

Q2 2021 Earnings Call

Company Participants

- Andrew Witty, Chief Executive Officer
- Brian Thompson, Chief Executive Officer
- Dirk McMahon, Chief Operating Officer
- Heather Cianfrocco, Chief Executive Officer
- John Rex, Chief Financial Officer
- Richard Migliori, Chief Medical Officer
- Tim Noel, Chief Executive Officer
- Wyatt Decker, Chief Executive Officer

Other Participants

- A.J. Rice, Analyst
- Dave Windley, Analyst
- Josh Raskin, Analyst
- Justin Lake, Analyst
- Kevin Fischbeck, Analyst
- Lance Wilkes, Analyst
- Matt Borsch, Analyst
- Ralph Giacobbe, Analyst
- Ricky Goldwasser, Analyst
- Scott Fidel, Analyst

Presentation

Operator

Good morning everyone. Welcome to today's UnitedHealth Group's Second Quarter 2021 Earnings Conference Call. A question-and-answer session will follow UnitedHealth Group's prepared remarks. As a reminder, this call is being recorded.

Here is some important introductory information. This call contains forward-looking statements under US federal securities laws. These statements are subject to risks and uncertainties that could cause actual results to differ materially from historical experience or present expectations. A description of some of the risks and uncertainties can be found in the reports that we file with the Securities and Exchange Commission, including the cautionary statements included in our current and periodic filings.

This call will also reference non-GAAP amounts. A reconciliation of the non-GAAP to GAAP amounts is available on the Financial & Earnings Reports section of the company's Investor Relations page, at www.unitedhealthgroup.com. Information presented on this call is contained in the earnings release we issued this morning and in our Form 8-K dated July 15, 2021, which may be accessed from the Investor Relations page of the company's website.

I would now turn the call over to the Chief Executive Officer of UnitedHealth Group, Andrew Witty. Please go ahead, sir.

Andrew Witty {BIO 3471756 <GO>}

Good morning, and thank you for joining us. As we discuss our enterprise today, I hope you sense its growing momentum as we advance on our path of improving the quality, cost, and experience of healthcare for everyone we serve. Both Optum and UnitedHealthcare grew and delivered on our long-standing strategy, and we've increased our outlook for the year to a range of \$18.30 to \$18.80 per share.

We continue to prioritize three key themes that we believe will underpin the next era of growth for our enterprise. First, unlock the collaborative opportunities within and between Optum and UnitedHealthcare. Second, increasingly apply technology to improve patient care and experience and to help the system run better. And third, strengthen our consumer focus, capabilities, and value.

During the quarter, we accelerated our efforts to develop and deploy new and innovative products informed by the insights of both Optum and UnitedHealthcare. In areas such as oncology care delivery, rare disease drug management, Optum Virtual, Optum Financial Services, and many others. We are doubling down on efforts to both expand and link services where it creates value for consumers and patients to make their health care journey easier, simpler, and more intuitive.

We constantly challenge ourselves to develop capabilities which lead to improved care, better value, and a simpler system. Our sales to clients and partners across all parts of the health system demonstrate the strong relevance of our innovation. And the strengthening of our sales pipeline is a key opportunity as we emerge from the COVID market pause. A good example of bringing our collective strengths together at scale is the Optum Home and Community care platform through which we care for nearly 10 million people. This platform includes our well-known HouseCall service, comprehensive post-acute care for smoother transitions to home, and integrated primary and behavioral care for Medicare Advantage patients who prefer to receive their care at home.

Home and Community platform services can reduce post-acute medical care cost by a quarter, unnecessary re-admissions by up to a fifth, and hospital admissions by up to 25%. In Medicaid, we are addressing consumer needs by expanding our long-term collaboration with public housing authorities, working with government agencies and community-based organizations to identify and address specific healthcare issues for people who are hard to reach and support.

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In just the past six months, we've introduced new partnerships in over 20 community to close gaps in care and address health equity challenges. Using data and analytic capabilities, we're able to rapidly identify local health trends and gaps and then work with community partners to inform guidelines, training materials, processes, and create better tools to advance health. We believe this will result in better health of community members and help to optimize limited-state resources. These and other targeted initiatives on the social determinants of health are essential elements and illustrative of our natural and long-standing ESG impact.

Our recently published sustainability report captures the full range of efforts we've dedicated ourselves to, in areas of crucial concern to our stakeholders, none more so than advance in health and health equity. This agenda is an essential part of our way of doing business.

I'd like to thank our 330,000 colleagues from across the company for the passion and diligence they show every day in helping to deliver improvements in serving our members, clients, and patients. I have great confidence that we are emerging from the last 18 months of disruption with an unprecedented set of opportunities to help improve the health system for all of those we can serve.

And now, I'll turn it over to President and Chief Operating Officer, Dirk McMahon to provide more detail on initiatives to drive performance across the organization.

Dirk McMahon {BIO 18950833 <GO>}

Thank you, Andrew. In an enterprise with our breadth of market engagement, we had many ways to assess how we're doing. I'd like to share some of those metrics with you picking up on Andrew's commentary on our three key strategic themes.

First, collaboration. UnitedHealthcare's value proposition is rooted in lower-cost, better outcomes, and a better experience. Optum supports this value proposition for UnitedHealthcare and other health plans with ambulatory services which patients and their doctors value.

