

## **Second Quarter 2020 Prepared Remarks July 15, 2020**

### **Moderator:**

Good morning, and welcome to the UnitedHealth Group Second Quarter 2020 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 & Earnings Reports" section of the Company's Investor Relations 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 15, 2020, which may be accessed from the Investor Relations page of the Company's website. I will now turn the conference over to the chief executive officer of UnitedHealth Group, David Wichmann.

### **Dave Wichmann**

Good morning and thank you for joining us. When we last met in this forum 90 days ago, the challenges of COVID-19 in the Americas were just beginning to emerge. Now, some four months into the evolving pandemic, the individual, health system, social and economic implications of the virus are better understood and significant ... especially, the impact of long-standing health disparities affecting the underserved populations hit hardest by the pandemic.

In uncharted periods such as these, we lean on our mission and cultural values to guide us. That mission and those values call on us to:

- help people,

- to help health systems ...
- to help everyone ...
- with integrity, compassion, innovation, relationships and performance.

I am grateful to – and proud of – our 325,000 diverse team members as they continue to provide vital support. Caring for those we serve and working with the health system partners to combat this disease and the many other daily health challenges that have not gone away. They've just been deferred, and possibly become more complicated.

We deeply appreciate the tireless service of our 120,000 doctors, nurses, medical and behavioral professionals, social workers, pharmacists and other health care workers on the front lines of care. They serve in Brazil, Chile, Colombia, Peru and Portugal. They serve in New York City, Seattle, Southern California, Phoenix, Texas, Florida and other communities confronted by COVID-19. Their compassion for our patients and members has saved lives and helped make the lives of countless other people better.

UnitedHealth Group was built to be adaptable – an instinctive enterprise capable of anticipating change, rapidly evolving and reconfiguring capabilities to meet both challenges and opportunities. The past several months have only highlighted the importance of this agility, so long core to how we operate, and deepened our resolve to cultivate it. We've witnessed our people helping in ways and advancing innovations and solutions at an unprecedented pace, scope and scale.

Today, I'd like to provide insights into how:

- our business is both responding and advancing;
- share what we've learned in the past several months;
- describe how these lessons enhance our ability to serve even more people, more deeply, and as a result;
- we expect to grow and emerge stronger in the years to come.

UnitedHealthcare and Optum have both experienced the effects of an unprecedented decline in health care services. Among early actions we undertook to help people were:

- opening new enrollment periods, so more people could be covered;
- waiving all consumer COVID-19 diagnostic and treatment costs;
- accelerating \$2 billion in needed funding to care providers, and;
- providing over \$1.5 billion in direct consumer and customer assistance, including premium forgiveness and suspension of member cost sharing, to help people manage their health conditions.

These amounts are in addition to the \$1 billion in estimated rebates to be paid in coming periods.

Throughout this pandemic, we have taken extraordinary measures to ensure people get the essential care they need. As we speak with you today, care access patterns are nearing more normal levels, an encouraging sign for people's health. We see the system operating just short of its normal baseline now, far above the lows experienced as the second quarter began. We currently expect care access patterns – while somewhat more volatile than in the past – to moderately exceed normal baselines in the second half, as people seek previously deferred care. And the pandemic, with high testing and treatment costs per affected consumer, is expected to continue to run its course throughout 2020 and into 2021.

Consistent with the proactive actions we have already undertaken, we will continue to act swiftly to address any further financial imbalances arising from the pandemic and related effects.

We are further advancing broad health equity initiatives, tapping into our data, information and analytics capacities to guide scientific efforts to help eliminate long-standing health disparities. This is a course we have pursued for many years and are now even more intentional, as we see underserved populations disproportionately impacted by this health crisis.

We established an innovative, community-based care model to provide COVID-19 testing, education and other necessary services to some of the highest-risk and least-served communities in the country. We are focusing on locations with high mortality, along with local community challenges including poverty, crowding, food insecurity, homelessness and other existing social determinants of health. Our service includes special deployments in the underserved communities of Philadelphia, Los Angeles and Orleans Parish, alongside many other similar communities we serve through our core Medicare and Medicaid programs.

We are researching new treatment approaches in partnership with prominent academic institutions. For example, working with the Morehouse School of Medicine, we're studying the effect of COVID-19 on those with sickle cell trait, a condition which is prevalent in 8 to 10% of Black Americans.

We're conducting an ACE inhibitor virtual clinical trial with the Yale School of Medicine. Artificial intelligence applied to our data showed that seniors on ACE inhibitors who test positive for COVID-19 are 40% less likely to need hospitalizations than those who are not. Understanding that there is significant racial disparity in the use of ACE inhibitors to manage hypertension, we're working to rapidly scale this 10,000-person, virtual clinical trial, believed to be the first of its type.

