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CI.N - Q1 2024 Cigna Group Earnings Call

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**OVERVIEW:**

Company Summary

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## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by for The Cigna Group's First Quarter 2024 Results Review. (Operator Instructions) As a reminder, ladies and gentlemen, this conference, including the Q&A session, is being recorded.

We'll begin by turning the conference over to Ralph Giacobbe. Please go ahead.

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**Ralph Giacobbe** - *The Cigna Group - Senior VP & Head of IR*

Good morning. Thank you for joining today's call. I'm Ralph Giacobbe, Senior Vice President of Investor Relations. With me on the line this morning are David Cordani, The Cigna Group's Chairman and Chief Executive Officer; Brian Evanko, Chief Financial Officer of The Cigna Group and President and Chief Executive Officer of Cigna Healthcare; and Eric Palmer, President and Chief Executive Officer of Evernorth Health Services.

In our remarks today, David and Brian will cover a number of topics, including our first quarter financial results and our updated financial outlook for 2024. Following their prepared remarks, David, Brian and Eric will be available for Q&A.

As noted in our earnings release, when describing our financial results, we use certain financial measures, including adjusted income from operations and adjusted revenues, which are not determined in accordance with accounting principles generally accepted in the United States, otherwise known as GAAP. A reconciliation of these measures to the most directly comparable GAAP measures, shareholders net income or loss and total revenues, respectively, is contained in today's earnings release, which is posted in the Investor Relations section of thecignagroup.com. We use the terms labeled adjusted income from operations and adjusted earnings per share on the same basis as our principal measures of financial performance.

In our remarks today, we will be making some forward-looking statements, including statements regarding our outlook for 2024 and future performance. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our current expectations. A description of these risks and uncertainties is contained in the cautionary note to today's earnings release and in our most recent reports filed with the SEC.

Before turning the call over, I will cover a few items pertaining to our GAAP financial results. In the first quarter, we recorded shareholders' net loss of $277 million or $0.97 per share. This is driven by a non-cash after-tax, net realized investment loss of $1.8 billion or $6.31 per share, primarily related to a VillageMD impairment charge. This is excluded from adjusted income from operations and adjusted earnings per share in our discussion of financial results. We also recorded an after-tax net special item charge of $3 million or $0.01 per share. Details of the special items are included in our quarterly financial supplement.

As described in today's release, special items are excluded from adjusted income from operations, adjusted earnings per share and adjusted revenues in our discussion of financial results. Additionally, please note that when we make prospective comments regarding financial performance, including our full year 2024 outlook, we will do so on a basis that includes the potential impact of future share repurchases and anticipated 2024 dividends.

With that, I'll turn the call over to David.

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**David Michael Cordani** - *The Cigna Group - President, CEO & Chair of the Board*

Thanks, Ralph. Good morning, everyone, and thank you for joining our call. In the first quarter, our company continued delivering differentiated value for our clients, customers, patients and partners. And we posted strong results for the quarter as we continue to build on our momentum coming into 2024. Today, I'll discuss our quarterly performance and key strategic drivers of our growth. Specifically, I'll spend a few minutes talking about our Specialty business and our focus on biosimilars to drive greater affordability in the market for the benefit of those we serve. Then Brian will review additional details about our financial results during the quarter, our increased outlook for full year 2024 and our strong capital position, and then we'll take your questions. So let's get started.

In the quarter, I'm pleased to report that The Cigna Group delivered total revenue of $57.3 billion, adjusted earnings per share of $6.47, and given our momentum and strong start to the year, we have increased our guidance for full year adjusted earnings per share to at least $28.40. These positive results demonstrate our differentiated capabilities, innovative approaches and disciplined execution during a dynamic and disruptive time for our industry. Our results also speak to our diverse and well-balanced portfolio as we invest in our high-growth businesses, which continue to benefit from secular tailwinds and ensure our foundational businesses are positioned for continued success.

In Evernorth Health Services, we're pleased with our results that are in line with our expectations. Starting with our Pharmacy Benefit Services, our foundational businesses, our innovative solutions continue to gain traction with health plans, large commercial employers and government organizations. A recent example of how we continue to drive greater access and affordability in a rapidly evolving pharmaceutical landscape is EnCircleRx. This solution focuses on Cardiodiabesity, adds value for our clients and patients by providing predictability, reducing cost and enhancing outcomes related to GLP-1 drug coverage. We're pleased with the strong interest in EnCircleRx from our clients with more than 1 million lives already enrolled. EnCircleRx is made possible given our decade-plus track record of offering new solutions built on data-driven insights and our deep supply chain expertise. Said otherwise, we have a proven innovation platform.

In our Accelerated Growth Specialty Care and Services businesses, our results were in line with our expectations, reflecting strong double-digit adjusted revenue growth. As a reminder, this set of businesses is diverse and includes Accredo, CuraScript Specialty Distribution and our emerging Care Services businesses. I'll talk more about Specialty in a few moments.

In Care Services, we are investing in a number of areas, including accountable care, virtual, home-based and behavioral care. We're pleased with the progress our Evernorth Behavioral Care Group is making since its launch in six states plus the District of Columbia, and we have already expanded access and convenience for patients with our program.

In Cigna Healthcare, our health benefits platform, we achieved another quarter of strong performance. With our focus on affordability and disciplined pricing, we are pleased with our strong medical cost performance and medical care ratio, which was 79.9%. Our U.S. Employer business is on pace for another good year as we continue to leverage our high-performing networks and digitally enabled services to expand access and overall value.

At our Investor Day, we discussed the strong results we've seen with our Pathwell suite of solutions, including Pathwell Specialty, which drives value by reducing costs associated with specialty drugs and therapies and improving care experiences and outcomes for patients. Also within the Pathwell suite is our Pathwell Bone & Joint solution, which we piloted in 2023 and is now being rolled out for broader client adoption.

For context, 1 in 2 adults suffer from a musculoskeletal condition, which results in more than $500 billion of annual spend. Our solution uses a curated national network, combined with clinical and digital services to guide patients with spine, knee, hip and shoulder conditions to the right pathway of care at the right time. We're already seeing strong results, and our personalized concierge experience has resulted in 96% patient satisfaction while also delivering meaningful savings for our clients from this innovative program.