In this quarter, we met the ambulatory surgery needs of over 250,000 patients, delivering exceptional care in convenient and affordable settings with revenue growth approaching 20% over the non-pandemic affected 2019 second quarter. These centers are meeting higher acuity and more complex needs such as total joint replacement, spine and cardiovascular procedures, which are performed at an increasing number of centers.

Our ambulatory settings received a consumer NPS of 92 and we deliver better and more consistent quality outcomes at about half the cost of traditional settings. Optum care has over 1,600 clinics and is rapidly expanding virtual offerings to serve patients in settings where they feel the most comfortable. And importantly, with their own physician. Seniors served by OptumCare under our integrated care approach spend considerably more time with their primary care physicians than seniors in traditional Medicare. And as a result, spend one-third fewer days in a hospital.

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Second, is our strategy to increase the application of technology to improve patient care and help the system run better. We recently announced the partnership with Bassett Healthcare, another strong example of how OptumInsight is helping health systems to expand and scale essential capabilities, including revenue cycle management and digital monetization to improve health outcomes and patients' health care experiences. We expect to continue to add new partnerships like this. Also at OptumInsight, we've been tackling the most resource-intensive operations through the deployment of advanced technology and other approaches. For example, we have transformed what were once largely manual chart review processes into highly automated operations.

Third, we have been hard at work advancing our consumer capabilities. UnitedHealthcare has made significant advances in the management of complex conditions. We're focused on making sure that patients with the highest acute care needs are able to access the most appropriate site of care by assigning them advocates to help navigate the system. Nearly 1 million of these members are matched with the personal navigator to help them manage and improve their health.

OptumRx continues to improve access and affordability of home delivery for patients, leading to significant improvements in continuity of care and having already reduced the cost to process and dispense prescriptions by nearly 20% in just the past two years. Also, along consumer cost-saving lines for those who prefer an in-store retail experience, we now offer tools to find the lowest cost prescriptions near them regardless of the health benefits of their health benefits coverage status. These tools can save self-paying consumers up to 80% on their medications.

Consumer preference is also having an impact in behavioral health. Already this year, the OptumHealth behavioral platform has delivered over 500,000 virtual visits, an option we initiated in just the last year. Many consumers and clinicians prefer these virtual encounters since they offer enhanced accessibility, flexibility, and simplicity. Care encounters delivered through our dedicated channel have a patient satisfaction of 98%. These are just a few of the many initiatives we are executing on as we apply technology, data, and analytics to make our strategic growth agenda come alive. We look forward to updating you on our progress over the quarters to come.

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

John Rex {BIO 19797007 <GO>}

Thank you, Dirk. Our first-half performance supports the foundation for strong and expanding growth for the remainder of this year and beyond. Before I review business performance, I'll offer brief perspectives on the pandemic-driven trends we're observing.

The core takeaway is that our outlook for COVID-19 impacts is consistent with our past commentary. The second quarter showed overall care activity continuing to trend toward baseline or normalized levels albeit with variation across lines of business. For example, in commercial markets, care activity was above baseline as members were willing and able to obtain needed care, some of which was deferred from prior periods. Our public sector

markets continue to run below baseline even as we are actively encouraging people to get the care they need.

We were gratified that to care activity for these populations begin to progress over the course of the quarter as vaccination rates advanced. We continued to estimate approximately \$1.80 per share of unfavorable COVID-19 impacts for full-year 2021 and to expect the majority of these effects to occur in the second half.

Moving to overall business performance. OptumHealth's second-quarter revenue and earnings increased 46% and 34% respectively year-over-year. Revenue per consumer grew by 43%, reflecting the impact of accountable arrangements and our expanding home and community health platform, combined with the growing complexity of the need we're serving. Of the 20 million patients we serve through OptumCare, over 2 million are in fully accountable or capitated care arrangements, an increase of 17% from a year ago and we expect this pacing to accelerate strongly in the years ahead.

OptumInsight's revenue grew 12% in the quarter and earnings grew 36%, with the revenue backlog increasing by \$1.9 billion to \$21.3 billion. Key growth drivers were managed services, the continued recovery of care activity to more normal levels and further implementation of technology-enabled services. In particular, we are seeing strong sales momentum in the services, software, and analytics businesses which serves care providers.

OptumRx revenue and earnings increased 5% and 19% year-over-year and script growth was 8% with this comparison impacted by last year's pandemic affected care patterns. Our expanding pharmacy care and specialty services continued to grow strongly, now comprising just under half of OptumRx revenues.

Turning to UnitedHealthcare. We are encouraged by the receptivity to our expanding set of responsive commercial benefits, centered around virtual-first, on-demand, and physician-led offerings. Year to date, we have added about 150,000 members in such innovative commercial offerings even with the evolving uneven labor market trends which impacted second quarter membership.

Medicare Advantage membership has grown by 675,000 year-to-date, tracking well to our full-year outlook. Our HouseCalls clinicians have been able to provide their vital services to seniors, conducting over 1.1 million home visits in the first half, more than double the year-ago level. People served and managed Medicaid programs grew by nearly 920,000 over the year-ago quarter in part as the state-based re-determination activities remained on hold.

Our Medicaid offerings continue to deliver a positive consumer experience and demonstrable cost-effectiveness for our state government partners. And we look for this momentum to build heading into next year.

