

Company Name: UnitedHealth
Company Ticker: UNH US
Date: 2017-01-17
Event Description: Q4 2016 Earnings Call

Market Cap: 151,662.40
Current PX: 159.34
YTD Change(\$): -.70
YTD Change(%): -.437

Bloomberg Estimates - EPS
Current Quarter: 2.160
Current Year: 9.510
Bloomberg Estimates - Sales
Current Quarter: 48118.625
Current Year: 198672.714

Q4 2016 Earnings Call

Company Participants

- Stephen J. Hemsley
- Larry C. Renfro
- David Scott Wichmann
- Austin T. Pittman
- Daniel Schumacher
- Steven Nelson
- Bill Miller
- John Franklin Rex
- Tami L. Reller
- Amir Dan Rubin
- Mark A. Thierer

Other Participants

- Matthew Borsch
- David Howard Windley
- Sarah E. James
- Stephen Baxter
- Peter Heinz Costa
- Scott Fidel
- Ralph Giacobbe
- Joshua Raskin
- Michael J. Baker
- A.J. Rice
- Kevin Mark Fischbeck
- Lance Arthur Wilkes
- Sheryl R. Skolnick

MANAGEMENT DISCUSSION SECTION

GAAP and Non-GAAP Financial Measures

This call will also reference non-GAAP amounts

A reconciliation of non-GAAP to GAAP amounts is available on the Financial Reports & SEC Filings section of the company's investor page at www.unitedhealthgroup.com

Stephen J. Hemsley

Business Highlights

Opening Remarks

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- We plan to keep our prepared remarks brief today
- Just a month-and-a-half ago, we held our annual investor conference and fourth quarter results are very much in line with or slightly stronger than we discussed at the conference
- So our focus is now well into 2017
- We ended the year with modestly stronger than expected growth across our businesses and as the story has been throughout the year, customer retention and expanding relationships played a central role in our member and revenue growth for both UnitedHealthcare and Optum

Revenue and Net Earnings

- To briefly recap 2016, revenue of \$184.8B grew nearly \$28B or 18%, as earnings from operations advanced over 20% to \$13.3B.
- Net earnings advanced 24% to \$7.3B and adjusted net EPS grew 25% to \$8.05 per share for the year
- Fourth quarter 2016 results included \$47.5B in revenues, more than \$3.5B in earnings from operations, net earnings of \$1.9B and adjusted EPS of \$2.11
- All of these results were at or modestly ahead of the expectations set at our investor conference in late November

Operating Cash Flow

- Operating cash flows for the year were \$9.8B, 1.34 times net earnings, within our range of expectation, despite timing changes in several state payments
- We look forward to the opportunities of 2017, as we continue to drive our agenda of quality based Net Promoter or NPS performance and growth
- Building on the momentum of strong NPS gains in 2016, in that vein, we began 2017 with one of the stronger operational starts to a new year we have ever had
- We remain fully committed to meeting or exceeding the 2017 outlook we previewed with you at our investor conference, and as Dave Wichmann and Larry Renfro will discuss, we have solid growth momentum going into 2017

Larry C. Renfro

Q4 Highlights

Performance

- Customers of both UnitedHealthcare and Optum have been responding to our focused NPS quality and value efforts
- These are the building blocks of valuable, deep, long-term relationships
- Customer retention was a factor in UnitedHealth Group's 2016 growth and that continues as we enter 2017
- The healthcare customers we serve turn to us to solve large, complex problems
- UnitedHealthcare, for example, is increasingly helping states manage care for their medically complex, highly vulnerable and most costly populations

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- We also continue to assist employers with effective, innovative programs to support the needs of their retirees and employees challenged by chronic health issues

Optum

- For Optum, 2016 was a distinguishing year for developing and deepening relationships across healthcare, as we deliver more value to the marketplace
- In Q1, we announced a strategic relationship with Walgreens, offering more choice and greater savings to both consumers and their sponsors

Technology Partnership with Availity

- We also entered into a technology partnership with Availity, a leading health IT provider, to meaningfully improve connectivity and processing for payers, care providers and consumers
- In Q2, several large organizations engaged Optum to deliver pharmacy care services in 2017, in response to our progressive clinical model, the whole person care
- Quest Diagnostics joined us in Q3, in a collaboration that will span several of Optum's businesses starting with Optum 360
 - We were honored to receive several important multi-year contracts from the Department of Veterans Affairs and we partnered with Allscripts across OptumInsight and OptumHealth
- In Q4, we were pleased to announce a new relationship with CVS health that will strengthen their retail and our pharmacy care service offerings to the benefit of consumers

SCA

- Moving into this year, last week, we announced we will join with Surgical Care Affiliates, or SCA
- This combination will expand the breadth of care delivery capabilities at Optum, as we continue to evolve a comprehensive ambulatory care platform, including primary, urgent, surgical, and home care, all designed to deliver higher value and quality healthcare to consumers and payers
- Surgeons operating in SCA centers perform nearly 1mm surgeries annually, in over 200 locations, across 33 states, with consistently high quality consumer satisfaction and improved value
- In SCA, we will grow and build upon a leader we know well in the high growth market, a market where we have already gained meaningful market presence, experience, and insight through OptumCare
- The momentum inside our businesses comes from the growth and depth of these relationships and the breadth of sustainable value we can offer