Turning to International Health. Our results continue to be strong given our focus on localized health solutions and high-quality services for the globally mobile population. In our Individual Exchange business, we continue to sharpen our focus by repositioning our book through targeted actions in certain geographies. It's also important to note, we are making good progress toward our sale of our Medicare businesses to HCSC. The sale of these businesses to HCSC remains on track with the expiration of the waiting period under Hart-Scott-Rodino Act, which occurred on April 17.

As such, the regulatory review of this transaction by the DOJ is complete. The transaction is expected to close in the first quarter of 2025 as planned. After closing, we will continue to serve Medicare Advantage customers through our Evernorth broad suite of high-performing services. And under our agreement with HCSC, these include services for the seniors who will transition with the divested businesses. Taken together, we're pleased with our results for the first quarter. They reflect the quality and strength of our businesses and position us well for another year of sustained growth and attractive value creation.

Now I want to spend a few minutes on our specialty businesses within Evernorth, which is already a large and well-established portfolio of services, yet represents accelerated growth opportunity as we look forward. Overall, the specialty market is large at about $400 billion today and is fast growing, and Evernorth is the industry leader. Our performance continues to be strong with double-digit revenue growth in the first quarter.

Our combination of Accredo, CuraScript Specialty Distribution and CarePath offers something truly unique in the market, built over decades with assets and capabilities that are highly differentiated. And while we are the leader in the industry, we continue to innovate our capabilities and offerings and expand our reach and impact. For example, just last week, Evernorth announced that we will have an interchangeable HUMIRA biosimilar available for a $0 out-of-pocket cost for eligible Accredo patients.

Currently, more than 100,000 Accredo patients use either HUMIRA or one of the biosimilars. They are supported by specially trained pharmacists and nurses in Accredo's Therapeutic Resource Center for inflammatory conditions who are available to serve and support these patients around the clock, meet the individual needs of our patients while driving significant savings for them and their health plans. We will be able to provide both high and low concentration interchangeable biosimilars, or put another way, varying dosage levels based on patient needs.

To accomplish this, we have agreements in place with multiple manufacturers who will produce biosimilars for Evernorth's private label pharmaceutical distributor, Quallent Pharmaceuticals, which we launched back in 2021. The biosimilars will be priced at about 85% lower than HUMIRA and we estimate that individual patients will save on average of $3,500 per year.

And in addition to Accredo patients, all of our Pharmacy Benefit Service clients and patients will have access to these biosimilars. Importantly, the biosimilar opportunity goes well beyond HUMIRA. By 2030, we expect to see biosimilars or generics introduced for nearly half of the top 25 specialty drugs in the United States. This translates to over $100 billion in annual spend, subject to additional choice and competition. The introduction of biosimilars creates a multiyear tailwind that enables us to continue to drive growth and value creation for the benefit of those we serve.

Clearly, we're very excited about the growth opportunities we see ahead in specialty. Our specialty businesses are a cornerstone of the accelerated growth within Evernorth and our confidence in our leading position and capabilities will continue to fuel innovation, such as the biosimilar launch I just discussed.

Now to wrap up, let me recap our performance for the quarter. In the quarter, we continued to execute well and perform well. We met the evolving needs of our clients, customers, patients and partners in the midst of a dynamic marketplace. We delivered on our financial commitments, including adjusted EPS of $6.47 and we've increased our guidance for full year adjusted earnings per share to at least $28.40. This performance puts us toward the higher end of our 10% to 14% long-term average annual EPS growth commitment.

Looking ahead, we remain focused on meeting our commitments as we execute our strategy by creating value for the benefit of those we serve by driving greater affordability and access expansion, and delivering innovations that continue to grow market share over time in Evernorth and in Cigna Healthcare.

With that, I'll turn it over to Brian.

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**Brian C. Evanko** - *The Cigna Group - Executive VP, CFO and President & CEO for Cigna Healthcare*

Thank you, David. Good morning, everyone. We're pleased to report a strong start to the year with first quarter pre-tax adjusted earnings above expectations, reflecting contributions across our two growth platforms, Evernorth and Cigna Healthcare.

Key consolidated financial highlights for the first quarter include: revenue of $57.3 billion, which represents 23% year-over-year growth; adjusted earnings per share of $6.47 or 20% year-over-year growth; and cash flow from operations of $4.8 billion. The continued momentum and strong fundamentals of our businesses give us the confidence to increase our full year 2024 adjusted earnings per share outlook to at least $28.40.

Before I turn to our segment results, I'd like to briefly discuss the impact of the Change Healthcare disruption in the first quarter. We experienced incremental operating expenses that are reflected in our first quarter results. And within Cigna Healthcare, we had some disruption to claim submissions and payments that I'll discuss further in a few moments. Despite these unexpected events, we delivered a very strong start to the year and are proud of our teams managing through a dynamic operating environment. Now turning to our segment results.

First, I'll comment on Evernorth. First quarter 2024 Evernorth revenues were $46.2 billion and pre-tax adjusted earnings were $1.4 billion, in line with expectations. As discussed at our Investor Day in March, starting this quarter, we're providing revenue and pre-tax adjusted earnings for our two operating segments within Evernorth, namely Pharmacy Benefit Services and Specialty and Care Services.

For the quarter, Pharmacy Benefit Services revenue increased 43%, driven by new business wins, including Centene starting on January 1. Pre-tax adjusted earnings were $513 million, reflecting growth offset by the net impact of client onboarding and implementation costs. Specialty and Care Services revenue increased 12%. And pre-tax adjusted earnings grew to $788 million, in line with expectations. Overall, Evernorth continues to perform well, and we're pleased with the results to start the year.

Turning to Cigna Healthcare. First quarter 2024 adjusted revenues were $13.3 billion, and pre-tax adjusted earnings were $1.3 billion. Cigna Healthcare first quarter results were better than expectations, driven by a favorable medical care ratio, partially offset by higher SG&A expenses and lower net investment income. The first quarter medical care ratio of 79.9% benefited from our focus on affordability initiatives and effective pricing execution as we planned and price for the continuation of elevated cost trend levels the industry experienced in 2023.

