

## Q4 2018 Earnings Call

### Company Participants

- Andrew P. Hayek, Chief Executive Officer, OptumHealth
- Andrew Philip Witty, Executive Vice President & Chief Executive Officer-Optum
- Brian Thompson, Chief Executive Officer - UnitedHealthcare, Medicare & Retirement
- Dan Schumacher, President and Chief Operating Officer, UnitedHealthcare
- David Scott Wichmann, Chief Executive Officer & Director
- John Franklin Rex, Executive Vice President & Chief Financial Officer
- John M. Prince, Chief Executive Officer, OptumRx
- Steven H. Nelson, Executive Vice President & Chief Executive Officer, UnitedHealthcare

### Other Participants

- A.J. Rice, Analyst
- Ana Gupte, Analyst
- Charles Rhyee, Analyst
- David Howard Windley, Analyst
- Frank George Morgan, Analyst
- Gary P. Taylor, Analyst
- Joshua Raskin, Analyst
- Justin Lake, Analyst
- Kevin Mark Fischbeck, Analyst
- Lance Arthur Wilkes, Analyst
- Matthew Borsch, Analyst
- Michael Newshel, Analyst
- Ralph Giacobbe, Analyst
- Sarah E. James, Analyst
- Scott J. Fidel, Analyst
- Stephen Tanal, Analyst
- Steve Willoughby, Analyst
- Steven Valiquette, Analyst
- Zachary Sopcak, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, and welcome to the UnitedHealth Group Fourth Quarter and Full Year 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 differential 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 and SEC Filings section of the company's Investors page at [www.unitedhealthgroup.com](http://www.unitedhealthgroup.com). Information presented on this call is contained in the earnings release we issued this morning and in our Form 8-K dated January 15, 2019, which may be accessed from the Investors page of the company's website.

I will now turn the conference over to Chief Executive Officer of UnitedHealth Group, Mr. David Wichmann. Please go ahead.

**David Scott Wichmann** {BIO 3853550 <GO>}

Good morning, everyone, and thank you for joining us today. At our investor conference just a few weeks ago, we provided an extensive and positive review of our business and expectations for 2019 and beyond. Our outlook today remains consistent with that view. We are strongly confident in the fundamentals of our business as we enter 2019, in our ability to invest, innovate and grow, and in the breadth of opportunities across health care available to a company with the unique capabilities we have built over time, to deliver ever more value to society and consistent results for our shareholders.

The results we reported this morning bear that out. Full year revenues exceeded \$226 billion, growing 12% or \$25 billion over 2017. Fourth quarter and full year 2018 adjusted earnings per share were stronger than our investor conference outlook, with full year adjusted earnings per share growing 28% to \$12.88 per share. Revenues, operating earnings and cash flows were in line with or ahead of the expectations for 2018 we discussed with you at that time.

Optum's earnings were ahead and UnitedHealthcare's earnings were in line, and virtually all businesses closed out the year with strong momentum. Overall medical costs remain well controlled and our positive forecast for 2019 remains consistent across all lines of business. We continue to address performance pressures in a handful of Medicaid markets in the fourth quarter, as we executed actions on both structural costs and rate recovery to ensure 2019 will see a return to stronger margin levels for this business. Our nation is early in an exciting health care innovation wave; one we expect to help lead, which will drive growth at UnitedHealth Group for years to come.

FINAL

Bloomberg Transcript

FINAL

Our approach to this wave has several characteristics: flowing critical health information to all health care participants by linking physical interactions to digital channels, supported by embedded, proprietary, clinical ontology and sophisticated data analytics designed to align and optimize performance; engaging people in their health here both individually and at scale, a difficult but essential step in improving people's health and finances, a step supported by our consumer digital platform, Rally, now with 22 million registered users on a multi-payer platform and offering an expanded suite of services for UnitedHealthcare's Medicaid members as of January 1; applying high-touch human interactions again singly at high volumes to improve the consumer experience and drive better medical care outcomes, this is supported by our rapidly-growing team of clinicians like the physicians of Polyclinic in Seattle, who joined us at the end of 2018; evolving pharmacy care services by advancing market-leading transparency, improved adherence in clinical effectiveness combined with distinguished consumer value ranging from point-of-care discounts that offer more affordable prescriptions and whole-person medical pharmacy management to a simpler transaction experience through market-leading digital support tools and services; and introducing innovative, lower-cost, consumer-centric health benefit designs and services such as Bind, Colorado Doctors Plan, Motion and NexusACO.

This health care system will increasingly operate in a multi-payer and value-based context, with aligned incentives for care providers and consumers to make better health care decisions, leveraging deeply personalized information and clinical science. This modern approach produces measurable value and looks and feels refreshingly different than traditional health care today. So I hope you can see why we are energized by the opportunities ahead of us.

With that, let me turn it to Optum's CEO, Andrew Witty, to discuss Optum's results and its unique market position and momentum heading into 2019. Andrew?

**Andrew Philip Witty** {BIO 3471756 <GO>}

Thank you, Dave. Our focus is to accelerate the access to and integration of the individual spends of Optum, to deliver better health care and more affordability across the whole of the health system. In leveraging our data analytics capability to improve care pathways with local care delivery and pharmacy care services, we've unique potential to improve patient well-being and health, while bringing health care costs under better control.

Our ability to use data to better understand the next best action or better option for treatment, allows us to significantly affect both the outcome as well as the cost per member for our clients and patients. Within OptumRx, the increasing impact of PreCheck MyScript and the growth of our infusion services illustrate how our expanding breadth of services are gaining significant market acceptance, growing share and diversifying our earnings stream.

Our momentum in pharmacy care services was excellent in 2018. We've retained business rate in excess of 98% and several major new business awards from health plans and employer plan sponsors. We expect this to continue, given the early positive signs in this year's selling season for 2020 business. In care delivery, our clinical leaders are applying

FINAL

clinical decision support based on evidence-based guidelines that promote better health and ensure the right care at the right time in the right setting.

Today, 99% of OptumCare patients in our advanced form of Medicare value arrangements are in four-star plans or better, and OptumCare's average Net Promoter Score is nearly 80; evidence of outstanding clinical outcomes and patient experiences. We achieved significantly lower total medical costs by keeping people healthier and avoided unnecessary hospital use, which translates to up to 30% lower costs for our Medicare Advantage patients relative to Original Medicare. Our increased number of our groups are being recognized for achieving lower costs for commercial customers as well.

