Company Name: UnitedHealth
Company Ticker: UNH US
Date: 2017-07-18
Event Description: Q2 2017 Earnings Call

Market Cap: 220,885.77
Current PX: 230.20
YTD Change($): -18.92
YTD Change(%): -7.595

Bloomberg Estimates - EPS
Current Quarter: 3.599
Current Year: 14.651
Bloomberg Estimates - Sales
Current Quarter: 59763.833
Current Year: 244252.133

Q2 2017 Earnings Call

Company Participants

- Stephen J. Hemsley
- David Scott Wichmann
- Larry C. Renfro
- John Franklin Rex
- Andrew P. Hayek
- Timothy A. Wicks
- John M. Prince
- Eric Murphy
- Steven Nelson
- Brian Thompson
- Jeff Alter
- Daniel Schumacher
- Austin T. Pittman

Other Participants

- Justin Lake
- David Howard Windley
- Kevin Mark Fischbeck
- Chris Rigg
- Peter Heinz Costa
- Scott Fidel
- A.J. Rice
- Joshua Raskin
- Ralph Giacobbe
- Sarah E. James
- Matthew Borsch
- Ana A. Gupte
- Sheryl R. Skolnick
- Zack Sopcak

MANAGEMENT DISCUSSION SECTION

GAAP and Non-GAAP Financial Measures

This call will also reference non-GAAP amounts

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

Stephen J. Hemsley

Q2 Highlights

As we reached the halfway point of 2017, UnitedHealth Group, Optum and UnitedHealthcare continued to grow and perform strongly, and we expect our performance momentum to carry forward through the balance of this year, into 2018 and beyond

UnitedHealthcare and Optum

Growth and Global Health Care Markets

- UnitedHealthcare has been a distinctive organic growth leader over the last seven years
- During that same time, Optum has emerged as a leading force for broadly enabling the health care industry with market-leading data analytics, and practical and innovative approaches to longstanding market challenges
  - These businesses are strong, stable, and exceptionally complementary to each other, growing and operating effectively while continuing to diversify naturally into adjacent health care markets
- With the socially sensitive global health care markets constantly challenged and changing, we see UnitedHealth Group, Optum and UnitedHealthcare built for that environment
  - Adaptable and creative, focused on the people and customers we serve, working with others and playing our role in leading and supporting progressive change across health systems

Commitment to Mission and Quality

- One important constant is our commitment to mission and the quality of our work to the positive experience and value we drive on behalf of consumers and customers, and our cultural bonds of integrity, compassion, relationships, innovation, and accountable performance we seek to bring to everything we do

Expectation

- We are at home in the current environment
- UnitedHealth Group is a different organization than we were just 10 years ago, and you should expect us to be different still a decade from now
- Society will continue to need and drive change in health care
  - We will continue to adapt and evolve with it and on behalf of it
- We are committed to reaching the full potential that UnitedHealth Group has to offer
- Knowing the next 10 years hold more opportunity than the last 10, those who are committed to keep evolving, perform consistently and deliver value

Closing Remarks

To guide our progress, we have a strong, deep, and restless leadership team in place which will continue to positively evolve and change as well

David Scott Wichmann

Highlights

Serving People

- We entered H2 2017 in a strong position
- UnitedHealth Group is serving more people, more consistently, with greater levels of measurable satisfaction than ever
- We are reaching, helping and staying connected to the people we are privileged to serve in more ways and through more channels, both digitally and physically in the communities where we work
  - We are caring for more people, closing more gaps in care, and producing more savings and value for consumers and sponsors

OptumCare Doctors

- We are partnering more deeply and impactfully with care providers, in part because our nearly 25,000 OptumCare doctors are dedicated to serving patients, affiliated with more than 80 payers across the nation, including UnitedHealthcare
- That experience helps us to think more broadly than most about topics like the application of technology to enhance the consumer experience
  - The use of data, analytics and data exchange, effective management of health care resources, and evidence-based protocols, and health care quality, consistency and payment models that better serve people and plan sponsors

U.S and Global Market

- Today we serve 139mm people globally, including 126mm people in the United States
- And we see UnitedHealth Group's U.S. and global market potential as without practical limit at this early stage in the evolution of our company

Revenue Growth, Costs and Cash Flow

- Second quarter results followed themes from our first quarter performance
- In Q2, the company produced strong and balanced revenue growth, pacing to exceed the $200B mark this year
- Medical costs were in line with expectations
  - Operating costs continued to be well contained
- The company generated strong cash flows up 29% y-over-y, as adjusted net earnings grew 26% over last year's second quarter to $2.46 per share

Earnings

- For H1 2017, adjusted net earnings grew 28% y-over-y, to $4.83 per share
- UnitedHealthcare continued to deliver exceptional results in Q2

- Excluding the individual market, UnitedHealthcare grew to serve 2.5mm more people y-over-y, including 1.7mm more in H1 2017
  - This continues our consistent multi-year organic growth performance across all three major businesses

Product and Service Innovation

- This growth has been fueled by a long history of restless product and service innovation, responding to and even sometimes driving market evolution
  - This focus towards innovation has advanced the data, information and tools to support both individual efforts to achieve better health and system wide efforts to deliver better health care

Performing and Serving New Populations

- Our business model increasingly centered on serving the unique health care needs of consumers
- We are performing and serving new populations, such as Group Medicare Advantage, people with complex conditions served by Medicaid programs, and in emerging markets like Brazil as well as in longstanding, well-established markets
- Health care is essential to everyone, individually and to the quality and the productivity of societies
  - And we aim to serve it all in one way or another, one person at a time, to the best of our abilities
- A dedicated compassionate workforce of 260,000 people serving in local communities, built on UnitedHealth Group values and singularly aimed at helping people live healthier lives and helping make our health system work better for everyone
- They are led by a deep and stable UnitedHealthcare leadership team, that has worked together for more than a decade
  - And finally, our commitment to quality, in everything we do, in advancing Net Promoter Scores, both strengthening customer and consumer retention and care provider relationships across all of our businesses

