

## **Fourth Quarter 2019 Remarks January 15, 2020**

### **Moderator**

Good morning, and welcome to the UnitedHealth Group Fourth Quarter and Full Year 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 January 15, 2020, 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. Six weeks ago, we had the privilege of spending the day with many of you at our annual Investor Conference, providing an in-depth look at the accelerating opportunities we see to serve more people more deeply and to grow strongly into 2020 and well beyond.

As we conclude 2019 and step into the new year, the performance of our business strengthens our confidence in the themes, opportunities and outlooks of that day – as evidenced by today's results.

We remain highly focused on driving affordability, innovating with consumer and customer responsive products and services, improving operating performance and advancing NPS.

Full-year 2019 adjusted earnings per share were stronger than our Investor Conference outlook, growing 17% for the year to \$15.11 per share.

Full-year revenues exceeded \$242 billion, growing \$16 billion over 2018 with notable gains in our Medicare, care delivery and pharmacy care services businesses. Full year cash flows were \$18.5 billion or 1.3 times net income.

We finished the year encouraged by continued performance improvement in Medicaid, early market interest in our new innovative line of employer-sponsored benefit offerings and 2020 individual Medicare Advantage annual enrollment results, which were our strongest ever. Within our Medicare Advantage offerings, including dual eligible growth, we expect to serve nearly 700,000 more people in 2020, the upper-end of the range of performance offered at our Investor Conference.

Our fourth quarter medical and operating cost positions continued to improve meaningfully enterprise-wide with ample opportunity for further progress on both of these fronts. And our NPS improved nicely in 2019 across our businesses, particularly with network care providers, enrollees in Medicare Advantage and Dual Special Needs Plans, as well as patients served by our OptumCare and pharmacy care services businesses.

Improved costs and higher satisfaction, propelled by meaningful innovation, allow us to contribute more comprehensively to the development and deployment of the kind of next-generation health system needed in the U.S. and globally – a more forward-looking, modern health system built around the people we serve, seamlessly woven into their lives – simple, convenient, transparent and compassionate. A health system that

is more affordable, creates a better experience for both patients and physicians – and improves health outcomes.

The health system we are helping to build will better meet the personalized needs of people. It leverages the next generation data analytics, such as the Individual Health Record, to empower patients and their doctors with actionable intelligence that drives next-best actions to improve decision-making in real time.

We are committed to a future where every person has access to high-quality, affordable health care that meets their unique health care needs and financial means. We're employing specific actions to help achieve this, driving better health outcomes and aiming ultimately to reduce the health care cost trend to general inflation levels, even with an aging, more chronically ill population.

Notably, the bipartisan repeal of the ACA taxes in December was a strong step towards improving affordability for Americans. It will greatly assist those who have been most affected by the cost of those taxes ... especially seniors, small employers and those who are individually insured.

As we continue to do better for those we serve, we will grow, helping improve the health system – one person at a time – intensely focused on driving improved consumer and physician experiences.

Looking to the years ahead, our strengthening capabilities and diversified, complementary businesses operating in the large, growing health care market position us well to achieve our long-term adjusted EPS growth rate objective of 13% to 16% – while we continue, as always, to invest in the future for sustainable, market-leading performance, and advancing shareholder returns.

With that, let me turn it to UnitedHealth Group President and Optum CEO Andrew Witty to discuss Optum's results and momentum heading into the new year.

## **Andrew Witty**

Thank you, Dave.

At Optum, we are encouraged and humbled by the expanding opportunities to grow and serve more people more deeply. There is a distinct energy and eagerness across our businesses as we enter 2020.

In 2019, Optum revenues reached \$113 billion, growing 12% year-over-year. Total operating earnings grew 14% to \$9.4 billion.

OptumHealth revenues reached \$30.3 billion in 2019, up 26%, led by OptumCare, our care delivery business. We are steadily expanding into new geographies and expanding the depth and breadth of services in existing regions to better provide patients with the highest-quality, convenient and affordable health services. One measure that helps illustrate how we are serving people more comprehensively is revenue per consumer served, which grew 26% in the quarter. This measure will continue strongly advancing as we further build out our integrated care delivery network.

Turning to OptumRx, revenues of \$74.3 billion grew 7%, even with the previously discussed impact of a single large customer transition. The 2020 selling season for core pharmacy benefit services has now mostly concluded, and it was our strongest ever. Through our other pharmacy care and specialty drug businesses, given our current positions, we see significant opportunity to more fully serve patients' pharmacy needs in their communities and drive better adherence and clinical outcomes.