Our liquidity and capital positions remain strong with second-quarter cash flows from operations at \$5.5 billion or 1.3 times net income and we ended the quarter with a debt to

capital ratio of 40%. And in early June, our Board of Directors increased the dividend by 16%.

As noted earlier, given the strength of our business performance, we've updated our full-year adjusted earnings per share outlook to a range of \$18.30 to \$18.80 per share, inclusive of the COVID-19 impact incorporated into our full-year view. Within this, we expect the pacing through the second half to be fairly level.

Now, I'll turn it back to Andrew.

Andrew Witty {BIO 3471756 <GO>}

Thanks, John. What we tried to provide you with this quarter, as we do each time, is a sense not only of what UnitedHealth Group's results are, but how we achieved them. The examples we've referenced and countless others throughout this enterprise along with the consistent execution by our colleagues are what underpin our confidence in our long-term 13% to 16% EPS growth rate target and in our ability to help people live healthier lives and help the health system work better for everyone over the years to come.

With that, operator, let's open up the call for questions. One question per caller, please. Alan, over to you.

Questions And Answers

Operator

Certainly, sir. The floor is now open for questions (Operator Instructions) The first question -- we'll take a question from will be Kevin Fischbeck with Bank of America.

Q - Kevin Fischbeck {BIO 6157376 <GO>}

All right. Great. Thanks. I guess, you guys reported two[ph] quarters in a row, but raised guidance both times by less than the beat. You singled out \$1.80 headwind including the guidance. Is there any other kind of major one-time positives or negatives in the guidance that we should think about when thinking about this year as a base for how to forecast future numbers? And is there anything you know offsetting the upside in the first half that we should think about in the back half?

A - Andrew Witty {BIO 3471756 <GO>}

Kevin, thanks so much for the question. Before I ask John to give a little bit more detail, I mean a couple of things. Obviously, it's still too early to give you kind of real shaping for 2022. So, you won't be surprised, we won't go there.

And I would say, the overwhelming story for this year is of course the dynamic of COVID in terms of the various puts and takes which are taking place under the surface. And as we've done for the last several quarters, we've tried to kind of dimension that within the

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\$1.80. But as we've also said repeatedly, the bulk of that \$1.80 sits in the rest of the year, the year-to-go between now and the end of 2021. And so, really, really pleased with the momentum and underlying performance of the company in the first two quarters of this year, but also respectful of uncertainties that remain around the COVID puts and takes, and of course, and that all feeds into how we make the judgment on raising the earnings expectation for the rest of the year.

I think, where I sit I feel great about our underlying performance. So far, broadly speaking, the COVID dynamic has played the way we would have anticipated more or less, but there's still ways to go and there are uncertainties within that.

Maybe, John, you might go a little further and take that \$1.80 apart and maybe reflect a little bit on how you are seeing those different elements of the driver of that?

A - John Rex {BIO 19797007 <GO>}

Kevin, good morning. It's John Rex. Yeah, just to get a little further into those. So, within the \$1.80, we still expect about 70% of that to occur within the second half of the year. So, the vast majority, a lot to be seen on how that \$1.80 really plays out.

Keep in mind kind of the main elements that comprises. It's the direct treatment and testing cost that we would see, offset by elective care deferral that might continue to occur or not in the rest of the year. The potential for higher acuity for those that have missed or deferred care, and at least within 2021, the impact of the care deferral that occurred last year. So, those are all super important components here. Within those elements, the things to play out would be most around the direct treatment and testing cost, and the potential for higher acuity, and how much of care occurs in the back half.

The other elements within the \$1.80, I would say, are more steady throughout the course of the year. So, that point being around care deferral in 2020 and the related revenue impacts for 2021, those should be relatively steady, and I would say are running in line with the expectations that were set out for you back in December. So, I don't think we've had a surprise on that element within our outlook.

And I would say the kind of economic impacts also pretty relatively steady over the course of the year in terms of the quarterly progression. So, those are really the elements we continue to look for. The right -- look, we saw good strength in a lot of the business, growth across the platform. Really, we could point to every business, but it's that look out to really understanding how those trends play in the second half of the year. Thank you.

A - Andrew Witty {BIO 3471756 <GO>}

Thanks, John. And Kevin, thanks very much for the question. I appreciate it. Next question?

Operator

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

Q - Josh Raskin {BIO 3814867 <GO>}

Hi. Thanks. Good morning. Here with Mr. Percher as well. So, our question again this quarter is around OptumCare. And I think the question is really how do you think about the capacity constraints for OptumCare? Is that more on the provider side or gaining consumers in the totality of OptumHealth? And with all of these sort of new options or what appear to be new options available to physicians, how are you convincing docs that Optum is the best solution?

And lastly, I know, I apologize for the last part here, but is there an argument to be made that OptumCare, not Optum overall, but just the OptumCare segment would be more valuable to shareholders as a standalone company because of the physician independents issue that comes up?