For example, our Reliant Medical Group was recognized as having the lowest total cost of care by the State of Massachusetts. We complement our medical groups with high-value ambulatory care services like our SCA surgery centers, MedExpress neighborhood care clinics, Briova infusion capabilities, and Optum HouseCalls; all of which support improving the quality, cost and experience of health care. As we move forward, we will continue to build out our comprehensive portfolio of care delivery services in key markets, including to our pending combination with the DaVita Medical Group.

By 2030, there will be over 80 million people in the U.S. with three or more chronic conditions, up from 30 million in 2015. More fully leveraging data analytics across all of Optum through digital and physical engagement with patients and physicians will be key to reducing costs and improving the value and experience for people in this increasingly resource-intensive market segment.

We are building platforms that are convenient for the provider, ensuring the very best and most contemporary information is available to support each patient management decision. Initiatives including the rollout of the individual health record, adoption of emerging genomic knowledge and full understanding of the implications of the data Optum manages, will be key building blocks over the next year or two.

Turning to Optum's financial results. Full year 2018 revenue surpassed \$100 billion for the first time. Revenue growth of over \$10 billion for the year accelerated to 11% from 9% in 2017. And likewise, our operating margins once again strengthened across the Optum portfolio, with our overall operating earnings growing more than \$1.5 billion or 23% to \$8.2 billion, reflecting the leverage of Optum's scaled businesses and putting us in a strong baseline earnings position entering 2019.

Looking ahead, the 150,000 people at Optum are incredibly enthusiastic about 2019 and our opportunities for longer-term growth and performance. We will continuously modernize our ways of working, seek solutions to improve value delivery to our clients and the patients we serve, and explore ways of aligning with others who strive in an accountable way to deliver quality care at lower costs.

We are seeing the fruits of two decades' worth of strategic investments with strong business wins and pipelines, and the many platform expansion opportunities we have in the United States alone, not to mention the global potential. As we continue to grow,

invest and diversify, we're just beginning to realize the potential that exists when we deploy Optum's cross-platform capabilities more fully on behalf of our customers and all of those we serve.

Now, I'll turn the call over to Steve Nelson, UnitedHealthcare's CEO.

**Steven H. Nelson** {BIO 5876814 <GO>}

Thank you, Andrew. UnitedHealthcare is growing through the relentless pursuit of better health outcomes, lower total cost of care and a better consumer experience for clients and consumers as measured through NPS. We achieved this triple aim through the breadth and innovative nature of our capabilities, as Dave described at the outset, and by translating those capabilities into innovative products, services and enabling technologies which advance our mission as an enterprise.

In 2018, together with our care provider partners and through digital and physical interactions with consumers, we helped close over 70 million gaps in care. That was 75% more than the 40 million gaps we closed in 2017. Contracts with value-based care features reached \$74 billion in run-rate spending, with about one-quarter of that in risk arrangements. Consumers who took healthy actions earned a remarkable \$0.5 billion in incentives through their benefit plans.

We provided 1.5 million in-home health assessments through the Optum HouseCalls program and our community health workers referred people to social services nearly 600,000 times, linking them to needed services with a total value of \$0.25 billion. Collectively, the value of these and other distinctive services helps us to grow. In 2018, UnitedHealthcare grew to serve 2.4 million more people, with revenues advancing by more than \$20 billion to \$183.5 billion. UnitedHealthcare earnings from operations were \$9.1 billion, consistent with the outlook we provided in November.

Overall, medical cost trends remained well managed, predictable and consistent with expectations. We continue to manage operating costs diligently through a combination of business simplification, automation and operating efficiency. As we noted at our investor conference, the performance of our Community & State business in 2018 was mixed. We saw strength in serving individuals with the highest health needs such as a dually eligible, while performance in the traditional TANF Medicaid business was pressured, particularly in a handful of states.

Our performance improved in the back half of 2018 with more work to be done, continued advocacy for sound rates, while reducing core medical and operating costs. The Community & State team is fully focused and will deliver improved performance in 2019. We completed a strong Medicare Advantage enrollment season last month and are on track to achieve 2019 growth within the 400,000 to 450,000 range of expectations. We are thoughtfully advancing in areas like digital therapeutics, real-time health information and artificial intelligence to drive an even more distinctive consumer experience, all at lower costs.

FINAL

Bloomberg Transcript

FINAL

We're early in a wave of fresh product innovation for the commercial market, with new on-demand health benefits for large employers and new patient-centric care resources organized around high-quality local health systems such as the program we launched on the Front Range in Colorado. We expect strength in the association health plan market and have an unprecedented focus on developing and cross-selling specialty benefits. To summarize, our expectations for UnitedHealthcare's performance in 2019 are unchanged with what we outlined for you at the end of November.

As we look at 2019, 2020 and beyond, we're strengthening our capabilities for customers across UnitedHealthcare and UnitedHealth Group. We have a multi-billion dollar, multi-year effort well underway to address medical and operating costs on a structural basis and improve value for customers. We're deploying new technologies to provide information to doctors at the point-of-care and are leaning into consumer-centric services like the individual health record and Rally, and the innovative benefit designs and value-based incentives they can power. And we believe UnitedHealthcare supported by Optum is uniquely positioned to serve high-growth, higher-acuity markets like Medicare, Duals and patients with complex and chronic conditions.

Now, I'll turn the call over to John Rex, UnitedHealth Group's Chief Financial Officer.

### **John Franklin Rex** {BIO 19797007 <GO>}

Thank you, Steve. This morning we reported full year revenues of \$226.2 billion, with double-digit percentage growth in the fourth quarter revenues for all reporting business segments. For full year 2018, Optum revenues from customers unaffiliated with the UnitedHealth Group grew nearly 13%, a faster pace than affiliated revenues. This reflects the market's response as we position Optum and UnitedHealth Group to serve more people independent of payer affiliation, even as we offer greater customer and consumer value through UnitedHealthcare.

Balance and diversification can also be seen in our operating earnings performance, where Optum contributed 47% of full year 2018 earnings from operations of \$17.3 billion, including 60% of their earnings in the fourth quarter. To put that mix in perspective, only five years ago, Optum contributed about a quarter of full year consolidated operating earnings.