At OptumInsight, revenues of \$10 billion grew 11% and the revenue backlog was up 14% to \$19.3 billion. OptumInsight, perhaps more than any of our other businesses, has a dual role. It has both unmatched capabilities to help distinguish our other businesses and serves as a profitable, growing, externally facing business on its own.

I'd like to spend a few extra minutes this morning on how we view OptumInsight and why we are encouraged by its potential. I'll start with the foundations:

- First, deep data and advanced analytics are at the core, supporting modern technologies and platforms to make the health system more interoperable, transparent and efficient.
- Second, research, consulting, and large scale managed services enabled by data analytics and digital and operational innovations make the consumer experience simpler, smarter and more compassionate.
- And third, clinical expertise combined with rich data and analytics drive measurably better patient care and outcomes, reduces friction, while lowering the total cost of care.

We are connecting the health system to deliver better outcomes, lower costs and an improved experience for patients and their clinicians.

This includes developing the connective infrastructure that integrates clinical systems, revenue management platforms and administrative claims transactions to enable critical bidirectional data exchange. Our solutions are harmonizing and organizing billions of transactions while applying considerable intelligence through our advanced technologies, clinical ontology and data analytics capabilities. We want to ensure critical decision support information gets to the right people at the right time, with rigorous protocols to protect patient privacy – all while offering full transparency of health system performance on both quality and cost.

Our Optum360 business helps health systems and hospitals improve revenue performance and patient experience. We deploy natural language processing for computer assisted coding and documentation and provide data interchange and information exchange solutions, as well as patient access services. Optum360 now manages about \$70 billion in annual billings for unaffiliated customers.

More than 5 billion pages of clinical documents are processed annually by our natural language processing engine. These are used in a variety of other applications and customer bases to help inform clinical actions and create administrative efficiencies from the more than 80% of the clinical record that is essentially free-text – such as physician notes and discharge summaries.

Payment Integrity is among OptumInsight's strongest growing businesses. We provide compliance and cost containment solutions both prior to and following the payment of a claim. We offer a comprehensive portfolio of services for data mining and predictive modeling to help over 250 national, state and local health plans and others ensure appropriate payment for services, saving billions annually.

Within the OptumInsight technology businesses, we apply advanced analytics and deep learning models to health care data covering nearly 240 million people to help optimize clinical outcomes and reduce the cost of care. Key offerings include population health, risk analytics and technology support.

And our research and consulting businesses provide thought leadership and expertise that reaches more than 200,000 leaders across the sector. Importantly, this business keeps us at the forefront of how health systems and providers are thinking about and approaching the future, and drives deeper, more integrated customer relationships across the broader Optum businesses.

As we turn into the new decade, we stand at a potentially transformative moment where the application of leading 21<sup>st</sup> century technologies and machine powered – analytical – protocols will open up for the first time the opportunity to create ever more precise predictions of individual and system health status and risk. This will accelerate a much more focused set of interventions to improve outcomes. I have no doubt this will be an increasingly critical element of our Optum-wide goal of improving clinical outcomes, quality and affordability.

Now I will turn the call over to Dirk McMahon, UnitedHealthcare's CEO.

**Dirk McMahon**

Thank you, Andrew.

UnitedHealthcare is deeply embedded in every aspect of the health system ... from how to finance and pay for health care to engaging people and aligning incentives to promote healthier behaviors and better medicine to improve overall health at lower costs.

UnitedHealthcare revenues grew by more than \$10 billion to \$194 billion in 2019. Operating earnings increased by 13% or \$1.2 billion to \$10.3 billion, led by the strength in our Medicare and dual special needs businesses. As Dave noted, we're off to a strong start in Medicare Advantage this year.

I'd like to quickly share how we are helping to build a better health system.

- First, improving affordability.
- Second, engaging and serving people.
- Third, advancing product innovation.
- And fourth, serving through hands on, data-driven clinical care.

Let's start with affordability because that is the gating factor for greater access to care and improving the consumer experience. One of our goals is to engage more deeply with the highest-performing physicians and other clinicians to advance both quality and affordability. We know these high-performing providers achieve considerably better health outcomes, while lowering the total cost of care.

Our medical cost trend over the last five years has strongly outperformed the national average. We are committed to driving significantly lower rates of health care spending growth than the industry. We see billions of additional dollars in potential savings for

consumers and customers from areas such as our site of service initiatives and more deeply embedding digital tools to reduce the administrative burden for physicians.

We are also using digital and physical strategies to engage consumers in new ways to simplify their experience, reduce their financial burden and lower the total cost of care. For example, for the nearly one-half million people enrolled in our Motion program, we offer incentives for increased individual mobility. People can earn more than \$1,000 a year when they achieve defined walking frequency and intensity targets. People enrolled in Motion are achieving better health at a meaningfully lower cost. That is why we are expanding this program and extending product designs that reward stronger consumer engagement and align incentives with their doctor.

