# Q2 2019 Earnings Call

## Company Participants

- Andrew Witty, Executive Vice President, UnitedHealth Group & Chief Executive Officer, Optum
- Cory B. Alexander, Executive Vice President, Corporate Affairs, UnitedHealth Group
- David S Wichmann, Chief Executive Officer, UnitedHealth Group
- David S. Wichmann, Chief Executive Officer, UnitedHealth Group
- Dirk McMahon, President and Chief Operating Officer, Optum
- Eric Murphy, Chief Executive Officer, OptumInsight
- John Rex, Executive Vice President and Chief Financial Officer, UnitedHealth Group
- Tim Wicks, Executive Vice President and Chief Financial Officer, Optum
- Wyatt W. Decker, OptumHealth

## Other Participants

- A.J. Rice
- Charles Rhyee
- Dave Windley
- Josh Raskin
- Justin Lake
- Kevin Fischbeck
- Lance Wilkes
- Matthew Borsch
- Mike Newshel
- Peter Costa
- Ralph Jacoby
- Ricky Goldwasser
- Sarah James
- Steve Tanal

## Presentation

### Operator

Good morning, and welcome to the UnitedHealth Group Second Quarter 2019 Earnings Conference Call. A question-and-answer session will follow UnitedHealth Group's prepared remarks. As a reminder, this call is being recorded.

There are some important introductory information. This call contains following-looking statements under the US 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. The description of some of the risks and uncertainties could be found in the reports that we filed 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 amount is available on the earnings reports and SEC filing section of the company's investors page at www.unitedhealthgroup.com.

Information represented on this call has contained an earnings release we issued this morning and in our Form 8-K dated July 18, 2019, which may be accessed from the investor page of the company's website.

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

## David S Wichmann {BIO 3853550 <GO>}

Good morning and thank you for joining us. Today, we reported strong, well-balanced revenue and earnings growth across our businesses, continuing trends of the last several years. We have considerable momentum improving the consumer, position and customer experience, applying rigorous net promoter disciplines within a culture built to serve people's most fundamental need, their health.

Executing on our mission, helping people live healthier lives and helping make the health system work better for everyone, produces value for people, the health system and society overall. And strong returns for our shareholders. In the first half of 2019 total revenues grew year-over-year by 9% or $9.6 billion, to $121 billion. Adjusted earnings per share advanced 18%, both UnitedHealth care and Optum contributed strongly to these results. Generating total enterprise operating cash flows of $9.1 billion or 1.3x net earnings.

Confidence in our ability to continue to advance our fundamental performance and profitable growth leads us to increase our outlook for full year adjusted earnings to a new range of $17.40 -- $14.70 to $14.90 per share. We are constantly developing and refining our differentiated set of core capabilities, enriching, integrating and applying deep proprietary information sets to improve engagement and clinical decision-making, embedding modern analytics and technologies across the system to make it more interoperable, transparent and efficient. And expanding the scope and effectiveness of our clinical capacities, and aligning with others to validate incentives to improve health outcomes by lowering costs.

As we work in partnership with the Care Community and others, these competencies enable us to develop the next-generation health system in a socially conscious way, a system that provides high-quality, efficient and fair access for all. You can see the latest evidence of our progress on a number of fronts. Our recently completed combination with DaVita Medical Group meaningfully expands Optum Care's nationwide network of physicians. The John Muir Health strategic relationship announced yesterday is unique in its breadth of services and demonstrates the role Optum can play when it is fully aligned with its customers, serving the needs of local communities.

Continued OptumRx gains in employer health plan and coalition markets reflect a distinctive more wide-ranging and more modern consumer approaches. OptumRx applies to deliver value addressing one of the most challenging burdens of healthcare, excessive drug and biologic costs. The first 20 million real-time interoperable individual health records are being scheduled for market deployment. We remain optimistic about the potential of these deeply personalized health records and associated next best action recommendations to improve the health of people we serve and the overall system performance.

Consumer engagement aligned to this actionable health information plays a critical role in developing the next generation health system. By the end of this year, Rally's digital engagement capacities will be available to nearly 20% of the U.S. population, solidifying its opportunity to advance individual health at scale.

Physician data sharing and value-based incentives round out a true end and alignment of a progressive health system. Value-based payments to care providers are growing at more than 15% in 2019, aligning incentives to practice high quality care while improving the effective use of health system resources. We expect these value-based payments to ramp at an even more accelerated pace in the coming years.

All of these and the examples offered by our business leaders today are only a partial reflection of the steady progress we are making in advancing our enterprise mission, 'to make healthcare work for everyone, so everyone can live healthier lives'. The results are compelling, we are lowering cost trends, steadily improving NPS, and achieving improved clinical outcomes leading to continued long-term sustainable performance and growth for our business.

With that, I'll now turn to UnitedHealth care's new Chief Executive Officer Dirk McMahon. Most of you know, Dirk from when he first joined United Healthcare in 2003. Having worked in major leadership roles at UnitedHealth care, Optum and UnitedHealth Group, he knows firsthand how to maximize the full capabilities of this enterprise, including the clinical capacities of OptumHealth, the data insights and advanced technologies of OptumInsight, and the distinguished pharmacy care solutions offered by OptumRx. Dirk?

## Dirk McMahon {BIO 18950833 <GO>}

Thank you, Dave. I'm glad to be back at UnitedHealth care. I'm pleased with what I've seen in the first few weeks in the role. We don't need a major shift in direction, but we will sharpen our focus on delivering consistent growth performance across all market segments. An essential step to drive growth is consistently achieving superior operating and medical cost structures. Cost impacts member health when it is a barrier to getting care and we need to address that even better for people. It's the primary driver of consumer satisfaction and NPS. When we improve satisfaction and NPS, we drive growth.

