,000 people.

Our operating cost ratio of 13.9 percent is impacted by the deferral of the health insurer tax and a strong mix of productivity and operational improvements enterprise-wide. And with our focus on affordability, that agenda is never really done. At the same time, we continue to aggressively expand the investments we are making in innovation to drive organic growth and further operational and productivity improvements over the decade to come.

In 2019, our effective tax rate is favorably impacted, as expected, by the deferral of the nondeductible health insurance tax. The second quarter rate was moderately higher than our original outlook. For the full year 2019, we now expect the tax rate will likely be

around 20.5 percent; that's the upper end of our original range for the year, which is fully incorporated into today's raised earnings outlook and is due in part to lower than expected employee stock-based compensation activity.

We continue to maintain balance sheet strength and significant flexibility. Return on equity in the second quarter again exceeded 25 percent. UnitedHealth Group has a long, well-developed and proven ability to thoughtfully deploy capital through business combinations that add capabilities and market presence to be leveraged across the enterprise, bringing synergies in both growth and costs.

In June, our board of directors raised our shareholder dividend by 20 percent to an annual rate of \$4.32 per share. The dividend has advanced at or above 20 percent each year since initiated about a decade ago and, at about a 30 percent payout ratio, has grown to be more in line with the market level objective we set. Still, our long-term earnings growth potential provides ample capacity to continue to advance the dividend at strong rates for years to come.

We remain confident as we look forward to the second half of 2019 and now expect adjusted earnings per share of \$14.70 to \$14.90, an increase of \$0.25 from the guidance we established at the end of last year. Within that, as previously discussed, the pacing of weekdays is higher in the third quarter this year, resulting in a relatively consistent level of earnings between the third and fourth quarters.

Delivering on our 2019 commitments and strengthening our businesses further as we approach 2020 remain critical to us, even as we pursue ever greater impact for society and advance growth and returns for our shareholders for years to come.

With that I'll turn it back to Dave.

**Dave Wichmann**

Thank you, John.

We will continue investing for the future, building, innovating and diversifying as we seek to support the development of the next generation health system, a system that provides high-quality and efficient access for all, a system that achieves better outcomes and experiences at lower costs for people.

This is the essential work of our enterprise. It provides us with an extraordinary opportunity and responsibility to help improve health care in the U.S. and globally, and to continue growing our business in these large and fast-growing markets. It is why, if you spend time in our organization, you can feel the restlessness among our 320,000 dedicated professionals, all focused on making an impact in everything we do and generating ever stronger societal and shareholder returns.