Catamaran Acquisition

- In 2016, Optum revenues grew 24% to \$83.6B, as earnings from operations grew 32% to more than \$5.6B, slightly ahead of our most recent outlook
- Fourth quarter 2016 was the first anniversary of the Catamaran acquisition and we were pleased with the operating earnings growth of 18% in the quarter for Optum overall, led by 27% growth at OptumRx
- Margins reached 8.1% in Q4 and were 6.7% for the full year, up 40BPS over 2015

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Backlog

- Looking to 2017, OptumInsight's year-end backlog grew 21% to \$12.6B.
- As we stand back from Optum and look at our progress, we're advancing the quality and consistency of our services to customers, simplifying our business, strengthening our leadership team, and focusing our resources and investments in the most important growth trends in healthcare
 - While there is more to be done in the United States and globally, the opportunities continue to grow even faster and larger

Revenue and Earnings

- We are optimistic about our outlook for 2017, with revenues exceeding \$90B and earnings from operations in the range of \$6.2B to \$6.4B
- In 2017, at Optum and across UnitedHealth Group, we are committed to grow by developing stronger relationships, delivering consistent value to strengthen NPS, and helping make health systems work better for more people

David Scott Wichmann

Q4 Highlights

Revenue and Medical Costs

- UnitedHealthcare also enters 2017 with strong momentum
- Fourth quarter and full year 2016 revenues were well balanced, growing by double-digit percentages in every product category
- Medical costs remained well managed, with the commercial medical cost trend ending the year in line with expectations at approximately 6%

Organic Growth

- 2016 was one of the strongest organic growth years in our history, with more than 2mm medical members joining
- UnitedHealthcare continues to build well diversified growth momentum, as customer and consumer retention rates continue to improve broadly, with notable strength in small and mid-sized commercial groups and in Medicare

Commercial Group Business

- In the full risk commercial group business, we grew by 205,000 people in the quarter and 375,000 people for the year, providing a positive starting point as we enter 2017
- This growth was broad-based, appropriately priced and balanced across geographic regions, products and customer types

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Self-Funded Segment

- In the self-funded segment, the market has been stable, with strengthening employment rates helping us grow within existing customers
- In 2016, UnitedHealthcare grew to serve an additional 335,000 commercial fee-based consumers, including 20,000 more in Q4
- As expected, individual business declined in Q4
- Premium deficiency reserves taken earlier this year were sufficient and we maintained an appropriate and prudent residual reserve for claims not yet received
- Consistent with our commitments to you early in 2016, we do not believe our ACA compliant individual business carries any financial exposure forward into 2017

Medicare

- Turning to Medicare
- In 2016, we grew our medical membership organically by 625,000 people, about two-thirds through Medicare Advantage. 2016 was among our best Medicare growth years, but we expect 2017 to be even stronger
- Our positive Medicare Advantage performance in 2016 was driven by the combination of premium and benefits stability, rising Stars performance and improved service and clinical performance, all leading to record retention rates
 - These same factors are driving 2017 growth
- We expect to serve nearly 1mm more seniors with medical benefits this year, including more than 0.75mm seniors in Medicare Advantage, balanced and diversified by region, channel and product

Medicaid

- Moving to Medicaid
- Adding 100,000 people in the quarter brought our full year growth to 585,000, once again, broad-based and organic from new programs in both new and existing states
- In 2017, we will introduce services in the states of Virginia and Missouri, and plan to enter Colorado via the pending partnership with Rocky Mountain Health Plan, further expanding the number of state partners we serve

Revenue and Earnings

- As we recap the year, UnitedHealthcare revenues of \$148.6B grew 13% y-over-y, virtually all organic, as it has been over the past several years
- Every business grew revenues by double-digit percentage in Q4 and for the full year 2016
 - Earnings from operations exceeded \$7.6B and grew 13% or over \$900mm

Medical Care Ratio

- Turning to UnitedHealth Group as a whole, our fourth quarter revenues of \$47.5B grew 9% over last year

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- Q4 consolidated medical care ratio decreased 190BPS to 80.8%, slightly outperforming our recent investor conference outlook
- The full year care ratio of 81.2% improved 50BPS y-over-y, with core businesses overcoming both the pressures in the individual market in H1 2016 and the higher levels of reserve development in 2015

Operating Cost Ratio

- The full year operating cost ratio improved 30BPS to 15.2%, in line with our investor conference forecast
- As we step into 2017, there are a number of positive indications that reflect our continuing momentum
- Our focus on quality and NPS is intensifying and bearing results
- Consumers continue to engage more deeply in their health, earning \$255mm in healthy behavior incentives in 2016
- We began the year crisply in customer installation and service on record levels of new and diversified growth across Optum and UnitedHealthcare

Optum

- Optum enters the year with record backlog, people served and adjusted scripts and with Optum Bank crossing the \$7B mark in consumer health assets under management
- Optum is pursuing a strong vision as a health services organization, unlike any in existence today
 - We will continue to develop our business to fit that vision in 2017

Merger with SCA

- Our merger with SCA will significantly expand our capabilities for consumers, payers and hospital partners at OptumCare, while establishing presence in new markets
- UnitedHealthcare enters the year with strong retention rates and new business growth across all three lines of business, and we are seeing improving performance and earnings contribution from our hospital company and health plan in Brazil

Penn Treaty

- We should touch briefly on Penn Treaty, an industry topic we first discussed in 2010 that finally seems to be resolving
- Penn Treaty is a financially distressed long-term care insurance company with no affiliation to us
 - While we have never sold long-term care policies, under state laws, health insurers will be assessed a share of the guarantee funds needed to protect Penn Treaty's policyholders

Operating Charge

- We expect to accrue an approximately \$350mm operating charge for our portion of the assessment
- This charge will be funded over several years, and the cash will be largely recovered through premium tax credits over time

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- While this outcome is well-known, current accounting practice only allows this charge to be recognized when a final court order of liquidation is entered
- When that ultimately occurs, we will incorporate the impact in GAAP earnings while excluding it from adjusted EPS

Summary

To wrap up, we remain committed to our outlook for 2017 revenues of \$197B to \$199B, adjusted net earnings of \$9.30 per share to \$9.60 per share, and cash flows from operations of \$11.5B to \$12B.