We'll continue our intense focus on simplifying and improving the experience for people. Using our digital platforms and applications, we can improve our ability to help people navigate the complexities of healthcare and get people on effective care pathways. This creates a better clinical and service experience which leads to better outcomes, cost containment and satisfied members.

Some of the essential elements of this include better information sharing with consumers and their doctors, creating aligned incentives among consumers, care providers in UnitedHealthcare, tailoring products to consumer needs, providing digital and human navigators to support consumers in their health and care journeys. And offering practical technology at key decision points.

Simplicity is vital to making healthcare easier. Our Navigate for me offering simplifies and personalizes care for seniors with complex conditions, it provides them with a single point of contact for concierge services and a dedicated team of experts. Supported by a proprietary technology platform with integrated data, Navigators help coordinate care and personalize care plans and address social determinants. Results have been positive, with a 14% reduction in hospitalizations and a 9% reduction in ER visits for patients with congestive heart failure. Navigate for me dramatically improves NPS, now nearly 20 points higher than traditional approaches. With nearly 1,000 navigators now in place, we will continue to expand deployment and impact over the coming quarters.

We have created simplified paths enabling doctors to provide high-quality surgical procedures in ambulatory settings. These can be less than half the cost of traditional inpatient settings, with higher quality outcomes and greater consumer satisfaction. And our recently launched preferred lab networks create paths for patients and -- physicians and patients to use to lower cost testing facilities, make it easier to order labs electronically and provide prompt turnaround times for results.

From these examples and more across inpatient and outpatient services, we see an opportunity for more than $20 billion in potential annual savings in spend managed by UnitedHealth care's employer and individual business alone. And reducing unwarranted variations in care, converting care to the most appropriate side of service and aligning with high-performing delivery systems.

We continue to diversify and extend our employer and individual business, organizing the local System of Care physically, virtually and digitally. Building collaborative relationships with care providers and sharing data bi-directionally with them, and innovating around product designs. For example, our partnership with centura Health announced last year and the Colorado Doctors Plan is achieving price points 20% lower than our broad access offerings. Some of the attributes driving this success include the use of effective referral patterns, timely texting with the alternative care options when the patients register at the emergency room and virtual appointments. This is the type of total cost of care product innovation you should expect from us. Likewise, at community and state, medical cost and operational improvements are advancing nicely as planned. And on the growth front, we're preparing to serve more people later this year with our recently awarded North Carolina opportunity.

Our businesses serving people who are duly eligible for Medicaid and Medicare continued to expand and perform well. The outlook for further growth in this category and more broadly in the group and individual Medicare advantage remains exceptional. Year-over-year we've grown by more than 540,000 people across these important areas, greater than 10%. We see significant macro revenue growth opportunities in these categories for years to come. As such, we will continue to invest in many ways, ranging from stable benefits to better coordination of care. For example, in 2020, we will provide all duly eligible members with a personal care coordinator to help manage their Medicaid and Medicare benefits, and coordinate clinical needs such as appointment scheduling, filling prescriptions and closing gaps in care.

UnitedHealth care's financial performance continues to be strong. Revenues grew 6% to $48.6 billion, while operating earnings advanced 12% to $2.6 billion in the quarter. I'm looking forward to working with our team to further elevate UnitedHealth care's performance from the strong position we hold today. Delivering more value across multiple dimensions in healthcare.

Now, let me turn it over to Andrew Witty, Chief Executive Officer of Optum.

## Andrew Witty {BIO 3471756 <GO>}

Thank you, Dirk. At Optum, we're developing and building a broad set of capabilities, supporting our vision for providing better healthcare and increased affordability for more people. This compels us to rethink how care can be provided more holistically across the broad and changing healthcare landscape. One significant opportunity for improvement comes in chronic disease care. The 30 million people in the U.S. with three or more chronic diseases account for two-thirds of healthcare spending today, and the number of people is expected to grow to 80 million by 2030.

Managing these chronic patients requires a multidisciplinary hands-on approach Optum is building in its next-generation condition management programs. These include the management of emerging high-cost specialty drugs, which are expected to continue to be a leading driver of medical cost inflation. We address these trends through a broad range of approaches, including direct delivery at home and office infusion services, and direct delivery of specialty pharmacy prescriptions for the home with digital care services provided by Optum pharmacists to educate patients on how to properly take their medication.

Another challenge Optum is meeting head on is a dramatic rise in oncology drug spending. In the U.S. health system, misaligned incentives lead to administering higher cost oncology drugs unnecessarily. We do think there's a better way. Early results from our integrated Optum Care Cancer Center in Nevada suggested decoupling oncology drug payments from doctor compensation, can reduce pharmaceutical spending for seniors by nearly 30%. It drives improved clinical quality based on the data science while keeping the patient's comfort, care and dignity as the highest priority, and ensuring physicians administering the care are paid fairly for their excellent work.

We're exploring other new approaches along therapeutic lines such as chronic heart failure and musculoskeletal conditions the more comprehensively addressed care needs of those with significant health challenges. Direct delivery of care by physicians is pivotal to this agenda as Optum care seeks to coordinate each patient's care journey with a focus on proactive, preventive medicine, especially for those with the most acute need.

Creating value for those we serve translates the stronger financial performance. Over just the last three years, the revenue per consumer served by OptumHealth has grown by nearly 50%. In the quarter, Optimum Health's total revenue grew 20% to $7.1 billion, while operating earnings advanced 21% to $688 million.

