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CI.N - Q2 2024 The 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 second-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 call over to Ralph Giacobbe. Please go ahead.

Ralph Giacobbe - *The Cigna Group - Investor Relations*

Thank you. Good morning, everyone. Thanks 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 second quarter financial results and our 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 and total revenues, respectively, is contained in today's earnings release, which is posted in the Investor Relations section of [thecignagroup.com](https://www.thecignagroup.com). We use the term 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. Regarding our results in the second quarter, we recorded an after-tax net special item charge of \$64 million or \$0.23 per share.

Details of the special items are included in our quarterly financial supplement. Additionally, please note that we will 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.

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

David Cordani - *The Cigna Group - Chairman of the Board, President, Chief Executive Officer*

Thanks, Ralph. Good morning, everyone, and thank you for joining our call today. For the second quarter, we again delivered strong performance as we continue to build on our momentum. Today, I'll discuss our performance for the quarter and key strategic drivers of our growth, demonstrate how the strength and durable nature of our model is fueling our success. Then Brian will review additional details on our results and our outlook for the rest of the year, and we'll move to your questions. So let's get started.

For the second quarter, I'm pleased to report that The Cigna Group delivered total revenue of \$60.5 billion and adjusted earnings per share of \$6.72. We achieved these positive overall results in a dynamic environment, and I'm proud of our team for continuing to focus on those we serve, ensuring that they get care of the need, to get their medications at an affordable cost and they get the support they need in order to make the best decisions about their health and vitality.

All of this requires a relentless focus on innovation, disciplined execution and a passionate commitment to our mission. During the quarter, our Evernorth Health Services businesses demonstrated continued strength with our market-leading specialty and pharmacy benefit services capabilities. Within Evernorth, I'll start with our accelerated growth Specialty and Care businesses, which provides specialty drugs for the treatment of complex and rare diseases, distribution of specialty pharmaceuticals as well as clinical programs to help clients improve health and vitality.

We saw strong growth in the quarter with adjusted income growing 12% year-over-year, reflecting continued demand for our services while we also continue to invest in broadening our offerings and expanding our reach. In Accredo, our specialty business, our growth continues to be fueled by secular tailwinds as well as Accredo's differentiated strength which makes us the market leader in the space. Biosimilars, for example, represent a force of change and a substantial opportunity for continued growth and impact.

At the end of June, we began dispensing our interchangeable biosimilar for Humira. Our program has \$0 out-of-pocket cost for patients, saving them on average \$3,500 per year. To deliver these savings, we have agreements in place with multiple manufacturers that will produce biosimilars for Evernorth's pharmaceutical distributor, Quallent Pharmaceuticals.

Now the biosimilar opportunity goes well beyond Humira. By 2030, we expect an additional \$100 billion of annual specialty drug spend in the US will be subject to biosimilar and generic competition. And Accredo is well positioned to deliver differentiated value for our clients, customers and patients. In our Care Services businesses, we are continuing to grow and expand in key areas of increased demand, including behavioral health,

virtual and home care. For example, in summer, we further expanded Evernorth Behavioral Care Group to an additional seven states. We are seeing positive patient outcomes from our unique clinician matching capabilities based on individual needs and preferences with fully 84% of patients experiencing clinically significant reductions in the depression and anxiety symptoms.

Now shifting to Express Scripts, our foundational Pharmacy Benefit Services business, we are seeing continued strong client demand given our breadth of clinical and supply chain expertise as well as our proven partnership orientation. This quarter, Express Scripts built on a long track record of innovating for those we serve with continued enhancements and new solutions. For example, given the high cost of GLP-1 drugs, we're continuing to see meaningful interest from our clients in EncircleRx, now with more than 2 million lives already enrolled.

Our program starts with our longitudinal data to target patients who will most benefit from these medications and we provide patients with resources to make lasting changes to help maximize the effectiveness of these medications, both in the short and long-term. Another example of our innovation orientation is a recent announcement of Express Scripts oncology benefit services, which will be available in 2025.

Our new solution helps patients navigate the challenges of cancer care by providing a single oncology benefit, integrating pharmacy, medical and behavioral health treatments. Our patient centered approach will help to ensure the earliest possible detection guide individuals to high-quality providers and coordinate care across clinical teams.

Now moving to Cigna Healthcare, our health benefits platform, we continue to deliver solutions that create value and better outcomes for clients and customers, coupled with highly competitive total cost of care. Similar to others in the industry and as we've anticipated, we are seeing increased utilization in our book of business. I would note that our results are largely in line with the elevated levels in our planning and pricing assumptions.

