Q2 2022 Earnings Call

Company Participants

- Andrew Witty, Chief Executive Officer, UnitedHealth Group
- Brian Thompson, Chief Executive Officer, UnitedHealthcare
- Dirk McMahon, President and Chief Operating Officer, UnitedHealth Group
- Heather Cianfrocco, Chief Executive Officer, OptumRx
- John Rex, Executive Vice President and Chief Financial Officer, UnitedHealth Group
- Tim Noel, Chief Executive Officer, Medicare & Retirement
- Wyatt Decker, Head of Optum Health

Other Participants

- A.J. Rice
- Gary Taylor
- Josh Raskin
- Justin Lake
- Kevin Fischbeck
- Lisa Gill
- Matt Borsch
- Nathan Rich
- Ricky Goldwasser
- Scott Fidel
- Whit Mayo

Presentation

Operator

Good morning, and welcome to the UnitedHealth Group's Second Quarter 2022 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 the 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 these 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 and 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 15, 2022, 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 {BIO 3471756 <GO>}

Katie, thank you. And good morning, everybody, and thank you for joining us today. UnitedHealth Group enters the second half of the year with sustained momentum as we execute on our objective to serve more people more effectively with connected high-quality care. For that, I want to thank our 360,000 colleagues. It's their unwavering commitment to our mission and their hard work and support of the people we serve, that makes all of this possible.

As a result of the strong performance at both Optum and UnitedHealthcare, we are increasing our adjusted earnings per share outlook for the year to a range of $21.40 to $21.90 per share.

Comprehensive value-based care is essential theme of our growth strategy, helping more patients and care providers transition from traditional fee-for-service to a value-based orientation. We aim to drive better and more consistent care outcomes at lower overall cost, often for people who are among society's most vulnerable with multiple chronic conditions, limited income and unmet social needs.

Optum Health and OptumRx's clinical platforms span a continuum of care settings from virtual to post-acute, in-clinic and at-home, enabling our care teams to meet patients' unique needs by providing personalized connected care. Our approach helps patients stick with their prescribed care programs, allowing them to spend more time in the comfort of their own homes.

The high consumer satisfaction with this comprehensive and consumer focused approach is evidenced, for example, by a net promoter score of 80 for the 1.5 million people served by our dual special needs plans. We again delivered growth across our health benefits offerings this quarter. As you might expect, right now, our Medicare teams are finalizing offerings for this fall's open enrollment, focused as always on delivering more value, stability, and predictability for seniors.

Throughout the year, we gather extensive consumer broker and market feedback to continually improve our products. Our approach is grounded in providing deep customer engagement, high-touch service, and access to the best care. The benefits of this approach are striking. People served by Medicare Advantage spend about 40% less out of pocket than those participating in fee-for-service, which translates into savings of about $2,000 each year for seniors, most of whom are on limited income. And compared to traditional fee-for-service, Medicare Advantage plans devote up to 30% more in resources to primary care and perform up to 50% more preventative screening and testing services for their seniors.

The response among seniors in our plans is positive. Plan satisfaction ratings have risen by 450 basis points over the past five years, nearly twice that of the industry. Consumer satisfaction is best demonstrated by the almost 3.4 million additional seniors who have chosen our plans over the same period. Meanwhile, in our domestic commercial health business -- benefits business, over the past 12 months, we have grown to serve over 250,000 more people as a result of innovation in and expansion of our products, including our digital-first offerings.

To continue driving affordability in areas of greatest need, we are announcing today an important initiative from UnitedHealthcare supported by OptumRx. Starting in 2023, there will be no co-pay, $0 out-of-pocket for several critical medicines on our preferred drug list for UnitedHealthcare Group's fully insured members. Included are medicines such as insulin, epinephrine for severe allergy reactions, and albuterol for acute asthma attacks.

While this is an important step for vulnerable people's health, the larger and longer-term cost containment of drugs depends upon manufacturers restraining and lowering the list price of their products, which is the fundamental driver of costs. We will continue to use our capabilities to do everything we can to lower out-of-pocket cost for consumers, building past actions, including point-of-sale discounts.

Stepping back and looking across each of our five growth areas, you'll see a common theme, the deepening of our relationships with the consumer served by Optum and UnitedHealthcare. Throughout 2022, we've been rapidly expanding and accelerating investments in capabilities to reach and serve a broader base of consumers, ever more effectively. This includes further enhancing our digital experiences to help consumers find trusted health-related information and drive greater engagement with our direct-to-consumer platforms.

Now I'd like to turn it over to Dirk McMahon, our President and Chief Operating Officer, to share more about these efforts. Dirk?

Dirk McMahon {BIO 18950833 <GO>}

Thank you, Andrew. Picking up on Andrew's comments, I want to provide you with a little more color on the progress we've been making on our growth strategies. This progress is evidenced by -- is evidenced in our work to serve more people through value-based arrangements and to deliver better care. We are well along in our goals for the year. This expansion has significant implications for clinical quality and consistency.