Like OptumHealth, OptumInsight positioning and capabilities have evolved over many years. OptumInsight has advanced from what was once primarily a point solution provider technology to diversified enterprise solution Organization. The business has deep and broad expertise to solve some of the biggest challenges in healthcare for payers, providers, life science companies and governments.

Our new multi-year relationship with John Muir Health is distinctive in its comprehensive nature. John Muir is nationally recognized for quality of care as a major independent health system in the San Francisco Bay area. Our relationship spans revenue cycle, information technology, ambulatory care coordination, analytics, procurement and consulting services. The partnership will deliver broad performance improvement at John Muir and for its patients and physicians. With this and other another new relationships, OptumInsight's second quarter backlog grew 20% year-over-year or more than $3 billion to $18.5 billion. Revenues advanced 7% to $2.3 billion and operating income increased 16% to $525 million.

OptumRx continues to evolve from a traditional PBM to a diversified pharmacy care services organization, deeply focused clinically and enabled by vast data and ever improving technologies. This quarter we introduced a new and transparent digital consumer pricing tool. MyScript finder puts lower cost pharmacy to grow alternatives and coverage status at people's fingertips. It offers instantaneous consumer relevant cost transparency with actual out-of-pocket costs based on pharmacy location, benefit plan design and deductible status. So far, consumers have conducted over 1 million searches in the first 60 days of usage.

OptumRx continue to win in a market. Its value is resonating with health plans, large employers and purchasing coalitions. We are driving greater pharmacy and medical care alignment, better service quality, lower costs, improved transparency and an expanding breadth of services at the local market level, including home infusion, e-commerce, specialty and community-based dispensing services. As a result, OptumRx continues to profitably expand share. In the second quarter revenues advanced by 12% to $18.9 billion and OptumRx added $11 million adjusted scripts year-over-year.

These are just a few examples of the progress we've made and have the Optum businesses are advancing the way they serve in both their individual and market segments and together as they deployed broad-based market solutions. And yet, we remain at the very early stages of what Optum can be.

Now, I'll turn to John Rex, CFO of UnitedHealth Group.



## John Rex {BIO 19797007 <GO>}

Thank you, Andrew. Our first half positions us to perform well for the rest of the year. In the quarter, revenues grew 8% to $60.6 billion and net earnings from operations grew 13% to $4.7 billion. All of the business segments contributed strongly to these well-balanced results.

With previously discussed business transitions now effective as of mid-year, we're updating our full year revenue outlook. With these incorporated, we expect 2019 revenue to be at -- just slightly below the original $243 billion to $245 billion range. This reflects the transition of a large OptumRx client due to a business combination, and our voluntary withdrawal from a state Medicaid Program, partially offset by the DMG combination.

Cash flows from operations were $5.9 billion in the quarter, and year-to-date $9.1 billion or 1.3x net income. For the full year, we continue to expect cash flow from operations of $17.3 billion to $17.8 billion or 1.2x to 1.3 times net income.

Medical costs remained well-managed with our 2019 medical care ratio tracking well to the range we shared with you back in November of 82.5%, plus or minus 50 basis points. Unit cost remains a core driver of overall trend and we continue to advance our efforts to optimize both site of service and use of the highest performing clinicians. We continue to expect that 2019 will mark the 11th consecutive year of declining inpatient admissions per 1,000 people. Our operating cost ratio of 13.9% is impacted by the deferral of the health insurance tax and a strong mix of productivity and operational improvement enterprise-wide. And with our focus on affordability, that agenda is never really done.

At the same time, we continue to aggressively expand the investments we are making in innovation to drive organic growth and further operational and productivity improvements over the decades to come. In 2019, our effective tax rate is favorably impacted, as expected, by the deferral of the non-deductible health insurance tax. The second quarter rate was moderately higher than our original outlook. For the full year 2019, we now expect the tax rate will likely be around 20.5%, at the upper end of our original range for the year, which is fully incorporated in today's raised earnings outlook, and is in due in part to lower-than-expected employee stock-based compensation activity.



We continue to maintain balance sheet strength and significant flexibility. Return on equity in the second quarter again exceeded 25%. UnitedHealth Group has a long, well developed and proven ability to thoughtfully deploy capital through business combinations that add capabilities and market presence to be leveraged across the enterprise, bringing both synergies and growth and costs.

In June, our Board of Directors raised our shareholder dividend by 20% to an annual rate of $4.32 per share. The dividend has advanced at or above 20% each year since initiated about a decade ago. And at about a 30% payout ratio, has grown to be more in line with the market level objectives we've set. Still, our long-term earnings growth potential provides ample capacity to continue to advance the dividend at strong rates for years to come.

We remain confident as we look forward to the second half of 2019, and now set adjusted earnings per share of $14.70 to $14.90, an increase of $0.25 from the guidance we established at the end of last year. Within that, as previously discussed, the pacing of weekday is higher in the third quarter this year, resulting in a relatively consistent level of earnings between the third and fourth quarters.

Delivering on our 2019 commitments and strengthening our business further as we approach 2020, remain critical to us, even as we pursue ever greater impact for society and advanced growth and returns for our shareholders for years to come.

With that I'll turn it back to Dave.

### David S Wichmann {BIO 3853550 <GO>}

Thank you, John. We will continue investing for the future, building, innovating and diversifying as we seek to support the development of the next generation health system, a system that provides high-quality and efficient access for all, a system that achieves better outcomes and experiences at lower costs for people. This is the essential work of our enterprise. It provides us with an extraordinary opportunity and responsibility to help improve health care in the U.S. and globally, and to continue growing our business in these large and fast-growing markets. It is why if you spend time at our organization, you can feel the restlessness among our 320,000 dedicated professionals, all focused on making an impact in everything we do and generating ever stronger societal and shareholder returns.

