UNITEDHEALTH GROUP®

Earnings Conference Call
First Quarter 2024 Remarks
April 16, 2024

Moderator:

Good morning, and welcome to the UnitedHealth Group First Quarter 2024 Earnings Conference Call. A question and answer session will follow UnitedHealth Group's prepared remarks. As a reminder, this call is being recorded.

Here is some important introductory information. This call contains "forward-looking" statements under U.S. federal securities laws. These statements are subject to risks and uncertainties that could cause actual results to differ materially from historical 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 April 16, 2024, which may be accessed from the Investor Relations page of the company's website. I will now turn the conference over to the chief executive officer of UnitedHealth Group, Andrew Witty.

Andrew Witty

Good morning and thank you for joining us today. We have a lot to cover. First, we'll discuss the status and impact of the Change Healthcare cyberattack. Then, we'll turn to the performance of our businesses, which continue to grow and perform well.

It's important to underscore at the outset, that even as we have devoted significant attention to addressing the Change Healthcare attack, the vast majority of the 400,000 people of this enterprise have remained – as usual – intensely focused on delivering for all those we serve. That dedication is reflected in our overall performance this quarter.

Directly as a result of their hard work and the broad performance of our diversified businesses, we're able to reconfirm our full year adjusted earnings outlook, even as we absorb 30 to 40 cents per share in business disruption impacts related to Change Healthcare.

Now, turning to Change Healthcare … this was an unprecedented attack by a malicious actor on the U.S. health system. We promptly disconnected the affected services and turned our focus to two main areas: restoration and support.

The attack disrupted the ability of care providers to file claims and be paid for their work. We moved quickly to fill this gap.

Fortunately, we were able to bring to bear the substantial resources of UnitedHealth Group to drive the recovery and begin to mitigate the impact – resources which a stand-alone Change Healthcare would not have access to on its own. These are the resources and the philosophy that underpinned our remediation of Healthcare.gov back in 2013 and our distribution of CMS COVID emergency relief funds to care providers in 2020:

- Here, we assisted care providers in financial need, providing over $6 billion in funding … all at no cost to them.
- We rapidly deployed resources to develop alternative solutions and moved promptly to restore claims and payment services. We've made substantial progress and we will not rest until care providers' connectivity needs are met.
- And, to help care providers mitigate workflow disruptions and help ensure the uninterrupted delivery of care, for a period of time we suspended some care management activities.

I am immensely grateful for our colleagues who continue to work tirelessly, day and night, to restore services, free up funds for providers, and protect the broader health system.

Let me touch on two more items we know are of interest to you:

First is care activity. The central point is that overall care patterns are consistent with what we anticipated last year heading into 2024 and within the outlook we shared with you in November.

The second item is the essential value of Medicare Advantage to seniors. Here are what we see as some of the core facts regarding Medicare Advantage:

It drives better health outcomes … provides a higher value, significantly more comprehensive benefit for people … all at a lower cost to beneficiaries and taxpayers … and is more popular with – and valuable to – seniors, than traditional Medicare.

Medicare Advantage consumers spend, on average, 45% less on premiums and out-of-pocket costs than those in traditional Medicare. That translates into nearly $2,400 in savings annually … and several times more for the country's most underserved and medically challenged populations. That's one of the many reasons why more than half of seniors choose Medicare Advantage today versus 30% 10 years ago … and why we believe these offerings will continue to grow strongly for years to come.

2025 is the second year of the significant three-year phased funding reductions to Medicare Advantage introduced by CMS last year. Here in early 2024, we're at the beginning of our thoughtful, responsible three-year plan we developed last year to adapt to those changes. Our strategy continues to focus on providing as much stability as possible in the reduced funding environment … improving outcomes and experiences for the consumers we are privileged to serve … and delivering the performance you expect from us. We believe our long-term perspective and the deliberate, multiyear approach we began last year is serving us well, putting us into a position of sustainable, competitive strength.

Among a handful of notable business developments to share:

UnitedHealthcare was honored to secure major Medicaid wins in Virginia, Texas and Michigan. While we were disappointed in the outcome in Florida, we will be seeking to better understand the process and considerations there. There is a substantial pipeline of Medicaid RFPs, and we are confident that our offerings will resonate in other states as well.

UnitedHealthcare's commercial benefits continued their momentum from last year, growing to serve 2 million more people in the first quarter – the largest increase in years. This growth was across UHC's commercial customer segments … from individuals up through the largest of employers. This is further evidence our innovative and consumer-centric products have established the footing for sustained growth.