As noted earlier, the Change Healthcare incident caused some disruption to first quarter operations, including claims processing and submissions. Within the quarter, we booked approximately $650 million in incremental reserves in Cigna Healthcare relating to this disruption. Approximately

2/3 of the incremental reserve pertains to claims that we received but were not paid out as of March 31. The claims have since been paid out to providers.

The balance of the incremental reserve represents an estimate of first quarter claims incurred but not yet reported, specifically pertaining to the Change Healthcare disruption. We remain confident in our reserve posture and cost trend projections over the balance of the year.

Moving to Cigna Healthcare medical customers. We ended the quarter with 19.2 million total medical customers. This is in line with our expectations and includes a reduction to our Individual Exchange enrollment, following the repositioning of our book in certain geographies to improve overall profitability. Overall, Cigna Healthcare delivered strong results in the quarter. Our Cigna Healthcare results continue to benefit from our decade-plus track record of value-based care.

We have continued to further evolve this strategy with Evernorth Accountable Care and remain committed to driving affordability and quality outcomes for our clients and patients through our partnership-oriented value-based care framework. As Ralph mentioned in his opening comments, during the quarter, we recognized a non-cash impairment charge related to VillageMD, which is excluded from our adjusted earnings.

This accounting item does not alter our forward-looking value-based care strategy where we continue to make progress in aligning incentives with providers, including with VillageMD. Our partnership has already launched in targeted geographic markets, and we will seek to build upon that early progress.

Now turning to our outlook for full year 2024. We continue to expect strong underlying growth in Evernorth and Cigna Healthcare. We now expect full year 2024 consolidated adjusted income from operations to be at least $8.065 billion or at least $28.40 per share, an increase from our prior outlook. We expect the 2024 adjusted earnings per share cadence to be approximately 45% in the first half and the remaining 55% in the second half.

Now turning to our 2024 outlook for each of our growth platforms. In Evernorth, we continue to expect full year 2024 adjusted earnings of at least $7 billion. We expect Evernorth's second quarter pre-tax adjusted earnings to grow mid-single digits year-over-year. For Cigna Healthcare, we now expect full year 2024 adjusted earnings of at least $4.775 billion, an increase from our prior guidance to reflect the strength of our first quarter results and continued confidence for the rest of the year.

We expect Cigna Healthcare pre-tax adjusted earnings in the second quarter to be approximately 25% of full year pre-tax adjusted earnings. We also now expect our full year 2024 medical care ratio to be in the range of 81.7% to 82.5%, an improvement of 20 basis points from the high end of the prior range. Additionally, we expect our second quarter medical care ratio to be within our full year guidance range.

Turning to our 2024 capital management position. Our debt-to-capitalization ratio was 44.3% as of March 31 compared to 40.1% as of December 31, 2023. The increase primarily reflects the timing of debt issuance, in part due to the Accelerated Share Repurchase agreements we entered in February. We continue to target a long-term debt-to-capitalization ratio of approximately 40%. We continue to expect at least $11 billion of cash flow from operations and we continue to expect to use the majority of our discretionary cash flow for share repurchase this year.

Additionally, our guidance continues to assume full year weighted average shares outstanding to be in the range of 282 million to 286 million shares. Our balance sheet and cash flow outlook remains strong driven by the strength of our highly efficient service-based model.

Now to recap. Our first quarter consolidated results were ahead of expectations, driven by the strength of our medical care ratio within Cigna Healthcare. And our 2024 outlook reflects the sustained momentum and strong fundamentals of our two growth platforms, Evernorth and Cigna Healthcare, while continuing to maintain a prudent posture in this dynamic environment. We're confident in our ability to deliver on our updated full year 2024 adjusted earnings of at least $28.40 per share.

And with that, we'll turn it over to the operator for the Q&A portion of the call.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from Justin Lake with Wolfe Research.

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**Justin Lake** - *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

I wanted to ask about your early view on membership for and PBM kind of RFP cycle into 2025. Just given the strength you've had this year, curious of your view on 2025 kind of RFPs. Any kind of big wins or losses that you kind of know about so far in terms of maybe on the managed care side, bigger RFP stuff on the PBM and then the national account?

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**David Michael Cordani** - *The Cigna Group - President, CEO & Chair of the Board*

Justin, it's David. Let me ask Eric to start through the Evernorth framework for '25 activity. And then Brian to come in from the Cigna Healthcare, specifically National Accounts framework.

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**Eric Paul Palmer** - *The Cigna Group - Executive VP for Enterprise Strategy and Evernorth Health Services CEO, President & Director*

Justin, it's Eric. Overall, I would note that the selling season is off to a good start. We operate in a competitive market. The strength of our solutions continues to resonate, so feel good about our positioning. There's no specific transactions that I would call out on either the win or the loss side but would note that we are feeling quite good about our ability to continue to retain our existing clients.

Our retention rates are remaining really strong. We expect we'll end up in the mid-90s or better for 2025, consistent with our performance in the last number of years from Evernorth perspective. I would also note that our portion of our book of business out to bid for 2025 is actually a little bit smaller as we look at 2025 when compared to prior years as well. But in aggregate, I'm feeling quite good about its positioning. No major headwinds or tailwinds or specific clients I'd call out, and we'll deliver a strong retention result going into the year next year.

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**Brian C. Evanko** - *The Cigna Group - Executive VP, CFO and President & CEO for Cigna Healthcare*

Thanks, Eric. Justin, so relative to Cigna Healthcare in terms of 2025, to David's point, we're really only deep into the cycle for our national accounts business, which certainly is an important component of our U.S. Employer business, but also less than half of our total Cigna Healthcare customers. That said, a few points I'd offer. We do have an uptick in RFP volumes this year compared to last year at this time, which is directionally good just in terms of the number of RFPs if you will, that we have. And in terms of our existing clients, we have a similar amount that's out to bid at this point in the year as we did last year at this time.