Only 17 days into the year, we think this posture strikes an appropriate balance of optimism and prudence

Stephen J. Hemsley

Q4 Highlights

Executive Appointment

- You may notice a separate press release this morning announcing that Tim Flynn has joined the Board of UnitedHealth Group
- Tim is an exceptionally creative and solutions oriented executive, the former global managing partner of KPMG
- Tim has deep financial and global operating expertise
- He's also deeply versed in corporate governance and we are thrilled to welcome Tim to our Board of Directors

Affordable Care Act

- We'll close with a few words on the overall domestic healthcare landscape
- To be clear, we have no better sense than anyone else concerning the timing or any ultimate actions with respect to the Affordable Care Act
- So any questions and responses on that subject need to have that clear context
- And as you would anticipate, we will not speculate on hypothetical or provocative questions in this area this morning
- Our posture has remained consistent for some time now
 - We remain positive and constructive with respect to what ultimately evolves in the next phase of healthcare change
- We see the opportunity for robust state-based healthcare markets, offering flexible commercial benefits, flexible Medicaid available to eligible, as well as paying beneficiaries, well-structured and managed high-risk pools, exchanges where states choose to sustain them and much more

Healthcare System

- We believe all of these taken together can represent effective, local, state-based coverage systems which can well accommodate those currently in the ACA individual exchanges as well as serve as channels to further expanding coverage if that remains the focus

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- We see this approach as being simpler, offering more flexibility, more choice, and more affordability to both consumers and state and federal sponsors
- And as we have for many years, we remain staunch advocates for affordable coverage, infrastructure that supports a modern healthcare system, including a strong and diversified future oriented healthcare workforce and improvements to government-sponsored benefits that incorporated better use of technology, information, and care resources for Americans

Conclusion

UnitedHealth Group, Optum and UnitedHealthcare remain fully committed to our mission, to help people live healthier lives and help make the health system work better for everyone

Today, we see more opportunities to serve and grow in the next 10 years than the past 10 years

We remain an adaptable, innovative and restless enterprise

- We see many ways we can work

Our work can continue to improve, if we stay focused on that mission, and we're committed to pursue that goal in 2017 and the decade ahead

QUESTION AND ANSWER SECTION

<Q - Matthew Borsch>: I just was hoping that you could address the question of the Pennsylvania Medicaid contracts and how the latest development in the rebid might or might not have affected your guidance relative to what you had already baked in for those contracts.

<A - Stephen J. Hemsley>: Sure, I'll have Austin do that, but those will not affect our guidance at all for 2017. Austin?

<A - Austin T. Pittman>: Sure. First, let me say that our commitment has been and still is to focus on the service of the people in Pennsylvania. That's what we get up and do every single day. So we're staying very focused there.

As for the Medicaid program or health choices, as you know, we currently serve about 220,000 Pennsylvanians. The procurement process, as has been noted, has been particularly troubling to us, both the lack of transparency and the material shift in the outcome itself. If you recall, we went from retaining our existing footprint and expanding statewide in the initial award to being eliminated from the program through this latest protest and rebid process.

So we have formally protested, as others have. We're pursuing all of our available options to get transparency. As we get acquainted with the details, we'll take further action from there. In the meantime, as I said at the start, we'll stay focused on serving the people of Pennsylvania.

<Q - Matthew Borsch>: Okay. So just on the guidance, I had thought that your Medicaid enrollment adds for this year included maybe a material number for Pennsylvania. Was I wrong about that?

<A - Stephen J. Hemsley>: No, I just think that this process will take some time. I think the protest will extend and I think we also have other opportunities throughout the course of the year. So I don't think that a single state like that will affect our outlook.

<Q - David Howard Windley>: Acknowledging that your intent in OptumCare is to be multi-payer, I wondered if you could comment on how much of UnitedHealthcare's medical cost is flowing through OptumCare, what your goals for that might be, and then, how Surgical Care Affiliates folds into that or leverages that opportunity? Thanks.

<A - Stephen J. Hemsley>: Sure. I think we'll have Larry kind of comment on that. I guess I would focus on the fact that we serve multiple payers through our OptumCare platform, have for some time that the portfolio continues to

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expand, SCA fits right into it. Do you want to pick it up?

<A - Larry C. Renfro>: Sure. David, I'm going to go back a little bit and talk about how we kind of got where we're at with OptumCare, where we are in terms of SCA at this point in time. So if you go back in time, five years ago, we had this One Optum plan that we put together, and as part of that structure, we had a 75 market strategy.

Now, all of this relates to UHC and how we have positioned Optum from the start. So with the 75 market strategy, we kind of looked at the marketplace at \$500B marketplace that now has grown to \$1 trillion. And as part of that, we have looked at what the growth pillars are going to be in the future and OptumCare is a piece of that, and that's where SCA will fit.

And as SCA is a great organization that we're bringing in, that's going to add scope and scale, it's going to be very complementary to what we're doing. So we feel pretty strong about SCA. We feel pretty strong about OptumCare being a big piece of our strategy going forward in the future to get to the breadth of the market that we are trying to penetrate.