MA patients in value-based arrangements with OptumCare physicians are more engaged in their care, with adherence to wellness checks running 5 points higher than Medicare fee-for-service patients, helping to deliver a nearly 20% lower hospitalization rate. Further, OptumCare COPD patients served in our value-based arrangements have 80% higher medication adherence rates than Medicare fee-for-service patients, contributing to about

60% fewer respiratory complications, enabling people to avoid emergency room visits. Clinical results like these are a small part of the track record we have built in delivering value-based care at a substantial scale for years now and what gives real urgency to our work to expand access to such care.

We also remain committed as an organization to improving access by driving down the cost of healthcare through applied technology. For example, we are investing hundreds of millions of dollars to enhance the technology backbone of healthcare: areas such as platform rationalization to reduce unnecessary complexities; greater end-to-end eligibility management for more seamless customer experience; and a common platform to facilitate a consistent clinical experience for our consumers and providers. These investments will ultimately lead to an enhanced end-to-end service experience, lower overall operating cost, and greater value for people we serve.

A similar experience is at the center of our work on the integrated consumer card developed by our Optum Financial Services team. We have seen great consumer response within our initial pilot groups. The simplicity of combining all benefits, even healthy food purchases onto a single, widely accepted card has been a differentiator with consumers. Based on this initial work, we intend to introduce the card to all our individual Medicare Advantage members in 2023.

Another key element of our work to improve experience is the optimization of consumer transactions. We know members need and expect timely information at their fingertips. And I'm pleased to report they are responding well to our digital offerings for everything from understanding their coverage to completing a virtual visit. Digital engagement has jumped 170% among Medicare members during the last couple of years.

Lastly, in pharmacy services, we are very focused on improving quality of care and access for consumers by driving pharmacist-led offerings. We are on track to have nearly 700 community pharmacies by the end of the year and continued to increase the integrated community pharmacy footprint in our clinic locations.

With that, now, I'll turn it over to Chief Financial Officer, John Rex.

John Rex {BIO 19797007 <GO>}

Thank you, Dirk. As Andrew noted, we entered the second half of this year with strong growth momentum. First half revenues of over $160 billion grew 13% compared to last year. Performance was well balanced, with double-digit growth of both Optum and UnitedHealthcare.

To begin, let me touch briefly on the care patterns we have observed so far this year. Principally, we have seen what had been a balanced relationship between COVID and non-COVID care activity over the past couple of years diverged modestly, with the latter not returning quite as rapidly with lower levels of COVID care. We also continued to see some variation in underlying care patterns with certain areas remaining below historical levels; for example, pediatrics and emergency department. And others coming back more fully such as the levels at which seniors are obtaining important preventive care.

In recent weeks, we are seeing rising COVID-related hospital admissions, but with a lower average length of stay compared with earlier periods. As always, we watch closely for longer-term health impacts on people due to care which might have been deferred during earlier periods. Thus far, we are still not seeing patterns which indicate shifting acuity. There are, of course, many reasonable theories about what is driving the current environment, and they are all, no doubt, interesting.

But here is what we are actually doing. Consistent with the longstanding practice of UnitedHealth Group, our primary intent is to ensure people are getting the care they need and to help them in that process as much as we can. We remain, as always, highly respectable medical cost trends and how they can evolve rapidly, and we will continue to position our offerings accordingly.

Moving now to the businesses. Optum Health revenue grew by over $4 billion, or 32% in the second quarter. Revenue per consumer increased 30%, led by growth in patients served under value-based arrangements. Earnings from operations rose 24%, even as we accelerated investments in our care delivery practices to support value-based expansions.

We also saw strong contributions from Optum's ambulatory surgery centers, which continue to advance the scope and complexity of procedures performed in these optimal settings, all while delivering a superior patient and surgeon experience and high-quality clinical outcomes. Our centers have nearly tripled the number of high acuity joint, spine, and cardiovascular procedures performed compared to just two years ago. Care providers increasingly recognize the benefits these centers offer and consumers place high value on the care quality and experience with an NPS consistently in excess of 90.

Optum Insight revenue grew 11% year-over-year. The revenue backlog was $23.6 billion, growth of $2.3 billion compared to last year. We continue to drive technological advancements, applying artificial intelligence and machine learning more deeply in high-value knowledge-based services, including an expanding suite of information technology and data analytics offerings.

OptumRx revenues grew 10% to nearly $25 billion, reflecting continued strong sales results and execution in the core PBM, as well as our growth in our pharmacy care services. These vital and expanding care offerings serve and improve the health of people, including in such areas as our high-touch specialty services, where we tightly monitor and track the effectiveness of complex treatments.

Turning to UnitedHealthcare. Revenue grew by a strong $6.6 billion, or 12% with contributions from all our businesses. In our offerings for seniors, we continue to expect to serve up to 800,000 additional people within Medicare Advantage this year. About three quarters will be in individual and group Medicare Advantage and the remainder in dual special needs plans. This puts us on track for our seventh consecutive year of share gaining growth in Medicare Advantage.