Employer Market

- In many ways, we are still just getting started, but you can see the momentum in our results
- In the employer market, our local group commercial business continues to grow organically, month in and month out, virtually every month for almost three years
  - In the past 12 months, we have grown to serve nearly 600,000 more people through full-risk products in the employer group market
- We are growing by consistently serving the health needs of this population at more affordable levels and with greater consistency in the quality of their experiences and the costs of their coverages

Medicare Advantage and Supplement

- Across Medicare Advantage and supplement, UnitedHealthcare has grown to serve 935,000 more people in the past year with balanced growth in the individual senior market and the corporate retiree market
- Our Medicare Advantage business continues to benefit from strong consumer retention, reflecting senior’s positive experience and the clear economic value of our offerings

  - In 2018, our distinctive product value and consumer experience should allow us to continue to grow as we expect to increase our overall Medicare Advantage market share in a growing Medicare Advantage market again next year
- States continue to turn to the private sector to strengthen and modernize their Medicaid programs
- We are implementing four new state awards this year in California, Missouri, Nebraska, and Virginia
  - We discussed dual special needs plans with you in our first quarter call and our revenue serving people through these plans grew 33% y-over-y in Q2
- In total, our community and state business served over 700,000 more people at June 30

UnitedHealthcare Businesses

Revenues and Earnings from Operations

- Taken as a whole, the UnitedHealthcare businesses grew revenues this quarter by $3.2B or nearly 9% to $40.8B, despite forgoing over $1.8B in revenues from the ACA individual insurance market withdrawals and the health insurance tax moratorium
- Earnings from operations exceeded $2.2B in the quarter, growing 13.9%, consistent with our top line growth rate in the quarter after considering the ACA items

Larry C. Renfro

Highlights

AARP Relationship

- Yesterday evening, UnitedHealth Group was honored to announce the early renewal and extension of our distinctive and longstanding relationship serving seniors together with AARP
- Our two organizations have a 20-year history of working together to serve seniors' greatest needs and to advance health and healthcare in practical ways
  - Each of us believes there is no better collaborator for the work we do on behalf of those we serve
- We expect the value of this relationship to grow further in the years ahead, as we continue to implement shared ideas and innovations to better serve Americans over age 50, as the growth of that population accelerates meaningfully
- The AARP relationship is a good example of our leaders working at the enterprise level to develop broader, deeper relationships, strengthen customer experience through NPS disciplines, and drive strong, sustained multi-year growth
  - Other examples abound, receiving new awards as well as contract renewals and expansions serving state Medicaid programs, corporate Medicare Advantage awards, new and renewing pharmacy care services awards, and the Department of Defense engaging us to provide nurse line and digital clinical support services to military health system beneficiaries, or the work we are now doing for Merck and others in the life sciences domain to help understand the impact of their medicines in a value-based contracting world

End-Markets

- The breadth of that list should give you a sense of why this team shares a high level of optimism as we look ahead to the next decade
- We serve deep end-markets with significant unmet needs and we are working to better serve these customers by improving the economic value of our services, consistently raising quality and innovating in ways that solve problems
  - These efforts are steadily driving Net Promoter Scores higher

Optum

Revenues and Earnings

- Turning specifically to Optum
- Second quarter revenues increased by $2B, or 10%, to $22.7B, driven by strong organic growth, even as OptumRx revenue growth rate was affected by its delivery of significant channel savings to customers and consumers
- Optum's earnings from operations grew 20.5% to $1.5B, as operating margins expanded 60BPS over last year to 6.7%
  - All segments grew earnings by double-digit percentage rates in Q2
- At OptumHealth, we grew to serve 9mm more people in the past 12 months with per capita revenues growing about 13%
  - This is an important metric as we look toward future deepening our relationships with the consumer

Growth and Goal

- Growth continues to be led by our OptumCare business, which grew revenues by more than 40% through the combination of strong organic growth and strategic business expansion
- At OptumCare, our goal is to create and operate the leading high-value ambulatory care delivery system in the nation, offering high quality, cost effective care to a full spectrum of payers and patients
  - We do this by empowering clinicians with data, insight, and workflow protocols that bring the best of Optum analytics to bear in settings where strong analytics directly impact people's lives for the better, by improving patient value and satisfaction at the best sites of service for care delivery, helping people access care that is convenient, high quality, and affordable, and by serving physician employees and partners, giving them the tools and support they need to be great medical practitioners, focused on the clinical needs of their patients and on growing their practices to serve more health plans and people

Surgical Care Affiliates

- Q2 was our first full quarter with Surgical Care Affiliates included in OptumCare's results
- SCA's performance is slightly ahead of our expectations at this point
- The SCA team continues to expand their business, establishing six surgical outpatient facilities, so far, this year

    - We are working and accelerating the pipeline of opportunities on aligning future development priorities with our overall OptumCare geographic market strategy and the needs of consumers and our health plan customers

MedExpress

- Like SCA, the MedExpress portion of OptumCare continues to grow steadily
- MedExpress opened 20 new neighborhood care centers in H1 2017, and is on pace to produce record growth while experimenting with alternative formats and approaches that could deliver even greater convenience and value to consumers

Local Market Primary Care Business

- In the local market primary care business, we were privileged this past quarter to expand with two exceptional market-leading group practices in Indianapolis and Denver
- We continue to align with the leading local medical groups who are committed to the idea that patients benefit significantly from deeper investment in proactive primary care services
- Our doctors help patients achieve a healthier state, and to do so with a favorable cost profile
- We are more than five years into the OptumCare build-out, but we are still in the early stages
    - We remain focused on a steady development and see this business as a significant source of growth for the next 10 years and more