I might ask Dan Schumacher to comment a bit about the UHC side. Dan?

<A - Daniel Schumacher>: Sure, thank you, Larry. Good morning, David.

<Q - David Howard Windley>: Hi.

<A - Daniel Schumacher>: As you look at surgeries broadly, obviously, the overwhelming majority of those still take place in a hospital setting, both inpatient and outpatient. And so, the reality is that there's a huge opportunity for greater penetration for surgeries to take place in an ambulatory setting. And when you look at the kind of quality that can be demonstrated through an ambulatory setting, as well as patient satisfaction, that frankly runs north of 90 when you look at the Net Promoter Scores and you see a cost profile that runs about half of what you would expect in a hospital setting, there's tremendous opportunity.

And within UnitedHealthcare, for some time, we've been focused on site of service for several years and we've made some headway, but the reality is we think there's an opportunity to really accelerate and we think the partnership with SCA provides a great potential.

<A - Stephen J. Hemsley>: And if I'm not mistaken, and I'll ask Dave Wichmann correct me on this, a little less than half or roughly a half of the activity flow that goes through OptumCare is UnitedHealthcare and only about 12% of SCA is UnitedHealthcare; is that true?

<A - David Scott Wichmann>: That's right, Steve.

<Q - Sarah E. James>: United felt strong Medicare growth in January. The penetration for the overall market went up more than I've ever seen in January vs. December jump. So can you talk to your view of underlying long-term growth for Medicare Advantage, either for United specifically or the industry, and your view on where MA penetration could go now that we have the younger population aging in? If you have any numbers around how much of your 2016 growth was from fee for service, that would be helpful as well. Thanks.

<A - Stephen J. Hemsley>: Sure. I think Steve Nelson can handle this.

<A - Steven Nelson>: Sure, thanks, Steve. Good morning, Steve Nelson. Maybe I'll talk a little bit about our growth, not speculate on the broader industry, but we did see a higher penetration this year, as you noted, and so, the program continues to be really popular and very effective.

Just commenting on our growth, to reiterate what Dave said in his prepared comments, the growth that we see coming out of AEP is very strong and in line with the guidance that we provided in our November investor conference. And one sort of important point there is about 85% of our full year guidance, actually, comes to us on January 1. So the bulk of that membership is already with us.

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We have some pretty good insight into the mix as well. And Sarah, as we've talked about before, about half of that was from our group business. So we have a lot of insight into that membership. In fact, a lot of times we have claims experience there. And then, we also had broad growth across all of our geographies, markets and products. So it's really the product stability, the product portfolio that offers choice is really resonating in the market.

So there are several drivers that I would attribute to at least our growth, as we are experiencing this kind of strong growth for 2017, again, the product portfolio that we've worked hard over the past several years to put this in place, also, really strong engagement and with our distribution partnership across all of our channels, really strong brand in the market for UnitedHealthcare, and then, also the investments and the improvements we've made in, as Dave noted, in our Stars quality, and also, in our member experience. So I think this really positions us well to receive this growth and to continue to grow not only in 2017 but beyond.

In terms of the conversions, it's a little early to get into specific details about the conversions from fee for service, but again, there were some market share growth and Medicare Advantage overall, and I think it's a testament to the effectiveness of the program where you see higher outcomes, lower costs and very high satisfaction.

<A - Stephen J. Hemsley>: Thanks, Steve. Despite the fact that MA has been underfunded over the last several years, it continues to take share with the take, 1.3%, 1.5% market share shift of the indication. That's been pretty steady despite the fact that it's been underfunded. It is clearly the most popular form of Medicare. It serves lower income groups. It has great retention value, and we would think that that will continue so that the share of Medicare Advantage will ultimately continue to grow and take its place in terms of the government programs.

<Q - Stephen Baxter>: A question for you about the OptumInsight backlog. Appreciating that the backlog here is at a record level, but we noticed that it was flat sequentially for the first time since 2013 heading into the ACA implementation. I was hoping you could speak to what you're hearing from clients and, in particular, are you seeing any uncertainty with hospital buying patterns just given the uncertainty of where we might be going with repeal and replace?

<A - Stephen J. Hemsley>: Sure, Larry, do you want to take it? Or Bill Miller?

<A - Larry C. Renfro>: I will start...

<A - Stephen J. Hemsley>: Okay.

<A - Larry C. Renfro>: ...and then, I will hand it to Bill. I think that if you look at Q4, you'll see that we had a pretty strong fourth quarter, especially OptumInsight, and Bill will speak to that in a second. So all of our financials were in line with our expectations.

One thing that to keep in mind when it comes to technology services and how we look at Optum360 across the board is that we're very diversified, when we really service 300 health plans, 4,500 hospitals, over a couple hundred government agencies and so forth. So we have a lot of opportunity and it's a diversified opportunity.

So Bill, just comment on the quarter.

<A - Bill Miller>: Yeah. Thanks, Larry. Thanks, Steve. Yeah, we're real happy with our performance in Q4 and a part of that confidence in going forward and with respect to the pipeline and the backlog is there's several metrics that we look at. And while hospital is one sector that we work with, you understand that we have really wide constituencies of payer, provider, life sciences companies and government, and across the board, we're seeing enormous growth in our pipeline. Our sales and some of the size of the sales at each of those geographies of clients has grown dramatically y-over-y.