Fourth quarter adjusted net earnings per share of \$3.28 brought full year earnings to \$12.88 per share, 28% growth over 2017. Full year cash flows were \$15.7 billion or 1.3 times net income, growing 16% over 2017. Fourth quarter and full year cash flows reflect the \$2.6 billion payment to the U.S. Treasury on October 1 for our customer's portion of the federal health insurance tax.

Our full year medical care ratio of 81.6% is consistent with the outlook we provided last January of 81.5% plus or minus 50 basis points, and reflects well-managed cost trends despite some margin pressures in parts of our Medicaid business, as Steve just discussed. Medical reserve developed favorably in the quarter by \$280 million. We continue to expect a 2019 medical care ratio of 82.5% plus or minus 50 basis points, which reflects the impact of the health insurance tax deferral this year.

Bloomberg Transcript

FINAL

The 2018 operating cost ratio of 15.1% was driven by effective cost management and strong growth and lower operating cost businesses, partially offset by ongoing investments to develop and deploy modern technologies and capabilities that advance the value we deliver to people.

Turning to our balance sheet. Our full year return on equity was strong at 24.4%, and our debt to total capital ratio was 40% at year-end, after placing \$3 billion of debt in December. We repurchased \$4.5 billion of stock last year and we raised our dividend by 20% back in June to an annual rate of \$3.60 per share. Looking forward, we entered this year with strength, flexibility and momentum; and we continue to expect strong growth in adjusted net earnings to a range of \$14.40 to \$14.70 per share.

One last observation on the quarterly earnings progression for 2019. The current first half, second half Street consensus view appears to reflect our seasonal earnings pattern, which over time we have described as roughly 48% weighted to the first half. Inside of that, our sense is that we expect to perform modestly stronger than the current first quarter consensus estimates would suggest.

Dave?

**David Scott Wichmann** {BIO 3853550 <GO>}

Thank you, John. 2018 was a strong year with advances in our businesses, improvements in service and Net Promoter Scores and compelling financial performance, but there is much yet to be done to fully realize our potential to reimagine health care for the benefit of society in the U.S. and globally. Inside this morning's business review, we touched on a number of initiatives, all forward leaning, all indicative of a restless, ambitious character of this team and our efforts to advance performance in health care for those we serve.

With plans firmly in place, we are looking to perform strongly in 2019 and lay the foundation for continued growth in 2020 and the decade ahead. We have significant opportunities to diversify and strengthen the offerings we bring to people and to drive engagement, trust and loyalty across our broad customer base. And we will continue to advance personalized interactions with the people we serve and lean into clinical quality in health care delivery and our leadership in digital technology.

Let me close now and open up the call to your questions. One question per person, please.

**Q&A**

**Operator**

Thank you. We'll take our first question from Justin Lake with Wolfe Research. Please go ahead.

**Q - Justin Lake** {BIO 6460288 <GO>}

Bloomberg Transcript

Thanks. Good morning. Appreciate all the color on the medical cost side. I wanted to go back to the Investor Day and ask you about the HIF. It was the first time in probably five years that you didn't spike out the HIF at all as a moving part, either positive or negative.

I wanted to ask you whether this is indicative of just the size, scale, diversification of the company kind of now being able to hit its 13% to 16% long-term trend without worrying about whether the HIF is coming or going or flat year-over-year, as we look out to 2020 and beyond? Thanks.

**A - David Scott Wichmann {BIO 3853550 <GO>}**

Great. Thank you, Justin. As you know, the 13% to 16% growth rate is an average long-term growth rate and we are, in fact, committed to it. And I do think there's merit of the scale and size of the company that caused us maybe to spend a little bit less time on those reconciliations than maybe what you would have seen in the past. John Rex, would you like to comment?

**A - John Franklin Rex {BIO 19797007 <GO>}**

Yeah. Thanks, Justin. It's John. Yeah. I have to start by saying, I'd be remiss to diminish \$2.6 billion of our customers' funds just having been paid for the health insurance tax. That's still a very significant number for any company, I would say, and a burden for our customers. But you are correct in thinking that the non-insurance component of our enterprise continues to grow at a reasonable pace.

And as that pacing increases and the mix continues to shift, as a percentage of our earnings mix in terms of the volatility that the HIF coming in and out in any particular year, starts to diminish as a percentage of the earnings mix. But again, remiss to say that it - it's still a very significant burden for Americans.

**A - David Scott Wichmann {BIO 3853550 <GO>}**

Yeah. And, on that score, the health insurance tax is expected to come back in 2020, and I think I'll recognize this, but it'll increase the cost of health care by \$20 billion for 142 million Americans. That causes the average senior couple to see their premiums raised by \$500 per year; and for families with small business coverage by about the same amount, around \$480 or so per year.

So, our view is that outcome is unacceptable because health care already costs too much. So, we're going to continue to advocate for a repeal or deferral of this unnecessary tax. We can't comment or speculate on the outcome, but we would take this opportunity to also applaud the bipartisan actions that have occurred across Congress, both the Senate and the House, in this past year or so; and hopefully we'll get this taken off the backs of consumers here pretty soon.

Next question, please?

**Operator**



Our next question comes from Matt Borsch with BMO Capital Markets. Please go ahead.

**Q - Matthew Borsch** {BIO 5186998 <GO>}

Yes. I was hoping that you could talk about the factors that drove the medical care ratio to be a little bit higher than what we and, I think, the Street analysts had modeled. I mean, is that purely the result of Medicaid? And I noticed in the press release that you had talked about that trend moderating, but in terms of impact on MCR, it seemed particularly notable this quarter.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Yeah. Well, thank you, Matthew. The MCR impact in the quarter is almost exclusively due to Medicaid performance. We touched on this at the investor conference; I recognize it was in response to a question. But throughout the balance - throughout 2018, we had seen a pullback in our performance in our Medicaid business, in particular the TANF portion of it and in particular in a handful of states.

Those issues were - as we described in the script, it's really around both the funding in a handful of states, some of which you probably recognize were corrected throughout the year, and then also with respect to some of the costs, both medical as well as operating costs, in those handful of states. The rest of our Medicaid business, both the dually eligible and the LTSS populations are performing quite nicely. And of course, as you could tell, our Optum businesses are performing well, as well as the remainder part of our UnitedHealthcare businesses, both the employer and the Medicare markets.

We did make considerable progress through 2018. I'll tell you, the last half of our Medicaid performance is substantially better than the first half, but it just isn't quite up to par yet as we look into Q4. We have seen again nice progress throughout the balance of the year, and we expect 2019 to show considerable additional improvement as we move that business back to its target margin range of 3% to 5%.