And with that, let's open it up for questions. One question per caller, please. Operator?

## Questions And Answers

### Operator

Question And Answer

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

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

Thanks. Good morning. First, just let me congratulate and wish John Penshorn a great retirement, well deserved, he'll be missed. And then I've got an MLR question in a couple of parts, so bear with me. First, any color on quarterly medical trends, specifically you saw very strong development in the quarter, any offsetting trend factors that we should think about?

And then, halfway through the year, can you give us an update on where you see MLR trending relative to the full year guidance of 82.5?

And lastly, you mentioned the days and -- of the week kind of impacting negatively the third quarter as they positively impact Q1, so anything you could do to help us to think about MLR in the third quarter relative to the 81% from last year? Thanks for bearing with me.

## A - John Rex {BIO 19797007 <GO>}

This is John Rex. Sure, Justin. Good morning. So few things, just thinking about first of all on your first point here on impact on quarterly trend. So, underlying trend as I've stated very much in line with our expectations, so no change in that in terms of the trend factors we lay out and we've talked about. And I would say even really no change in the components within that trend.

I'd say kind of in terms of other things going on in the quarter within that, nothing in the cost line. I mean, we would point out that in the revenue line there's probably one item I could speak to that would have impacts on that. So to tell you about roughly a $100 million, maybe a little bit more than a $100 million of unfavorable revenue adjustment in the commercial business that was booked in the quarter. So you recall that kind of there are risk adjustment factors that apply to commercial business for ACA-compliant individual and small group products. And so that goes through over a long period of time. Our data submissions have been and continue to be highly accurate on that. However, it's kind of a fixed pool in the end.

And so there was a true up as there were auto adjustments and other plans. Then what happens is that rolls through, you get adjusted because of the fixed pool. So that's one element that would have been rolling through in the quarter, and I'd size that in the tune of kind of $100 million. So that doesn't show in reserves, right, that's a revenue adjustment and may get a revenue adjustment to occur. So that's one element I'd point out.

I think in terms of kind of combining your last two questions, Justin a little bit here. And so, yes, so 3Q has that extra weekday essentially, a Monday, whereas and 1Q -- and that you can kind of see in this sequential progression even 1Q to 2Q, 1Q benefited from there being one less week day than normal. So that does impact progression, whereas typically you would see 3Q has often been one of our higher earnings quarters. And my comments -- in my prepared comments I talked about kind of relatively stable EPS between the two quarters. But you're right in thinking about that within the 3Q you should expect that MCR is impacted much like we got the benefit in the 1Q. Do I get at your questions, Justin?

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

Just the MLR for the year, the 82.5% and now that we're halfway through the year, anywhere you want us to kind of think about? Do you feel like you're on track for the midpoint or slightly higher, slightly lower?

## A - John Rex {BIO 19797007 <GO>}

We think we're tracking well on MLR for the year in that range, and well kind of in that zone. So nothing notable on that.

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

Great. Thank you very much.

## A - John Rex {BIO 19797007 <GO>}

Thank you, Justin. Next question please.

## Operator

Our next question comes from Charles Rhyee with Cowen. Please go ahead. Your line is open.

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

Yes. Thanks for taking the question. I want to ask about sort of the commercial membership here. I think you -- at the Analyst Day you guys talked about sort of to see -- or improving membership growth there, the quarter was relatively flat. Can you give us a sense on how we should be thinking about that as we think to the first year, given some of your comments today?

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

Sure. Dirk, do you want to address that?

## A - Dirk McMahon {BIO 18950833 <GO>}

Yes. So -- yes. Let me start off in the fully insured area. We improved over the first quarter, we had nominal fully insured losses in 2Q. There's no notable areas to mention. We're confident that we priced our book consistent with our trend forecast. And we actually see how our pricing approach actually pulled we pull through to the earnings. So that's kind of the full insured story. As it relates to fee, we lost 80,000 members in the second quarter, but that's normal related to national account seasonal attrition. As we look at our fee business, throughout 2019 what we expect to see is that favorable membership growth above and beyond the acquisition that we made. So that's kind of the commercial membership story.

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

Thank you Charles. Next question please.

## Operator

Our next question is from Josh Raskin with Nephron Research. Please go ahead.

## Q - Josh Raskin {BIO 3814867 <GO>}

Thanks, guys. Good morning. I'll echo the congratulations to Mr.Penshorn as well for all his help over the years. I'm curious about the John Muir announcement. I know you guys mentioned it, I'm curious what makes it unique, is it just the breadth of services or is -- it sounded that like a lot of things that you guys have been in the market doing. And then can you talk maybe a bit more broadly about preparing large systems to take risk and why Optum thinks it's a good idea for these large systems to be taken more and more risk, even maybe starting with their own health plan?

And I guess last part of this. We're seeing a lot of the demand -- we're seeing a lot of the supply in the market from enablers of that type of technology and systems that are doing what Optum is doing. Is there a demand that sort of matches that supply? I know it's got a lot of questions in there, but just sort of broadly on that topic.

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

So maybe Eric can answer the specific question on John Muir, and then we'll have Andrew Witty take the second part there around preparing large systems.

## A - Eric Murphy {BIO 15016015 <GO>}

Yes. Maybe I'll do first and second, if that's okay there -- or first and third, sorry. Josh, thanks for the question. Eric Murphy with OptumInsight. Our partnership with John Muir Health really represents one of the most comprehensive in the healthcare industry. Between a delivery system and a healthcare services company. The integrated scope of services includes acute and ambulatory revenue cycle management, end-to-end information technology services, ambulatory care coordination, enterprise analytics, purchasing and consulting services.