And if I look at and search for slowdowns, we don't see it, because if you look at the solutions that we provide, they're mission-critical, they're implementing modern technology, they have proven ROIs. So we're not seeing the slowdown that perhaps is being felt in other places because of our diversity, the mission-critical nature of our solutions that we bring to market. And so, we're seeing wide adoption.

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And with respect to the backlog, while there may have been a little flatness q-over-q, if you look at the y-over-y growth, it's a tremendous story. If you look at any given quarter, we're going to burn through some backlog. There's projects that get completed. And so, that doesn't concern us. I think we look at the y-over-y metric and feel really positive.

And heading into 2017, I think if you look at how much time we spend in the market, the way we've developed our products and the interviews that we do with clients and the expansion of all of our key clients, it sets us up for another really successful year, despite the fact that there is some uncertainty about ACA and others. That uncertainty almost always creates opportunities for Optum, because clients are looking for ways to thrive and survive in these uncertain times and Optum becomes a really relative and significant client and partner to talk to in those contexts.

<A - **Stephen J. Hemsley**>: Yeah, I couldn't agree with that more.

<Q - **Peter Heinz Costa**>: Can you give us some more specifics on a couple outliers in the quarter, in particular, the unfavorable development in Q4 and the higher interest in other income in the quarter?

<A - **Stephen J. Hemsley**>: Sure. We'll split those out. Maybe Dan, the development and John Rex, the investment income.

<A - **Daniel Schumacher**>: Sure. Good morning, Peter, Dan Schumacher.

<Q - **Peter Heinz Costa**>: Dan.

<A - **Daniel Schumacher**>: Maybe let me offer a couple of comments about medical overall, and then, more specifically to your question around development. As you look at our consolidated medical care ratio for the quarter, it was a little better than what we had discussed at the end of November. And then, inside that, I'd tell you that our medical costs continue to be well controlled. And the other thing, as you look at development sort of quarter in, quarter out, I think it's really important to remember that it's on a base medical spend on an annual basis of more than \$115B. So when you look at the outcomes this quarter, in particular, it isn't particularly meaningful.

Looking specifically at this quarter, I'd tell you that as you look across this both from a geography perspective, look at cost categories, I don't think that there's anything that is worth highlighting. I would tell you that it probably orients a little bit more towards our government businesses, and underneath that, we've talked over time about some of the efforts we've had around incentives related to quality and the underlying use that comes with that. And we've seen some of that this quarter and that's showing up in those outcomes. But importantly, and overall, I'd tell you that our medical baselines for all of our businesses were tracking in line with our expectations as we closed the year, and that means that we're starting 2017 where we had planned.

<A - **John Franklin Rex**>: And, Peter, this is John Rex on investment income. So really two major elements driving most of that. Put it in the category of just larger balances outstanding due to the growth we're seeing at UHC and Optum Bank. So those are larger interest-earning balances across those books.

In addition, higher realized capital gains for our investment portfolio. So we did some proactive portfolio realignment ahead of the Fed interest rate actions to capture some of that value and prepare to reinvest at higher rates going forward, as those occurred. And so, we wanted to be proactive, as we were anticipating those events. And I'd say I think both those elements rather balanced in terms of the higher investment income that you're seeing in the quarter.

<Q - **Scott Fidel**>: Steve, I wanted to ask a thematic question here just as we enter into the whole discussion around corporate tax reform. And just thinking about the minimum medical loss ratios in that context and clearly, it hasn't seemed like the minimum MLRs have proven to be that big of a deal the last couple of years, but just now, as we think about sort of corporate tax reform, and then, sort of leveraging the benefits of that, do you think it might make sense for the industry to, perhaps, sort of get more proactive on rethinking the minimum MLRs and maybe lobbying to have some relief there? Or basically, the question is do you think that minimum MLRs could end up offsetting a lot of the benefits to shareholders from corporate tax reform or not?

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<A - Stephen J. Hemsley>: Yeah, so again, Scott, we're not going to really engage in commentary around policy or what could or couldn't happen. The only comment I'd make about MLRs and why they were probably not as controversial is because, for the most part, our offerings were pretty close to those MLR levels anyway, so that's pretty much across the board. So that's why I think that they were managed and digested across the industry.

And beyond that, we're just not going to comment on what tax policy could be or what might come forward in terms of changes in the ACA. And our commentary with the marketplace has really been more broadly about what could be simpler, more sustainable, local market-based coverage approaches, and so, that's kind of where our level of commentary has been.

<Q - Ralph Giacobbe>: I just want to go back to the SCAI deal. Obviously, it looks like a platform deal in what's a fragmented market. So I guess, one, I just wanted to make sure I understand the strategy. Is it to sort of accelerate the M&A pace or is it a little bit more of a test model, if you will, for now?

And then, how will you navigate and maybe have you had conversations with all the sort of various partnerships and JVs, some of which are obviously with other payers as well as hospital systems that could create some friction?

<A - Stephen J. Hemsley>: Sure. Larry will comment on this, but we think this step is an important development step. So we think this is the market leading platform we can build on. So we do think it's important and it fits nicely into the whole narrative of a more comprehensive local market-based ambulatory care platform. So that's kind of the high level thinking behind it.

Larry, do you want to pick it up?

<A - Larry C. Renfro>: Sure. And I'm going to ask Tami to talk about the footprint so that you get a feel for the footprint and how everything is kind of going to work together inside Optum in regard to SCA and why it's a primary focus for us. And then, I'm going to ask Amir Rubin really to talk about what's been going on in the diligence side of this and what the business looks like.