OptumRx

- At OptumRx, the revenue growth rate of 5% was well in line with expectations for 2017
- Revenue yield per script was flat as we effectively passed supply chain improvements on to our customers
- We continue to experience strong customer retention as large, sophisticated buyers who value transparency are attracted to our data-driven, clinically-integrated approach
    - These organizations are represented in a strong pipeline, stemming from our Healthcare Transformation Alliance (sic) [Health Transformation Alliance] relationship discussed in our last earnings call and our recent award to provide pharmacy care services to the state of New Jersey beginning next year
- OptumRx fulfilled 322mm adjusted scripts in Q2, an increase of 5% over last year
- In 2018, we again expect to grow our adjusted script volume above the industry growth rate

OptumInsight

- OptumInsight continued its strong growth pace, particularly in the payer and care provider markets, with recent awards or late stage RFPs in the areas of data analytics, payment integrity, business services, revenue management, and clinical best practices
    - OptumInsight's revenue backlog grew 18.6%, or $2.1B in the past 12 months, with $800mm added in H1 2017, including $300mm in Q2

Growth Trends

- Stepping back, Optum is positioned on the front edge of the major growth trends in the market, helping the health system perform better for everyone
- We use advanced technology, market-leading health analytics, modern care delivery, data driven population health approaches, and distinctive pharmacy care services as a portfolio of capabilities that help our clients reduce costs and solve complex operational challenges on behalf of the people they serve
    - This unique position gives Optum a long runway for continued growth and we are further focusing our growth efforts to take advantage of the opportunities

John Franklin Rex

Financial Highlights

Revenues, Earnings, EPS and Medical Care Ratio

- The strength of our two business platforms drove strong, consistent, well-balanced results in the quarter
- Five of the seven reporting businesses had revenue growth rates above 10% as consolidated revenues grew 7.7%, surpassing $50B in a single quarter for the first time
- Our consolidated earnings from operations exceeded $3.7B and our net earnings to shareholders grew 30% y-over-y to $2.3B in the quarter
- Second quarter adjusted EPS rose 26% to $2.46 per share
- Q2 medical care ratio of 82.2% brought our YTD care ratio to 82.3%, putting us on track to be at or below the midpoint of our full year 2017 outlook of 82.5%, +/- 50BPS.

Medical Costs

- Medical costs have been well managed and continue within our established outlook and market pricing across segments and products remains disciplined and rational
- The operating cost ratio was 14.6% in Q2 and 14.5% through the first six months
- For the full year, we expect to be at or slightly above the midpoint of our 2017 full year outlook of 14.5%, +/- 30BPS, due to the mix impact of care provider expansion, which carry disproportionately higher operating costs and which added about 80BPS y-over-y to our consolidated operating cost ratio in the quarter
    - These mix changes signal the continuing diversification of our revenues

Capital

- Touching on capital for a moment, our board increased our dividend payment rate by 20% to $3 per share annually at our June board meeting, and we expect to achieve a debt-to-total capital ratio of approximately 40% by the end of this current quarter, three months sooner than our previous outlook

Cash Flows

- Cash flows from operations through H1 2017 are solidly in line with our outlook and we continue to expect approximately $12B for the full year, an increase of 22.5% over last year

- This morning, we have increased our outlook for 2017 adjusted net earnings to a more narrow and higher range of $9.75 to $9.90 per share, prudently recognizing the strength in this quarter
- We remain comfortable with the existing Street consensus view of third quarter adjusted net EPS
  - With full year 2017 adjusted EPS now expected to grow in the area of 22% of the midpoint, we feel this is an appropriate stance at this point of the year

Stephen J. Hemsley

Outlook

We recognize at this point in the year thoughts begin to shift to the year ahead

Consistent with our past practices, we are not going to discuss 2018 in any depth this morning

It’s simply too soon and there is too much unknown at this point

What we can offer directionally suggests the fundamentals of our businesses remain strong and we feel positively about our ability to perform and grow in 2018

Headwinds and Tailwinds

- Like any year, 2018 will have its share of headwinds and tailwinds
- The tailwinds are largely organic and company specific
  - Among them we would include continuing growth momentum and performance, particularly with customer retention as our focus on NPS improves; increasingly effective capabilities to manage and contain medical costs; the improving leverage of our operating infrastructure; and our continuing efforts to optimize in capital management, investment income, tax costs, and other areas
- The headwinds are largely around externalities, national and state healthcare policies, funding trends, and taxes, which we and you are all following closely
- We respect the complexity of the social, economic, and political matters that are intertwined here, and certainly at this stage in the national conversation, speculation about any outcome here would just be that
  - So we approach each year determined to overcome headwinds and grow to our best potential, given the diverse and complementary portfolio of businesses and capabilities we can deploy

Organic Growth

- For 2018 and beyond, themes for us will center around continued broad-based and diverse organic growth across our portfolio; steady, substantive advances in quality in NPS that will gain further momentum in 2018 and position us well for the future; a fresh focus on costs to drive better product price points; continued evolution of our products and services toward more consumer centric and market responsive designs, particularly in healthcare delivery and pharmacy care services; deeper, larger relationships, market alliances and other channel partnerships; advancements in the application of next generation technologies to drive better health outcomes, value, and consumer experience at lower costs; and with capital capacities at full strength, continued focus on thoughtful deployment of capital, including expansion and diversification, both domestically and globally, and return of capital to shareholders through market rate dividends and measured levels of share repurchase

- We will give you some initial direction on 2018 in our third quarter earnings call and the full review at our November 28 investor conference

Closing Remarks

We remain positive and constructive with respect to our organization's potential to better serve the health and wellbeing of individuals and improve the health system overall

As we respond to these needs, we will realize the remarkable growth potential of this enterprise and we thank you today for your interest

QUESTION AND ANSWER SECTION

<Q - Justin Lake>: I wanted no ask about the OptumCare business. First, let me congratulate Andrew on the new role. And then given the optimism on future growth here that was discussed, I was hoping could you put some numbers around the opportunity, maybe share with us the current revenue profile for 2017 that's expected here. And then where do you see the ultimate business opportunity in terms of the TAM as you continue to roll out your 75 target MSAs? And then maybe share what you think is the sustainable growth rate for this segment of the business going forward. Thanks.