It is very unique in the marketplace and that health system has never contemplated putting out that much of a scope of work on both the back office as well as what I'd call the middle office of a delivery system. So it is quite unique and the first in the industry. And Optum is ideally suited to be able to address those expansive needs of John Muir Health.

In terms of the third part of your question, our market knowledge suggests that several hundred regional health systems have similar size and market opportunity as John Muir, We're already in discussions with several high-performing independent community based systems and look forward to establishing continued partnerships similar to John Muir Health with health systems across the industry. Andrew, do you want to take the second part?

## A - Andrew Witty {BIO 3471756 <GO>}

Yes. Thanks, Eric. And thanks, Josh, for the question. I mean, clearly we have a very strong view that the best way forward in terms of improving quality, bringing down total cost of care is to increase the mutual value in terms of the management of the care continuum. That very much the focus of the OptumCare strategy, and it resonates through all of our various platforms.

But it's also very clear that we have seen more and more systems begin to look to move in that direction. Whereas they look to Optum, they can see portfolios of information systems, skills which have been developed within our own organization, which are going to be just as useful within those systems as they are within for example our OptumCare organization. So for us, this is a very important opening up of a new front in terms of the opportunity to develop our interventions in the marketplace. And we believe, move to a more sustainable high quality lower cost healthcare environment.

## Q - Josh Raskin {BIO 3814867 <GO>}

Thank you.

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

Thank you Josh. Next question, please.

## Operator

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

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

Yes. I was hoping maybe you could comment on the -- how you're looking at the -- if you're continuing with the same PBM rebate strategy that you thought you focused on? And if that looks any different now that the administration has decided to withdraw from the ban in rebates in Medicare?

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

Good question, Matt. Our decisions around rebates and the application of them where pharmacy pricing protection doesn't exist in an existing policy was made independent of any pending regulation, and it was done so well over a year ago now. So our commitment to that remains. I think you know that there's -- of the policy that exists particularly in the commercial market about 75% of them already have pharmacy price protection mechanisms in them like a co-pay. Whereas the other 25%, and I'm generalizing here, but the other 25% don't.

And when that is the case, in particular when it intersects with some of the legacy high-deductible health plans they're it was really compelling for us to drive rebates to the point of sale to create greater affordability for consumers. We just felt that that was the right consumer response. And so that won't change as we think about moving forward. There was some legislation on HDHP yesterday, which I thought was pretty forward-leaning, which allows for greater flexibilities around managing high-deductible health plans. That will give us greater flexibilities as a market leader in that segment to be able to modify. Those policies or offer a greater range that allows us to be able to deal with the breadth of issues that arise with those policies intersecting with individuals with chronic disease. So we're looking forward also to bringing out new policies that are more responsive broadly to consumer expectations. So you can expect us not to change our stance on rebates.



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

Okay, thank you.

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

Thank you, Matt. Next question please.

## Operator

Our next question is from David Windley with Jefferies. Please go ahead.

## Q - Dave Windley {BIO 2411309 <GO>}

Hi. Thanks. Maybe combining the couple of questions. Dave, to your last answer on this rebate policy I'm thinking about commercial membership. I believe the company has said that it is requiring any new customers to go to a point-of-sale rebate regime. Is that having a positive or negative effect in your selling in commercial?

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

So there are two elements to this. First was the 8 million to 9 million or so people that are covered with or have point-of-sale rebates applied in our fully insured markets, that is just pretty close to being done. That was commenced effective January 1, 2019 of on renewal dates. So we still have some renewals that will take place as a result of that. The impact of that has been a $130 per eligible script savings, and as much as a 16% improvement in adherence. So we're going to monitor that and really evaluate what the long-term implications are on individual health and the overall use of healthcare resources.

The second piece again relates to those opportunities that come to us from January 1, 2020, and beyond that have no pharmacy price protection mechanism in the plan design, which again would be about 25% of the total plan design. In those situations we would only take on that case in the -- if we were able to apply rebates at the point-of-sale, I am speaking for United Healthcare at this stage. So those are the -- that's the plan for us going forward.

In terms of implications, there's been no implication with respect to the -- that policy adoption. The one thing we did see pretty quickly thereafter is a lot more interest on the part of large employers in possibly applying the same policy, recognizing that their consumers are at risk, if they have a high cost drugs and policy features that don't protect them from inflation on those drugs.

## Q - Dave Windley {BIO 2411309 <GO>}

Thank you.

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

Thank you, David. Next question please.

## Operator

Our next question is from Kevin Fischbeck with Bank of America. Please go ahead.

## Q - Kevin Fischbeck {BIO 6157376 <GO>}

Great. Thanks. Just want to get a bit more color on the guidance raise. You raised the quarter is by more than you beat consensus, consensus isn't always where I guess the company is thinking the numbers are going to be for the quarter. But how much of the guidance range reflects kind of just the upside that you reported in the quarter versus kind of flowing through that upside into out quarters, versus some of the deals that you've closed since last quarter, if you could break into those three components, that'd be great?

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

Raise reflects the overall confidence we have in the performance of the business as we sit here today in our prospects for growth, but also as we look forward to the future as well. But John, can you help us with just some details?

## A - John Rex {BIO 19797007 <GO>}

Sure. So I'd say end of last part of your comment, in terms of any transactions closed immaterial really in terms of what we're doing here today. So those will be just not that impactful in 2019 to even be noticeable. So really it's not about that. I think we try to show you kind of an impact in terms of the investment income line, in terms of the venture gain that we recognized in the quarter to help level set somewhat on that, in terms of the impact that I had in the quarter itself.