**Q - Matthew Borsch** {BIO 5186998 <GO>}

Thank you.

**Operator**

We'll take our next question from Charles Rhyee with Cowen. Please go ahead.

**Q - Charles Rhyee** {BIO 6968091 <GO>}

Yeah. I don't recall that you guys discussed it earlier, but I think it reports earlier that you guys had won a large VA contract. And maybe if you can kind of give us some details around that. I mean, the headline numbers look very big, but I can't imagine that you'd be necessarily booking all that. Can you give us maybe some color around how we should be thinking about that? I believe it's in the OptumHealth - would be in OptumHealth. Maybe give us some sense on how to think about that and when that would ramp up. And any color on that would be helpful. Thank you.

FINAL

**A - David Scott Wichmann** {BIO 3853550 <GO>}

So, what you're referring to is the VA Community Care Network contract which was awarded at the end of last year. Andrew Hayek?

**A - Andrew P. Hayek** {BIO 3497521 <GO>}

Thanks, Charles and Dave. So yes, we were pleased with the award of the VA Community Care Network program to OptumServe in the regions in which we bid, which were three regions. It's an honor to serve our veterans, and I was really go out of my way to recognize the dedicated and talented OptumServe team that is ready to deliver on this contract.

With the award, Optum can now serve the VA's capability to provide timely and quality health care to more than 6 million veterans in 36 states, 2 U.S. territories and the District of Columbia. And these contracts administer regional networks of high-performing licensed health care providers who will work together with the VA to provide medical, dental and pharmacy services to veterans who are unable to receive care at their local VA Medical Center.

So we look forward to completing the government review process which, of course, is underway; the normal review process, and ultimately getting to work serving our military veterans. And this is a really important step as you indicated. It's an important step forward for OptumServe, which really has the potential to bring the full depth and breadth of Optum capabilities to both current and former members of the armed services and the government.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

I think it's also another - I'd be remiss to not underscore the fact that it's just another example of when there is tension in health care, particularly with government, that they seek a public-private partnership. So in this case, the VA sought a partnership with the private sector so that they could provide better care to their veterans, and we are honored and pleased to be able to win these awards and to serve them.

Next question, please?

**Q - Charles Rhyee** {BIO 6968091 <GO>}

Is that included in the guidance?

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Yes, it is. The contract begins an implementation in 2019, so it actually is a bit of a drag to earnings. And it is a seven-year contract, so it'll provide its returns on that investment through that seven-year timeframe.

**Q - Charles Rhyee** {BIO 6968091 <GO>}

Okay. Thank you.

Bloomberg Transcript

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Thank you.

## Operator

Our next question comes from Sarah James with Piper Jaffray. Please go ahead.

**Q - Sarah E. James** {BIO 22190001 <GO>}

Thank you. At Investor Day, one of the things that you talked about was the potential to double commercial specialty revenue. Can you give us an update on how that's tracking so far in 2019, and provide some more details on the drivers?

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Sure. Dan Schumacher, please?

**A - Dan Schumacher** {BIO 18299394 <GO>}

Thanks. Good morning, Sarah. I appreciate the question. Yes, we do and are very focused on deepening our penetration of our specialty block within our broader medical, because we think when we bring together vision, dental, hearing and other assets, you take more of a holistic approach to the person and drive better overall health outcomes.

We made some nice progress in the one-one (29:38) selling cycle to drive deeper penetration, but I would tell you that we're in early innings in the context of doubling it. Dental and vision in particular are going to be the foundational parts of that, but we expect nicer contributions from hearing as we move forward as well.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Thank you. Next question, please?

## Operator

We'll go next to Zach Sopcak with Morgan Stanley. Please go ahead.

**Q - Zachary Sopcak** {BIO 19195509 <GO>}

Good morning. Thanks for the question. I appreciate the early selling season comments for the PBM for 2020. Just wanted to get a little more color, is there a particular pockets of strength that you are seeing in the 2020 selling season, especially as I think you had mentioned last year you won about three LSAN (00:30:21) clients on your 2Q call? Thank you.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

As I think you'd notice, OptumRx has considerable momentum on the top line and it's getting really strong market response. John?

FINAL

Bloomberg Transcript

FINAL

**A - John M. Prince** {BIO 20142902 <GO>}

Thanks, Zach. It's John Prince, CEO of OptumRx. I'd say, overall, our differentiated value story has really resonated in the market. We've had good uptake in this past selling season. We were very successful in selling over a dozen new large relationships that had mixture of both states' health plans, unions and a couple large employers. We've also had good retention again. We've had retention of 98% for the third year in a row, which we're very pleased about; and that links back to our strong scores around Net Promoter Score for our clients as well as our consumers.

In terms of 2020, we've already sold a couple large deals and added some couple large relationships for 1/1/2020. We have a very healthy pipeline as we go into the new selling season. As you know, for the 2020 selling season, this time of year is focused more on the health plans, and so we are focused on that. And then the large employers as well as the state bids for 2020 are just in the middle of their process. So we're optimistic and also we're really pleased that our story around value and stability is really resonating in the market.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Thank you. Next question, please?

**Operator**

And we'll go next to Kevin Fischbeck with Bank of America Merrill Lynch. Please go ahead.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Kevin, you may be on mute.

**Q - Kevin Mark Fischbeck** {BIO 6157376 <GO>}

Yeah. Sorry. Can you hear me now?

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Yeah, we can.

**A - Operator**

Yeah.

**Q - Kevin Mark Fischbeck** {BIO 6157376 <GO>}

Okay. Great. So, I just want to go back to the MLR question. I guess, specifically on the Medicaid side, wanted to understand two things. One is, is your commentary about the MLR and Medicaid today the - is it the same as it was back in November? Or are you highlighting the things that have gotten incrementally better or worse from there? And then, two, just mathematically, Medicaid, it feels strange that that could be the in-talked (00:32:28) variance to MLR in the quarter, just given its relative size. So, I don't know if there's anything else that you would highlight on medical costs.

Bloomberg Transcript

**A - David Scott Wichmann** {BIO 3853550 <GO>}

And you're talking about variance to Street expectations or (00:32:40)?

