

Earnings Conference Call Second Quarter 2024 Remarks July 16, 2024

Moderator:

Good morning, and welcome to the UnitedHealth Group Second Quarter 2024 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.

Information presented on this call is contained in the Earnings Release we issued this morning and in our Form 8-K dated July 16, 2024, 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, Andrew Witty.

Andrew Witty

Thank you, Jennifer. Good morning and thank you for joining us. The second quarter results we reported today reflect diversified and durable growth, and a commitment to ensuring high quality care is available to every person we are privileged to serve.

In the first half of the year, revenues grew by nearly \$14 billion, with strong contributions from across the enterprise, led by double-digit growth at Optum.

UnitedHealth Group enters the second half of the year with continuing and broad-based growth momentum. As a result, we are affirming our full year adjusted earnings outlook ... even as we absorb 60 to 70 cents per share in business disruption impacts related to the cyberattack.

These results come from the sustained focus of the 400,000 people of UnitedHealth Group on adding value for patients, consumers and customers through the fundamental execution of our key priorities.

We also are well-positioned for growth in 2025.

In the selling season to date, the most sophisticated, thoughtful buyers of health benefits and services in the U.S., such as large employers ... unions ... states ... seniors ... all continue to choose the offerings of UnitedHealth Group when they are looking for managed care, pharmacy services, or a Medicare Advantage plan that provides the best value.

This consistent growth reflects customers' recognition of the need for a company like ours. As you know, UnitedHealth Group strives to help reduce the fragmentation and lack of coordination that drives up costs and erodes care outcomes in the \$5 trillion U.S. health care marketplace. We aim to better coordinate and align incentives among caregivers, payers and pharmacy, enabling us to focus on the whole patient throughout their health journey. We believe this increases value for customers and consumers, improves people's experience and health, reduces redundancies and waste, and ultimately leads to a more sustainable health system.

For example, the proven health and economic value to consumers and taxpayers of Medicare Advantage. A recent study by Milliman found that the cost to taxpayers of Medicare Advantage is 4% less than traditional fee-for-service Medicare.

At the same time, Medicare Advantage provides seniors well over \$2,000 per year in additional value through lower out-of-pocket costs and important services like dental, vision and hearing – none of which fee-for-service Medicare covers. That means a lot to the majority of the people Medicare Advantage serves, who have limited economic resources and otherwise would lack access to such services.

The home visits we offer seniors further illustrate the value of MA. Last year, our medical professionals made more than 2.5 million home visits. As a direct result, our clinicians identified 300,000 seniors with emergent health needs that may otherwise have gone undiagnosed.

They connected more than 500,000 seniors to essential resources to help them with unaddressed needs such as food insecurity, medication affordability, transportation and financial support.

They also identified and helped close more than 3 million gaps in care that made a real difference in people's lives: Within 90 days of one of our home visits, 75% of patients receive follow-up in a clinical setting.

Additionally, Medicare Advantage patients with chronic conditions who receive these home visits end up with better managed and more stable health outcomes, as evidenced by spending measurably less time than fee-for-service patients in emergency room and other hospital settings.

The bottom line: our home visit programs help patients live healthier lives ... and save taxpayers money. It is only Medicare Advantage that makes programs and results like this possible.

Similarly, Optum Rx clients continue to appreciate the efforts we make to ensure delivery of the lowest cost drugs in the face of drug companies' sole ability to set prices. They also recognize the importance of the comprehensive pharmacy services we provide to people. That's driving our momentum this year and bodes well for 2025.

We also continue to bring practical innovation to people through new products and services, and by using new and emerging technologies to improve our own operating efficiency.

For example, Surest continues to differentiate itself in the marketplace, which is why more and more customers are offering it to their employees and why the offering continues to grow substantially.

Additionally, investments in modernization of legacy technology and new, emerging technologies are enabling our consumer-centric advancement of health care. For example, our growing AI portfolio, made up of hundreds of practical use cases, will generate billions of dollars of efficiencies over the next several years. These investments enable us to improve consumer experience, enhance provider find and

price care capabilities to meet people's needs, and improve clinical back-office execution.