Now each of these national accounts tend to have unique needs as you can appreciate, but a few themes that continue to bubble up that I think are indicative of where the market's headed: Many large employers tend to be looking for opportunities to consolidate vendors or point solutions, something we've been calling point solution fatigue. We're also seeing more and more demand for mental health and substance use benefits, particularly as an after effect from the pandemic. And then finally, there's continued demand for digitally enabled care navigation capabilities, along with consumer empowerment. So those are themes we're seeing but big picture, I'm feeling good about where we sit here as we prepare ourselves for 2025.

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**Operator**

Our next question comes from Lisa Gill with JPMorgan.

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**Lisa Christine Gill** - *JPMorgan Chase & Co, Research Division - Analyst*

I really want to focus on the Specialty business for a minute and the biosimilar opportunity. You talked about the HUMIRA opportunity that you brought to the market. But I really want to understand about profitability. So as we think about -- David, you talked about $100 billion by 2030. When I think about that opportunity over the next several years, can you maybe just lay out how we see the margin progression? Is this a better margin opportunity? Is this a better opportunity to get incremental market share when we think about the Specialty business and the benefits to the patients? So if you can just help us to lay some of those opportunities out.

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**David Michael Cordani** - *The Cigna Group - President, CEO & Chair of the Board*

Lisa, it's David. Let me start, and then I'll ask Eric to expand a little bit. First, I think some of the attributes you put in your framing are quite helpful. So stepping back, we've called this opportunity out for quite some time. We've also been very clear that this would be an evolutionary and accelerating phase. Not a nice switch cutover 1.1.24 or prior to that. And we're into that phase pretty meaningfully.

And I think there's three things I would highlight at a macro level. One, first and foremost, the specialty marketplace, as it stands today, is quite large. It's $400 billion and it's growing meaningfully - high single digit. Our growth rate is above that, given the breadth of our capabilities. Two, the innovations that are coming forward require significant both precise use of data, supply chain relationships, but the clinical expertise and physician engagement and pharmacist engagement expertise, which we have, to be able to facilitate programs like our HUMIRA $0 copay at a variety of dosage levels on a go-forward basis.

And then lastly, directionally, as I hand it over to Eric, I'd ask you to think about, as we've discussed this before, the profitability to us is highly correlated on our ability, obviously, to create value for our clients and patients. We see the specialty and the biosimilar opportunity to be equal or potentially greater per unit, so long as we're able to create that differentiated value from a contribution per unit of service as we go forward.

So high growth, very attractive place to a significant amount of capabilities that one needs, that we have, and we see both the demand and opportunity to create value is significant. Eric, I'll ask you to peel that back a little bit.

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**Eric Paul Palmer** - *The Cigna Group - Executive VP for Enterprise Strategy and Evernorth Health Services CEO, President & Director*

Great. Thanks, David. Lisa, I think David set up a really great framework there. Lisa, there's maybe two dynamics I'd call out as places where Evernorth is particularly well positioned to create value for our clients and that then enables us to earn attractive margins in our ability. One of those is in the capabilities we've assembled around these complicated rare high-cost conditions, right? And there's a tremendous pipeline of drugs coming in the coming years as I'm sure you know. We have the capabilities to get those all the way from the manufacturer through CuraScript, to our capabilities at Accredo, to a patient with the right controls around all of the handling, with the things that are temperature-sensitive, et cetera. The logistics that are required and some of these therapies are really quite intense.

So the capabilities we have there position us to uniquely serve the market. And when we're in a position to uniquely serve the market, that sets us up to drive an attractive result. Similarly on biosimilars, the sets of capabilities that we've assembled, our most recent example here in terms of the options we're bringing to market for HUMIRA are another good example of capabilities we've assembled that puts us in a position to uniquely drive superior value.

Our proposition for HUMIRA at a $0 patient out-of-pocket as an attractive plan sponsor cost and brought together, we think, is a really attractive offering. As that hits the market, that drives attractive margins. Now those are all factored into the margins that we've set and the expectations we set for the segment, but those are a couple of the areas that will be tailwinds over a multiyear basis for the Evernorth Specialty businesses in the coming years, and we think we're positioned really well there.

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**Operator**

Our next question comes from Andrew Mok with Barclays.

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**Andrew Mok** - *Barclays - Analyst*

I was hoping you could elaborate on MLR trends in the quarter. Can you share which segments or cost categories came in better than expectations. And then can you help us understand where your individual ACA margins are tracking relative to your target range of 4% to 6%?

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**Brian C. Evanko** - *The Cigna Group - Executive VP, CFO and President & CEO for Cigna Healthcare*

Andrew, it's Brian. So first off, I'd just reiterate how pleased we are to have delivered another strong quarter of medical care ratio performance better than expectations, which helped to lead to our income outperformance in the quarter. And despite the disruption associated with the Change Healthcare incident, we delivered good results in Cigna Healthcare in the quarter.

So as it relates specifically to utilization patterns across the product lines, just a few highlights that I'd share. Within our U.S. Employer book of business, inpatient facility claims remained elevated throughout the first quarter, but that was consistent with expectations. We did see some modest favorability in the U.S. Employer book in the outpatient as well as surgical categories, where the cost trends showed some level of deceleration in comparison to recent periods and also relative to projections. But in light of the Change Healthcare disruption, the quarter end reserves included a provision for IBNR that's based upon historical patterns of utilization in these categories. So taken all together, the first quarter U.S. Employer performance is broadly in line with expectations as well as our pricing assumptions.

Now within the Individual Exchange book, we did have a mix-related timing benefit in the first quarter. More specifically, we have a higher percentage of bronze plans in 2024 than what we had projected, which resulted in a greater degree of seasonality this year. So that created a timing-related benefit in the Cigna Healthcare MCR and income in the first quarter. But I'd note that the underlying performance of the Individual Exchange business was broadly in line with expectations for that book. And then finally, our Medicare and International businesses were also broadly in line with expectations for the first quarter. As it relates to the margins on the Individual Exchange business and kind of how that is shaping up, let me just start with some context.

You might recall during 2023, we had about $5 billion of premium, and that business is running below our long-term target profit margins of 4% to 6%. And specifically, that was weighed down by two large states where we had a higher-than-expected risk adjustment payable. So we subsequently took corrective pricing actions that were designed to improve our margins, understanding that this would likely result in some customer loss. And this strategy is broadly playing out as we expected. So you see our membership is down sequentially, but we are tracking toward margin improvement in the book for 2024. And our current planning assumptions are assuming that margins will end slightly below the target margin range of 4% to 6%. What we saw in the first quarter is consistent with that expectation.