We also see continued momentum at Optum Rx coming off last year's record selling season, with a recent win in Hawaii and the renewal of our contract with the Department of Veterans Affairs. We are grateful for the opportunity to support them.

And Optum Health is tracking well to achieve its objective of growing to serve another 750,000 patients in value-based arrangements this year, in partnership with many payers.

Before I turn it over to John Rex, our president and chief financial officer, I want to acknowledge Dirk McMahon, recently retired after more than 20 years of service. I'd like to thank him for his leadership and partnership. Dirk has left an indelible mark on this company … through the example he set and the many of our leaders he has mentored.

John?

John Rex

Thank you, Andrew.

This morning I'll first provide color on some of the unique items in the quarter directly related to the Change Healthcare cyberattack, followed by care activity trends, business updates, and finally, thoughts on the remainder of '24.

But first, let me start at the most fundamental level. The UnitedHealth Group businesses continued to grow and perform well during the quarter, and we are encouraged by the momentum and the many opportunities to serve we are seeing across the enterprise.

On the Change Healthcare cyberattack … as Andrew noted … our guiding focus throughout has been to make sure patient care is delivered and care providers' access to funding is secured as we work to bring back services fully.

The cyber impacts in the quarter totaled about $870 million or 74 cents per share. At this distance, we estimate the full year impact will be $1.15 to $1.35 per share. Let me break that down into its key components.

Of the $870 million, about $595 million were direct costs due to the clearinghouse platform restoration and other response efforts, including medical expenses directly relating to the temporary suspension of some care management activities.

For the full year, we estimate these direct costs at $1 billion to $1.15 billion, or 85 to 95 cents per share. It's important to note these direct costs are **included** in net earnings but are **excluded** from adjusted earnings per share.

The other component affecting our results relates to the disruption of ongoing Change Healthcare business. This is driven by the loss of revenues associated with the affected services, all while incurring the support and costs to keep these capabilities fully ready to return to service. Notably, these effects are **not** excluded from adjusted earnings.

In the first quarter, this impact was about $280 million or 25 cents per share. At this distance, we currently estimate the business disruption at $350 to $450 million or 30 to 40 cents per share for the year. This of course will depend on the ultimate timing of service and transaction volume restoration.

These elements are broken out for you in the supplemental tables provided with our press release this morning. Of course, we will provide regular updates on our progress and outlook throughout the course of the year. While much of Change Healthcare's functionality and services have been restored, we are working hard to restore more, and the objective we all share is for an even stronger Change Healthcare to be fully returned to expected performance levels next year.

I'll come back to some of these elements in more detail in just a moment.

Turning to underlying care patterns: the headline is that these continue within our expectations.

Outpatient care activity among seniors remains consistent with the elevated levels we began seeing in the first half of '23 and for which we planned … so we continue to be comfortable with the outlook we established last June when we filed our 2024 Medicare Advantage benefit offerings.

The winter seasonal activity we discussed with you in January, particularly related to strong vaccine uptake, higher respiratory illness incidence, and related physician office visits – has subsided. Overall inpatient care activity also remains within our expectations.

The first quarter medical care ratio at 84.3% included roughly 40 basis points, or about $340 million, related to the temporary suspension of some care management activities. These have been recently reinstated. The majority of the remaining $325 million of full year medical expense impact included in our outlook, will land in the second quarter.

Notably, we did not reflect any favorable earnings impacting medical reserve development in the quarter. Out of prudence, due to the potential for the cyberattack to affect claims receipt timing, we reflected an additional $800 million of claims reserves. We'll continue with a judicious view as we progress over the next several quarters.

Turning to the performance of our businesses, the most important takeaway is they are growing and performing at a level which allows us to maintain the adjusted earnings per share objectives we established last November, even while taking on the business disruption impacts of the Change Healthcare attack.

At UnitedHealthcare, revenues of $75.4 billion grew nearly $5 billion.

Within our domestic commercial membership, we're off to a strong start powered by disciplined growth, serving 2.1 million new consumers in the first quarter. We are encouraged by the momentum and positive customer response to our differentiated offerings and look forward to building further upon that momentum heading into '25.

For Medicare Advantage, as you would anticipate, we are deeply into our '25 planning activities. As we finalize our '25 benefit designs over the next several weeks, we will build competitive offerings that once again appropriately reflect the funding and cost environment. We approached this last year with a deliberate three-year plan … which continues firmly on track and positions us well going into '25.