We expect technology innovation to become an increasingly core driver of our growth over the next two to five years.

Now, I'll turn it over to our president and chief financial officer, John Rex.

John Rex

Thank you, Andrew.

I'll start this morning by providing context on some of the unique items in the quarter. Then I'll follow with perspectives on care activity and general business updates.

The overarching theme I hope you leave with today is that UnitedHealth Group continues to deliver broadly diversified growth with expanding opportunities ... work that positions us for continued strong performance in '25 and beyond.

Now, to update on Change Healthcare. Our focus has centered on the patients, care providers and customers who rely on us to keep the health system running.

Payment and claims flows for most care providers are back to normal. But we know, that is not the case for some, so we continue to work with those who are not there yet.

UnitedHealth Group has provided more than \$9 billion dollars in loans and advance payments to help providers mitigate the impact of the attack, all at no cost to them.

Cyber impacts in the quarter totaled 92 cents per share, and we now estimate the full year impact will be \$1.90 to \$2.05 per share.

Let me break that down a couple of steps further for you.

Of the total in the quarter, 64 cents per share were direct costs incurred in restoring the clearinghouse platform and other response efforts. These included higher medical expenses directly stemming from the temporary pause of some care management activities.

For the full year, we now estimate these direct costs at \$1.30 to \$1.35 per share. The 40 to 45 cents per share increase in this estimate is primarily related to care provider financial support and costs for producing and mailing the consumer notifications that will begin later this month.

As a reminder, these direct costs are included in net earnings but are excluded from adjusted earnings per share.

The other component affecting our results relates to disruption of the ongoing Change Healthcare business. This largely encompasses the loss of revenues, combined with the costs of keeping these capabilities fully ready to serve.

Notably, these effects are not excluded from adjusted earnings.

In the second quarter, this impact was 28 cents per share. For the full year, we now estimate the business disruption impacts at 60 to 70 cents per share, compared to the 30 to 40 cents we estimated last quarter. Most of the service functionality is now restored and revenues are rebuilding, even as the pacing of this process varies.

These important services are now more modern, secure and capable ... and continuing to advance rapidly. Our ambition continues to be to return to baseline performance in '25 and to grow strongly from there.

Turning to international, following the sale last quarter of our much larger Brazil operations, we classified the remaining South American businesses, as held for sale. This is a natural step following the Brazil sale. We highly value the relationships we have built with our dedicated colleagues over the last several years and wish them continued success.

In a diverse enterprise with a strong growth record ... and capabilities such as ours, such portfolio evolutions enable us to keep our focus on the many compelling growth opportunities before us.

The second quarter includes a total of \$1.3 billion in South American impacts, the majority of which is non-cash and largely due to foreign currency translation losses accumulated over the years.

About \$220 million of this stems from a regulatory action in Chile affecting all health plans. You'll see that as a component in the supplemental financial tables we provided this morning.

The action relates to industry premium increases dating back to 2020, but as configured will be reflected in consumer premium credits to be issued in future years. As a result, the entire \$220 million was recorded as a reduction to premium revenue in the second quarter, increasing our reported medical care ratio by about 25 basis points.

Turning to the second quarter medical care ratio ... it was also impacted by about 40 basis points, or \$290 million, due to the suspension of some care management activities after the cyberattack. That makes for a total of about 65 basis points of non-repeating impacts, including South America.

Beyond these effects, the care ratio in the quarter was also modestly affected by three other factors:

One being member mix within Medicare Advantage and dual-special needs plans, which this year has been shaped by the unusual, competitive benefit configurations in the marketplace.

A second being the timing mismatch between the current health status of remaining Medicaid members and the state rate updates, a timing mismatch we expect to realign in the months ahead.

And third, the lingering upshift in provider coding intensity, which we believe was spurred by the temporary suspension of our care review activities and carried past. This impact is not reflected in our cyberattack direct response costs and we have been addressing it.