People served by our Medicaid offerings grew by 180,000 in the second quarter. At this point, we anticipate the impact to Medicaid enrollment as a result of state redetermination activities will be experienced next year. We continue to prepare resources to help people find uninterrupted access to appropriate coverage as this transition occurs.

We added 80,000 new people in domestic commercial plans during the quarter. Within that, fully insured commercial offerings grew by 60,000 from the first quarter of this year with balanced growth across group and individual fully insured offerings. Of note, some 90% of the growth within our individual and family plans was among people who chose a plan featuring convenient and cost-effective access to virtual visits.

Our capital capacities remain strong. Second quarter cash flows from operations were $6.9 billion or 1.3x net income. And we continue to expect full year cash flows of about $24 billion. In the first half of this year, we returned nearly $8 billion to shareholders through dividends and share repurchases. In June, our Board increased the dividend by 14%, and we deployed more than $7 billion in capital to enhance our care delivery capacity and consumer strategies, to improve outcomes and experiences for the people we serve and for the benefit of the broader health system.

As noted earlier, based on this growth outlook, today we increased our adjusted earnings outlook to a range of $21.40 to $21.90 per share.

Now I'll turn it back to Andrew.

Andrew Witty {BIO 3471756 <GO>}

Thanks, John. Before the Q&A, let me underscore a few key points. First, the strong momentum throughout our business. The people we serve are continually seeking value, high-quality care at fair cost, and our colleagues across Optum and UnitedHealthcare are raising the bar every day. You see that manifested in our business performance and the strong growth in our core platforms, double-digit growth across the benefits businesses, a growing revenue backlog in Optum Insight, robust growth in our pharmacy services and expansion across Optum Health.

We see tremendous opportunity ahead, and we remain confident in our ability to deliver our long-term 13% to 16% earnings per share growth objective and further advance our mission to help people live healthier lives and to help make the health system work better for everyone.

With that, operator, let's open it up for questions, one per caller, please.

Questions And Answers

Operator

(Question And Answer)

Thank you. The floor is now open for questions. (Operator Instructions). We'll take our first question from A.J. Rice with Credit Suisse.

Q - A.J. Rice

Thanks. Hi, everybody. I wondered if maybe we could ask you to comment a little bit more on your discussions with the employer groups as we go through the selling season on the benefits business. I had two open questions. It seems like to me there's this sort of back and forth about need to retain employees, tight labor market in many industries. But alternatively concerns about the recession and how is that coloring conversations in and also this issue of pressure on some of the provider areas from their tight labor markets. How is that impacting discussions with employers about their benefit outlook for next year?

A - Andrew Witty {BIO 3471756 <GO>}

A.J., thanks so much for the question. So first off before I hand this to Brian Thompson, to give you a few thoughts, we've been super pleased with the progression particularly across the benefits business as you've seen in the report this morning. But certainly within our E&I business, the commercial business is having a very strong year and I think the team have worked extremely hard to understand the kind of pressures you're describing us, as employers are obviously concerned about managing their own cost environment, and how we make sure that the benefits availability for their employees are appropriate.

Really, I would say, take just this opportunity just to emphasize how important the role of a company like UnitedHealthcare is here, because as we all know, we're in a more inflationary environment, the role of UnitedHealthcare to help deliver affordability, affordable health care coverage to the employees of all of those companies that rely on is super important.

And maybe with that, I'll hand it to Brian to give you a little bit more sense of how things are playing out.

A - Brian Thompson {BIO 1537785 <GO>}

Yes. Thanks for the question, A.J., and appreciate that lead in, Andrew. Most of these conversations have been around innovation and how do we continue to drive value-based solutions in the form of product design. That has really been the central theme throughout. We've showed up to the market with some new ideas around virtual care, you've heard about that with our partnership with Optum, both in terms of product design as well as broader access beyond medical integrated with behavioral, et cetera, and how we really enable the consumer.

High deductibles have often been a part of the equation for a long time but Bind really puts that consumer in the driver's seat where they're able to choose what coverage they want with pre-service guaranteed cost and that really resonates in the marketplace. And most importantly for employers, it not only provides great quality but lower price points. So I would say, the conversations have been less around staffing and employment levels and more around value and these examples of products have really resonated.

A - Andrew Witty {BIO 3471756 <GO>}

Brian, thanks so much. And A.J., thank you again. And next question, please.

Operator

We're going next to Justin Lake with Wolfe Research.

Q - Justin Lake {BIO 6460288 <GO>}

Thanks, good morning. Question on cost run. One, it'd be great if you can just run us through what you were seeing by business segment. And then two, in terms of thinking into next year, one, are you starting to price for some level of COVID kind of being normal? So I know you've always guided above for normal plus COVID. Are you starting to price that COVID in pricing above normal for next year? And two, what are our hospital unit costs looking like for next year versus the 4% to 5% that we typically think in terms of new contracts? Thanks.

A - Andrew Witty {BIO 3471756 <GO>}

Justin, thanks so much for the question. Before I ask John to maybe comment a little bit on the business cost evolution, and then Brian, I think, will give you a little bit of perspective of what they're seeing in terms of hospital conversation, just a couple of steps back observations maybe I would offer here.