A - Andrew Witty {BIO 3471756 <GO>}

So, Josh, thanks so much for the questions. And before I -- I'm going to ask Dr. Decker to make a few comments in a minute or two but maybe just to make a couple of introductory observations. So, first off, I think you're really starting to see OptumHealth broadly and within that businesses, in particular, OptumCare and of course Home and Community really starting to demonstrate their capacity for growth because of the scale of the footprint that they now established across the country. And I think you're starting to see these businesses move into a kind of critical mass dynamic, that's reflected in its overall growth. It's also reflected in this very rapid expansion of OptumHealth revenue per consumer up over 40% this quarter. That's reflective of the quality of services which have been delivered and the perceived value that they obviously reflect.

So, we feel very good about that. Your question around capacity constraints, really good question. We continue to extend rapidly the number of physicians and clinicians in our organization either directly or through affiliation. This year, we expect to add about 10,000. We're well over halfway through that journey. So going super well on that front.

I would say one of the key elements is really making sure that those practices as rapidly as possible start to develop the skills to be able to manage capitated risk, which is really what then drives a tremendous amount of the distinctive behavior and value creation for patients and of course, for the system. That process I think has been continually refined, as you would be well aware in the marketplace, people have tried different models, they don't always work super well. I'll maybe ask Dr. Decker in a second to dive a little bit more detail into some of the work they're doing there to accelerate that dimension of capacity. Because it's not simply having the practices and the clinicians, it's having that way of working which really drives the change in what we're able to do.

As far as your last question is concerned, I actually think that the OptumCare clinics within the broader Optum and UHG organization, that's where some of the magic really sits here in terms of being able to leverage many different aspects. And as you see, these elements of OptumHealth and OptumCare, in particular, develop you're also seeing significant amounts of support and help if you will being provided by other businesses across the organization, payment Integrity, a good example beginning to be adopted by a part of OptumCare.

So with all of that, I'd like Dr. Decker maybe just to go a little deeper on how we move or how we help practices develop the capabilities which allow them to deliver the value we're now seeing.

A - Wyatt Decker {BIO 17276367 <GO>}

Yeah. Thanks, Andrew. And thanks, Josh for the question. To Andrew's comment, we are increasingly bringing our depth and breadth in value-based care delivery to new markets that have been historically fee for service and you'll see this unfolding right now and over the next year or two in markets like the Pacific Northwest and the Northeast where we have consider -- we've acquired and grown considerable clinical delivery assets. But we are now bringing the expertise in markets like Texas and Southern California that have been delivering value-based and full risk capitated care for years. And so, that really is a differentiator for us.

And the other piece I'd build on is, Andrew's comment around how we are creating a comprehensive set of offerings that address virtually every aspect of an individual's health care journey from a focus on primary care and keeping him[ph] healthy and well to post-acute care, to end of life care, and complex care in all environments, virtual, home and in the clinic. And that to us, as we bring that together and connect the dots is a differentiator in all markets. Thanks.

A - Andrew Witty {BIO 3471756 <GO>}

Wyatt, thanks so much. And Josh, thanks so much for the questions. Next question, please?

Operator

Next, we'll go to Ricky Goldwasser with Morgan Stanley.

Q - Ricky Goldwasser {BIO 1977392 <GO>}

Yeah. Hi. Good morning. So, many of the initiatives that you are putting in place and the asset that you're putting together are leading to lower utilization, at least -- hospital setting and a move to lower-cost setting. So keeping this in mind, and when we see the lower utilization on -- at least on the public side, do you still think the 2019 is the right baseline for utilization?

A - Andrew Witty {BIO 3471756 <GO>}

Ricky, that's a great question. So, you're quite right. A lot of what we focus on is -- well, first and foremost, to try and understand what is the very best care that an individual needs and to make sure that they get access to that. And one of the big things we've been doing this year is trying to get people, particularly seniors, back into the system those who may be held back because of the pandemic and what -- as you heard earlier, we're glad to see some of that moving a little bit, albeit[ph] some way to go.

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Now within that, we also recognize there are a whole series of places where frankly there are better more effective way to deliver care. I'm going to pick out one very simple example just to build on what you described. If I think about some of the work that's going in OptimizeRx and within our Optum Infusion business, you can take drugs where, perhaps \$10,000, \$15,000 per treatment for a hospital outpatient, exactly the same drug being delivered by Optum at home infusion \$3,500. Just that kind of -- that's the kind of impact that we can deliver through really thoughtful application of location of delivery and alike. And that's just one example. UHC, very much focused on this in much of their guidance and of course Optum is building a variety of different capabilities.

Having said all of that, I think the reality is, it's very early days even for us in terms of change in behaviors against the overall trend of the health care system. So, I think that baselining of 2019 probably is the right rational piece. Over time, I think these practices will start to bear down on the overall trend of cost. But of course, that's -- that will happen as we see those capabilities spread more broadly, as we see them get more adoption, and they start to change the price point in the marketplace for some of these treatments or therapies which are frankly overpriced. And what our clients are looking for us to do, both through UnitedHealthcare and Optum are find ways to get great care at lower cost and that's exactly what we're focused on doing.

So, Ricky, thanks so much for the question. And next question, please?

Operator

Certainly. Next, we'll go to A.J. Rice with Credit Suisse.

Q - A.J. Rice

Hi, everybody. I might just -- continued focus on OptumRx, you've got good script growth and a pickup in margin there. There are two things that are sort of impacting script growth it seems like to me across some of the companies that are reporting it. One is, how quickly we're seeing the rebound of sort of the acute scripts as people start going back to the doctor and get new prescriptions. Can you comment on where we're at relative to pre-pandemic levels on that?