Nonetheless, we continue to expect our full year medical care ratio, excluding 30 basis points of cyber and South American effects, to be within the range we offered in November, albeit at the upper end.

For our 2025 Medicare Advantage planning process, we assumed care patterns and mix at the levels we are seeing today ... in addition to fully incorporating the second

year of the three year phased funding cuts. And we have been fully attuned to how the Inflation Reduction Act will affect Medicare Part D offerings in '25.

Also, as noted, we expect the Medicaid timing mismatch to subside as rates are updated throughout the remainder of this year and into next, appropriately reflecting current member health status.

Turning to the performance of our businesses: At UnitedHealthcare, revenues of \$74 billion grew by \$3.6 billion.

UHC domestic commercial membership grew 2.3 million in the first half of this year as employers and consumers responded to our distinctive offerings. And while the '25 selling season is ongoing, we are encouraged by the continued momentum we see.

Our recently filed Medicare Advantage bids for '25 again took a balanced approach to provide as much stability for seniors as possible, while factoring in the realities of the funding cuts and current care patterns.

You can expect us to continue to prioritize balanced and durable performance over transitory market share gains.

In Medicaid, we expect membership levels to stabilize as we head into the second half of the year and our teams are executing well with both renewals and expansions.

Optum Health's revenues grew by 13% to \$27 billion and the operating margin expanded over last year. We are on track to approach 5 million patients in value-based care by the end of this year and are progressing strongly on our earlier and deeper engagement with patients ... with purposeful focus on our newer regions ... to more rapidly improve health outcomes and experiences.

Optum Rx revenues grew 13% to over \$32 billion, driven by strong customer response to the differentiated value, consumer experience and clinical expertise we offer.

At Optum Insight, for the services beyond Change Healthcare, we see strong performance in line with our expectations. The revenue backlog increased to nearly \$33 billion, growth of over \$1 billion from a year ago, driven by business process and information technology services for health systems.

A few additional items of note:

As we highlighted in April, we established an additional \$800 million in medical reserves in the first quarter to reflect the potential for the cyberattack to have affected claims receipt timing. With claims now flowing at more normalized levels, we continue to prudently analyze these trends. Similar to last quarter, the second quarter results do not reflect any favorable earnings impacting medical reserve development.

Days in claims payable at 45.2 compare to 47.1 in the first quarter. The change was due primarily to the return to more normal claims submission patterns from providers, ... and, to a lesser extent, some impact from reclassifying the remaining South American operations to held for sale.

Cash flows from operations in the quarter were \$6.7 billion, or 1.5 times net income, even with the accelerated funding for care providers. In June, our board of directors increased the dividend by 12%, marking the 15th consecutive year of double-digit dividend increases to shareholders.

During the quarter, as I mentioned earlier, we prioritized devoting resources to support care providers in the wake of the cyberattack over some activities such as share repurchase.

It was the right thing to do ... devoting all our efforts to provide stability for the health system.

Still, with our ongoing strong capital capacities, and with support needs abating, we expect to achieve the full year repurchase objective we shared with you last November.

In summary, it is the confidence we have in the performance of our diversified businesses that allows us to affirm full year adjusted EPS in the range of \$27.50 to \$28.00, the objective we established last year, even as we have absorbed the unanticipated 60 to 70 cents in business disruption impacts.

Within this, we expect a balanced pacing in the second half.

Now I'll turn it back to Andrew.

Andrew Witty

John, thank you.

As I said in November at our investor conference, we operate in an environment where change is constant. What you've come to see is that when changes happen – foreseen or unforeseen – we just deal with it. UnitedHealth Group is a nimble and adaptable enterprise, well-suited to meet the challenges that come our way and the opportunities we pursue with the many and diverse capabilities available to us.

In this first half, as we've done before, we navigated a complex external environment while managing through a significant business disruption. We continue to deliver on our growth objectives ... and are committed to delivering on our 13-16% long-term growth target.