First off, as we look across the overall business, we're seeing tremendous growth opportunities and tremendous potential for us to invest behind those and you see that picked up in some of the increase in investment levels that you see in the quarter this time around. I think that's an incredibly positive sign of the forward potential of the overall organization. John will talk a little bit more to some of those in a second.

I think in terms of 2023, we're not going to get into a ton of detail on how we're thinking about pricing, but as always, we are very, very respectful of the kind of underlying phenomena within the cost trends of the environment. Of course, that includes sense of where COVID may or may not be. And I think we've all learned to be deeply respectful of something like a pandemic and the uncertainties it can present and even in the last few months we've seen that play out a little bit.

And of course, respectful of things like inflationary trends in the environment and all of that plays into how we think about these things. Maybe just to give you a little bit more depth on the first part of your question, I'll pass it to John and then maybe John you could pass it to Brian just to finish off on the second part.

A - John Rex {BIO 19797007 <GO>}

Sure. Good morning, Justin. Just a few thoughts and in particular maybe we'll look at some of the observations really from the quarter from the first half and what we're seeing, as this influences really what you're getting at and asking how our thinking is developing.

So you heard in my prepared comments, I talked about that we are typically seeing a very balanced relationship between COVID care and non-COVID care over the course of the last two years and that's what shifted a little bit here in recent months that the lower level of COVID care and let's put that in the second quarter probably about a third the number of inpatient admissions as compared to the first quarter.

It was not as quickly accompanied by a higher level of non-COVID utilization. So that was an important kind of underlying factor here that we saw in recent months. I think the other important thing here is and as you look across care broadly, we've come on longer really between intervals in COVID hospitalizations that any other points is the pandemic now. So that further illuminates the core underlying non-COVID care patterns that we're seeing also, so helping illuminate what's going on underneath all of that.

I think the other point that I wanted to speak to that we're seeing, we've been very encouraged that we're seeing some pockets of care moving towards more normal levels. Ones that we would say are kind of bellwethers for future care and important, for example, super important for us, annual wellness visits among our Medicare patients, they're back at pre-pandemic baseline levels. That's very important for us and getting them the care they need. First Fill prescriptions are trending above baseline a little bit, so we're seeing people get some care they need. We're seeing important pickups in some preventive care such as colonoscopies also, those now getting back to baseline.

So all that kind of influencing in terms of how we think about the future. We got to make sure people are getting the care that they need. We've seen the greatest response really in our senior populations. I think some of that is our ability to get into their homes to influence that care and to get them into that. And certainly back to your kind of core fundamental and how we think about the future, yes, enormously respectful of the outlook for future impacts from COVID hospitalizations.

Here we are sitting in a period where we're seeing COVID hospitalizations rise again, after kind of pausing since January. So super respectful in our outlook towards how that might progress throughout this year and next and the potential for that to continue to be somewhat variable and to accelerate again. Brian?

A - Brian Thompson {BIO 1537785 <GO>}

Yes. John, I think you summarized that well. I might just add on inflation. Obviously, as you well know, Justin, we priced for our forward view of cost, that includes inflation. We're certainly respectful of what we're seeing in terms of labor cost with our provider partners. And as you might expect, obviously with long-term agreements, there will be more impact in 2023 than 2022, just as a function of time and how we renew these contracts. So certainly respectful of that dynamic and environment. Thanks.

A - Andrew Witty {BIO 3471756 <GO>}

Thank you. Justin, appreciate it. Next question, please.

Operator

We're going next to Ricky Goldwasser with Morgan Stanley.

Q - Ricky Goldwasser {BIO 1977392 <GO>}

Yes. Hi, good morning. I'll focus on OptumRx. What's -- when we look at OptumRx, clearly you've seen very strong top line growth and membership growth. But we haven't seen certainly the flow through on the margin. So what kind of like trends are you seeing just in terms of mix that have impacted results? And how should we think about the progression for rest of the year for Optum -- for OptumRx?

A - Andrew Witty {BIO 3471756 <GO>}

Ricky, yes, it's great. Ricky, thanks so much for the question. Before I ask Heather to make a few comments on that, I think one of the overwhelming senses that we see around OptumRx is the really strong growth and the bringing onboard of very significant new clients. And of course that, as you know, brings with it a kind of front-loading investment phenomena as you gear up for supporting that. And that's one of the reasons why you see this lag between the revenue growth and the earnings growth and maybe to give you a little bit more of a sense of all of that and other aspects, Heather?

A - Heather Cianfrocco {BIO 18236688 <GO>}

Yes, thanks. So, as Andrew said, really strong growth this year, and you see that as a result of new client growth and the membership that we brought in, in the direct OptumRx as well as the UnitedHealthcare book and you are seeing that on the revenue, you're seeing that in the scripts volume, we see strong utilization, and you also are seeing that in the earnings growth.

