Moderator:

Good morning, I will be your conference operator today. Welcome to the UnitedHealth Group First Quarter 2018 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.

Information presented on this call is contained in the Earnings Release we issued this morning and in our Form 8-K dated April 17, 2018, which may be accessed from the Investors page of the Company’s website. I would now like to turn the conference over to the chief executive officer of UnitedHealth Group, David Wichmann.

Dave Wichmann:

Good morning and thank you for joining us today. Results for this initial quarter of 2018 continue the performance trends of recent years – well-balanced, strong top-line revenue growth, solid medical cost performance, meaningful advances in NPS and effective capital deployment.

First quarter revenues grew 13 percent to $55.2 billion, adjusted cash flows from operations grew 60 percent to more than $3.2 billion and adjusted net earnings grew
28 percent to $3.04 per share. We are raising our full year outlook for adjusted net earnings by 10 cents per share on the lower end of our range and 5 cents per share at the upper end, to a new range of $12.40 to $12.65 per share, reflecting the strengthening of our businesses, competitively differentiated offerings, diversified market positions and, above all, the value we provide to those we serve.

UnitedHealth Group constantly evolves, but more so advancing these last two decades towards a more diversified, capable, modern and socially responsive health care company. Health care financing and savings, health information and technology, pharmacy and medical care delivery, population and consumer digital health, and our many other health benefits and health services offerings are all elements of a broader strategic mission, globally, to help people live healthier lives and help make the health system work better for everyone.

Every one of our 285,000 team members works every day to make the highest quality health care more affordable, accessible and responsive to the individual needs of the nearly 140 million people we now serve, one person at a time.

We look very different today than five years ago – for example, clinical and technology professionals are the first and third largest job categories across UnitedHealth Group – and we will look different again five years from now as we continue to evolve at an accelerated pace.

I’ll offer one example: within 10 years we expect half of all Americans will be receiving their health care from physicians operating in highly evolved and coordinated, value-based care designs, because the outcomes clearly demonstrate properly constructed value-based care arrangements improve quality and consumer satisfaction, while reducing the cost of health care.

This structural shift from fragmented, fee-for-service medicine is the type of opportunity for which we are built. Specifically:
• UnitedHealthcare uses data analytics to understand and identify high-performing care delivery partners, and then contracts for care under value-based arrangements with these care providers.
• More directly, OptumCare provides data driven, highly coordinated, high-value ambulatory care for populations of patients – for all payers, including UnitedHealthcare.
• And we use modern technology and information across the expanse of our enterprise, to enable and improve health system performance to the benefit of all consumers and payers, across the spectrum of health care.
• In all of these instances, we design products and services, applying clinical and knowledge-based resources, to optimize health system performance to better serve individuals.

There are many other examples of how we are employing these competencies enterprise-wide for the people we are privileged to serve, such as caring for the frail and vulnerable wherever they reside, delivering value and transparency in pharmacy care services or advancing new products and services through our integrated plan and care delivery operations in Brazil.

And soon we will offer consumers highly advanced, simplified individual health records. These IHRs will help consumers to better understand and execute next best health actions to improve individual health and the overall performance of health systems. This will represent the first intelligent consumer-directed health information capacity in the markets we serve, and we hope over time it could help transform the way health information is used in the care process.

We are collaborating across the health care sector to improve quality and value for people, and seeking to take our performance for them to significantly higher levels, as we march toward an NPS average score of 70 across the enterprise over the next five years. We believe UnitedHealth Group remains early in its evolution with a long runway for growth.
My colleagues will give you an update on our businesses and their progress toward this shared vision for the future of health care, starting with Optum’s chief executive, Larry Renfro.

Larry Renfro

Thank you, Dave –

Optum begins this year serving more clients, and more people, in more ways, through broader and deeper relationships and with a greater variety of products and services, than ever before.

Consumers served, first quarter adjusted scripts, and revenue backlog are at all-time highs, driving up Optum’s first quarter revenues 11 percent to $23.6 billion. Strong growth, together with excellent operating cost and productivity management, lifted the first quarter margin by 100 basis points over last year. Operating earnings grew 29 percent to almost $1.7 billion.