Our Medicaid business ended the first quarter with 7.7 million members. As Andrew noted, key wins in Texas, Virginia and Michigan demonstrate the value state customers see in our offerings. In Virginia, UHC was the highest scoring plan, with particular strength in member-centric care, benefits and service delivery, quality and value-based payments. In Texas, UHC was awarded the maximum number of possible service areas, expanding the number of people we will have the opportunity to serve. And in Michigan, UHC achieved perfect scores in such critical consumer-centric areas as social determinants of health and health equity, further solidifying our value proposition.

Optum Health's revenues grew by 16% to $26.7 billion as we increased the number of patients served and are on track to approach 5 million patients in value-based care by year end. For the most complex patients that Optum Health serves, we have engaged 75% through the first quarter this year, a significant increase in the number of patients engaged over last year. This reflects progressively earlier connectivity with patients and the ability to improve their health outcomes and experiences more rapidly.

Optum Rx revenues grew 12% to $30.8 billion, driven by new client starts, continued expansion within existing partnerships, and growth within pharmacy services.

Optum Insight, as you know, is where the Change Healthcare business resides. In the quarter, about $500 of the $870 million total impact is within Optum Insight. Just under half of this are direct response costs … think clearinghouse restoration activities … which we have excluded from adjusted earnings.

And slightly over half are the business disruption effects, which are not excluded from adjusted earnings. For many of the impacted Change Healthcare services, transaction volume drives revenues. So, the effect of the attack in the period is one of keeping all the lights brightly burning … at full readiness to resume services … while revenue production was essentially suspended.

To be clear, the Optum Insight team did the critical and right thing … promptly shutting off services … and finding any method possible to keep the care system working, including helping clients find alternative solutions. Coming out of this incident, the team will be working tirelessly with customers to recover transaction volumes and demonstrate that Change Healthcare is ready to serve and is more valuable than ever.

Beyond Change Healthcare, the Optum Insight revenue backlog increased to nearly $33 billion, growth of over $2 billion from a year ago, driven by health system partnerships to provide business process and information technology services.

A couple of other items of note that were affected by the cyberattack:

Days claims payable in the first quarter were 47.1, compared to the 47.9 in the fourth quarter ’23 and 47.8 a year ago. The accelerated payments to care providers and the Brazil sale reduced what would have been our reported measure for the quarter by about three days.

The medical costs payable balance increased $1.6 billion from year end ’23 to $34 billion. The change reflects a $3 billion increase in the incurred but not yet reported component, or IBNR. This is a result of the prudent ongoing claims receipt assessment, offset by a $1.6 billion reduction in the fully processed claims component, due to care provider payments acceleration.

Cash flows from operations in the quarter were $1.1 billion, impacted by about $3 billion due to the funding acceleration to care providers, and collection extensions to affected customers … and were additionally impacted by the timing of some public sector receipts.

To summarize, a continued focus on better serving patients and the health system underpins our mission and growth drivers, which remain strong. And as we move further into this year, the broadly strong performance across our enterprise allows us to continue to expect full year adjusted earnings per share in the range of $27.50 to $28.00, even as we incorporate the 30 to 40 cents per share of business disruption impacts.

Now I’ll turn it back to Andrew.

Andrew Witty

Thank you, John.

As we look out over the next several years … we, like many others, see a health care environment in need of improvements in quality, value, simplification and consumer responsiveness.

While we are a comparatively small part of the $5 trillion U.S. health system, UnitedHealth Group's strategy is focused on helping to meet those very needs – and we are well-positioned to do so.

Our focus on understanding opportunities to align incentives, notably led via our value-based care offerings, demonstrates what can be achieved through partnership and realignment of ways of working.

Our commitment to improving all we do for consumers stimulates our drive to help bring care to patients where they need and want it at prices and with an experience worthy of the 2020s.

And we have a proven commitment to making available our insights and innovations widely and quickly throughout the market, alongside our relentless multi-payer orientation at Optum.

We remain committed to partnering with others throughout health care to help make the health system more modern and responsive. Our success depends on enabling partners and customers outside our company to succeed.

The combination of this strategic design, strengths and behaviors underpins our high confidence in our ability to navigate the inevitable environmental change and challenge. And it reinforces our confidence in our ability to perform and grow strongly, as you have come to expect from us.