And then vaccines, in some of the script reporting is having an impact. I'm not sure that's relevant for you guys and OptumRx, but can you sort of parse that out in any way? And then I guess just any comments on the selling season for OptimizeRx and for this year going into next that you see?

A - Andrew Witty {BIO 3471756 <GO>}

Yeah. No, listen, that's a great question, A.J. And before I hand over to Heather Cianfrocco, our Head of OptumRx, let me just make a couple of introductory remarks. That 8% script growth, about half of that is we would estimate kind of bounce back from the suppression of this time last year caused by the COVID, the initial waves of the COVID disruption. But even having said that, the 4% residual growth is great. And we feel very good about the performance of the OptumRx business across its breadth of businesses.

So, within the kind of core PBM but also across all of its various other pharmacy services businesses which the company has been invested in over the last several years.

We did about 10 million vaccine prescriptions, I think, year-to-date. To give you a little bit more detail on that and a little bit further into selling season observation, maybe hand over to Heather. Heather, go ahead.

A - Heather Cianfrocco {BIO 18236688 <GO>}

Thanks, Andrew. Thanks, A.J. for the question. So, yeah, I think as Andrew said, so maybe I'll take script volume quickly and then to finish that off and then maybe talk a little bit about selling season.

So, as Andrew said, really, if you look at whether ours is indicative of other things you've seen, what I'd say is specific to us what you've seen over the last year is, yeah, about half of that is the rebound from compression and the rest of that is really a little bit of vaccine volume. And Andrew gave you the number there, but that really hits volumes for us more than anything else because of the -- the ratio of revenue growth to script there.

And then addition to that, there is continued double-digit growth in the pharmacy services businesses. So that's making up the bulk of the additional growth that you're seeing year-over-year there.

As far as the split of acute maintenance et cetera, so, I guess I would say, we just had this discussion about what baseline is. Again, we're kind of watching this in quarterly progressions, but I'd basically say that we're seeing second quarter looks more like '19 than it certainly did from looking like second quarter of 2020. And we basically don't see anything unique there as far as acute versus -- as far as acute ratio kind of back to what we saw pre-pandemic for this quarter.

Maybe let me switch quickly to selling season. So, we're still in the midst of it, this year. And that's where all segments, that's for employer, it's for health plan in public sector, and coalition. And I'd say generally same activity, maybe a little different pacing of decision making right now, but really in the midst of it. The biggest thing I would say about the selling season is, clients are very interested in solutions to address high cost of specialty drugs and getting to medications and therapies that really help on the medical and the pharmacy side. So for us, we're very focused on those solutions and we're finding that our site of care services for alternative sites and alternative therapies like biosimilars together with some of our specialty programs that work through OptumHealth and OptumRx, and straddle[ph] the medical and pharmacy benefit are really resonating together with our really intense clinical client consulting that we're bringing to the market right now. So, we're finding that resonating in the selling season. And we think we've got a lot of value out there. So, hopefully, that answers your question.

A - Andrew Witty {BIO 3471756 <GO>}

Thanks, Heather. Really appreciate. I might just add A.J. one other dimension that's under Heather's leadership, which is really pertinent to behavioral health. And as I think we will

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recognize that's a huge issue across the US. I think many of us anticipate the COVID pandemic and various impacts from that may well exacerbate some of the trend there. But I just wanted to call out the progress of Genoa Pharmacy within that. It's a business that came into our organization, two or three years ago.

We're going to open 60 more of those centers this year. We're already up to 582 of those centers. We're well on the way to close to double what we had when they first became part of the organization. And the impact that group has is extraordinary both from a consumer NPS score 95, provider NPS score 80. The impact they have in terms of helping improve adherence for highly complex patients particularly those patients who are served through our Medicaid books of business is super important.

So just want to mention that alongside the other elements of OptumRx, another key part of the growth and a key part of where OptimizeRx is really helping our Medicaid business deliver really high-quality service for folks who need it. Next question?

Operator

Certainly. Next, we'll go to Justin Lake with Wolfe Research.

Q - Justin Lake {BIO 6460288 <GO>}

Thanks. Good morning. Wanted to follow up on the helpful comments that John gave during the prepared remarks on medical cost trend. So for instance, John, you mentioned that commercial utilization was back above kind of typical. Would love to know how that progressed during the quarter? And kind of how far above typically you saw it coming out of the quarter? What you're thinking for the rest of the year?

And then any other commentary on Medicare and Medicaid there? And then also, if you could give us your view on this new Biogen Alzheimer's drug in terms of how you think things develop in term of price -- in terms of pricing and physician take-up or patient take-up rates? And how you think you're going to manage this process would be great as well. Thanks.

A - Andrew Witty {BIO 3471756 <GO>}

Yeah. Justin, thanks so much. I'll address the Alzheimer's drug issue in a second, but first of all, I'd like John may be to pick up on your broader MCR questions.

A - John Rex {BIO 19797007 <GO>}

Justin, good morning. A little color perhaps on how the progression occurred in the quarter here. So, as it relates particularly thinking about the quarterly progression that we saw, perhaps not unsurprisingly, COVID testing and treatment costs were highest in the month of April, actually trending up a little bit from what we saw in March. And that tracks with the incidence rates and the hospital ration rates that we would have been seeing, and then that trending down pretty rapidly in May and June in terms of the number of individuals in hospital beds and the treatment cost.