With respect to investments, which do impact margins in the quarter, but we will see a return on those through the year and in our long-term plan, I'd point you to actually four things: number one, those client investments that Andrew talked about; number two, we talked to you about the new businesses, we've referenced Genoa that we continue to expand into new sites so we can serve more individuals in underserved communities.

But I'd maybe point you to two additional ones that I think provides some great context to where we're investing for the year. That's number one, with our existing clients and even being responsive to those our prospective clients in our PBM, it's moving very urgently with innovation, like Brian seeing on the UnitedHealthcare side to develop products today that address specialty drug costs that are high and rising, in addition to consumer affordability, building on the tools that we've already, I think, delivered significant value and our specialty tools is delivering over $1 billion of value over the last two and a half years and we're not done.

We're working urgently to bring more services and products, so that's happening real time in the quarter and those investments will pay off.

And then the last one I'd point you to are those -- are our pharmacies. So our pharmacies are fast growing. We're seeing that impacting our top line growth and in our earnings. But you'll see us not just invest in our operations and we've talked to you about that before and in our digital experience. But I'm most excited about the fact that we're also integrating the service. So putting the pharmacist first, we have over 7,000 pharmacists that work hard every day, not just to serve and sync meds but to help our individuals navigate, educate and guide people through our best-in-class capabilities.

And so really integrating those pharmacies with the pharmacist first in a service first model is one of the -- our biggest investments in the quarter and you're going to see a return on that through the rest of the year. But I think it's also going to pay off in the growth of those pharmacies and better service to individuals that need us most.

A - Andrew Witty {BIO 3471756 <GO>}

Great. Thanks, Heather. And Ricky, thank you for the question. Next question, please.

Operator

We'll go next to Matt Borsch with BMO Capital Markets.

Q - Matt Borsch {BIO 5186998 <GO>}

Yes. If I could ask just a question about the -- I think it was about a month ago that the U.S. Supreme Court elected not to take up the case that had gone through the district to the appellate courts regarding the CMS rule on risk coding, if I'm referring to it in the right way. Can you just help us understand anything you can say about implications or at least maybe next steps in that process?

A - Andrew Witty {BIO 3471756 <GO>}

Matt, thanks very much for the question. I mean, I think not to be too disappointing to you, but I don't think you'd be too surprised that we don't generally comment on ongoing legal processes. And I think in this case that certainly applies. So not really in a position to be able to give you too much information on that. But certainly appreciate the question. Next question, please.

Operator

We'll go next to Scott Fidel with Stephens.

Q - Scott Fidel {BIO 5322875 <GO>}

Hi. Thanks. Good morning. Just had a question just around the LHCG pending acquisition and clearly just recently CMS put out their home health proposal for 2023 and -- with a pretty disappointing rate cut that they're proposing for next year. Just interested in how that rate cut may influence your thinking on the financial impact of the LHCG acquisition in 2023?

And then also, whether that influences how you think about deploying that asset potentially in different ways, if CMS does end up going through with a rate cut in the final rates when they release those? Thanks.

A - Andrew Witty {BIO 3471756 <GO>}

Hey, Scott. Thanks so much for the question. And listen, let me start off by saying, we really believe that enhancing and building high-quality care provision in the home is going to be a key feature of the future, and the more that, that can be linked to other aspects of care so for example, physician clinics, virtual and the rest is very much a central focus of our Optum Health development, And so the bringing together of LHC within the overall Optum organization is really important to us and we're very committed to that transaction.

We believe it really is going to be a significant enhancement of the quality and of care that can be delivered. And we think we can really -- it can really contribute towards improved value-based delivery for patients. I think, as is always the case, making sure that the incentive system is appropriate to drive the right kind of care is really important. So I hope very much over time that CMS and others continue to see the value of home care and in fact, the support is given and signals are given to continue to increase the development of high quality care in the home environment.

And so we'll see how that plays out. Honestly, we are committed to this agenda very much because we see it as a strategically critical way of extending better care to folks in homes. And you have to remember, Scott, some of these folks can't get out of their homes. I mean, this is really -- this isn't kind of elective for them. They need -- we need to find ways to get more help to them. And as you know, we've got long history in the scenarios, like house schools, which have delivered amazing health assessment and preventive direction to millions of people. And this is another big step for us to extend.

So we're optimistic about this. We hope very much that CMS and others will continue to send signals or support through the way in which they choose to invest in this arena. And we'll see how that plays out during the rest of the year. Thanks so much for the question. Next question, please.

Operator

We'll go next to Lisa Gill with JPMorgan.

Q - Lisa Gill {BIO 3366446 <GO>}

Hi. Thanks very much. Good morning. Andrew, I appreciate your comments on OptumRx and what you're doing for 2023 around the no co-pay, zero co-pay, but I'm wondering if you or Heather could maybe comment on two things. One, the 2023 selling season and then, secondly, I know you and I have talked in the past about shift towards value-based care within Rx. Are you seeing new programs for 2023 beyond what you talked about as we think about value-based care?