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**Operator**

Our next question comes from Scott Fidel with Stephens.

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**Scott J. Fidel** - *Stephens Inc., Research Division - MD & Analyst*

I was hoping just maybe if you could double-click on the VillageMD situation. I know that Brian talked about the strategy being the same post the impairment, but just in the context that there may be sort of more limited resources to some degree for Village Health. Maybe can you talk about what your key priorities would be to see Village focusing on right now that would align the best with what you've been hoping to get out of that investment.

And then just on the investment itself. Wondering if you could just give us the updated carrying value of the investment and then how the dividend stream at this point would be working? I know that originally, there was going to be a 5.5% dividend stream. So just curious if there's any impact to that from the non-cash write-down.

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**David Michael Cordani** - *The Cigna Group - President, CEO & Chair of the Board*

Scott, it's David. Let me start on the first part of your question, and then I'll ask Brian to pick up the second part of your question. First, at the macro level, our strategic direction in terms of what we were seeking to innovate with Village has not changed, despite the write-down of the asset. No one likes a write-down in the asset. If you step back, the write-down is largely driven by some broader market dislocation that is hitting the space, no doubt, relative to that as well as Village determining that they are going to, I would say, pulling the supply lines and constrain some of the growth in some of the new clinics that they were establishing. As I like to put it, where more thin footprint versus their go-deep markets were highly established value-based care markets.

Taking that point, our strategy with Village is to take our proven value-based care model that aligns incentives. It uses data to drive more precision in terms of -- in most cases, specialty and subspecialty engagement to improve overall quality and affordability, but a highly data-driven and precise process. And then care extenders to build off of Village's very strong performance already in the go-deep markets, and accelerate that performance even further.

That's off of the Evernorth Accountable Care chassis. And then as we build that process as we're building in four of their go-deep markets, which continue to evolve at a very positive pace, those capabilities are able to be brought to other care providers that we would partner with going forward with risk-bearing entities and the precision of our MSO capabilities and our value-based care capabilities.

So in a nutshell, while we don't like a write-down of an asset, the strategic direction hasn't changed because our focus has been on the highly established go-deep markets where Village continues to grow and perform well. And we're helping to accelerate some of that performance.

Brian, why don't you talk more about the investment itself?

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**Brian C. Evanko** - *The Cigna Group - Executive VP, CFO and President & CEO for Cigna Healthcare*

Scott, on the financial components, the new carrying value is just slightly above $900 million on the balance sheet. And as it relates to the dividend as part of the impairment assessment, we have concluded that the dividend is collectible when due to us in the future, and we continue to accrue that within the net investment income line in the P&L.

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**Operator**

Our next question comes from Sarah James with Cantor.

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**Sarah Elizabeth James** - *Cantor Fitzgerald & Co., Research Division - Research Analyst*

So you've talked about the importance of having varying dosages available for the HUMIRA biosimilar. I'm wondering in this new venture, are you able to take that one step further using data or AI and look at dosage efficiency? Is there something to be gained there? And maybe if you could give us an idea what are the next couple of big drug categories we should be looking at after HUMIRA.

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**David Michael Cordani** - *The Cigna Group - President, CEO & Chair of the Board*

It's David. Let me start by -- with your first question and then I'll ask Eric to expand a little bit on the second dimension of your question. A couple of different points you made. I think you referenced new capabilities or new structure. Important to note that our Specialty business from Accredo to CuraScript, to Quallent, that we made reference to, all this established back in 2021. The breadth of our capabilities is well established and our performance is proven. So the capabilities are not new.

The opportunities that we're talking to with the precision of your question are new opportunities, but we've been well established here for quite some time. Second, and I appreciate you coming into the variety of dosage levels. Important point one, before I come to the AI dimension, is the dosage levels put us in position to be able to support patients at all need levels, not to support patients at some need levels. And that's very important, and that's our multi-manufacturer relationship that we've been able to establish.

Now lastly to the last part of your question and the core of it. The way we think about the AI opportunity that sits in front of us, starting from machine learning through AI, through generative AI, we think about it in terms of there's a 3-tier dimension to oversimplify. One is, I'll tie your question is generative AI, for example, presents the opportunity for us to do what we do today, better, faster, more efficiently, better value. And there's a variety of initiatives as you might expect that are driving through in the industry and for us that will create additional value.

Second tranche is more personalization. The decision to take more variability out or more averages out and drive more specific personalization back to individual solutions, networks, interventions, predictability, which points a little bit to where you came through.

And then third is in clinical intervention. Either predictability of clinical intervention or precision in terms of direction. If you think about where we are in the curve, we're furthest along in the first, entering in the second and cautiously testing the third because the third requires significant amount of human oversight in intervention as we go forward. Having said that, there's a significant amount of promise to bring it even more precision as we go forward. And we're excited about that and the breadth of our capabilities are well positioned to be able to do so. Eric, why don't you just expand a little more on the dosages.

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**Eric Paul Palmer** - *The Cigna Group - Executive VP for Enterprise Strategy and Evernorth Health Services CEO, President & Director*

Great. Thanks, David. Sarah, I think this actually touches on exactly an area where we're focused on positioning Evernorth. Evernorth has the positioning with the capabilities, the information, the data, the clinical depth and the touch points with both the prescribers and the patients to really have direct impact on such here. So that's an exciting opportunity broadly. Specific to your question, our solution that we introduced last week is the first solution to bring interchangeable biosimilar adalimumab across all the concentrations. We've got the maximum number of available dosages in the market. And those elements, coupled with our robust supply chain, coupled with the proposition we put together, will be really effective for the market overall.

So we're excited about that. I think in that clinical opportunity, coupled with our data, coupled with the technology to ensure we're working with precision to get our patients the medicines they need is really the theme at every takeaway. In terms of other things in the pipeline. Just a handful that come to mind that think about Neulasta, Stelara, Prolia, Soliris, Eylea, all these things coming in the next couple of years.