<A - Larry C. Renfro>: What I thought I might do, since we are going to talk about growth and maybe give you kind of a general view of growth across Optum for a second and then we'll get to Andrew. But I'm going to ask some other people to talk about growth, as well. I'm probably going to bring in Tim Wicks from a financial standpoint and John Prince from a PBM standpoint, and Eric from Optum360. But we'll lead off with Andrew in a second.

There's really, Justin, three areas of what I'd call metrics that we pay attention to when we're looking at our growth across Optum. Number one is our sales pipeline and I think you hit that, and again, I'm talking about Optum, in general. And our pipeline today is greater than $40B and it's a strong, strong pipeline and that's not including what I would call mega deals. This is excluding them, but we have a very robust pipeline of about $40B.

Our sales YTD is around $23B, and that $23B would compare to last year's sales in 2016 in total of about $30B. The year before, at about $10B. So you can see the growth that's taking place from our overall sales perspective. The third area on the metrics would be how we look at our backlog and Eric Murphy will talk about that in a second, but it's up, and I think I mentioned it in the script, 19%, and y-over-y about $2.1B. So, as we have really kicked this year off, and what we've done through the first six months has been very robust in all three of those areas. So, let me switch over to Andrew and let Andrew talk specifically about what the question that you asked and then we're going to walk through some of the other growth areas as well. Andrew?

<A - Andrew P. Hayek>: As you know, we have a belief that there's a significant opportunity to improve the quality, the experience, and the cost of healthcare on a national basis, creating value for patients and the marketplace. And the experience over the past several years has been that physicians can achieve outstanding results when empowered with the right analytics, tools, and support and the market is asking for these kinds of models to improve the cost quality of care.

So, our approach is to tailor our market presence based on the local factors in each market we serve. We're leveraging primary care, urgent care, surgery centers, and house calls. We're leveraging technology and tools from across Optum to create value for our patients and for our care providers. We're building this in a multi-payer manner serving all payers in the markets that we serve and we believe, to your question, that the market potential is very significant. The depth of the issues we are solving, the value we can create for patients and for the marketplace is very significant and we look forward to creating business multiples of our current size.

<A - Timothy A. Wicks>: As well, and talk about overall Optum revenue. So, overall, total revenue and unaffiliated revenue growth were both in line with our expectations on the quarter. OptumHealth and OptumInsight together had double-digit unaffiliated revenue growth for the quarter, as well. I'd point also then to OptumRx and just want to clarify that the work in the supply chain that we've been doing is translating into lower drug costs for consumers and customers, and that's really what translates then into lower external revenue for this quarter, even though external scripts were up y-over-y.

As you know, we never apologize for UHD's growth and UHD grew faster in the quarter, which is obviously a positive impact to our revenue, as well. So as we look at the quarter, our revenue and product mix are on plan for the year with total revenue and external revenue both in line with our expectations.

<A - John M. Prince>: I just want to talk about OptumRx and how we're doing. We're halfway through the year. We're hitting our new business targets and remain very confident about hitting our full-year target. Our retention is very strong. We have renewal rates in the high 90s. As Larry mentioned in the script, we're very honored about the award from the state of New Jersey. That deal actually brings us more than 700,000 new members.

We see a broad trend that large, sophisticated buyers are very attracted to our pharmacy care services model. It's very differentiated in the market. We've had some other notable wins. We have a health plan win and also we've renewed our health plan clients through out to this year. We have several new wins through the Healthcare Transformation Alliance, which we announced last quarter.

I'd say overall, we're very optimistic about OptumRx's compelling value proposition in the market, it's resonating well and we're seeing very good results.

<A - Eric Murphy>: To Larry's point around regarding Optum360 as well as our backlog, regarding Optum360, we're in late stage assessments with four major delivery systems. Our qualified pipeline for Optum360 is up 60% y-over-y. The sales cycles in this side of the market, as we've shared in the past, are elongated. We're working diligently right now to improve the assessments that we do with our clients and prospects in this area, to be able to get to value proposition discovery in a shorter period of time to generate results for these delivery systems. And then finally, I would share we're bullish on where we land for the year regarding backlog of between $15B and $16B for 2017

<Q - David Howard Windley>: I'll switch over to OptumRx. Some recent comments that you made quantified the channel savings that you are making reference to this morning at savings, I think, on a PNP-wide basis of about $1,300. It also quantified $200 of medical – what I might call knock-on savings, or what I'd believe to be your evidence of the value of synchronization, and I wondered if you could maybe elaborate on that and talk about where you think that $200 can go.

<A - John M. Prince>: I'm not sure I followed all the math that you were doing, but let me take it at a high level. I think what I see at the high level happening, and if you just look at our external client market is that our number of clients we serve is up, our number of scripts is up, but actually the revenue is sort of flat on a per script basis. And I think that is really – what you see is that the value that we are doing of really looking at net best cost for the clients that we are delivering that. And I think that's also why our story has resonated in the market in terms of the value that we bring to our clients.

What we're also seeing is that even though we're delivering that value, our external product gross margin actually is up y-over-y. So, actually we're getting the margin [ph] on underlying (34:16) business really driven by that more volume. So, we're actually getting greater margin on it, but we're actually delivering that value back to the client.

When we're going out into the market, we're actually talking about not just the pharmacy costs, but we're talking about total cost of care. So, what you've seen in the revenue here, that's our story to market around pharmacy costs, but our real value story, as you go to market, is people are looking at total cost of care. And so, we actually have a story in the market which we're talking through that actually talks about how we save a client $11 to $16 per member per month, so they talk about our whole synchronized solution. And that is what our clients are receiving.