**Q - Kevin Mark Fischbeck** {BIO 6157376 <GO>}

Yeah. Yeah, exactly.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Okay. Well, maybe what I'll do is I'll comment on Medicaid, and then maybe just ask John Rex to comment on the MLR case to make sure that we're fulsome in our response to you on that. We're in exactly the same position or pretty close to the same position we were with Medicaid when we discussed this with you in November. In fact, what compelled me to bring it up was the commentary – I believe, the question that was asked, I believe you asked it actually was...

**Q - Kevin Mark Fischbeck** {BIO 6157376 <GO>}

Yes.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

...really around where we may not be performing to our fullest potential. And I gave you a few examples; this one being on how our business is performing. And it is isolated to TANF, it is pretty much isolated to five markets. It's pretty compelling what these five markets were as it relates to 2018.

The only thing I'd suggest is that, over the last 45 days to 60 days, our teams have continued to make very nice progress and are remediating these issues on plan as we look to 2019 for improved results. And we do, in fact, see nice progress with respect to those. And it is a leading contributor to the MLR view, but John, do you have anything further to add?

**A - John Franklin Rex** {BIO 19797007 <GO>}

Sure. Kevin, it's John. Good morning. So, maybe just start as you kind of teed up the question to be fully responsive here. So, I'd characterize the results as highly consistent with what we laid out at the end of November. So, UnitedHealthcare's full year operating earnings of \$9.1 billion were just slightly ahead of the point estimate that we provided at that time. And I'd put the kind of 81.6% full year as consistent with the approximate 81.5% that we cited at that time also. So I'd say, it is consistent with the outlook that we had, as we were about to visit with you at the end of November. So, in that line.

So beyond CNS, as we discussed, the benefits businesses are performing well, at least in line with our expectations. Medical costs well contained overall, and I would suggest that \$280 million in favorable development in the 4Q also is a reasonable indicator of that.

**Q - Kevin Mark Fischbeck** {BIO 6157376 <GO>}

All right. Thanks.

FINAL

Bloomberg Transcript

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Great. Thanks, Kevin. Next question, please?

**Operator**

And we'll go next to Steve Tanal with Goldman Sachs. Please go ahead.

**Q - Stephen Tanal** {BIO 17633334 <GO>}

Thanks a lot, guys. I appreciate all the color on the MCR. I'm sorry to beat this one, but maybe if I could just use my question to follow up here and maybe could you comment specifically on sort of the puts and takes on the commercial side and then Medicare, both sort of really on the trend? And specifically, maybe would love to know if commercial medical cost trends sort of tracked within the 2018 full year guidance range in the fourth quarter. And then if Medicare MCR is sort of right in line with your expectations as well, or if anything - if there's anything worth calling out there, that'd be great.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Dan Schumacher, share on commercial?

**A - Dan Schumacher** {BIO 18299394 <GO>}

Yeah. Good morning, Steve. With regard to the commercial cost trends, a year ago we had guided to a range which we narrowed at the investor conference in November to 5.5% to 6%. And I would tell you that, on the year we landed squarely within that. So, very pleased with where our costs came in from a commercial perspective as well as then how that translated through to in line with our earnings expectation.

And I would just point out that, within our commercial block we obviously have a seasonal bias towards the fourth quarter and that's a shift that's really driven by the type of products that the market's buying, as well as the pace at which deductibles are increasing year-in and year-out. And so, that also contributes to how you look at the performance and its progression over the course of the year.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

And that's something new and Medicare had a very strong quarter in the fourth quarter and came in line with expectations, if not a little bit ahead.

**Q - Stephen Tanal** {BIO 17633334 <GO>}

Great. Thank you.

**Operator**

And we'll go next to Ana Gupte with Leerink Partners. Please go ahead.

**Q - Ana Gupte** {BIO 16233997 <GO>}

FINAL

Hey. Thanks. Good morning. So my question was about the vertical consolidation with the deals closing. Cigna is moving their book to Express. As you're looking forward into the new competitive landscape and you talked on I Day about OptumRx with \$250 to \$300 in savings, OptumCare on days per thousand, how are you preparing for share gains while maintaining loss ratios and margins going forward in a possibly bundled, commercial and PBM environment?

**A - David Scott Wichmann** {BIO 3853550 <GO>}

We're just running our business, Ana, and running it very well. As John pointed out, he's seeing strong performance and growth. And I think if you track back the last two years and then leaning into 2019 and now leaning into 2020, we continue to see a nice response to OptumRx offerings, in part because it goes well beyond traditional PBM and operates as a pharmacy care services business.

The collaboration between it and UnitedHealthcare is long and well established. So it's not new, meaning that the two of them work very collaboratively together on a wide range of opportunities. Of course, that pharmacy care services business is available on a multi-payer basis as well. But we have a strong competitive offering, we work with and deeply respect the new and emerging competition. And we're not going to underestimate it, but we also remain highly confident in our own capacities to compete and continue to grow and manage our business.

**Q - Ana Gupte** {BIO 16233997 <GO>}

Thank you.

**Operator**

And we'll go next to Scott Fidel with Stephens. Please go ahead.

**Q - Scott J. Fidel** {BIO 5322875 <GO>}

Hi. Thanks. Just interested, as the market continues to debate the overall trajectory of the economy exiting 2018 and into 2019, you've got a lot of sort of viewpoints on that in terms of how the overall economy is progressing in both the UnitedHealthcare and in the Optum businesses. So just interested maybe in some of the more economically sensitive areas, what you're seeing in terms of trends in the fourth quarter, particularly later in the fourth quarter relative to the third quarter?

**A - David Scott Wichmann** {BIO 3853550 <GO>}

It's good question, Scott, and I've been thinking a little bit about this both on the - we've seen a lot of economic sentiment, if you will, but also political sentiment in health care. And I was evaluating that over the course of the last - at least my timeframe here which has been nearing about 21 years or so. Just by way of background, we've grown our revenue base in this business from \$12 billion at that time to \$226 billion which we just reported today.

What I find is, particularly in health care as well as economic cycles is, that sentiment tends to drive private sector expansion. And we've seen that through Medicare Advantage, we've seen that with the introduction of Part D, managed Medicaid, Duals, Medicaid expansion, exchanges, the ACA broadly. And then also what we discussed this morning with respect to the VA and how they have sought public-private partnership and - to respond to the needs of veterans.

The one thing that's true through these political shifts and economic shifts is that, health care products are always in demand. So whether it's an economic expansion or a recession or whether there's a liberal or conservative administration, UnitedHealth Group's positioning tends to be unique and very well regarded. We manage a portfolio of diverse health care businesses and they serve large and diverse end markets, and we tend to grow regardless of economic cycle or administration.