And as David noted in his prepared remarks, if you look at the top 25 specialty drugs by spend, we see the biosimilar or biosimilar options coming to market for 50% or more of that spend over the course of the next 5 or 6 years. So really excited about the opportunity for this to be a lever to drive improved access and approved affordability to these life-changing medicines for the benefit of our patients and plan sponsors.

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**Operator**

Our next question comes from Kevin Fischbeck with Bank of America.

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**Kevin Mark Fischbeck** - *BofA Securities, Research Division - MD in Equity Research*

Great. If I could do a couple of questions here. I guess, first on Change, you mentioned there's some extra costs related to that. Can you spike out how much that was and just get a sense today where you think your visibility and claim submission is post Change? And then a question on the

Specialty and Care Services. First time we're seeing that kind of the margins, the margins were down year-over-year. I get why the pharmacy margins were down with the implementation costs? Is this a similar dynamic on Specialty? Or is there something else driving the margin there?

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**David Michael Cordani** - *The Cigna Group - President, CEO & Chair of the Board*

Let me just frame a little bit on the macro aspect to Change and then ask Brian to peel back the specifics of your question. First and foremost, indisputably, the disruption was felt across the industry. And I just want to underscore how proud I am of how our team prioritized, first and foremost, access-to-care prioritization. In addition to that, member service and then working tirelessly relative to health care professional service and support. And our team had, as you might expect, flex a variety of programs, operational leverage, where possible, flex to other vendors to enable us to be able to continue to do what we need to do. And then expand staffing levels. Part of that comes back to your cost dimension. As Brian steps in, we'll separate through the reserving piece that he walked through, but I'll ask him to reamplify the way we look at the medical cost side of the equation. And then our SG&A ratio is up in the first quarter, and we ensure that we were positioned to deliver the services that were necessary. Part of that is influenced by the Change disruption, Brian?

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**Brian C. Evanko** - *The Cigna Group - Executive VP, CFO and President & CEO for Cigna Healthcare*

Yes. Thanks, David. Kevin, so these comments might be a little bit redundant of what I covered earlier, Kevin, but I think it's important to reamplify. So we did have some disruption to claims submissions and payments in the quarter. And we did have some level of incremental operating expenses across the enterprise, all of which, we were able to manage through successfully and are reflected in our results. The $650 million of additional reserves that I flagged earlier, specifically associated with the Change Healthcare dynamic.

About 2/3 of that is purely a timing issue where the claims were submitted late in the quarter and had not yet been paid. Those are now essentially all paid. So that's kind of purely a timing issue. The other, call it, 1/3 of the incremental reserve associated with the Change Healthcare item is our estimate of claims that were incurred but not yet reported over and above the normal IBNR, due to disruptive provider workflows.

Now we're a month plus out from the end of the quarter and have a better level of visibility as it relates to all of that and feel good about the full year outlook we put forward. Feel good about our cost trend expectations and our reserving posture. I'd also note that during the quarter, our clinical programs and protocols operated as expected. So while we certainly prioritized access to care when the disruption occurred, we do not estimate that it resulted in higher utilization than what would have otherwise transpired within the quarter. So we're proud of the way the Cigna team rallied here and delivered a good quarter despite the disruption.

As it relates to the Specialty and Care Services segment within Evernorth. We're, first of all, very pleased with the performance of this business. You can see it over a multiyear period and our 8% to 12% average annual growth for the Specialty and Care Services operating segment going forward is something that we feel really good about, as was indicated by some of the prior questions as well. You'll also note there was 12% year-over-year revenue growth in the first quarter, after several years of double-digit revenue growth previously.

Now income at the operating segment level within Evernorth will show some quarter-to-quarter variability. And in particular, the first quarter growth rate in income for Specialty and Care Services was impacted by a particularly strong first quarter 2023 income performance in this operating segment, which included some timing-related impacts in SG&A and other items. So while the margin is down a bit year-over-year, I would not read anything into that in terms of any onetime factors that caused it, more of a matter of quarter-to-quarter variability.

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**Operator**

Our next question comes from A.J. Rice with UBS.

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**Albert J. William Rice** - *UBS Investment Bank, Research Division - Analyst*

Let me go to the capital deployment question. I know, Brian, you mentioned that the majority of discretionary cash flow for the back half of the year would go to repurchases. And that coming into the year, you guys gave a target for how much you would do in share repurchase in the first half. Do you have an updated estimate as to how much you might end up doing for the entirety of 2024? And then as you think about the landscape in the market, is anything on capital priorities or the ability to potentially do transactions that would fit those priorities? Any updated thoughts on all of that?

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**David Michael Cordani** - *The Cigna Group - President, CEO & Chair of the Board*

A.J., it's David. Let me take the second part of your question first and then ask Brian to pick up on the first portion of your question. The second portion of your question upfront are capital priorities. Big picture capital priorities have not changed, continue to ensure the business has the assets that needs to grow, innovate, et cetera. So capital underlying our growth, CapEx budget, et cetera. Second, we always systematically continue to look at opportunities for M&A. I'll come back to that strategic and financially attractive. And third, return excess capital to shareholders. 2024 is another year where a significant portion of our excess capital will be returned to shareholders through share repurchase, on top of our very attractive dividend.

Specific to the M&A portion of the priorities. As we discussed at our recent Investor Day, the underpinnings of our growth strategy is grounded in our proven organic growth model. So our ability to continue to harness the performance of our foundational businesses and continue to innovate them and bring new services to market, coupled with the acceleration of our attractive accelerated businesses couples and drives our very attractive sustained organic growth profile, and we're excited about the outlook.

Our cash flow production is estimated to be about $60 billion over the next 5 years as we look forward and project. And is related to M&A, as we discussed at Investor Day, we'll continue to be open, yet disciplined relative to evaluating either capability or reach expansion, addressable market expansion capabilities. But again, the growth strategy is grounded in that strong performing organic portfolio. Brian, I'll ask you to talk about our share repurchase and the outlook for the year.