In our UHC book, about 30% of the clients have that synchronized value. We also do that on a direct basis and also with other partners in terms of other health plans that we are serving in the market. So, clearly, seen a very differentiated value that our clients are seeing in their trend.

<**Q - David Howard Windley**>: If I could just clarify. So, the point of the question was, where can the $11 to $16 per member per month go?

<**A - John M. Prince**>: The $11 to $16 goes back in terms of their total cost of healthcare. So, it actually [ph] went (35:26) flow through our numbers. Actually, the client would see that in the return that we give to them.

<**A - Stephen J. Hemsley**>: It inures to the benefit of the client?

<**A - Stephen J. Hemsley**>: Our benefit is the retention of customers and the growth that we get.

<**Q - Kevin Mark Fischbeck**>: I wanted to ask a question on the MA. Actually, maybe a two-part question. First, given all the growth that you have there, I just want to make sure that the performance from a margin and cost expectation is coming in line with how you guys expected it this year. And, I guess, secondly, you mentioned that you expect to gain share again next year. I wanted to get a little more color on the thought process behind that. Is that because of group MA wins so far? Is there anything – you don't have your competitor's bids yet for next year, so I just wanted to know what gave you confidence in saying you're going to gain share this early in the process?

<**A - Steven Nelson**>: Let me just talk a little bit about how we're thinking about growth and the positioning of UnitedHealthcare overall and – because I think the themes are pretty consistent as we move to the specific Medicare Advantage conversation. But, we've been very focused on a specific agenda, trying to drive value, improve our quality, very focused on cost, both medical and administrative, but really driving an agenda of what we call distinction, trying to innovate around both our clinical experience and our service experience, driving improved NPS. We see that actually across our businesses, but particularly in our MAPD business, as well, driving more retention, which I think is significantly contribute to the growth and also the in line performance we've seen this year on that growth.

But also, you just heard the Optum team talk about their robust capabilities as we bring those things into UnitedHealthcare; we continue to see that really resonating in the market across all of our businesses. And so, we're really bringing this agenda of distinction to new populations, whether we're talking about bringing populations into – more populations with complex conditions into managed Medicaid or some of the emerging populations that we continue to see grow, whether it's a DSNP or group Medicare Advantage, as you referenced. So, really well-positioned across all of these businesses, but MA is a tremendous story. So, with that, maybe we'll just have Brian give some color about what we're seeing there early in this year.

<**A - Brian Thompson**>: For 2017, we are off to a very strong H1 the year on both service and support, as well as our engagement with our new seniors that have chosen UnitedHealthcare. What we are seeing is aligning to our expectations. So we are not only pleased with what we are seeing in 2017 YTD, but also our positioning as we look forward to 2018. And we have a very positive, long-term outlook for the industry and for us, specifically. We expect, as you heard, to continue to outperform the market in 2018 overall on MA balance, both in group and individual, just as we did this year and the two years prior.

The return of the [ph] insurer's (38:56) fee will be the single largest headwind in 2018. Its return was assumed in our 2018 bid submissions, but despite the return of the tax and program funding pressures at large, we do intend to keep our benefit offerings as stable as possible and we intend to complement our 2018 growth and product stability with advances in both quality and satisfaction. So our products will, again, be designed for high levels of retention. So, on balance, we're very optimistic. We're optimistic about our position in both group and individual against the backdrop of an advancing, very positive industry growth outlook for 2018.

<**Q - Chris Rigg**>: I just wanted to ask, or get a little more color on the operating cost ratio and just to better understand the mix dynamic there. And, I guess, most importantly, I'm trying to determine whether – is there an incremental investment spending in the number related to the provider side or is that all just mix at this point? Thanks.

<**A - John Franklin Rex**>: When I talked about the 80BPS of impact, that was truly just the mix impact of a higher proportion of really care delivery businesses in our revenue base, and that's the impact we're seeing in the business. So, that is straight up the care delivery business expanding and growing and that care delivery business, that somewhere now in kind of two-thirds of the range of all of OptumHealth. There are always investments we're making across the

businesses and certainly within our [ph] OCR (40:39) this quarter there were plenty, but our commitment to you is always to balance those, and as we deliver our results. But I just wanted to [indiscernible] (40:44) the 80BPS does not include investments that we made.

<Q - Peter Heinz Costa>: You mentioned the impact of the health insurance fee coming back next year. If it does come back next year, that turns into quite a price increase for the commercial plans to have to pay more than most businesses are growing these days. So, can you talk about what you are seeing employers do right now to counteract that rising cost in terms of what cost cutting measures are they putting in place and what cost cutting measures are you putting in place to help ameliorate the rate increase?

<A - Jeff Alter>: A few years ago, we put forth a very purposeful initiative to expand our portfolio of fully insured products, which included broadening that portfolio to reach many different price points and in connecting those products with varying network structures. So, we have a very robust product portfolio that allows our clients to adjust to increasing medical costs, whether it's driven by pharmacy or driven by medical costs or driven by legislative and regulatory actions. So, our clients have the ability to create buydown opportunities or to change in complementing their benefit strategies without having to change their carrier because of the proactive work we've done in our product portfolio, particularly in our fully-insured product portfolio.

<A - Daniel Schumacher>: A variety of products and offerings and really a focus on a broad range of price points.

<Q - Peter Heinz Costa>: Is there anything in particular that's being picked up more than not?

<A - Jeff Alter>: You know, I would say that there's far more interest in network or varying network constructs. One of the more popular choice has been the leveraging of our more than a decade old premium designation program where we use a lot of the OptumInsight in analytics to determine the best providers, those that practice both first and foremost always quality, but then efficiency. And so, we've created network and product structures that drive people to those top tier doctors, using either co-pay or coinsurance variations. That has become very popular because it helps our clients achieve the price points that are affordable for them, but also give them the comfort that people are getting better outcomes at a lower cost. And I think that's a real story of the integration of the UnitedHealthcare and Optum to deliver meaningful value to a marketplace that, first and foremost drives people to the best performing physicians, but overall achieves a price point for their sponsors.