I will caution you that we are in an approval process. So during this approval process, there are certain things, obviously, that we can't do. But I think I can lay out kind of the strategy and these folks will be able to kind of back it up. I probably didn't do a good job a few minutes ago of explaining it, but this goes back five years. This is a strategy that we put in place to really go after what I would call the OptumCare business. It's one of our primary pillars for growth.

We started with primary care, and I think that we've been growing primary care over the last few years. We probably are around 21,000 physicians at this point. The second part of OptumCare was our urgent care with MedExpress and other centers that we have set up with urgent care. And so, we're up to 250 centers there. So obviously, the surgery center kind of starts to play out and add capabilities for us as we go forward.

So this is all about growth, and this is about us maintaining a position with the ambulatory side to really make this move forward, not only here, but also globally. Because as we look and I won't stray here, but just for a second, but I will tell you the work that we're doing in Brazil, the work that we're doing in London, what we're expecting to do across Europe and so forth, this is all a process that would fit nicely in all of those markets.

So let me turn it over to Tami to kind of go through the footprint.

<A - Tami L. Reller>: Great. Thanks, Larry. And maybe just a couple of OptumCare broader perspectives and numbers to give this context before Amir talks specifically about SCA. If you look at OptumCare today, it already represents more than 50% of OptumHealth revenues, and obviously, this is an important growth platform, so we expect more in the future.

Also, if you look at OptumCare, today, we have a footprint in 28 primary care markets and expect to expand into four to six new markets per year. And so, as we look at the opportunity between OptumCare broadly and SCA, which today has 200 locations in 33 states, which we noted earlier, there is an opportunity there to really look at that much more holistically and make some good growth come from that.

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Larry also noted more than 21,000 positions today and we would expect to continue to grow that as a nice clip into the future as well. OptumCare probably 2,000 per year, as we move forward, so a tremendous amount of growth ahead across the OptumCare platform.

<A - Amir Dan Rubin>: Great. And this is Amir Rubin. Just to add to Larry and Tami's comments. We did a detailed due diligence process and we were very, very impressed with the exceptional SCA leadership and the model that SCA has developed across the country. You heard from Steve's opening remarks, SCA has over 200 centers in 33 states, and these are terrific centers with outstanding quality, accredited and certified by the highest accreditation bodies, NPS scores, Net Promoter Scores of 90 on average, really high Net Promoter Scores, with delivering outstanding surgical procedures at half the cost of inpatient settings, in partnership with surgeons, in partnership with health systems, many of whom are our clients and serving communities very effectively.

As you heard from Tami, we're excited too, there's a nice overlap, probably about 50% overlap with the SCA market and the OptumCare market. And moreover, SCA and its surgeons and the health systems that it partners with are now looking to move even more complex cases into the ambulatory arena, such as joint replacements, hips, and knees, and really, on the front end of delivering high quality, high service, and value-based care, serving all payers, UnitedHealthcare, as you heard from Dan Schumacher, and across OptumCare, we serve over 85 payers that we were very excited to continue serving the broad payer market, partnering with our health system clients and aligning with physicians in the community

<A - Larry C. Renfro>: So this is Larry again. Let me just make one comment. So if you looked at our 75 market strategy that we've been executing against today, we are in 28 markets. With this acquisition, we will pick up about 17 more markets. So about 50% of SCA markets overlap with us, but there are 17 new markets. So this is going to accelerate our growth, obviously, and this is a very, very key point in the growth of OptumCare.

<Q - Joshua Raskin>: I wanted to follow up, I understand, Steve, you don't want to speculate on potential regulatory changes, et cetera, so without getting into any details on what you're expecting, I guess, one, have you spoken with the incoming President-Elect or his team? And then, are there any changes that you've made strategically already? So forgetting about what can happen in the world, but is there anything you're doing in the markets today that would relate to some things that you think could potentially happen?

<A - Stephen J. Hemsley>: So Josh, I would have preferred to answer the last one compared to this one. We've maintained a presence broadly in the healthcare sector, again, policy sector, and have been consistent for some time. And I think you've seen our materials with respect to really advancing a simpler state-based healthcare system around investments going forward into the healthcare sector, around affordability and good sustainable ways to advance affordability.

So thematically, very much involved and we have been offering specific ideas with respect to that. It aligns with the businesses that we've had and the philosophy and the mission of our enterprise about helping people live healthier lives and about making the system work better for everyone, everyone being all the participants in the healthcare marketplace. It has been more at, what I will call, a high level, and then, invoked more specifically when called upon.

We think that's a sustainable way. We have been on this for some time, prior to the outcome of any elections, et cetera. So we would have been indifferent in terms of who would have proceeded that these would be the kinds of themes that we think will drive a better and higher performing healthcare system that could serve more Americans.

And we continue to be on that track and I think the setup of our business, as we've said many times. The participation across the expanse of the benefit markets and the continued diversification in the important markets with Optum serving areas where we think we can bring our competencies around expertise around information and insights about how healthcare could be organized and resources used more effectively and the virtuous application of technology to drive a more modern healthcare system, those are things that are really native to our businesses at this point in time.

Very adaptable, so adaptability is a very important theme for us. We can move these things around to approach the marketplace in different ways. And we think we have been developing the kind of assets and capabilities to serve a

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healthcare system and can accommodate a variety of approaches. And so that has kind of been our philosophy and that has been our narrative with the policy community and the expert community, and we'll continue to stay in a positive constructive posture in that way, because I think this, as we've said many times, will continue to evolve, both as a marketplace and in terms of national policy.

So I don't know what I can tell you more than that. That's kind of the philosophy we bring to it and it's the same philosophy that we speak in Washington and in state capitals. And I think it has and I think it will continue to serve us well and I think be positive to the healthcare marketplace.