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**Brian C. Evanko** - *The Cigna Group - Executive VP, CFO and President & CEO for Cigna Healthcare*

Broadly speaking, what we conveyed at our Investor Day continues to guide our actions in terms of our framework for capital deployment. So our capital health remains very strong. We continue to expect at least $11 billion of cash flow from operations here in 2024. And our strong cash generation is one of the company's greatest strengths. So the capital deployment priorities continue to focus, first and foremost, on internal reinvestment. Following that, we remain committed to an attractive shareholder dividend. Of course, we'll repay debt to maintain our targeted 40% debt-to-cap ratio over time. And then the balance of our deployable capital will be utilized for strategic M&A or share repurchase.

Now specific to 2024. We remain on track to execute against the share repurchase plans for the year, which includes completing at least $5 billion by the end of June as it relates to share repurchase. And as David said, we continue to expect the majority of our discretionary cash flow in 2024 to be used for share repurchase, and that's all reflected in our full year weighted average shares outstanding guide as well as the EPS guide. Thanks for the question.

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**Operator**

Our next question comes from George Hill with Deutsche Bank.

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**George Robert Hill** - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

I guess I'd like to ask a little bit more about the specialty opportunity, particularly as it relates to HUMIRA. And I guess as you evaluate the different strategies in the market, I guess, David, maybe would you talk about do you see a better opportunity to more align with a limited number of manufacturers? Or is the better opportunity kind of around maybe even a single manufacturer or kind of using the sole source strategy as a way to both kind of drive lower cost for patients and kind of drive margin for the company?

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**Eric Paul Palmer** - *The Cigna Group - Executive VP for Enterprise Strategy and Evernorth Health Services CEO, President & Director*

George, it's Eric. Thanks for the question. Stepping back a bit here, we have set up our portfolio, I would say, our approach here broadly is one that's grounded in providing choice and working to ensure that we've got a choice. And that applies to a maximum number of choices available, in this space. It applies to how we have our clients fund their benefit programs, et cetera. But specifically on specialty, the approach we've taken here is one that works to assemble a robust set of supply and suppliers and not become dependent on a single thread or sole sort of approach.

And so this is an approach that we think positions us really well. We think we've assembled a really attractive value proposition here on the biosimilar HUMIRA. As I noted before, with the $0 patient cost share, an attractive price for plan sponsors that will save on average $3,500 per patient when taken all together per year. So that approach, we think it will drive maximum choice, maximum clinical effectiveness and maximum flexibility for us to continue to stay well positioned as new entrants and new therapies continue to come to the market.

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**Operator**

Our next question comes from Erin Wright with Morgan Stanley.

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**Erin Elizabeth Wilson Wright** - *Morgan Stanley, Research Division - Equity Analyst*

A little bit on GLP-1s. And just can you talk a little bit about the traction you're seeing the economics around sort of the program? How that's playing out relative to your expectations? And just do you see similar opportunities as it sort of unfolds in other therapeutic categories? I understand GLP-1s are a little bit unique, though.

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**Eric Paul Palmer** - *The Cigna Group - Executive VP for Enterprise Strategy and Evernorth Health Services CEO, President & Director*

Erin, it's Eric. Yes, so with respect to GLP-1s as you can imagine, there's a significant interest and need from our clients here. They're looking for help with managing the affordability of these medicines. Our EnCircleRx solution, which we've talked about for a bit of time now, and we really highlighted at our Investor Day is a solution that's set up to be really a value for our clients here. It's a first of its kind. It brings together our supply chain and procurement expertise and our clinical capabilities and works to get patients with the right clinical markers managed within the right pharmacy kind of network constructs and then supports them with additional clinical resources to help make sure that the impacts are lasting.

When you put that all together, our capabilities position us to be in a position to guarantee outcomes to our clients. And that's formed and guarantee that is based in the fees our clients pay to us to effectively manage this program. And if we don't meet up to our commitments to our clients, our clients get their fees back or get a return guaranteed on those fees. So this is unique in this space on GLP-1s, but I would note this is not the first time we've done a program like this. Express Scripts and Evernorth have a long history of clinically oriented value-based outcomes-oriented programs on specific conditions, or to move on specific markers, and we think we're well positioned to deliver against this. David, anything else you'd add?

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**David Michael Cordani** - *The Cigna Group - President, CEO & Chair of the Board*

Sure, thank you. And Erin, just to put the wrap over the top of it, as we've discussed before, we identified many years ago that we believe that the pathway of pharmacological innovation was going to define the next decade. You can use the GLP-1 conversation we just had as an illustration of it or previously the biosimilar conversation, or reflect back on the fact that there's 21 gene therapies in the market today and almost 1,000 in the pipeline.

So the point is the ability to harness the capabilities, a data-driven clinically precise, physician-engaged patient-centric model is mission-critical to the future, and we're very pleased with the multiple years of investment that we've made to put us in a position today. And the GLP-1s are a great example of how we're able to convert good innovation for the benefit of clients today and into the future.

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**Operator**

Our next question comes from Gary Taylor with Cowen.

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**Gary Paul Taylor** - *TD Cowen, Research Division - MD & Senior Equity Research Analyst*

Three-parter but all just numbers-related. First on MA. I know Brian said in line with expectations. But was there a material MA -- MLR headwind absorbed in the quarter? And I know it's held for sale on the balance sheet as of 3/31, will MA continue to be included in the both the adjusted and unadjusted P&L the rest of the year? Two, fourth quarter had a big benefit from a stop loss true-up. Are we back to sort of a normal year-to-year stop-loss MLR? And then finally, to Kevin's question on the specialty margin, I heard Brian's answer, but just wonder how do we think about seasonality in that business? Would it normally be just ramping all year long, like the PBM business? Or would it reflect kind of stronger first quarter, fourth quarter in general?

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**Brian C. Evanko** - *The Cigna Group - Executive VP, CFO and President & CEO for Cigna Healthcare*

Gary, it's Brian. I'll try to take each of those questions one-by-one here. So as it relates to Medicare, that continues to be reflected in the Cigna Healthcare segment until the business is divested to HCSC. And you can see, for example, in the quarterly financial supplement, you'll see on Page 9, I think it is the premium breakdown. It represents about 20% of the overall premium for Cigna Healthcare, such as given the relatively small presence, it doesn't move the needle as much relative to the overall Cigna Healthcare results as our U.S. Employer business, which represents the majority.