In terms of utilization and commercial population, interestingly, that was also the highest in the month of April, trending down a bit over the course of the quarter but still just marginally, very marginally above baseline as we -- in June, as we exited June, just to give you a little color commentary on how that was progressing. So, that was really the trending that we saw within that. And Andrew, I'll turn back to you.

A - Andrew Witty {BIO 3471756 <GO>}

Yeah. No, great. Thanks, John. The other thing I'd say Justin is, there's plenty of noise within those numbers that John just described, right? So, you see inpatient, outpatient, physician visit trends differ by different books of business. It's a more complex picture than it looks on the surface.

As far as the Alzheimer's drug is concerned, I'm going to -- in a second I'm going to ask Dr. Migliori, our Chief Medical Officer, to make a couple of comments on this particular thing. I mean, overall, bottom line from our perspective is this remains obviously a super important area for patients' families to look for progress and we will want to see that progress happen. I think from where we stand today, there's still a lot of information that we need to be able to make, really clear decisions, and I think we're not the only ones in that regard looking for greater clarity in this arena.

Maybe Dr. Migliori, you might give a perspective from the medical perspective, please.

A - Richard Migliori {BIO 14003997 <GO>}

Yes. Thanks, Andrew. And you said it well. We are encouraged to see meaningful progress being made against this devastating disease and advances in its treatment. We are continuing to develop our clinical policy as well as our ultimate position on coverage. But in doing so, we're looking forward to getting the guidance that we need from Medicare and also looking at the continually contributing clinical outcomes that are coming from -- the clinical evidence that comes from the ongoing clinical trials. But most importantly, we're looking for the advice from those expert professional organizations, the physicians who have committed their career toward helping people with this devastating disease. Andrew?

A - Andrew Witty {BIO 3471756 <GO>}

Yeah. Thanks so much, Dr. Migliori. And Justin I think bottom line is, I think this has some way to go before we get to real clarity. So, I wouldn't guide you to expect very rapid decision making on this piece, not because we don't want to see these good effective treatments must be made available, of course, we do. But it's really important to have a real clear understanding of really how they should be used, what their value is in utilization. And as Dr. Migliori already said really well, really understanding where CMS get recognized in the MA population likely to be very significant fraction of utilizers. We need to understand where all of that sits. So, I think this is potentially good news, but it's still early days and we have a lot more to learn before we can be more definitive than that. So I can't be too much more helpful at this point, I'm afraid Justin. But thank you so much for the question and next question, please?

Operator

Certainly, sir. Next, we'll go to Ralph Giacobbe with Citi.

Q - Ralph Giacobbe {BIO 6968095 <GO>}

Thanks. Good morning. I wanted to stick on to that last question. So it sounds like commercial was marginally above baseline for the quarter. Hoping you can give us similar comments on sort of magnitude of how much lower Medicare and Medicaid are? And then, also if you could provide any sense of magnitude of the rising utilization you embed in guidance at this point for the second half of the year. If you could frame that just in terms of what normal growth would be and maybe what you're embedding or how much higher guidance contemplates? Thanks.

A - Andrew Witty {BIO 3471756 <GO>}

Yeah, Ralph, thanks so much. I'm going to ask John to reflect on the second part of your question in terms of forward-looking for the second half of the year. Just to nail this first part though, the commercial book, as you've heard already now from John a couple of times, is basically right on baseline, maybe a hair above, but right there. And then the two government books of business, a few percentage points below. So, I won't go further than that. But maybe John, you could give some insight into how are seeing things within the next six months?

A - John Rex {BIO 19797007 <GO>}

Good morning, Ralph. So, yes. When you blend to a little bit, just a little bit below overall, right? When you blend the books and you weigh[ph] our books across in terms of what we are seeing in the second quarter.

And then, as you might expect that trends up progressively every quarter. Every quarter you'd see a rising in that overall level of utilization and the expectations as we head into the end of the year. Embedded in that is also a view in terms of what happens with intensity, acuity level. One comment that -- question that we've often received is, what are we seeing currently in acuity level we progress? And part of the impact as we progress in the second half is an expectation that you do see a rising acuity level.

I'd tell you, we haven't observed that yet, but still, it's probably a little bit early to say. When we -- among the things we look at, we look at new cancer diagnoses, new cardiac diagnoses, those are still running below baseline levels that we'd expect, but their view to that could continue to progress as we get into the back half of the year.

The other element in terms of just thinking about utilization and rising in the back of the year is and ultimately, this is one of the (inaudible) what occurs with COVID testing and treatment costs. Clearly, there has been the evidence of the new variance and their impact in other countries, and then also moving into the US. And even in our own data, we can see that, but I would tell you still fairly limited in terms of impact. And I would sit here and look at number of members -- of our members that we have in receiving treatment today in hospital bed today as we sit here this morning is still well below the

levels even we sit here in mid-July, what we were seeing in the April levels. But that could be a turnback factor also in the second half of the year as we see that progression. Thank you.

A - Andrew Witty {BIO 3471756 <GO>}

John, thanks so much. And Ralph, thanks for the question. Next question?

Operator

Next, we'll go to Scott Fidel with Stephens.