Optum is helping meet consumers’ needs for a simpler, more personalized health care system. Today, more than 35 million people can use RallyCare to evaluate and access best care. RallyCare delivers aided physician search, facility lookup and full price transparency directly to the consumer, using highly relevant, individualized details of their own benefit plan, actual network contracts and actual deductible status. That means consumers can see what their personal out-of-pocket costs will be for a specific treatment, at a specific facility, performed by a specific doctor. It also provides sophisticated yet simple and distinctive information about quality, an individualized next best action list for better health, and independent consumer reviews from other patients.

People have conducted 60 million searches using RallyCare. Ninety-four percent of the time their hospital search is focused on a tier 1 hospital, meaning higher quality and lower cost. And 36 percent of out-of-network provider searches have been redirected to
higher quality, in-network care providers. Nearly 2 1/2 million people per week are using RallyCare. When a consumer selects a premium-designated physician, they reduce their cost of health care by more than $300 per care episode. Last year, we saw over $100 million in medical costs saved for customers through RallyCare.

RallyEngage rewards people for healthy choices and behaviors...and Rally users earned more than $200 million in incentives in just this past quarter. We will be introducing this offering to our Medicare Advantage customers in 2019.

We are also driving price transparency for care providers and patients with our PreCheck MyScript offering. PreCheck MyScript integrates directly into the care provider’s EMR workflow and gives doctors real-time information about whether a drug is covered by the patient’s plan, lower cost options and what the patient will pay out of pocket. PreCheck MyScript is one element in our synchronized approach to pharmacy care, where we reach consumers through as many touchpoints as possible, to improve their health outcomes and impact the total cost of care. Since introducing PreCheck MyScript last year, we have already helped 500,000 patients. And, over 20 percent of the time, the consumer and their physician are switching to a lower cost prescription when presented alternatives. This advanced technology improves the physician, patient, and pharmacy experience, is simple to use, saves money for consumers and plan sponsors and leads to better pharmacy adherence and health.

Initiatives like these give you an idea of why we are so enthusiastic about what is still to come from Optum, all in support of our mission, addressing the health needs of people and improving health systems broadly. We are building on what is already an unmatched foundation for innovation and growth:

- For hospitals and care delivery organizations, we have grown our full service revenue management capability into a $2 billion business, with the strongest capabilities in the marketplace. With the recent deepening of our advisory
business, we expect to add significantly more value for our care delivery customers.

- Today we help over 3 million account holders better manage their health care spending, with more than $9 billion in dedicated health care funds now managed through Optum Bank, up from $1 billion in the first quarter of 2010.
- Through OptumLabs, our research forum founded in 2013, we convene leading researchers to deliver actionable research through cutting-edge programs that drive new interventions. Last year, OptumLabs addressed the opioid epidemic, developing a performance framework targeting four aspects of the crisis: prevention, pain management, treatment of opioid use disorder and the impact of opioids on maternal health. This framework is being used to apply fresh approaches to helping those combatting this major health epidemic in the U.S.
- By 2015 we had expanded our pharmacy benefit management business and transformed it into a pharmacy care services business, focused on the application of advanced technology, synchronization of medical and pharmacy benefits, and transparency, alongside improved processing flexibility, and service and procurement expertise. This innovative approach produces distinctive savings, averaging up to $1,500 per member per year, and was recognized by the Healthcare Transformation Alliance and other marquee customers, driving OptumRx to a market-leading growth rate, on a multi-year basis.
- OptumCare has grown from a single medical practice serving 350,000 people and one payer to an emerging national ambulatory care delivery platform, focused on high-value care and exceptional consumer satisfaction, serving more than 80 payers and 15 million individuals. Every day OptumCare achieves superior net promoter scores with physicians and consumers for delivering higher quality, lower costs, trusted consumer satisfaction, and a workplace where clinicians are able to operate to their fullest professional potential, in an environment deeply respectful of their profession and their practice.
- And now with Optum Ventures, we hope to accelerate early stage, open market innovations across the breadth of the health care services marketplace, with up to $600 million in newly committed funds.
Optum has the right people, the tools and assets, and extraordinary market opportunities, in the U.S. and globally. We’re also fortunate to have in UnitedHealthcare an ideal, complementary business partner, so let me now turn it over to Steve Nelson, UnitedHealthcare CEO.