<Q - Michael J. Baker>: I was wondering if you could comment or give an early read on the PBM selling season in terms of potential for activity vs. what we saw for the last selling season.

<A - Stephen J. Hemsley>: Mark, do you want to comment?

<A - Mark A. Thierer>: Yeah, Michael, good morning. It's busy. It's busy. This last year, we really felt good about the big wins that we posted. It was the largest selling season, obviously, in our history, but at this point in the selling season, we're cuing up for lots of new employers and health plans are coming to market as well.

So I would say right now, our pipeline is larger than it's ever been. And I will just take a moment and tell you in this business, you have to start your new business well, because the market checks and it's a small business. And we've been just had our best [ph] 1/1 (51:00), I think, in the history of the business. Our readiness and our preparation for some very large scale clients was, I think, superior and we're gauging this by how our clients are reacting and the NPS scores that we're seeing.

And so, this successful [ph] 1/1 (51:18) on last year's selling season sets us up very well for the 2017 selling season. As I said, the pipeline is robust. We are pushing our new value prop and we do think that the synchronization message is totally resonating and clients are migrating toward it. So we're feeling pretty good about our opportunities in 2017.

<Q - A.J. Rice>: I might just ask a two-part question on the international business. I think the comments were made in the prepared remarks that you're pleased with the progress you've made down there. And I noticed that fourth quarter you had good enrollment in Brazil, it looks like and you have to go back to Q4 last year for positive sequential enrollment as well. I don't know if there's something seasonality that drives that or some other dynamic that's going on. But can you just sort of give us an update on where things stand there and where you're at relative to contribution margins?

And the other aspect on international I was just going to ask you about is I think you guys have commented that there are some contracts that Optum is looking at, particularly in the UK, potentially. Can you give us any update on the timing on when we might see those?

<A - David Scott Wichmann>: A.J., it's Dave. Thank you. I think I'll take the first part of that and then ask Larry to comment on the Optum contracts, in particular. A.J., I wish I could say that was organic growth down in Brazil, but it was actually a small acquisition that we completed of both a health insurance company and a healthcare delivery company. So it's an integrated delivery system that serves the ABC region near São Paulo. It's named Santa Helena and it is a very strong, well-performing local delivery system there that really serves the lower end of the middle class broadly. So it added about 250,000 lives or so to our quarter.

Maybe I'm not really sure how to respond to the contribution margin comment, but I will say that we do see an improved outlook for Amil and now what is called Americas Serviços Médicos, which is our large national healthcare delivery system, predominantly hospital-based, in Brazil. Of course, the political and economic instability certainly aren't helping the business today. But we have seen nice progress and we have an improved outlook for 2017 for the business.

You've probably noticed that we made a couple of augmentations to our leadership team down there. We just brought on Claudio Lottenberg, who was the former president of the Albert Einstein Health System. He's a fantastic leader, very well regarded across Brazil, and we think will be a terrific addition to our business.

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We also named Luiz de Luca to run our Americas Health System. He came to us from Samaritano, which was the large hospital that we acquired in São Paulo. And then, we've also added a number of other positions in the business. I think strengthening leadership, and importantly, as we come across a five-year anniversary, looking to make sure that we have a very strong leadership team in place as we transition a generation.

Our new team is performing very well. They're focused on a more modernized health system and building a strong healthcare infrastructure. And we think that this will – we continue to remain bullish and optimistic about not only the prospects for Amil and Americas Serviços Médicos, but also Brazil broadly.

Larry, you want to touch on Optum?

<A - **Larry C. Renfro**>: Sure. A.J., it's Larry. I think on the last earnings call, we talked a little bit about that we had been building a foundation in London, in the UK area, and we had spent past year really getting ourselves positioned in what I would call the new model of care. We would know it over here as the ACOs. As they are starting to take their trust and trust over there with other hospitals and they're starting to put them together in certain segments of the country.

And they're looking for services that we provide, whether that be hospital-type services or what we're doing with OptumCare. That's why there's a very large overlap here when you start talking about OptumCare and what we might be able to do in the UK area.

We are in bids and discussions with about five different areas. I won't go into them from a competitive standpoint. And we believe in the first six months to nine months of this year, we should start to see some outcomes. There's no question that it got delayed with Brexit, and they've had some change in terms of leadership and we've had to establish ourselves with new leadership, which just takes time. It's not an issue of them wanting to. They understand our model. A lot of the ministers have been here and they have visited our locations to see the integrated care and how we operate and so forth.

SCA should be a positive in terms of how we might look at that eventually, not right away in the UK. So I guess one part of the question is we've got these local areas that we're talking about that we're in bids on right now, six months to nine months, we should start to see some outcomes there and we feel pretty solid about that.

The other path we're going down is on, what I'll call, national programs. And the big national programs is, what I would call, a national database where we could bring our data and analytics into play. Again, we're in the process with that, and I would think that timing might be a little sooner. It might be more like six months, three months to six months on a decision there. So we're feeling pretty good about it. We've got a good team. We're moving some senior leaders over to the UK. And again, I think that, come summertime, we should start to see some results there.

<Q - **Kevin Mark Fischbeck**>: I guess you said in the commentary that the exchange performance was better y-over-y. Was that simply just a lack of a PDR from the prior year or were you actually seeing stabilization? I think last quarter you said that Q3 results in the exchanges were stabilizing. I wanted to see the color there in Q4.

<A - **Stephen J. Hemsley**>: I think broadly stable.