Q - Scott Fidel {BIO 5322875 <GO>}

Hi. Thanks and good morning. I want to just ask a question around Medicare Advantage, and just interested in terms of what you've been seeing, progressing year-to-date around the risk scores, and how that's been normalizing relative to the post-pandemic disruption? Then just also interested if you've received the update yet from CMS on the mid-year risk or updates? And if you could share how those came out relative to expectations?

A - Andrew Witty {BIO 3471756 <GO>}

Scott, thanks so much for the question. I'm going to pass it over to our new CEO of UnitedHealthcare, BT. BT, you and Tim might like to address those two points from Scott. BT?

A - Brian Thompson {BIO 1438916 <GO>}

Sure. I'll start. I think as a follow-on perhaps. This is Brian Thompson. Thanks for the question. To the question around engagement levels, I think the piece that I'm most encouraged by is the physician engagement level. And in particular, in our senior communities, we're really seeing strong receptivity, certainly reflective of the vaccination rates and I think that's really giving us encouraging signals overall not only to 2022 but just the population and health at large.

With that, I'll turn it over to Tim to talk a little bit more specifically about MA.

A - Tim Noel {BIO 17867531 <GO>}

Good morning, Scott. Thanks for the question. Yeah, the revenue for 2021 and the risk scores that support those are totally in line with our expectation as John indicated in his remarks. And yes, we did receive the mid-year payment from CMS which gives us a more fulsome view into what 2021 revenue is. And again that aligns to our expectations and at this point, we consider 2021 revenue to be pretty complete in terms of what will know about risk scores.

A - Andrew Witty {BIO 3471756 <GO>}

Tim and BT, thanks so much. Scott, thanks for the question. Next question?

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Operator

Certainly. Next, we'll go to Dave Windley with Jefferies.

Q - Dave Windley {BIO 2411309 <GO>}

Thanks very much. I wondered relative to your conversations about the relative headwinds, does your view of your ability to recoup the \$1.80 in '22, is that influenced at all by the timing of when these things hit if they do in the second half of '21? So, be curious about your comments there, please.

A - Andrew Witty {BIO 3471756 <GO>}

Yeah. I'll ask John a the sec to give you more on this. I mean, first off, obviously, again we're not going to be, really shine any light on our expectation for '22 yet. Having said that, we also think the majority of the \$1.80 headwind will have been utilized this year will essentially be non-recurring. Of course, that depends on some assumptions around the pandemic itself remaining under control. I mean, so that is an observation which has to be taken in that context. But as we sit today, I think that's a prudent view.

John, you may want to go a little deeper on how each of the elements, perhaps, you think about?

A - John Rex {BIO 19797007 <GO>}

Sure. Few factors on that and how timing might impact. So, maybe just to refresh a little bit on that. Tim, did a nice job describing the impacts in terms of the revenue impacts from[ph], particularly, our Medicare Advantage members being able to be seen by their physicians. We are encouraged by what's going on in our HouseCalls activity that -- very strong receptivity as[ph] BT just mentioned, encouraged by what we're seeing in terms of seniors and their receptivity to even going in and seeing their physicians. That's all super important.

I don't know if timing is so important on that piece. It just needs to occur during the year in terms of when that activity occur. So, that would be more -- the more important factor as it relates to 2022. Does it occur in 2021? Do they get in? So, that's an important factor.

Other factors here I'd say, so there is care that didn't occur in 2020 and probably hasn't occurred in '21 yet, that was deferred and needs to occur. So that's more about also an element of, does it not occur at all in this year? Or does it work its way into 2022 and the potential for that and kind of the revenue impact of whether or not there is an increase in acuity or from that -- from those populations? That -- those are really kind of the main elements I would say in terms of that I would call timing-related. The other elements are more just would be around this concept around the occurrence of COVID-19 incidents, direct treatment and testing cost how that progresses over the back half of the year or two. But those would be the elements that would be sensitive to timing factors.

A - Andrew Witty {BIO 3471756 <GO>}

Right. John, thanks so much. And Dave, thanks for asking the clarifying question. Appreciate that. Next question?

Operator

Next, we'll go to Lance Wilkes with Bernstein.

Q - Lance Wilkes {BIO 4820557 <GO>}

Yes. You made a comment about virtual-first offerings, helping to drive incremental membership growth this year. Can you talk a little bit about what the digital-first and/or virtual-first offerings look like? And then, is that contribution in '21 or -- and if it is, could you talk a little bit about, in the sales cycle, how it's looking for uptake in '22?

A - Andrew Witty {BIO 3471756 <GO>}

Great question, Lance. Thanks. I'm going to ask Dirk in a second to make a couple of comments around the overall shift towards digital-first, virtual-first. And may also ask Dr. Decker to refer to some of -- further what's going on within OptumHealth, which is important around Optum Virtual.

As I've made super clear over the last couple of quarters, really elevating our consumer focus is a top priority for the whole company. And that really speaks to ensuring that we're delivering simpler, more intuitive experiences that we're thinking about the journey of the consumer and the patient in an end-to-end sense, that we're making it easier for them to make all of the various sequential decisions. And we also want to meet the consumer where they want to be met, whether that be outside of the facility, in their home, online, or in person.