A - Andrew Witty {BIO 3471756 <GO>}

Lisa, thanks so much for the question and I think, UAC supported by OptumRx are doing the completely the right thing here to bring zero co-pay and zero out pocket on some critical meds. And you've got to think about these -- the consequences of folks who are unfortunately affected by the conditions that these meds address. If they don't get the meds when they need them, they're going to end up in the emergency room or worse and that brings with it enormous personal human consequence and of course cost. And so we believe this is a really appropriate place for us to lean in and to address that.

In terms of, before I go to Heather to talk about specifically OptumRx selling season, I just want to step back for a second. I just want to let you know Optum is in the middle of a record selling season across the board. If you look at the first six months of Optum, of course, including OptumRx but also the other two businesses that we are in a record selling season. So this is a really significant period for us in terms of the fit of the products and services that we're offering across the marketplace.

One of the reasons why you're seeing a step-up our investment profile in the business is because we're seeing such a strong pickup in our services. And maybe with that, Heather, you could address specifically what you're seeing in OptumRx, as you think about selling season into '23 and maybe also just touch on the value-based care aspect that Lisa described.

A - Heather Cianfrocco {BIO 18236688 <GO>}

Absolutely. As Andrew said, strong selling season across Optum and OptumRx is enjoying that as well. And the way I think about that, first of all came off a really strong '22 season, sitting where we are today, two ways to think about it. The first is client retention. We're going to be in the high 90s again this year with most of the booking right now. With respect to new business activity based on sales activity, including finalists and win rates right now, we're ahead of where we're at this time last year and I really think that's the results of the real-time innovation.

We're working again with our clients now to bring them services today, we're not waiting. We're not waiting for other market factors or the environments to make us innovate and drive down cost. And that's showing up. I also think we have the best client management team and responsive client management team in the industry and that's paying off for us. So I think we're going to be very busy again in 2023, that's going to require some investments, but we're going to be very busy in 2023 year, serving our clients.

With respect to value-based, I guess, I think about it in two respects. We're seeing definitely more interest and pressure from our clients, and we're also seeing more engagement from our clients to engage in the elements of value-based care and to incorporate pharmacy, including specialty pharmacy, into those constructs. The role for us to play is, number one, to ensure that our pharma partners are bringing the most affordable value-based and clinically appropriate drugs to drive those results.

But the other thing is that we bring tools real time, that integrate products with treatment protocols. We work very closely with Optum Health and particularly with most -- with many of our Optum care prescribers and providers to experiment with these tools and services that will help prescribers make the right choices. Our plans and planned sponsors to be able to have more predictability in their services and for us to be an important piece of that value-based shift. So you'll continue to see us invest there and I think we'll see even more -- the PBMs being a bigger piece of driving value-based care and integrating pharmacy.

A - Andrew Witty {BIO 3471756 <GO>}

Heather, thanks so much. And Lisa, I think you're really right to focuses on this value-based piece, and as Heather just said, rather than it being an OptumRx kind of standalone agenda, it's very much an Optum agenda, right, in terms of how we build value-based care propositions and, of course, you've seen that very substantially within the primary care kind of holistic approach that Optum Health is leading on.

You'll continue to see us prospect, experiment and invest in areas like behavioral health and in areas like oncology and these are going to be important areas for us to solve. Right now, I'd say those are early day opportunities, but as you think about where the burden of cost and complexity sits in the health care environment, those are the kind of places where we need to make progress and we are. And you should expect to hear much more from us on that over the next two or three years.

Lisa, thanks so much. Next question.

Operator

We'll go next to Josh Raskin with Nephron Research.

Q - Josh Raskin {BIO 3814867 <GO>}

Thanks. Good morning. As you look at the senior market over the next couple of years beyond the obvious primary care services that you're building out, are there other capabilities that you think you need to develop or acquire things that are now emerging in the market that you think are going to be even more important in the future?

A - Andrew Witty {BIO 3471756 <GO>}

Yes. Josh, great question. Really appreciate it. And we continue to see a very strong performance in our senior book of business. You see that continued progression toward 800,000 folks joining us this year for the first time. That's really important continued market share growth and all of that is built on the stability of the service offering that we're giving. And I think the experience that the seniors are taking, but you're totally right to ask the question about where next and maybe Tim Noel, you could speak to that.

A - Tim Noel {BIO 17867531 <GO>}

Hey. Good morning, Josh. (Technical Difficulty) for Medicare Advantage (Technical Difficulty) and also seeing as John talked about, it's really a great inducement (Technical Difficulty) continuous agenda of innovation is super important. (Technical Difficulty) Dirk talked about the UCard, which is something that makes our benefit easier to use, more simple for members to understand on an experience. But beyond that, we will continue to bring forth consistent innovations that make the member experience easier for people, things like the digital experience more personalized on member experiences as well.

I think another theme for the senior population will continue to be on expands at home services, that's really important. And I think we've historically thought of the center of care for seniors to be in the physician's office, more and more though that's becoming something that needs to occur out of the home given mobility challenges for folks. The vulnerability of this population bringing care into the home is absolutely essential to the delivery of high-quality care. So like those are the big themes for me looking forward as you continue to advance the at-home capabilities for seniors and continue to innovate, make using benefits easier, more understandable, simple, affordable.