<Q - Scott Fidel>: I just had a question just on the tax rate. I know there's been a few discrete items this year, so, first, just if you have just an updated guidance for the tax rate this year, and then what you would view as sort of a good sort of run rate, tax rate, looking out that we should be modeling for next year, excluding, obviously the return of the industry pay.

<A - Stephen J. Hemsley>: We're going to not actually get into 2018 too much, but, John, do you want to respond?

<A - John Franklin Rex>: I will speak to this year. So, we're not updating our tax rate outlook for the year here. Let me just talk a little bit about within the quarter. So, because we did speak about it last quarter, also. So, there is nothing unusual that I would spike out in Q2 effective tax rate beyond normal exercise activity. So, typically with a share purchase -- with stock-based compensation accounting, we are going to see more impact in H1 and H2 in terms of lowering that tax rate. So, you'd expect that to increase in H2.

In Q1, we had really talked about half of the impact that we expected to be non-recurring, and that was really due to just an unusually large amount of stock option exercises. It was related, in part, to an older acquisition. And so, that was a piece we spiked out there. But I wouldn't spike out anything as unusual in this quarter's rates and we'd be at the -- still in that 32.5% zone. We always strive to do a little bit better, if we can, and that would be my aspiration, but that's where we'd be.

<Q - A.J. Rice>: I'd just maybe ask about capital deployment. John, I think in your prepared remarks you're saying that you guys will hit your year-end target by the end of Q3 for where you were hoping debt-to-cap would be. There's been a lot of discussion in the press about your potentially being involved in various M&A type of transactions, supporting Optum, Reliant Advisory Board, et cetera. I guess conceptually as you guys get to your debt-to-cap target, is the M&A environment just so robust that what you are seeing out there that your capital is going to continue to be mainly focused there? Do you see an opportunity to maybe reestablish more actively the buyback program? Give us some flavor for where you guys are thinking on capital deployment.

<A - David Scott Wichmann>: You're right that our ambitions are to achieve our 40% leverage ratio by the end of Q3 and we think we stand a really good shot at getting there, which would be one quarter early. John has done very nice job in managing our capital structure and getting us into that position along with our team.

As you know, we don't discuss rumors and speculation about our M&A activity, and we're certainly not going to start today. But, I think, as you know, AJ, that M&A has been a critical part of the way in which this organization has identified new opportunities to serve more people and more markets broadly, and those ambitions continue, as Steve lined out in his concluding remarks in the opening remarks around those ambitions being both domestic as well as global, and really focused in the services category, really continuing to support Optum's growth and diversification, establishing platforms like you saw with OptumCare, which we believe will be strong growth performers for us for the next decade.

And I could go on and list many more, but I think you get the idea. So, it is a core part of our emphasis. As it relates to share repurchase, we continue with a consistent policy at this time whereby we are just trying to keep our share count level, and, as I believe you saw in June, we increased our dividend again to a rate of $3 per share, which was a 20% increase, continuing with our ambitions of advancing our dividend to a market rate level. Thank you.

<Q - Joshua Raskin>: I wanted to ask about potential changes in tax rate. And I understand it's very premature. We don't even have necessarily a real proposal from the Republicans, but to the extent you guys have thought about it, I'm curious what the impact on your tax rate is from the non-deductibility of the excess compensation, how you would think about the interest deduction add back. And then, as I look at your tax rate sort of before the ACA, your tax rate today is running 400, 500BPS below where you were. So, just trying to sort of level set the opportunity, were there to be changes and maybe specifically on those two items that we know have the potential to change.

<A - Stephen J. Hemsley>: We are really not going to try to get into themes that could affect 2018 outlook. We'd really prefer to do that not in the piecemeal way, but in a more fulsome way when we can really talk about all the elements. The insurance taxes is clearly – if it sustained a headwind influence in 2018, and its progressive nature really affects the cost for consumers in both, across commercial, the Medicare, Medicaid markets, et cetera, and it's a factor in terms of market -- it's a stabilizing factor in the marketplace, both in its cost.

So, the return of the tax in 2018 would further destabilize the market, which is already fragile, and make that market less affordable. So we would clearly think that either repealing or deferring that would be a positive thing. But, as it relates to our actual inner workings with our 2018 outlook, our tax rate and so forth, we're just going to save those, so that we can actually go through them with you in a more thoughtful way and a more complete way. Maybe to some extent in Q3, but for sure at our investor conference.

<Q - Joshua Raskin>: I'll pretend that didn't happen. So, my next question would just be we've talked about OptumHealth, and OptumCare specifically. We're seeing a lot of discussion amongst competitors around growth in urgent care in ASCs, how would you describe the competitive landscape? Are you seeing more and more supply of like services in the market? And is that impacting OptumCare at all?

<A - Larry C. Renfro>: As you know, when we put our program together, when we started OptumCare, it was probably about 2012, when we wrote the one Optum business plan. And so, I would say we got out early in terms of how we were going to approach the market and how we were going to look at it from an investing standpoint or we would partner, we would contract, buy, build. So we had a lot of different strategies in terms of how we were going to really attack and put together our OptumCare program.

So, urgent care, care delivery, the surgery care, house calls, behavioral, we have all of those programs in place, and they are actually functioning extremely well. And I'm going to let Andrew talk about it. But, the one thing I would say is we are early, but we have an established platform. We didn't miss any boat here. We are out and we understand the marketplace and we are in the process of evaluating many different organizations on how we see that they fit with us and we have a robust opportunity that we are seeing in the marketplace. So, with that, I'll turn it over to Andrew.