We have unique portfolio competencies in data, technology, as well as clinical insights. And actually our ability to manage clinical interactions just continues to advance across this business, which is reinforcing that capability in our business. And our aligned services have never been positioned to produce greater value for society, for clients, consumers. You can hear us talking a lot more around societal return and the triple aim and then also becoming more of a consumer-oriented company, which is really what NPS signifies.

So, just maybe to wrap up. This is a very scaled and proven model that has a deep management team with strong continuity. It's largely 95% domestic, so we really don't have tariff, Brexit or other global concerns and it has a long runway for growth. It has five well-defined, high-performing growth pillars that are going to meet in the \$11 trillion global market in 2025. So we like the opportunity that is presented. And we believe that whether it's a political sentiment or economic sentiment, this UnitedHealth Group will continue to provide distinctive results and returns both for society as well as our shareholders.

**Q - Scott J. Fidel** {BIO 5322875 <GO>}

Okay. Thanks.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Next question, please?

**Operator**

And we'll go next to A.J. Rice with Credit Suisse. Please go ahead.

**Q - A.J. Rice**

Hi, everybody. I was just going to ask, I know at the Investor Day you guys talked quite a bit about the initiative around specialty pharmacy and the acquisitions as well as put infusion in MedExpress and in some community centers. Can you just sort of update us on where you're at today in rolling all of that out? And sort of a timeframe over how you would - where you might look in the next year or so? And what does that mean for you financially?



**A - David Scott Wichmann** {BIO 3853550 <GO>}

Andrew Witty?

**A - Andrew Philip Witty** {BIO 3471756 <GO>}

A.J., yeah, thanks very much for the question. Make a couple of comments and then I'm going to ask John Prince to give you a little bit more detail. So I've been thrilled with the progression of the businesses that you've described. I think within the pharmacy care services business that John runs as well as within OptumHealth that Andrew runs, we're seeing these high-quality ambulatory care facilities of the type you described really being embraced strongly in the marketplace. We continue to expect to roll out and extend those networks over the next several years.

I would just make a further point though. I think it's really important to think about Optum really as a portfolio of provider networks. So if you think about it, it's not just about these ambulatory care services like SCA, like the infusion centers, like MedExpress, but it's those things complemented by such a strong medical provider network in key markets across the U.S.

And what you're going to see over the next few years is us aiming to bring to life the value of that network, that really comprehensive presence that we're now beginning to establish in a series of important markets. We think that that can really deliver substantial convenience, quality, lower costs, better service for the patients we serve, as well as the plan sponsors that we serve.

With that intro, let me just hand over for a bit more specificity to John.

**A - John M. Prince** {BIO 20142902 <GO>}

Great. Thanks, Andrew; and thanks, A.J., for the question. It's John Prince. In terms of those businesses around (00:44:29) specialty infusion, we really like that space. We have a very differentiated offering in the market focused on decreasing the total cost of care and also improving the consumer health. We've got focused programs clinically that handle a patient through their whole course of treatment.

We've done a great job of transforming the consumer experience as well as the provider experiences in close partnership between the consumer and the provider as you manage a course of treatment. We've continued to grow extensively in the external market, taking business both directly with plan sponsors, but also competing in the open market. So more than a quarter of our business comes from just open market, people selecting our services as their preferred offering because of our NPS and our clinical outcomes.

We're now over 50 sites in terms of those businesses within the United States. We have a significant expansion. We're looking at more of a dozen in this coming year and a dozen in the future. All-in from our portfolio of pharmacy care services, we have over 500 sites as you add in general and other components. So, strong performance and strong opportunity.

FINAL

Bloomberg Transcript

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Thank you, A.J. Next question? Oh, I'm sorry. Thank you, A.J. Next question, please?

**Operator**

And we'll go next to Frank Morgan with RBC Capital Markets. Please go ahead.

**Q - Frank George Morgan** {BIO 1498100 <GO>}

Good morning. I think you actually commented about this a little bit at the Investor Day. But with regard to the loss of the Cigna book of business, I think you commented that it would be a revenue hit, but really not a profit hit. And just any additional color on why that is and does that also assume any type of operational deleveraging with that lost revenue? Thanks.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

John Rex?

**A - John Franklin Rex** {BIO 19797007 <GO>}

Frank, good morning. It's John Rex here. So yeah, you're absolutely correct. I did comment at the investor conference in terms of the potential for that business to transition over the next couple of years; and indeed, that clearly is the expectation here. As I commented, that would have impact on revenue and script count as that transitions. And that really depends on the timing and that timing isn't completely certain yet in terms of the pacing of that and we're going to work with our customer in terms of meeting their needs on that piece.

I did also comment, it wouldn't have any impact on our earnings outlook for 2019 and that continues to be the case, that it doesn't have any impact on our earnings outlook. So, that to be determined in terms of how it impacts revenue and script count as we work with our customer, Cigna, on this.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Thank you, Frank. Next question, please?

**Operator**

And we'll go next to Josh Raskin with Nephron Research. Please go ahead.

**Q - Joshua Raskin** {BIO 3814867 <GO>}

Hi. Thanks. Good morning. Here with Eric as well, and question on Optum. Rewind about two and a half years ago, you guys had a couple of really big wins, summer 2016 with CalPERS and Texas Employees, GE, et cetera. And I know a lot of that all kicked off on 1/1/2017 and multiyear deals on all of those. But you probably got close to two years of data on it at this point.

FINAL

Bloomberg Transcript

And so, I'm curious what that data is showing in terms of the impact of synchronization. There was some financial targets within those contracts. So, kind of how you're tracking on those? And when do you think you kind of come to market with a little bit more of a definitive study on, here's what the world looked like in these accounts prior to the synchronization and here's what the impact is looking like under the OptumRx contract.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

John Prince?

**A - John M. Prince** {BIO 20142902 <GO>}

Thanks, Josh. It's John Prince with OptumRx. I'd say, I'm not going to get into details on specific customers. I'd say, overall, we're continuing to execute very well for our customers. That story around synchronization in which we sold few of those customers a couple of years ago is part of our broader story to the market today. So today when we talk about going to market, we talk about how we're negotiating lower cost of care for drugs. We're focused on lowering the total cost of care, improving the health outcomes, as well as transforming the consumer experience. That is our core value story.