A - Andrew Witty {BIO 3471756 <GO>}

Tim, thanks so much and I think maybe there was a little glitch with Tim's mic at the beginning of his comments. So I hope very much you were able to hear him and certainly hear the latter part of his commentary. And I think the sense of urgency and depth of thinking around innovation for our senior members and where that service can go over the next several years is really substantive and you should continue to see us be super active in that space.

Josh, I really appreciate the question. Next question, please.

Operator

We're going next to Kevin Fischbeck with Bank of America.

Q - Kevin Fischbeck {BIO 6157376 <GO>}

Great. Thanks. I was wondering if you talk a little about the capitated physician growth in the quarter, how you think about the ability to continue to add doctors at this rate, the competitive landscape? And how should we think about where the margin in the capitated physician business compared to Optum Health broadly and where that segment could go over time? Thanks.

A - Andrew Witty {BIO 3471756 <GO>}

Great questions, Kevin. I'm going to ask John in a second to talk to the margin progression opportunity. But maybe first, Dr.Decker, Head of Optum Health, might speak to the whole dynamic around physician recruitment.

A - Wyatt Decker {BIO 17276367 <GO>}

Yes. Kevin, thanks for the question. Absolutely, we are seeing continued growth of our physicians in Optum Health and Optum Care. What we've found is that the physicians are increasingly attracted to the value proposition that we offer them, which is less clerical burden and more focus on doing the work that they love, which is providing clinical care. Moving physicians to value-based care paradigms is especially appealing. So you're seeing us appeal to large groups, like Atreus and Kelsey, that have recently joined Optum Health, as well as doctors coming straight out of residency.

So we're tracking nicely towards our growth agenda of adding 10,000 physicians and advanced practitioners during the year. And look forward to following up with you at the investor conference to share those numbers.

A - John Rex {BIO 19797007 <GO>}

Good morning, Kevin. It's John here. So considering the growth in Optum Health and the earnings progression that you should expect out of that, the primary focus continues to be on expanding our capabilities for value-based care that build out. These investments, as you know well and because you've looked at this for a while, are made well in advance of any revenue impacts that we get from bringing those physicians on.

As we look at our pipeline. So when I talk pipeline, there are two ways to think about it, both potential future adds, but when I'm talking about it now with you here, I'm talking about even our existing base of clinical care delivery capabilities and where we have to build out that capability in terms of future value-based expansion. Still quite early stage in that, which is why we hang in this 8% to 10% margin range for Optum Health.

View being here that there's a decade ahead of build for us. So -- and just when you look at our existing pipeline and what that can drive in terms of strong double-digit top line growth, for many years, as we bring this on and the importance, and particularly, because of the value it brings to the patients we serve of continuing to invest in these value-based capabilities. So as we build along this, you'll see us we -- as we try to do this, we try -- we look to deliver in this 8% to 10% margin rage, and expect that to continue just because these deep investments and still considering this very early innings third inning in terms of the build that we'd like to see looking ahead for care delivery.

A - Andrew Witty {BIO 3471756 <GO>}

John, thank you very much. Kevin, I appreciate the question. Next question, please.

Operator

We'll go next to Whit Mayo with SVB Securities.

Q - Whit Mayo {BIO 15110780 <GO>}

Hey, thanks. I would have thought that investment income would have been a little higher this quarter. Were there any write-downs on Optum Ventures anything that would negatively impact that? Just wondering how you're marking some of those investments that you've made in recent years. Thanks.

A - Andrew Witty {BIO 3471756 <GO>}

Yes. Whit, thanks so much. Let me hand this straight to John.

A - John Rex {BIO 19797007 <GO>}

Good Morning, Whit. Yes, and within the quarter, we actually took -- we realized some losses, as we repositioned the portfolio a bit here, looking out to the future, try to get that all teed up for the environment we're in right now. And so when you look at the quarterly progression, which I believe Whit, that's what you're focusing on and collect some of the realized losses, which we have to take in this quarter.

A - Andrew Witty {BIO 3471756 <GO>}

Thanks, John. And thanks, Whit. Next question, please.

Operator

We'll go next to Gary Taylor with Cowen & Company.

Q - Gary Taylor {BIO 22394979 <GO>}

Hi, good morning. Just wanted to follow up on the Kelsey-Seybold and Atreus commentary just a little bit. You spent just under $6 billion on acquisitions this quarter, which is about what you've spent annually each of the last five years. So just wondering given the size of that, if you could give us any more color on kind of where those organizations are fee-for-service versus capitation, how they might impact Optum Health margins in the second half. And then just broadly on the environment, are the valuations that you're able to garner still far below public company value-based care valuations even after they've corrected? Or is there anything there that becomes more intriguing?

A - Andrew Witty {BIO 3471756 <GO>}

So I'll ask John to make a few comments on this in a second. But I'm glad you saw that substantial continued deployment of our capital to grow the business. As you know, a key part of our long-term growth strategy is, of course, organic and complement it by bringing onboard new businesses and teams who can supplement what we have and there's nothing more powerful to that agenda than building out the value-based care piece.