We're partnering with a growing number of state governments and employers who are using Optum's rapid response resources to stand up mobile and fixed testing sites. To date we've helped conduct more than a half million tests across more than 500 sites, most often in rural and underserved communities.

We committed another \$100 million in affordable housing to address homelessness, bringing our total investments to more than \$500 million, to build nearly 5,400 units over the past seven years.

And we will do more, focused on working with others, to eradicate long-standing health disparities in America and to create a more diverse U.S. health workforce.

The COVID-19 crisis has accelerated the adoption of new technologies and approaches to care. We're serving people where they want to be served – and more often in the home, which is becoming a preferred additional care setting through new, innovative digital offerings. At peak care system closure in April, UnitedHealthcare facilitated more than 4 million digital care visits. That's nearly 30-times the number of visits we enabled in January.

We expect digital and home care to persist and expand in coming years. We are rapidly assembling our next-generation, comprehensive platform leveraging:

- the digital signaling and monitoring capacities of Vivify,
- the market-leading engagement capabilities of Rally,
- our AI-enabled, Individual Health Record,
- the pharmacy e-Commerce capabilities of OptumRx,
- our extensive, hands-on community based clinical resources and, importantly,
- a proprietary, scalable direct to your own doctor telemedicine platform.

The understandable and expected rise in stress, anxiety and social isolation has increased the demand for behavioral health services. Digital platforms are proving to be increasingly effective in remotely diagnosing and caring for people with such needs, with a rapidly expanding scope. Optum is among the largest providers of digital behavioral health care services in the country, now with more than 10,000 care providers using our virtual visit platform. Our digital psychiatry offerings extend to community behavioral health clinics, enabling hundreds of thousands of digital visits and complements our more than 500 community based behavioral health pharmacies.

Optum nurses are meeting the increasing need for infusion services in the comfort and safety of people's homes, a double-digit trend we expect will accelerate for years to

come. Home infusion visits by our nurses offer fully equivalent clinical efficacy, greater patient convenience and satisfaction and reduced risk of immuno-compromised people ... at up to one-half the cost of traditional settings. And our HouseCalls services include extensive digital clinical care visits, supplementing in-home visits by Optum nurses.

As clinical techniques and technologies advance, ambulatory surgical care is expanding as an appropriate care setting for high acuity members and procedures, like cardiovascular surgeries. Partly as a result of the COVID-19 disruptions, the convenience, safety and better patient and surgeon experience is becoming more deeply understood. For example, in just the last two months, we welcomed several hundred new surgeons to our centers and have opened new and higher acuity service lines.

We expect the alignment of physicians to value-based care models to accelerate. The recent months have served as a compelling example of why care delivery has and should continue to advance in this direction. OptumCare continues as the physician partner of choice, with over 6,500 additional clinicians – primarily PCPs, specialists, nurse practitioners and physicians' assistants – added so far this year. These clinicians are seeking alignment with the entity best equipped to help move to high-performing, and more stable, accountable care models. We believe that entity is OptumCare.

These are a few examples of how we have and continue to innovate to help make people healthier and to help make health systems work better for everyone. The information and technology enabled ambulatory care and pharmacy capacities of Optum, leveraged and deployed by UnitedHealthcare and other payers and other health systems, hold significant promise for the future of the U.S. health system.

Now I'll turn it over to Chief Financial Officer, John Rex.

## **John Rex – Financial Discussion**

Thank you, Dave. As expected, our second quarter earnings were meaningfully impacted by unprecedented and far reaching disruption in care patterns. We expect this temporary impact will be offset in the quarters ahead by the proactive assistance measures we have already taken, the resumption of more normal care patterns and future COVID-19 impacts, both within the health care sector and the economy at large.

Looking more specifically at the pandemic effects in the second quarter: Optum revenue and earnings for fee-for-service care delivery, and the OptumInsight and OptumRx volume-based businesses, were reduced by lower level of care encounters. For the Company as a whole, this was more than offset by the disrupted care patterns within the UnitedHealthcare and the OptumHealth risk-based businesses.

Prior period development of \$1.4 billion arose primarily from the lower than expected care levels in the second half of March, contributing to the lower medical care ratio this quarter.

The impact of this care disruption is reduced by factors such as COVID related treatment and testing and the financial assistance we are providing. Notably, the assistance component has a more pronounced financial impact in future periods. For example, the suspension of member cost share will have an accelerating benefit, and corresponding impact, for the people we serve as care delivery systems further reopen and they seek care again.