When we talk about the \$20 to \$25 of value that we deliver for our highest performing clients, that is part of our overall book of business in terms of how we serve our customers. So we actually have a lot of good data. That is then leveraging to our story in the market today. So we actually are coming with strong confidence of our ability to execute. And we're in the market now with things around drug trend and how we can actually reduce drug trend. We're actually out there with total cost of care guarantees in the market, and that's because we've done the definitive study. We've been in the market for five years with the Sync story and we're executing well and we're on the next generation of it. So, we're confident in how we're performing.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Thank you for the question, Josh. Next question, please?

**Operator**

We'll go next to Ralph Giacobbe with Citi. Please go ahead.

**Q - Ralph Giacobbe** {BIO 6968095 <GO>}

Thanks. Good morning. We're calc-ing MLR higher by around 90 basis points in the fourth quarter year-over-year normalizing for the HIF. If that's all Medicaid, it is a pretty massive uptick for a company your size. And we just haven't seen this magnitude of pressure from others in the space. So I guess I'm just trying to get a sense if it's unique to specific markets you're in that others are in, if it's unique to you in terms of adverse risk within those populations. Just trying to sort of get a sense of reconciling that. And maybe if you can help just with where your pre-tax margins are within Medicaid at this point, and what kind of improvement you do expect in 2019? Thanks.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

FINAL

Thanks, Ralph. We're not seeing the same that you are on the MLR calc, so why don't we just circle back with you separately on that. As it relates to the Medicaid business, it is profitable. It's not at our target margin range of 3% to 5%. I'd like to see us get into the bottom end of that range in 2019. We'll definitely be within that range solidly in the 2020 time period. And we can say with confidence that that's the case based upon the great advocacy actions that we've taken so far as well as a number of the clinical engagements and operating cost initiatives that we've put in place.

Also want to let you know this business functions very effectively. It has mid-60s NPS scores for the traditional Medicaid population. When you get into the Duals, it's into the 70s. It's oftentimes number one in terms of quality scoring in its local markets. It's referenceable by all the states. So, I don't want to overplay Medicaid here. We have a short-term issue that will take us a little bit of time to work our way out of. Again, we've been working on this most of 2018. It became more acute in the first half, really in the second quarter, but we've been working hard on it since.

And you've probably seen some of those rate actions flow through. You can probably see that in some of the statutory filings, some of the improvements in some of these states. And I think you'd probably be able to recognize where they are and how isolated it is in our capacities then as a company to be able to - to turn that around. So, we have a lot of confidence in where we're at. It's led by Heather Cianfrocco. She is a fantastic leader, and we will - her team will continue to make good progress on this through 2019.

Thank you, Ralph. Next question, please?

## Operator

And we'll go next to Gary Taylor with JPMorgan. Please go ahead.

### Q - Gary P. Taylor {BIO 3571633 <GO>}

Hi. Good morning. I guess, MLR will be the theme of the day. I apologize. Maybe could you give us a little help just thinking about seasonality in your MLR and if that's changed. So when we look at third quarter to fourth quarter in 2016, MLR was pretty flat; in 2017, it was up 50 bps; in this quarter, up 110 bps, but more like 170 bps if you exclude the prior-year development. So it does seem like there's been a trend where you've seen more of an increase in the 4Q even as the years come in line.

So would you attribute most of that to just some of the seasonality in the commercial business that you've talked to, with higher co-pays and deductibles over the years? Or is there something else in the line of business mix that might be contributing to higher MLRs in the 4Q?

### A - David Scott Wichmann {BIO 3853550 <GO>}

Dan?

### A - Dan Schumacher {BIO 18299394 <GO>}

FINAL

Thanks, Gary. Dan Schumacher. So, maybe provide a little bit of context around the commercial seasonality. As you look sort of first quarter to fourth quarter, the change in that medical care ratio generally is somewhere in that 6%, 7%, 8% zone as you move from the first to the fourth quarter. I'd tell you, as you look 2017 versus 2018, there's probably been somewhere around a one point shift in that as you look at greater concentrations in offerings that drive consumption towards the fourth quarter, as well as the increases in the average deductible.

And if you look inside of our average deductible increases over the last two years or so, has been in the 8%, 9% zone. So, those are the contributing factors that push the consumption and the realization of that towards the fourth quarter, and I think that's what you're seeing inside of it.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Thank you, Gary. Next question, please?

## Operator

We'll go next to Lance Wilkes with Sanford Bernstein. Please go ahead.

**Q - Lance Arthur Wilkes** {BIO 4820557 <GO>}

Yeah. I wanted to ask a question on the cross-sells and the specialized benefits focus you guys have. And just related to that, you spoke about dental, vision and kind of additional coverages being an area of focus. Wanted to understand how much of a focus was cross-sells of PBM, stop loss and other care management solutions as well.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Okay. Dan, do you want to take that?

**A - Dan Schumacher** {BIO 18299394 <GO>}

Sure. Thank you, Lance. Obviously, our ambition is to serve the needs of our clients. And we know that when we have the opportunity to really combine the full capabilities of our enterprise, taking our knowledge and knowhow with respect to the medical offering underpinned by high-performing care delivery assets, both OptumCare as well as third party, bring in our advocacy and navigation competencies from OptumHealth, our knowhow and intelligence from OptumInsight, and then have a chance to take on the ancillary offerings that really contribute to the overall health and well-being of a person that we have our best results and outcomes.

So, we are no doubt very focused on trying to combine both our medical and our pharmacy, take on stop loss, add in care management, advocacy, navigation, in support of people along with the ancillary coverages. And we're making some nice progress in that regard and we've got a lot of upside, frankly. As you look, our penetration rates, particularly up market, in pharmacy we've got a lot of room to be able to serve our clients in a more fulsome way.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Thank you, Lance. Next question, please?

**Operator**

We'll go next to Steve Willoughby with Cleveland Research. Please go ahead.

**Q - Steve Willoughby** {BIO 17322492 <GO>}

Hi. Good morning. Thanks for taking my question. Moving off the MLR for a bit. My question just revolves around some of the new commercial initiatives you've talked about such as Bind, Colorado Doctors and NexusACO. Wondering if you could give us any perspective on the potential membership gains from these programs either in 2019 or 2020.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

All right. Dan?