**Steve Nelson**

Thank you, Larry.

We are pleased to report strong growth and performance across our businesses, on behalf of those we serve.

In the first quarter, UnitedHealthcare grew to serve 2.2 million more people, after transitioning TRICARE. Highlights included market-leading growth in Medicare Advantage and dually eligible members, and building a leading South American presence in both health care benefits and care delivery.

Our first quarter revenues of $45.5 billion grew 13 percent over last year, and earnings from operations of $2.4 billion grew 12 percent, with an operating margin of 5.3 percent. Medical costs were well-managed and consistent with our outlook, overall.

In Medicaid, we continue to expect strong revenue growth in 2018. That includes ongoing national growth serving dual special needs members, providing them aligned benefits and comprehensive service to address their oftentimes more complex care needs.

We grew to serve 375,000 more seniors with medical benefits in the first 90 days of this year. As expected, we saw strong, balanced performance in retaining seniors and growing in the individual MA and group-sponsored MA markets, and we are pleased to serve another 45,000 people in Medicare Supplement. In the first quarter Optum HouseCalls completed 342,000 home visits. We expect in 2018 to increase our visits
by 12 percent over last year, improving our impact on the health of those we serve and their experience with UnitedHealthcare.

In UnitedHealthcare Employer & Individual, commercial group full-risk grew by 165,000 people over the past year, despite a 75,000 person decrease in this quarter, consistent with our outlook on the last call. We expect now to grow in this category over the balance of this year.

UnitedHealthcare Global expanded through its merger with Banmédica, which has operations serving more than 2 million people and the health system needs of Chile, Colombia and Peru.

More broadly, UnitedHealthcare continues to deliver distinctive performance for customers and to drive consistent growth and share gains over time.

We provide information to doctors about their performance across their UnitedHealthcare patient panels. Doctors want this data and we want and need more doctors to qualify as being among our best care providers. We find the better doctors, whom we refer to as premium-designated physicians, deliver consistently higher quality and average nearly 20 percent lower cost for a full episode of care, when compared to non-premium physicians.

We want to help as many of our patients as possible to be treated by these doctors. Our digital services, call advocates, consumer-centric benefit designs, nurse coaches…everything is designed to get people to the best care providers, and at the best sites for care, affordably.

We also serve people by helping them close gaps in care, which often can be caused by deviations from evidence-based medical practice, failure to modify lifestyle behaviors, or the impact of social determinants of health. This is a broad-based, collaborative approach – with outreach to physicians, into people’s homes through
Optum’s HouseCalls, through our many retail partners and through our call and digital engagement channels. We have tracked and closed tens of millions of gaps in care in the last year alone – from simple things, like a flu or pneumonia vaccination, to the much more complex – identifying urgent needs that save lives. They all help people live healthier lives, and demonstrate to them that UnitedHealthcare compassionately cares about them.

Social determinants of health, like food security or stable housing issues, sit upstream from and weigh heavily on gaps in care. Data from other countries and our own experience indicate social investments reduce health care costs, and addressing these social determinants is the next frontier in serving the whole person here in the U.S. That’s why we are engaged in advancing more affordable housing, more reliable transportation, and more sustainable employment, as well as the data integration to better coordinate these and other services.

Our Community & State care managers and community health workers evaluate, prioritize and organize social services for people 10,000 times per month, leveraging a growing national pool of 300,000 independent, community-based social service organizations. We will continue to strengthen this capability as we learn how best to identify and coordinate these services on behalf of the members we serve.