<A - **Daniel Schumacher**>: Yeah, Kevin, Dan Schumacher. I think the point we're making there is last year we recorded the premium deficiency reserve to provide for losses in 2016. And so, when you look at it on a y-over-y basis, you had the drag in 2015, and then, we resolved the PDR and the exchange is in Q4 this year. So that's the improvement we're talking about y-over-y.

<Q - **Kevin Mark Fischbeck**>: So vs. Q3, it was stable?

<A - **Daniel Schumacher**>: vs. Q3?

<Q - **Kevin Mark Fischbeck**>: Expectations. I guess expectations vs. Q3.

<A - **Daniel Schumacher**>: Yeah, generally in line with expectations.

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<A - **Stephen J. Hemsley**>: Our view on exchanges hasn't changed.

<Q - **Lance Arthur Wilkes**>: Yeah, I had a question on PVM margins and just wanted to know a couple of points on those. One, as you saw improvement for the quarter, how much of that is merger synergies and how much as you look into 2017 of your merger synergy plan are you through? And then, I guess, related to that would be, what sort of trends are you seeing from both manufacturers and rebates on the cost side? And what are the trends like on the client side, as you look at your margins? Thanks.

<A - **Stephen J. Hemsley**>: Okay, well, that is about a four-part question, Mark. So do you want to pick through that?

<A - **Mark A. Thierer**>: Yeah, Lance. Good morning. So let me just talk about margins in this business. We've talked for some time now that we're comfortable with operating margins in the 3 points to 5 points. And so, you asked about synergies. We met and actually exceeded our \$0.30 commitment in the 2016 plan year. We've not provided a specific outlook on synergies for 2017, but I'll tell you that we've got running room in the plan and work to do still to extract synergies from the combination. So that has exceeded our expectations and have been very solid, and I would like to just tip the hat to the operating team who has made this work happen. It's been exceptional.

You asked about rebates and the picture going forward. This is the thing that we're paid to do. We're paid to go to the supply chain on behalf of our clients and extract savings for the benefit of the consumer and, obviously, for the plan sponsor. And so, we think that we've created a business model here where we have best-in-class contracting capabilities that we take not just to the pharmaceutical industry, but we take it to the retail chains, we take it to the biotech manufacturers, and we take it to the generic manufacturers, as well as the wholesalers. So this entire supply chain, this is our job to extract savings for the benefit of the member and for the benefit of the plan sponsor. And the outlook for that, in this coming year, is really very solid.

<Q - **Sheryl R. Skolnick**>: I'll try not to make it too difficult for you this time. So you've obviously had very significant success across UHC, as well as across Optum. And I'm going to ask a similar question to what I asked at a different way. We've also noticed some interesting trends on utilization despite some spiking from the ACA in hospital-based utilization, particularly inpatient care.

And I'm wondering if you can help me to understand what steps you're taking on and what you can attribute your management of cost trend presumably related to appropriate controls on appropriate sites of care, and what the outlook might be given that you're now bringing OptumCare into a higher level of scale and capabilities with Surgical Care, for your ability to further improve your cost trends, to improve coordination and appropriateness of site and timing and place of care? Thank you.

<A - **Stephen J. Hemsley**>: Well, you've kind of defined the space in the question. So you clearly have grasped the idea, but the ambulatory platform that we are forming is, in fact, a very important and viable proposition in and of itself. It represents the more organized, more informed, deployment of resources in terms of ambulatory care and very much focused on the appropriateness of setting.

It also plays to themes that are clearly moving in the marketplace where these services are moving into these better venues and, in fact, technology is a very powerful element behind it, both in the process and so forth. So it creates a better resource platform to serve consumers, and that has implications for all that we serve. It is a multi-payer platform and UnitedHealthcare is an enterprise that is very effective in advancing on those and it provides them an advantage in terms of how they deploy it and integrate it into their offerings. So it's kind of that is a start.

Do you want to pick it up, Dan?

<A - **Daniel Schumacher**>: Good morning, Sheryl. Dan Schumacher. The only thing I would add, if you kind of look at it over the last eight years, right, we've been able to drive down on a per capita basis inpatient, right? And inside that, we focused a lot kind of in those early years around the conversion of inpatient to outpatient. I think this is sort of a continued evolution, as we focus more on the site of service to how do we get that outpatient into the ambulatory setting.

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So we've been continuing to introduce more steps and controlled measures on the front end, but more importantly, trying to put in incentives at the surgeon level that really can help drive to the most appropriate setting. So you have the combination of both the benefit structures with the consumer providing strong motivator, and then, likewise, on the delivery side, trying to put incentives in place with the surgeons to be able to drive towards the more appropriate use.

So we really look at this partnership as an opportunity to really strengthen our value orientation, both in our product designs as well as in our relationships with the professionals that are providing these surgeries.

<A - **Stephen J. Hemsley**>: And the OptumCare platform is free-standing value all by itself. So we basically have a kind of a two-dimensional agenda going here. And I think that was the core of your question and you grasped what we're doing in OptumCare very well.

Stephen J. Hemsley

Closing Remarks

I think the takeaways from this call are pretty straight forward that UnitedHealth Group, Optum and UnitedHealthcare represent a strong, diverse, well performing enterprise, driven by a mission and culture with strong leadership team, dedicated employees

We remain very committed to taking our performance to even higher levels of quality, value, growth, shareholder return, and service to emerging needs of enormous global healthcare marketplace

- So we continue to evolve and adapt to serve that market, helping people live healthier lives and making the system work better for everyone.

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