I think the other component I would say that I'd just mentioned in my prepared comments, compared to our outlook also the tax rate came in a about bit higher for us in the quarter, so providing some offsets on that. And then I think in response to Justin's question, I pointed out kind of another impact, that was yet another offset on that. So a lot of those factors kind of as these -- as they go through that, you can see within the quarter pretty much washing out right in terms of that impact. That helped Kevin?



## Q - Kevin Fischbeck {BIO 6157376 <GO>}

Yes. I think that helps. I guess. I guess you're saying though that when you break that out its then mostly in the quarter or is it between the quarter rest of the year?

## A - John Rex {BIO 19797007 <GO>}

So I'll be clear on that. So what I was saying is in terms of when you look at kind of the impact in the quarter and kind of that so is what I hold out was, that we talked about the venture gain, we talked about some other elements that go -- that offset that. So really that drags in into in terms of kind of how we're feeling about our full year, and kind of the optimism and confidence we have in the full year, because some of those quarterly elements really wash out.



## Q - Kevin Fischbeck {BIO 6157376 <GO>}

All right. Perfect. Thank you.

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

Thank you, Kevin. Next question please.

## Operator

We'll go next to Ricky Goldwasser with Morgan Stanley. Please go ahead.

## Q - Ricky Goldwasser {BIO 1977392 <GO>}

Hi. Good morning. So my questions are on kind of like what we're hearing out of D.C. Obviously the rebate rules out, but we have some couple of new proposals. I wanted to get your view on them. So the first one, the administration put out recently an executive order that looked at the increasing price transparency in healthcare, including requiring providers and insurance to provide or facilitate some access to information about negotiated rates.

So I wanted to see kind of like how you think about this and the potential impact on the competitive dynamics? And secondly, back in May, house ways and means kind of like unfiled its legislation it would shift the risk of catastrophic coverage, kind of like a doughnut whole from patients and the government to health plans and manufacturers. How do you think about this? Is this yet just another proposal that would ultimately result in higher premium, and therefore would be shelved? Or what potential impact do you think it could have on you? Thank you.



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

There's a lot of policies and proposals and proposed regulation activity going on today, and it's in-part mixed with the political campaigns. So there's a lot to -- there's a lot out there. And some of that is subjected to formal processes, and others there's more just a direct commentary. So our I think here for this purpose we would probably restrict our commentary to general types of themes as opposed to I find ourselves commenting outside of the formal process.

But -- so I'd I just maybe emphasize a few things here. One is as it relates to a drug prices in particular, I think it's fairly clear now that there is -- that the drug companies set these prices. I think one of the things that was implied in the rebate rule was important, emphasis on continuing the PBM's role as a counterbalance against those list price increases. But also a direct recognition of the strong value PBMs brings not only in the management procurement but also as they manage the pharmacy benefit as well as in the case of OptumRx's as they think of value that comes with the interaction of all that with the medical benefit, driving considerable additional value.

We save consumers about $2,000 per year, per consumer in these activities. And I think that folks are starting to realize that and will evaluate and so I think that that will weigh heavily on whatever ultimately comes out. Also, I think you've also seen that we've begun bringing really strong value to people through this application of rebates at the point-of-sale, really to ensure that consumers are protected from these list price increases overall to the best of our abilities. And we'll continue to pursue those activities. And So I think that covers of your kind of the commentary you had about the rebate rule and the second piece. As it relates to the house ways and means, doughtnut hole that we have any specific commentary on further commentary on it looks? Looks like not. So we'll just stick with that response for now.

Thank you, Ricky. Next question, please.

## Operator

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

## Q - Steve Tanal {BIO 17633334 <GO>}

Thanks a lot, guys. You have covered a lot of ground. I guess the one thing on the guidance that you didn't touch is the OCR ratio, 14.4% to 15% I think was the last guide, and it seems like us tracking a little late there. So that's really is my question. Any color there.

May be just if I can sneak one more in. On the PPD, we'd love to know what was entry year versus prior year inside of the $270 million. Thanks so much.

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

John?

## A - John Rex {BIO 19797007 <GO>}

Yes. Hey, Steven. Yes, no change on our OCR outlook for the year. So as you kind of -- when you look at the year-over-year, I'm sure you're well aware the primary change in the OCR is driven by the health insurance tax. That gets offset -- being offset by strong efficiency and productivity gains. And then of course we'd continue to make the significant ongoing strategic investments in our businesses. So --but no change from the outlook, we still expect to be in the guidance range of 14.7% plus or minus 30 basis points for the year.

## Q - Steve Tanal {BIO 17633334 <GO>}

And the PPD --

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

Next question please.

## Operator

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

## Q - A.J. Rice

Hi, everybody. Maybe just asking about MA, now that the bids are in for 2020, I know the company stressed the last few years consistency of benefits, we'll get the health insurance fee coming back next year. Do you feel like you'll be able to maintain at least in a broad sense consistency of benefits next year? And it looks like two of your major competitors in the space that have grown extraordinarily this year, have done so via really pulling those benefits off the HIP moratorium this year, and presumably then after to look at that next year. Do you see an opportunity maybe for a little bit of accelerated growth if you can be consistent next year?

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

Good question, A.J. And I really applaud our team's efforts on how they thought through this on a multi-year basis. Brian you want to give us some details?