And we also -- we fully recognize how the premium the patients and consumers, in particular, put[ph] on being able to talk to the physicians they know rather than just any physician. And so, how we start to pull all of that together is essentially reflected in many of the different initiatives we have. Over the last few quarters, you've seen us build up things like Optum Virtual, Dr. Decker will talk to in a second, but things like Optum Store just being rolled out under the OptimizeRx organization really starts to bring together a ton of access for consumers in terms of what they're able to do with us.

With that introduction, Dirk, love to get your perspective and then maybe, Wyatt. Dirk?

A - Dirk McMahon {BIO 18950833 <GO>}

Yeah. Thanks, Andrew and Lance for the question. So, of course. we've continued to see telehealth be a broadly desired consumer access vehicle to the health system. We've seen that grow. We're hoping we get to the sort of the next generation. And we think a lot of that begins with like for example, with OptumCare physicians being able to deliver that. Because as Andrew said, people have a good preference to go to their own physician.

The product with respect to virtual-first to answer your specific question, we plan on rolling that out in eight, nine markets in UnitedHealthcare at the end of this year. What it will basically be is, think of it as sort of a virtual PCP with an OptumCare doc being the quarter-back, with UnitedHealthcare, our navigate network backing it up for the physical access. So, we're starting to, sort of what I would refer to as, productize this and we're hopeful that -- which will aid to UnitedHealthcare's commercial growth. Thanks.

A - Andrew Witty {BIO 3471756 <GO>}

Thanks. Wyatt, would you like to just give a little more on Optum Virtual and what you've been building inside OptumHealth?

A - Wyatt Decker {BIO 17276367 <GO>}

Yeah. Thanks, Lance for the question. We are bringing together the virtual care experience that we stood up rapidly during the pandemic with over 18,000 providers on to, as Dirk mentioned, a next-generation technical solution that we've created which creates the opportunity to seamlessly on-board and triage an individual virtually so we make sure they're getting the right care in the right environment, whether that's virtual, physical, or behavioral health care need. And we believe that, that is a differentiated patient experience.

And the second, which Dirk mentioned, but I'll underscore is a focus on primary care delivery and keeping people tethered to their trusted and known providers. And as this matures -- we're live today in all 50 states to be clear and we'll continue to roll this out in a more comprehensive way to our OptumCare patients as well as members of UHC and other payers and look forward to continued conversations about our capabilities here. Thank you.

A - Andrew Witty {BIO 3471756 <GO>}

Thanks, Wyatt. I think, Lance just to close this out, this is -- I'm excited about what's been built in OptumHealth. If you think about this buildout of ambulatory clinic facilities and other attendance services perhaps in the pharmacy space, you think about the Home and Community agenda really investing to make sure the folks who want to spend as much time at home as possible are able to do that. And then you see Optum Virtual essentially pulling all of that together. You got to think about this as all three of those elements, essentially, all play at the same time. Very -- I think it's a very important step forward. It gives us a really significant opportunity to ensure that we deliver much more seamless experience, we're much more responsive to consumer need, and we can focus on bringing cost down, delivering better care. That's what we really believe we can do here. This is -- you're going to hear a lot more about this, it's an important step up in the energy around our OptumHealth strategy.

We just have time, I'm afraid, for one last question. So, Alan, if you could ask for the last question, please?

Operator

Sure. We'll take our last question from Matt Borsch with BMO Capital Markets.

Q - Matt Borsch {BIO 5186998 <GO>}

Okay. Thank you. You know, I realize you're parsing through everything that happened last year and now the catch-up in care this year. Are you getting a perspective yet on how much of the care was unnecessary that would have happened but is not actually going to occur? And I guess you put that in two categories, care that you can see in hindsight was unnecessary but maybe what's necessary (inaudible) care that was just unnecessary proactively and in hindsight.

A - Andrew Witty {BIO 3471756 <GO>}

Matt, thanks so much for the question. It's really -- it's a great question. And you would have to expect that the answer is that some of it would have been unnecessary. I think, at this distance, it's a little hard to really call that at this point. I mean there are some tantalizing signals in some of the trends. So, if you look at emergency department use, for example, it looks pretty sustained down and it doesn't seem to be coming back. And certainly, if you look at our advisory board surveys that we're running with many, many non-UHC providers and institutions across American healthcare, people don't -- a lot of people don't expect that ED utilization to come back. Now that may be because they were being unnecessarily used, maybe folks have realized the urgent care centers are a much better option, maybe virtual is a much better option, they can get what they need at much lower cost.

So, whether it's unnecessary, whether or not the pandemic has disturbed people's allegiance to certain types of sites of care, and people are a little bit more open-minded about where to go, all of that I think is in play. I would say it's premature to call it. I think we're watching it really carefully, I could build those theories I just shared with you, I'm not going to tell you that those are proven. I think there are tantalizing signals in the data, it's going to take another six, 12 months before you can really settle out how this all plays.

So, Matt, thanks for the question. And we'll probably look back on that one again, I'm sure. Listen, everybody, I want to say thank you for all of your attention today, for your participation, very much appreciated. And we hope very much that what you've heard from our team gives you a flavor of why we have such confidence in the outlook for our company and in the ability of Optum and UnitedHealthcare separately and together to improve the lives of those we serve and the health system overall.

And with that, I'd like to say thank you very much and to close this morning's call.

Operator

That does conclude today's conference. We thank everyone again for their participation.

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