<A - Andrew P. Hayek>: It's a -- the local markets remain competitive in different ways and unique ways, depending on the market structure. But, as we look across our OptumCare platform, from the physician groups to SCA, MedExpress, house calls, the distinctive capabilities that we have really create a demand for what we have to offer in improving the quality, the cost, the experience of care, and improving the provider experience. And so, I'd say as the market forces continue to push towards higher quality at more cost-effective price points, the demand for a distinctive platform that can enable physicians and care providers to achieve better results, leveraging tools and insights and other components of our platform, the need for what we have to offer is growing. And we remain very bullish and optimistic around the opportunity to expand across the 75 markets to deepen our presence in the markets we currently serve. As Larry referenced, we believe we are in the very early stages of this opportunity. And, again, in many respects the increasing competition increases the demand for a distinctive platform, which we have.

<A - Daniel Schumacher>: One thing I would just highlight is obviously when you look at our spend and the composition of it and how much of it orients to the acute setting, we've got so many surgical procedures, and so forth, that are happening in inpatient and outpatient hospital settings and the reality is we've seen for a long time an opportunity to really focus on the side of service, get them into places where we can drive better quality, frankly, a better patient experience at a lower cost, as Andrew has been talking about.

And we do it in a couple of ways. Certainly, we do it in terms of our approach to medical management, so, looking at prior authorization and making sure that we're getting it into the right side of service on the front end before procedures are happening. We're also building it into the product designs, as well, so that we're putting incentives in there to make some of the transitions from acute to ambulatory to really drive the kind of outcomes that we are looking for.

And more recently, with the acquisition of SCA and our partnership there, we are really leaning into that and investing in quality incentives for surgeons so that we can drive greater volumes into these less intensive settings. And we are able to do, frankly, more acute procedures and more complicated procedures in that setting, as well. So, we see a lot of opportunity in it. We've got it in place in select markets today and we will be looking to expand that meaningfully over the course of this year and into next. So, those are some of the things that we're doing around both the plan design and the medical management, as well as the incentives to put those three things together in alignment to drive those transitions from acute settings to ambulatory settings and drive better cost value and experience.

<A - Larry C. Renfro>: I'd just like to add one other aspect of the Optum business, and that would be Optum360. Sometimes we forget that on the primary care side, the urgent care and now what we are doing with surgery care across the board, we have strategic relationships with a lot of the Optum360 clients that are actually involved with us in using those programs. And so, wet get caught up in terms of talking about how we are looking at our different programs in OptumCare, mainly from our health plan standpoint, when the Optum360 organizations are actively engaged with how we tie into them, as well. So, that's a whole other avenue of our business there.

<Q - Ralph Giacobbe>: There have been headlines around states potentially tying Medicaid contracts to exchange participation. So I just wanted to get your thoughts on that. And then with re-procurements coming up, how concerned are you that states consider exchange participation, even if not explicitly? And how could that influence your views around reentering the exchange? Thanks.

<A - Austin T. Pittman>: I guess first and foremost, these are really state-by-state discussions and not something that we're really going to comment broadly here and not going to speculate about that. I would say, with regard to your second question, we are constantly in conversations with our states on how to expand coverage for more people, particularly those with complex needs. A lot of the activity that we see, both in renewal activity as well as new business, certainly surrounds that, which, as we talked about before, is a real area of distinction for the combination of Optum and UnitedHealthcare. So, we're very positive. We look forward to continuing to serve our states and find solutions, particularly, again, around these populations with very complex needs.

<A - Stephen J. Hemsley>: We'll continue to work with states and so forth, but we don't see anything that establishes what might be a trend, with respect to tying these kinds of programs together. States have been, I think, very thoughtful about this to-date. So, I think that's the best response we can offer at the moment. Next question.

<Q - Sarah E. James>: Given what we know now about Medicare market forces, with the shift in rates, could the market see a continuation of the 2% MA penetration increase that we saw in 2017? And long-term, given the inherent value proposition of Medicare Advantage, where do you think penetration is heading? Could we ever get to a market that is 50% MA?

<A - Stephen J. Hemsley>: I think we've been pretty consistent in the past that we do expect that penetration to go forward, and we do expect the MA market to mature and grow.

<A - Steven Nelson>: I agree with Steve's high-level comments there. We have seen, and clearly in our experience, we've seen tremendous growth in our Medicare Advantage, and while that clearly, we think, is driven by some of the things that we uniquely bring to the market, whether it's the stability or benefits, the product designs, the service and the clinical models, but also, in addition to that, there's just a real strong overall value proposition with Medicare Advantage. And we're seeing that not only just with the folks that we serve, but as we talk to policymakers, too, there's really strong support for it.

So, you see a population that needs it. It serves them well. It drives down costs. The satisfaction is up. It's definitely growing, and so, we think that's going to continue. And so, we do think there's an opportunity to further advance the penetration of Medicare Advantage. Where it can go, hard to tell, but I don't think it's unreasonable to think about something north of – considerably north of where we are, above 40%, approaching 50%, it doesn't seem like an unreasonable idea to us.

<Q - Matthew Borsch>: And I'm going to ask a question, I've sort of asked this before, but, just as you had started with your comment that you've added 600,000 group commercial risk lives y-over-y, I just wanted to understand. You're obviously doing better than almost all your competitors, most of whom are seeing attrition on the group commercial risk side. And, I guess, the question – you described your pricing, I think John did, as disciplined and rational, which I'm not disputing. My question is, is this really just that you are producing a better medical cost outcome, and so, you can price lower than the market? Because a lot of this business, correct me, if I'm wrong, it moves on price. Sorry for the long question.

<A - Stephen J. Hemsley>: That we started to get into this a little bit before when Jeff Alter was commenting. It's, I think, a function of many things of which cost structure is clearly part of it, but it's spectrum of products, the design, et cetera, so, Jeff, do you want to respond?