## A - Cory B. Alexander {BIO 18847704 <GO>}

Sure. Thanks for the question, A.J. To your point, obviously the tax is returning in 2020. As I've said before, we will measure it in discipline and how we went to market inside 2019 is certainly mindful of that tax headwind returning. I would say a multi-year approach was a critical factor in shaping our optimism around 2020. Our goal and attention is to keep our benefits largely stable to improving, despite these headwinds. So right now I would say that we're really pleased with our product positioning going into next year and a foundational element was our discipline in 2019.

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

Thank you, A.J. Next question please.

## Operator

Our next question comes from Peter Costa with Wells Fargo Securities. Please go ahead.

## Q - Peter Costa {BIO 1500085 <GO>}

Good morning. And good luck to John Penshorn and congrats to Brett, or maybe that should be the other way around. My question on DMG. I want to talk about -- the performance of that has been fairly weak over the last few years, and now that you've got the transaction closed and it's yours how will you improve the performance of that business and how quickly do you think you can bring some improved earnings to the bottom-line there?

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

Thank you Peter for the question. We're pleased to have closed the transaction after an extraordinarily really long time. Dr.Wyatt Decker is here, Wyatt, you want to talk about what you're doing with DMG?

## A - Wyatt W. Decker {BIO 17276367 <GO>}

Yes. Thank you, Dave and thank you Peter for the question. At OptumHealth, our care platform we call OptumCare is building the nation's leading value based physician-led and patient focused healthcare system. We're very pleased to have completed the acquisition of DaVita Medical Group, which combines another leading medical center with our practice. We feel confident that as we provide our clinical expertise, analytics and services to the DaVita medical practices, you'll see enhanced performance of the DaVita Medical Group and integration with our leading value based practices. Thank you.

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

So Peter, we're pretty pleased with how DaVita transitioned over having done bring down diligence and looking at the run rate of the performance of the business. So we were -- we're pretty pleased with that. And so the foundation from which we will improve that practice and drive the type of synergies that we expect was there. And so we have high confidence that you'll start to see some meaningful contributions from that platform in 2020 and beyond.

Thanks for the question. Peter next question please.

## Operator

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

## Q - Sarah James {BIO 16692995 <GO>}

Thank you. It's clear that Value United and insurers are creating for healthcare affordability and quality when you look at the historical industry cost trend of 7% to 8% being brought down to 6% range with consumers And now we have a peer talking about future trends in the low 2% range benchmark to medical CPI, granted they have some skewing from ASO inclusion. And Dave at our conference last month you mentioned national health expenditures plus or minus is interesting construct to consider medical cost trends. So I was hoping you could elaborate a little bit more on how you think about the right framework for talking about cost trend, whether it's CPI or NHE, and if it's national health expenditures which runs and identifies How do you think about United's business model being able to produce long-term trend in line or better than national health expenditure trend?



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

That's a really thoughtful question, Sarah. So a couple of things. First, we have begun to look at it more closely, and thinking about whether how we are contributing to bringing a greater affordability more broadly across the segments of Medicare, Medicaid and commercial. And have started to evaluate that against NHE to determine, again, whether we are a contributor to a trend or whether we are actually reducing trend. And so that's something that I think you'll hear more about from us.

The other is, as we sit here we oftentimes talk in the commercial trend context in these settings, all the while we have a very robust and large government programs space business. And those obviously have trends inside them as well. So we're trying to think about a way to bring forward a view of that more broadly so you can assess our aggregate performance across our business. We-- so NHE will be important in that respect. It is a complicated metric in many respects. I think I can safely say that we are contributing positively to reducing the nation's healthcare burden. And that healthcare burden has been declining over the course of the more recent past. And we would aim very hard to continue to move that forward recognizing that. The way to get that done is to advance quality first and foremost, which is really the improvement of outcomes. And then evaluation of and making sure that we driving efficiency in the use of the nation's healthcare resources in achieving that quality, and then not missing the opportunity to improve the patient's experience as well.

So this is a very high priority for this organization to contribute in a constructive way, to reducing the overall healthcare burden in the U.S. And we believe you can see that in some of the remarks that informing the health system by -- through the application of the IHR, engaging people and managing their health conditions more proactively through the rally platform, and aligning the rewards system in healthcare to drive that triple aim value is essential to achieving that. And that's the essence of the commentary that I began this call today. We would add a fourth element to that, and that's really around our physicians and providing them a work environment or an environment where they can practice medicine, in other way they've been trained and to allow them to the freedoms without burnout to be able to deliver solid high quality outcomes and results for their patient base. And we believe that OptumCare is -- and UnitedHealth Group broadly is creating just that environment.

Thank you for the question, Sarah. Next question please.

## Operator

Our next question is from Lance Wilkes with Sanford Bernstein. Please go ahead.

## Q - Lance Wilkes {BIO 4820557 <GO>}

Yes. I just had a question with respect to the drivers of growth over in the Optum side of the business. And was wondering for OptumHealth for its growth how much that growth was driven from risk taking or the shift of value based reimbursement? And over on the PBM side how much was driven by increased use of the specialty home delivery?

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

Tim Wicks, do you want to take that?

## A - Tim Wicks {BIO 7451713 <GO>}

Sure. Thanks very much, Lance. Appreciate the question. So when we look at the growth at Optum broadly, very significant growth and really good market acceptance around risk-taking that we have in OptumCare. And continue to expect to see growth there. As well in other parts of OptumHealth, very much seeing growth in the Optum serve part of the business, which is the part of the business that serves the federal employees as well as military veterans part of our business.

And you may recall earlier in the year we announced at the end of last year we had received a new contract for a community care network. And with that, we were awarded three regions. And when we were awarded that, we expected that we would have about 6 million potential new members in there over the next several years and we've driven very well at the implementation of regions one and two. And I'm just continuing to drive success in that market.