Aligning performance is another element in driving distinctive results for people. As Dave mentioned, we estimate about half of all Americans in the next decade will receive their care through value-based, coordinated care systems which integrate benefit design and consumer engagement, with high-quality physician decision-making. Well executed, these approaches leverage modern technology to deliver essential care information to patients and care providers at the point of care.

Today, we have more than 1,000 relationships with value-based, coordinated care organizations. More than 15 million people nationwide receive care from a physician within these performance-based, integrated care designs. Gaps are being closed in
Medicare Advantage, more well-child visits are occurring in Medicaid and, in commercial benefits channels, we’re seeing both lower use of the ER and lower hospital admission rates for patients treated in the ER. Commercial market integrated care arrangements outperform the overall market on 87 percent of quality measures, in part because consumers they serve visit primary care physicians 10 percent more often, even as their hospitalizations are reduced by 17 percent. These benefits can cost 6 to 8 percent less overall, have lower medical cost trend and receive a favorable NPS rating from care providers.

Taking these distinctive elements, blending in market-leading services from Optum, and delivering high-value, innovative health benefit plans has helped drive UnitedHealthcare’s NPS, health outcomes, and consistent growth in recent years, across our market categories. Looking forward, our internal road map highlights further investments and greater market share gains driven by each of these and other elements under development, positioning UnitedHealthcare to continue as a distinctive growth leader in modern consumer-centric health benefits.

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

**John Rex**

Thank you, Steve.

Once again, we delivered strong, well-balanced performance in the quarter. Consolidated revenues exceeded $55 billion, adjusted cash flows from operations exceeded $3.2 billion and adjusted earnings of $3.04 per share grew 28 percent year-over-year.

We continue to expect our 2018 medical care ratio to run in a range of 81.5 percent plus or minus 50 basis points.
Our first quarter operating cost ratio of 15.4 percent includes about 110 basis points from the return of the health insurance tax and a modest impact from mix, including the effect of the Banmédica acquisition.

Turning to our balance sheet, we continue to maintain a strong position with significant financial flexibility. Return on equity for the first quarter was nearly 24 percent, and our debt to total capital ratio was 41.6 percent, even as we funded Banmédica, repurchased almost $2.7 billion in stock and distributed more than $700 million in shareholder dividend payments.

Relative to reserves, our roughly $20 billion medical payable balance at quarter’s end translates to 49.2 days of medical costs payable, essentially stable with 49.5 days at year end and a year ago.

Adjusted cash flows from operations of $3.2 billion were again strong this quarter, at 1.1 times net income.

Looking ahead, our earnings outlook balances:

- the fundamental performance strength seen across the company in the first quarter;
- our usual prudent respect for medical costs, inclusive of the impact of flu in the first quarter;
- increased investment spending in the second half, as planned;
- and a modest in-year headwind from the health insurance tax deferral, which has increasing impact through the course of the year.

Taken together, we have raised our expectations for 2018 adjusted earnings to a range of $12.40 to $12.65 per share – or growth of more than 24 percent over 2017 at the midpoint.

Dave…?
Dave Wichmann

Thank you, John.

We are restless as an enterprise for positive change in health care and we know the market is as well. That restlessness fuels the pace and intensity with which we are moving this enterprise forward on our mission. We have the right people, tools, and assets for the road ahead. Our unique business alignment, capability set, and areas of focus position us well for sustained growth and solid returns on capital, this year and well into the future.

And we are pursuing growth and diversification with emphasis in five key areas:

- Health Care Delivery
- Pharmacy Care Services
- Consumer-Centric Benefits
- Digital Health Care, and
- Global

You have heard elements of our progress in each of these areas throughout our remarks this morning, and you can be sure we are focused on fully executing on this agenda to our full potential, given the enormous size of the opportunities we see to serve and to grow and, ultimately provide consistent, strong returns for our shareholders.

We see more opportunity and potential in the decade ahead than even the one we have just completed. And importantly, we have an organization and leadership team that is energized and humbled by the real opportunity to help make people healthier and make the health system work better for everyone.