As I said, the overall performance of that business is broadly in line with expectations through the first quarter of the year, which comes back to the fact that we had anticipated higher levels of utilization in 2023, and that continuing into 2024. And you can also see associated with that, our membership is down a bit, whereas the overall market is up and some others up more than that.

As it relates to the stop loss book of business. You're right. In the fourth quarter, we had some favorable claims experience that came through. and actually drove that product line to be above target profitability in 2023 and our 2024 expectation, as that it will normalize back to target profit margin levels. So far, that's consistent with what we're seeing. It's early in the year. And obviously, we have an appropriate level of prudence in our guidance on both the medical care ratio and the income for the full year. But so far so good as it relates to the stop loss performance.

And then finally, as it relates to the Specialty and Care Services margin profile, income seasonality, et cetera. To your point about the Pharmacy Benefit Services operating segment. That business tends to see a ramp in income over the course of the year. So more specifically, when you think about how to model that, the Pharmacy Benefit Services income will show sequential growth in income every quarter through the end of the year. The Specialty and Care Services businesses, tend to have more variability from quarter-to-quarter. So as you think about how to model that for '24, it's not as much of an upward slope. But over time, we fully expect the 8% to 12% average annual income growth rate in that business to be achieved.

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**Operator**

Our last question comes from Lance Wilkes with Bernstein.

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**Lance Arthur Wilkes** - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Great. I've got a question on go-to-market strategy and insights. And I was just wondering for value-based care, what are the characteristics of employers that are interested in those sorts of solutions with you? And then similarly on your GLP-1 guaranteed product. Are there particular characteristics of employers or employer size or whatnot, that are more interested in that? And maybe as a tag along, if you could just give your update on what coverage trends for GLP-1s look like for '25? That would also be helpful.

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**David Michael Cordani** - *The Cigna Group - President, CEO & Chair of the Board*

Lance, it's David. Let me take the first portion of your question relative to the VBC a little bit more broadly. And then ask Eric to talk about the GLP-1 questions specifically. You're looking for employer characteristics, which is an interesting question. I think I would click it down a couple of notches in terms of the value creation. So our VBC strategy, our value creation opportunity, you think about it is twofold. First broadly, for the commercial portfolio, an illustration.

We've been at this for about 15 years. Partnering with medical cost professionals working to align incentives, data flows and care extenders, help to close gaps in care in a more accelerated level and/or bring more precision to specialty care interventions more likely than not to get the best possible quality outcome and overall affordability and value. It manifests itself in a variety of items, including avoided emergency room visits, less one-day admits, less readmissions and a whole variety of items that come through relative to that.

So that broad-based approach resonates with most employers because it's not restrictive. It's not a network restrictive. It's not a product restrictive design in any way shape of form. I add to it for a moment now our Pathwell program, which, in some ways, you could view as value-based care. It also takes now an episode of care or unique specific care state and it seeks to redesign not the health plan offering in totality, but for that care state, taking data and guiding with more precision to the highest performance, highest quality outcome.

Those employers tend to be initially larger employers. They are spending a bit more time in the precision of their benefit design. And our ability is to now package those solutions and have them in a more coordinated way for small to midsized employers going forward.

As I noted, we're really pleased that patient satisfaction, for example, on the musculoskeletal program was fully 96%. So broadly speaking, the opportunity to create more value, our VBC strategy is not restrictive. It's inclusive from a network standpoint, brings more precision, hence, resonates, broadly speaking with employers. Pathwell brings a level of trade-offs in terms of how an employer wants to factor that in, and we're able to essentially to begin to package that within our Select segment as well. I'll ask Eric to talk a little bit more broadly about your GLP-1 question.

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**Eric Paul Palmer** - *The Cigna Group - Executive VP for Enterprise Strategy and Evernorth Health Services CEO, President & Director*

Great. Thanks, David. Lance, on GLP-1s broadly and covering GLP-1s for weight loss specifically, it's certainly true in our book of business that larger clients tend to cover more, but having to think about have it grounded not just in the size of the number of employees, but really on the approach that an employer wants to take to their benefits. And I would note that, that's in turn, driven by whether or not they tend to have lower or higher amounts of employee turnover, tend to see more spend, more coverage for employers with lower levels of turnover.

We tend to see variations depending upon the underlying clinical needs and clinical conditions of the employee base and their dependents and such as well. So it really does come down to employer buying, employer-type of decision but those would be couple of the dimensions that come to mind. In terms of the overall coverage level. We had noted that last year that we saw in the Express Scripts employer book, about 40% to 50% of our employer relationships covering GLP-1s for weight loss. That's actually trended moderately higher. I'd call it about 50% now. So moving up from 40% to 50% right to about 50%. So a modest increase. And as I noted earlier and David noted in his prepared remarks, seeing a high degree of interest and engagement with the EnCircleRx program, and so we expect that will continue to provide additional access for patients over time.

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**Operator**

Thank you. I will now turn the call back over to David Cordani for closing remarks.

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**David Michael Cordani** - *The Cigna Group - President, CEO & Chair of the Board*

Thank you for your time this morning. I just want to make a few points to wrap up. Broadly speaking, we're pleased to have delivered another strong quarter, which built on a track record of growth, and we were able to increase our guidance for adjusted earnings per share to at least $28.40. Our team continues to navigate a very dynamic environment and is executed with focused discipline across our portfolio of businesses, and we seek to accelerate our momentum further into 2024.

I do want to pause and thank my colleagues around the world who wake up every day on behalf of our clients, our customers, our patients and partners with the objective of serving. And I'm proud of what we've delivered and the positive difference we make in people's lives each and every day.

We thank you for your time, and we look forward to talking to you again as we continue to execute against our strategy.

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**Operator**

Ladies and gentlemen, this concludes The Cigna Group's First Quarter 2024 Results Review. Cigna Investor Relations will be available to respond to additional questions shortly. A recording of this conference will be available for 10 business days following this call.

You may access the recorded conference by dialing (866) 407-9272 or (203)-369-0617. There is no passcode required for this replay.

Thank you for participating. We will now disconnect.

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