And then the other area that I would focus on is Optum Financial Services as well. One of the leading health services, financial institutions with about 5.5 million consumer accounts, and very significant growth in assets under management as well. And just continuing to really drive growth in that part of the market to really help with tools and capabilities for consumers to be able to drive decision-making that they used to access care and to be able to fund and serve those individuals as they're making decisions around care choices and affordability.

So really good solid growth in that area. As well I would say in the PBM, the really strong acceptance of the pharmacy care services model. You see the wins that both Dave and Andrew talked about in script, in their prepared, just really solid growth in that area. And then also on OptumInsight, strong acceptance in terms of market approach on large deals like the recent announcement of John Muir Health and the strength of bringing healthcare technology services into that part of market to be able to help with moving the risk, and also being able to be more effective in delivering care to consumers and individuals. So I would look at the full spectrum and say, really good solid opportunities to drive good organic growth that we've been seeing across all of Optum.

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

Good question, Lance. Hopefully, you read in all that, that even -- we oftentimes showcase certain elements in the call here, but there is a very strong underlying and diverse base of businesses inside Optum that are advancing value to consumers on and the health system broadly on multiple different dimensions.

We are running short of time. So I think we can take two more questions, and then we'll conclude the call. Next question please.

## Operator

And we'll go to Mike Newshel with Evercore. Please go ahead. Your line is open.

## Q - Mike Newshel {BIO 19788719 <GO>}

Thanks. Going back to the HIF. Is there any tailwind embedded into the 2019 guidance now for midyear commercial enrollments that they can return to the fee for the 2020 months, similar to what you saw in 2017?

## A - John Rex {BIO 19797007 <GO>}

So, yes. So just thanks for your question. So not meaningful in terms of any kind of impact there. But every year -- so we're getting a little familiar with things like that come in and out of the outlook here. So kind of individual and discrete factors that may influence the annual growth rate. I wouldn't call it meaningful in terms of any kind of impact on that for 2019. But yes, this thing will come in back again in 2020. It comes in and out, it seems to insert some in-year impact. Well, given the diversity of our business base, it's usually really not all that material for us. We look at it as kind of an element that should be addressed here ultimately, as you reintroduced that to the system, but nothing material that I'd call out in the '19 outlook.

## Q - Mike Newshel {BIO 19788719 <GO>}

Thanks.

## A - John Rex {BIO 19797007 <GO>}

Thank you. Next question, please.

## Operator

Thank you. Next question is from Ralph Jacoby with Citi. Please go ahead.

## Q - Ralph Jacoby {BIO 3834596 <GO>}

Thanks. No one has asked about this, any initial commentary on sort of 2020 and specifically if you can size the HIF and headwinds in terms of just size -- dollars there? And whether or not that will hinder your ability to grow within your 13% to 16% target range at this point? Thanks.

## A - John Rex {BIO 19797007 <GO>}

Sure. Well, I'll -- I guess I'll start by saying I appreciate the valiant attempt at 2020 guidance, which we won't be providing here today. I mean keeping that long health custom, we'll provide some initial thoughts in October with our third quarter earnings call. And then we'll provide a really detailed view at our investor conferences as we always do.

I will offer a few thoughts, though because I think you asked a good thoughtful question there. So first, is that it relates to our 13% to 16% long-term earnings growth, objective it's just that but long-term outlook not meant to be single quarter or single year point estimate, I think as I reflect back a little bit, say but over the last decade or so, obviously. So we've through today reported 42 quarters, right? I'd say annual average growth rate over that period has been 18%. But going including where I'd expect to land in 2019, we have seven quarters that have all been well above or within that 13% to 16% target and four that were below. If I even go to little more granular, but I think about 42 quarters we've had 28 that were in or above that guidance range, and 14 that were below.

So it's a pretty strong batting average against the long-term growth rate. And we expect to going to continue to be quite strong for the decade to come. But if the long-term growth rate manages the business to sustain that growth into future, we don't typically -- there aren't any discrete individual factors that we see as that have really influenced that. And I can think about many factors that have occurred over the course of this company, whether it was going back to stars or other elements or years where Medicare rates were not -- were different than maybe expected.

The HIP is just a j through also. And I think a few things that -- I know you're all aware -- well aware of here though, it is a cost that's ultimately shouldered by American families, small businesses and seniors. Its nondeductible tax that comes in, and you've seen it come in and out, I know you all are deeply aware of the mechanics, and for us it's just mechanics, and passes through. But it comes in and out and can cut into your -- in your impact sometimes when it comes in and out. They said in the last -- in response to last question given the diversity of our business, it's just not really all that material to us. But it's noticeable but it's things like I pointed out that again you're well aware. Of Non-deductible nature of the tax loan adds what 300 to 400 basis points to our effective tax rate. That's just the math of it. There's the calendar year versus policy year differentials. On the commercial business, I can go on. But I'm confident that after several years of this, by now you're all aware of those impacts.

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

Great. Thank you, John. Thank you all. I'd just like to maybe sum up where we are as we close out this call. UnitedHealth Group ended the first half of 2019 with considerable momentum, delivering strong well-balanced earnings growth across all of our businesses. It's with confidence that we're expanding, and with our expanding capabilities available growth opportunities that we increased our outlook for full year adjusted earnings per share. Optum and United Healthcare both performed strongly in the quarter, both are focused on lowering costs and improving health outcomes in the consumer experiences as they seek to help advance the next generation health system in a socially conscious way, a system that provides high quality, to and fair access for all.

This concludes our call today. Thank you for joining us.

## Operator

And this will conclude today's program. You may now disconnect. And have a great day.

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