A third area is product innovation. We are seeing early signs of customer interest in our innovative new offerings and consumer-centric products that better align to the unique needs and financial means of people, while engaging them in managing their health.

Some examples are:

- **Harmony**, a new collaboration with OptumCare providers, unites high-quality care and coverage, creating a more integrated and effective consumer experience with as much as 20% savings for our fully insured customers.
- **All-Savers** offers small employers highly flexible, affordable health plans and reduces employee out-of-pocket costs with low or no cost preventive and primary care coverage.
- **NexusACO** enables large employers to offer a single ACO-based plan nationwide, incentivizing employees to choose high-performing providers and driving better outcomes through care coordination.
- **Bind** provides first dollar coverage and allows people to add coverage on demand for planned procedures offered by high value providers following rigorous care pathways based on best known science, while costing approximately 15% less than comparable plans.



- And finally, our **Virtual First** product is attractive to the digital-first generation. This new product offers \$0 copay, 24/7 virtual care support at a lower price than traditional products.

These are some examples of our innovation focus in health benefits and you should expect more as we redouble our efforts to engage consumers in more impactful ways and accelerate our growth in this category.

Lastly, we are deploying relevant information at the point of care to improve the way care is received and managed. Point-of-care assist is a tool that puts real-time patient information at the fingertips of doctors in their EMRs, providing a seamless clinical workflow experience. This improves adherence to clinical protocols, facilitates real-time authorization approvals and helps refer the patient to premium designated specialists. The utility of this tool is significant for all; as doctors save time and money, consumers avoid cost surprises and most importantly health outcomes are improved.

As we look to 2020 and beyond, there is a \$900 billion untapped managed care market opportunity in health benefits, much of it in government programs, where we have grown strongly. And we look to serve more people more deeply across the system.

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

## **John Rex**

Thank you, Dirk.

This morning we reported full year revenues of \$242 billion, up \$15.9 billion or 7% year-over-year, driven by double-digit revenue growth in Medicare and across Optum.

Fourth quarter adjusted net earnings of \$3.90 per share grew 19% and brought full year earnings to \$15.11, growth of 17%. Cash flows from operations of \$18.5 billion grew

18% over 2018 to 1.3 times net income, better than anticipated partly due to timing factors.

Our balance sheet and return metrics remain strong with return on equity of almost 26%. We ended the year with a debt-to-capital ratio of around 40%, even with over \$10 billion of deployment for business combinations and cap-ex, \$5 and a half billion in share repurchases and a 20% dividend increase.

Medical reserves developed favorably in the fourth quarter by \$270 million, including \$150 million from 2019. Overall medical costs were well managed resulting in an 82 and a half percent medical care ratio for full year 2019.

We continue to be highly attentive to operating costs as part of our overall affordability agenda. In 2019, our operating cost ratio of 14.5% improved 50 basis points, reflecting 60 basis points of operating cost productivity and the deferral of the health insurance tax, partially offset by the effect of business mix changes and continued investments in innovation, service and growth.

We enter 2020 with diversified growth momentum, balance sheet strength and financial flexibility. On earnings progression, we continue to expect 47% to 48% of full year earnings per share to be realized in the first half of the year.

A point to keep in mind on the quarterly progression – 2019's first quarter had one fewer work day than 2018's, resulting in a higher earnings level. This year the first quarter had a more normal mix, but then adds an extra day due to Leap Year. Taken together, the day-count shifting has a year-over-year impact on the medical care ratio of about 80 basis points. This will result in the first quarter 2020 MCR running higher than the second quarter, and earnings per share progressing accordingly, with just under 55% of the first half earnings expected to be realized in the second quarter.

These impacts of course were fully contemplated in the 2020 outlook we provided at the beginning of December.

For full year 2020, we continue to expect revenues to approach \$262 billion and adjusted net earnings per share in a range of \$16.25 to \$16.55. Consistent with our prior practices, we will more formally address these and other expectations after the first quarter.

With that, I'll turn it back to Dave.

**Dave Wichmann**

Thank you, John.

As you can tell, we are confident in the outlook for our diversified and growing enterprise for 2020 and beyond. Our businesses remain strong and well-positioned for continued balanced growth by delivering even higher levels of societal value. We remain committed to our mission and an intense focus on serving one person at a time at increasing levels of value – more affordable, better outcomes and improved experiences – while generating strong returns for you, our shareholders.