Now we believe in both Atreus and Kelsey-Seybold organizations, we have amazing teams, people, organizations which have got real character, history, personality of their -- of themselves that we think is going to really add to the diversity of the company and bringing with it a tremendous amount of skills and perspective. And as you know, a number of them already, in both cases, they have developed themselves some significant thinking around value-based care. So the fit is really good. Of course, when you bring in new organizations that's typically a feather in process before they fully contribute and I'm sure that will be the case here as well.

But really, we continue to be extremely active in our -- in how we sensibly think about deploying capital and we remain very optimistic about our ability to do that. And maybe to go a little further on valuation perspective, John?

A - John Rex {BIO 19797007 <GO>}

Yes. As it relates to evaluation perspective. I mean, our pipeline and our conversations as we expand in care delivery, these are multi-year conversations that we have. Often by the time we are able to partner with another care delivery organization, we've probably been in conversations with them for five years. Super long pipelines have development processes, relationships, understanding the organization, that is us understanding their organization, them understanding us. These go on for quite a long period of time.

So with that perspective there, there's probably a little bit less volatility than you might expect in terms of as we face out and we think about valuations in this business and where you would have stepped into it, maybe a number of years ago where we are now. And even if you look towards public markets and such, those just don't manifest quite as quickly, but they also come out on the other side, they weren't manifesting as quickly. So I would call a little less impactful at this point and juncture, but the key point that I think we focused on is, these have been a multi-year conversations and relationship built for us as we move into these and typically not a six-month process.

A - Andrew Witty {BIO 3471756 <GO>}

Absolutely. Gary, thank you so much for the question. We just have time for one last question. So final question, please, operator.

Operator

Thank you. We'll go to Nathan Rich with Goldman Sachs.

Q - Nathan Rich {BIO 18612055 <GO>}

Great, good morning. Thanks for the question. I wanted to ask on utilization in the current inflationary environment that consumers are facing. Given the greater consumerization of healthcare in today's market, how do you think consumers might change how they utilize the system, given the some of the pressures that they're facing? And have you seen any signs of changes in behavior so far?

A - Andrew Witty {BIO 3471756 <GO>}

Nate, thanks so much for the question. I'm maybe going to go to Brian in a couple of minutes, just to give you a little bit of what he's seeing and what kind of reflected in his membership. But listen, obviously, we all see the inflationary pressures around us and we all know that, that has -- that really focuses people's minds on how they prioritize their spending investment. What it really means for us is we have to double down on getting a great deal for them.

We have to use our capability to get the very best quality care available at the most affordable cost and I think, whether that's through the PBM, whether that's through the UnitedHealthcare negotiations with the rest of the medical environment, that both -- that's a really important role we're stepping into play, and we're going to continue to lean into that very much.

Now then it speaks to really being astute around understanding how within the consumer experience some things are more problematic than others. And I'll call out one of the things we're announcing today to eliminate those co-pays on -- for people who are in really vulnerable situation. This is the right time to do that to help those folks who are struggling and we know that we need those folks to make sure they fill their prescriptions properly. And if there's anything caused by the inflationary environment that might hold that back, there's going to be really bad downside there and we don't want that to happen.

So we will lean into that. I'd call out things like virtual, call out things as you think about much more digital engagement, call out choice. I mean, we are giving consumers more choice and more pressure there is in the environment, you got to lean into it. And that's why as an organization, we are -- we have, over the last two years, really double down on our commitment to consumer strategy across the board. Core capability of this company going forward will be consumer capability and that's an area where you will see us continue to talk about, investing, build, innovate and we hope really lead in terms of moving the consumer to the center of thinking in healthcare. And maybe -- and just to finish off, Brian, would love to get your perspective on what you're seeing from your very significant membership.

A - Brian Thompson {BIO 1537785 <GO>}

Sure, thanks for that, Andrew. Maybe to put it in two zones, macro, I think Andrew hit it right in that macro environment. It's really around virtual care and around emergency department use. We've seen, obviously, virtual care increase and emergency department use go down, as I think in the particular again back to that concept of consumer and choice. It's around product design, Bind being our best example.

When we can put that consumer in the driver's seat where they can choose site of service and optimize both their cost and quality, they do. And when you couple that with a high-performing network, obviously, you get the benefit both of the unit cost as well as that consumer choice. So those are the greatest examples that I can see really emerging in this environment.

A - Andrew Witty {BIO 3471756 <GO>}

Thanks so much. And Nate, thank you very, very much for that question. We certainly appreciate your time and attention today. And I hope what you heard is a story of growth and focused execution, as our strategy continues to generate momentum across our businesses and advance our mission on behalf of every person and every community we privilege to serve. Really grateful for your attention this morning. Thank you so much for your questions and we look forward to following up as usual with any further questions you might have offline. Thanks so much and have a great day.

Operator

That will conclude today's call. We appreciate your participation.