**A - Dan Schumacher** {BIO 18299394 <GO>}

Sure. Thank you, Steve. Maybe just to step back a little bit. From our perspective, we are - and glad you caught it, we're excited about our efforts to deliver greater value for people. And I think as Dave mentioned, we really think that we're on the forefront of a wave of innovation and you named some of those. We see some modest contributions from those efforts in 2019 and increasing efforts in 2020 and beyond.

Nexus has been around a little longer and more evolved. We had about 75,000 folks in 2018. As we turn into the year, we will increase that nicely; and by the end of the year we expect to more than double that. As it relates to Colorado Doctors Plan and Bind as an example, I would say they're on the early end of it. So again, smaller contributions to our enrollment tables in 2019 and growing contributions in 2020. But again, like the suite of offerings that we're bringing to market as well as the interest from a client's perspective.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Great. Thank you, Steve. Next question, please?

**Operator**

We'll go next to Steve Valiquette with Barclays. Please go ahead.

**Q - Steven Valiquette** {BIO 1928887 <GO>}

Great. Thanks. Thanks for taking the question. So, from the January 2019 Medicare Advantage membership data that just came out overnight, I know some investors look at the sequential trends versus December; others will look at the year-over-year growth trends. I know it's early, but we're calculating that at least versus January of 2018, that

FINAL

Bloomberg Transcript

United grew its total Medicare Advantage membership almost 10% and the individual MA membership was up almost 11%.

So I guess, the key is that one could hypothetically suggest that this is trending slightly above the midpoint of the growth you kind of suggested for 2019 back in November, which is obviously positive. So I guess, I'm just curious to take your temperature and just see if you think there could be a bias to the upside for your MA membership growth in 2019. Thanks.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Let Brian Thompson address that.

**A - Brian Thompson** {BIO 1438916 <GO>}

Sure, Steve. Hi. Brian Thompson. Thanks for the question. 2019 is off to the start that we had expected. Real strong start from our vantage point. I'd say, what ADP suggests is a performance certainly in line with our full year range. Our share of our growth does suggest some share gain, again which would be the fifth year for us consecutively which we're certainly very pleased with. I think as we've talked about in the past, 2019 environment really provided an opportunistic opportunity to really grow meaningfully.

I think we took advantage of improving our benefits, but I would also suggest that we were very cautious and very disciplined in that regard and established our benefit positioning and our capabilities for 2019 with an eye for long-term stability, certainly cognizant of the potential return of the health insurance tax in 2019. So, really pleased with our positioning. And again, I think it aligns really nicely with what we had expected. So, really a strong start to 2019.

**Q - Steven Valiquette** {BIO 1928887 <GO>}

Okay. That's great. Thanks.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Yeah. Okay. Thank you, Steve. Next question, please?

**Operator**

We'll go next to Michael Newshel with Evercore ISI. Please go ahead.

**Q - Michael Newshel** {BIO 19788719 <GO>}

Thanks. John, can you just break down the favorable reserve development entry year versus anything prior year? Because I think prior year was lower negative in past quarters, so is that pattern consistent in this quarter's development as a underlying 2018 performance?

**A - John Franklin Rex** {BIO 19797007 <GO>}

FINAL

Sure, Michael. John Rex here. Yes. So we had \$280 million of total favorable development 4Q. That breaks down \$170 million current year, \$110 million prior year. It's called a favorable development. It's really indicative of the cost containment efforts across our businesses and across the enterprise.

I don't know how material I'd put it in the context of a \$145 billion in medical spend overall and it continues to be our objective to manage that well to improve accuracy. We have increasing level of electronic data exchange, early detection of hotspots and really more ability to intervene. So we should have increasing accuracy with that.

And as it relates to kind of our cost containment efforts, some of those, they roll across in different forms; some of them very near term; some of them take a little bit longer to achieve. So sometimes you see a little different mix in terms of prior year and current year.

**Q - Michael Newshel** {BIO 19788719 <GO>}

Thank you.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Thanks, Michael. Next question, please?

**Operator**

And we'll go next to David Windley with Jefferies. Please go ahead.

**Q - David Howard Windley** {BIO 2411309 <GO>}

Hi. Thanks for squeezing me in. A question on John Rex's EPS cadence commentary. I understood you to say that 48% as has been in the past, but more in the first quarter. So I just wanted to clarify that you are comfortable or you are guiding us to the 48% in the first half, but more than in the first quarter. Is that how we are to interpret your comments? Thanks.

**A - John Franklin Rex** {BIO 19797007 <GO>}

Dave, thanks for the question. Here's how we view it. So from year-to-year, individual quarters can often be impacted by simple factors. I'd call those out as such as the pacing of when weekends and holidays fall. As we all know, the year on the calendar is fairly stable. So it's just typically a matter of differences in quarters; and as you would realize, those variations are most impactful to the UHC benefits businesses.

So in 2019, the first quarter has slightly fewer workdays than the first quarter 2018. In addition, given the timing of share-based compensation awards and how that impacts our tax rate, we didn't really also expect the first quarter to have the lowest effective tax rate of the year. So perhaps without getting overly prescriptive, and you're right about the kind of 48% mix in terms of how we see the first half playing out and that is still consistent.

But without getting overly prescriptive and without knowing all your models, I'd suggest something roughly in the range of a 1% shift of your full year earnings outlook would be

Bloomberg Transcript



more appropriately recognized in the first quarter.

**Q - David Howard Windley** {BIO 2411309 <GO>}

Very good. Thank you.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

All right. Thank you, David. Are there any other questions?

**Operator**

It appears we have no further questions. I'll return the floor to you, Mr. Wichmann, for final comments.

**A - David Scott Wichmann** {BIO 3853550 <GO>}

Okay. Well, thank you. Appreciate all of the questions today. To sum up, the company delivered strong performance in the fourth quarter and full year 2018, contributing genuine value to the people we're privileged to serve and to society at large. I'd like to take this opportunity to thank the 300,000 people of UnitedHealth Group, Optum and UnitedHealthcare for their good work.

We are confident in the fundamentals of our businesses and expect to deliver solid operating and earnings performance in 2019. The opportunities ahead in 2020 and beyond are exciting. There is a remarkable potential for us to serve more people in more ways every day, growing our businesses in the U.S. and worldwide; and continuing to provide consistent, reliable results for you, our shareholders. Thank you.

**Operator**

And this will conclude today's program. Thanks for your participation. You may now disconnect.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2023, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*