<A - Jeff Alter>: I would tie my response to kind of discussion with Peter. So, I would say the market moves on value. It doesn't necessarily move on price. And we have been very purposeful across our products, our services. The focus on NPS has, I think, brought a much stronger value proposition to particularly the fully insured small group market. Long-term disciplined pricing is a good thing, and I think you're seeing the discipline that we had in the early stages of the ACA now coming back to us as a value play.

Couple that with a very purposeful decision a number of years ago to broaden our product portfolio and to offer a much broader spectrum of network opportunities for choice, for particularly our fully insured small group clients. We also have undertaken a different view with our distribution community, our brokers and consultants, a more disciplined approach with them, narrowing some of that distribution network to more [ph] favored (1:03:39) partners and giving them some added services. So, one of the things that we've learned over the years that our brokers and our consultants [indiscernible] (1:03:50) that marketplace seek to do business with those that make it easier for them to do business with.

We've created, again, with the assistance of Rally and our Optum partners, a much easier way for our small business brokers to onboard clients with us, to make plan changes, to recommend using some of the OptumInsight analytics, next logical moves for buy-downs. So, you really have to look at the value we bring as opposed to the price of our product. I think that's the answer to why our – particularly our small group fully insured business has done well over the last few years.

<Q - Ana A. Gupte>: On Optum, you saw some really nice margin expansion in OptumHealth and OptumRx, despite the mix shifting pressures you talked about on providers. I was just wondering if this is an area of focus for the organization, or this is one-off and where could the margins shake out by business line and overall?

<A - Larry C. Renfro>: It is an area of focus. And Ana, we're, obviously, you are looking at it both from a financial perspective as well as from a margin perspective, and all that is in line with our expectations. So I'm going to ask Tim Wicks to comment on this.

<A - Timothy A. Wicks>: First, as we think about the margin growth that we are seeing, we had a -- we are pleased with the start, our very strong start to the year 2017. The earnings are in line with our expectation, June YTD, and comprise about 40% of the full year expectations. And, so, right in line with both our prior several years of experience in H1, as well as our 2017 guidance.

I think it's also important to understand that there's seasonality in our businesses and maybe I'll just point to two examples where there's some seasonality. One is in OptumInsight. As you know, H2 is typically pretty strong in terms of the relative distribution of earnings growth in the year, and it's really driven by several of the businesses in OptumInsight's quality in the risk businesses, the Optum360 content sales, as well as technology, data, and software sales.

The second example I would use is in OptumHealth, as well, is when we look at OptumHealth, SCA volume is characteristically also stronger in H2. And then, typically we expect Q4 overall for Optum to be stronger than Q3, as well, as we go through the year.

<Q - Sheryl R. Skolnick>: I'll just observe that if this is early stage growth for $200B revenue run rate company to produce what you're producing, I'd like to see what late stage looks like. So thank you for that. But, the real question I have here is that I've learned over time to pay close attention to what is said on this call, and one of the things that you mentioned, Steve, early on in your remarks was that words to the effect of it is now time to turn our attention to cost.

In the past, when you've turned the organization's attention to something, it's resulted in significant advances for the business enterprise as a whole. And I'm wondering if this is one of those things that we should be paying attention to, and if so, if you can quantify it in any way or qualify it in any way to give us a sense of where the opportunities are. I know we've discussed it from the OptumCare perspective, but more broadly across the enterprise would be helpful. Thank you.

<A - Stephen J. Hemsley>: I'm not sure I can offer you too much specifics, but that was intentional. I think that, in general, if you take a look at our organization, we have grown well over the last couple of years. We've been able to add some and introduce some strong companies into our portfolio. And I think that if you see the growth in essence of the net productivity out of that, you'd sit back and say that there is an opportunity to strengthen the enterprise, continue to lean the enterprise, focus on the things that are most important. And if you recognize the value equation as is played out in the marketplace, many of today's themes were around retention of customers, value to customers, and so forth. As one of the questioners pointed out, the price point is a very important part of this. We have to challenge ourselves to deliver value all the time. We are in a very strong position. This is a great time to be taking that challenge up and that's what we're focused on. We think we can deliver more value. We think we can drive more innovation, fresh approaches, and I think this enterprise is focused and ready to do that.

The alignment of new technologies to that effort, use of more advanced data analytics produce a lot of opportunity for us, particularly, just given the setup of our businesses. So those are the themes around that, and we are focused on a marketplace that's going to be looking for value, and think that we can anticipate that. I think NPS is a big part of that effort, as well.

<Q - Zack Sopcak>: I wanted to ask about CMS' proposal to remove knee arthroplasty from the inpatient only list. Was that something that you considered happening in the near term when you were in the stages of acquiring SCA? And how do you think about the impact of that business over a longer term? Is it meaningful and does it have any impact on your MA strategy going forward?

<A - Andrew P. Hayek>: I'd offer a couple of comments here. From an SCA perspective, the team there has been focusing on higher acuity procedures for several years, in orthopedics, in spine, in cardiovascular. And that includes total joint replacements, which the SCA team has been performing on a commercial basis for a number of years with outstanding results, very consistent with the AAA in terms of the quality outcomes, the patient experience, and, of course, material cost savings.

So, we've been applying that in the commercial environment, and there's been discussion for a number of years at the CMS level around the potential to allow total joint replacement in the surgery center setting, which we, of course, would embrace, allowing us to extend the benefits of that platform in terms of quality, experience, and obviously reducing total cost and extend that to the Medicare population. So, in many ways, we've been anticipating this. This is something on a commercial basis we've been doing. We can't, obviously, speculate as to what the outcome will be, but this is positive and consistent with the strategy we've been pursuing.

Stephen J. Hemsley

Closing Remarks

Thank you, once again, for your interest in our progress today, kind of midway through the year

Our performance and momentum remain strong

We expect to continue to deliver higher quality and value in healthcare and sustainable growth throughout 2017, 2018 and the years to come

Our thanks to our people, who are, through their commitment, through our mission and culture, are helping to drive our enterprise to reach its full potential