At the lowest point in April, inpatient care – inclusive of COVID-19 related care – was about three quarters of baseline. In June, this recovered to nearly 95%. At the same lowest point, outpatient and physician services fell to roughly 60% of normal levels. As we exited June, they were also recovering, tracking above 90%. These national trends have continued thus far in July, even as certain states are seeing short-term deferral of services where there are elevated levels of infection and hospitalization.

Turning to Optum's overall performance, each of the three businesses performed well, while they were affected in different ways by care deferral and the economic downturn.

OptumHealth's second quarter earnings increased 22% year-over-year. The impact of the lower patient visits in fee-for-service practices was mostly offset by the same temporary deferral of care effects on the risk-bearing practices.

OptumInsight second quarter earnings increased 7% year-over-year, while the revenue backlog grew by nearly \$1 billion to \$19.4 billion. Many of OptumInsight's payer and care provider clients have volume-based contracts for technology and managed services. After an expected slowing of such volumes early in the second quarter due to care deferral, we are now seeing activity rebound. And we see the new business pipeline strengthening again as evidenced by the new partnership with Boulder Community Health.

OptumRx earnings declined by 6% year-over-year in the second quarter, as script volumes were impacted by lower care activity. Unsurprisingly, given the sharp drop in primary care and specialist visits, first fills of prescriptions declined by about one-third early in the second quarter, but began to recover as the quarter progressed and have continued to do so, as care activity increases.

Turning to UnitedHealthcare, second quarter operating earnings were significantly higher due to the temporary care deferrals. We continue to serve more people through our public-sector and senior businesses, including an increase through the second quarter of nearly 600,000 people year-to-date. As expected, given the economic climate, commercial enrollment declined, albeit at lower levels than the change in unemployment might have suggested, as many employers continued benefits coverage for furloughed employees.

During the second quarter, growth in sales of individual policies and Medicaid membership accelerated, the latter as states eased redetermination requirements to

ensure sustainable coverage for people. We were also awarded contracts to serve Medicaid members in Kentucky in 2021, are honored to have been selected to serve the Medicaid population in Indiana and are pleased to continue serving in Philadelphia.

After a strong annual enrollment period for Medicare Advantage, the pacing of new enrollees in April and May eased as traditional in-person sales slowed. In recent weeks, sales have accelerated, with the current level of Medicare Advantage enrollment activity having rebounded to pre-COVID-19 expectation levels.

Our liquidity and financial position have remained strong. Second quarter cash flows reached \$10 billion, or 1.5 times net earnings. Both cash flows and days in claims payables were impacted by the swift moves we undertook to provide enhanced liquidity by accelerating payments to individual care providers and health systems. Offsetting this impact was the timing of second quarter income tax payments, which will now occur in the third quarter.

As noted in our press release this morning, we are maintaining our full year earnings per share outlook in anticipation of the delivery of previously deferred – and potentially even higher acuity care, as well as continued costs to address COVID-19 in the second half of the year. We are encouraged by the rapid pacing of the reopening of care delivery systems and are proactively working to help people quickly obtain the care they need.

In addition, we incorporate a second half view for a more pronounced impact from the consumer, customer and care provider assistance initiatives already undertaken. As Dave stated, we will act to address further imbalances should they arise, over the duration of this pandemic.

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

## **Dave Wichmann – Closing Remarks**

Thank you, John.

Today, in the midst of the COVID-19 crisis, foremost on our minds is the safety of our team members and their families, and the need to continue adapting rapidly, innovating and delivering for those we serve. Still, we know you begin to focus at this time on what will come in 2021 and beyond.

At this distance, the evolution of the pandemic, when, and to what extent the economy will improve, are very much open questions. We expect the macroeconomic impacts of the broader unemployment and actions we have taken to assist customers and communities to continue well into next year. Helping our customers through an unexpected macro environment and the extended impact from disruptions in care has and will continue to be an area of intense focus for our business leaders and care providers.

During this period, our diversified businesses are creating unique opportunities to serve – and we don't believe these are just passing trends. They bring:

- more effective clinical outcomes, satisfaction and convenience for people, at lower cost ...
- a significant contribution to the next-generation health system ...
- one that operates in a socially conscious way.

These are accelerating and durable trends, well supportive of our 13 to 16% long-term growth objective in the years to come. Public-sector and senior benefits programs, our care delivery businesses, our digital and home-based initiatives, pharmacy care services, data and analytics, and health banking and payments platforms will continue contributing as significant growth factors, long into the future.

Thank you.