Our U.S. Employer foundational growth business continues to perform in line with our expectations. Over this year, I've met with hundreds of clients across the US and globally. And while the needs of every client are unique, there are a few consistent themes across every discussion.

First, continued focus on affordability, particularly in light medications like GLP-1 and gene therapies coming to market. Next, an increased need of improved access and importantly, coordination of behavioral health services. Third is mounting point solution fatigue. And fourth, the opportunity and need for leverage of our longitudinal data and clinical programs to help keep people healthy and vital.

Our solutions continue to resonate well given our highly consultative approach to help clients choose the right set of solutions, our proven capabilities to support their workforce and our innovative programs that help to keep costs down. As a result, we are further gaining share and continue to see outsized opportunities, for example, in our Select segment.

Another capability of our U.S. Employer business to deliver integrated and tailored benefits for our clients and customers, our modular solutions that incorporate innovative services from Evernorth, including behavioral health, virtual care and pharmacy.

Our Pathwell suite of solutions, which continues to drive exceptional value is a prime example. Pathwell Specialty is another way we are reducing costs associated with specialty drug therapies, while also providing improved care and clinical outcomes for patients. With our Accredo nurses, nearly 50% of our Pathwell Specialty patients, who've transitioned their site of care, now receive treatment in the comfort and convenience of their home. We are pleased with how the market continues to recognize the value we are delivering through solutions like Pathwell.

Turning to our Medicare Advantage business, we continue to make great progress regarding the sale of this business, and I'm pleased that we remain on track to close in the first quarter of 2025 as planned. Next, I want to take a few minutes to talk about the current environment surrounding pharmacy benefit managers and the relative landscape. At the heart of this debate is the cost of pharmaceuticals. As we previously discussed, a key force of change in health care is the surge of pharmacological innovation.

For context, prescription drug coverage is the most frequently used care benefit. And on average, it is used 15 times per year per person resulting in billions of dollars -- billions of prescriptions per year annually in the United States. Today, and for the foreseeable future, and the most meaningful advances extending and improving quality of life will come through gene therapies, breakthrough and treatments for cancers and other conditions as well as personalized medicines.

In the US, for example, there are already more than 20 gene therapy and cell therapies available. However, there are nearly 1,000 more in the pipeline. Additionally, as we know, GLP-1s are growing rapidly, helping to treat diseases and complications that stem from obesity and diabetes. This class of drug is on tap to be the #1 pharmacy benefit trend driver for plans of all sizes this year. And the impact will grow with some forecasting nearly 10% of the US population using GLP-1s in the next 10 years or sooner.

The implications rippling from these fast-growing pharmaceutical trends across the entire health care system are undeniable. And one of the biggest unanswered questions is how could society afford this continued trajectory? Our role is to negotiate with pharmaceutical manufacturers as well as pharmacies to ensure that individuals are able to access pharmacological innovations at a fair and affordable price.

In fact, pharmacy benefit companies are the only part of the drug supply chain who work to drive costs down. To underscore this, new drugs are coming to market with unsustainable prices in 2023, with \$300,000 on a median basis, up over 35% over 2022. And last year, median brand drug price increases were greater than 5% more than the rate of inflation. Let me repeat this. Last year, the median annual price for new drugs coming to market was \$300,000, up 35% over 2022.

Meanwhile, in 2023, Express Scripts change in pace and cost sharing was relatively flat on average. Express Scripts patients with employer sponsored drug coverage pay, on average, \$15 out of pocket for a 30-day supply. And for clients, Express Scripts delivered more than \$38 billion in savings annually. Stepping back, our industry negotiations to drive these results can at times generate friction in the system. Friction that is spilled into and now has reached tightened levels in the political arena and media with industry winners and losers being declared at every report and every headline.

We believe that the facts and results and outcomes delivered to our clients, customers and patients will rule the day. However, the environment calls on us to be more proactive. This means ensuring that what we do and the value we bring is more widely and better understood. And we continue to evolve our model to address legitimate pain points and opportunities.

For example, in 2023, 1% of the patients in the United States experienced out-of-pocket costs above \$2,000 a year. From our point of view, that's too many. We accept the responsibility to accelerate innovation to make medications more affordable, while continuing to improve health outcomes in finding solutions for every person we serve.

Make no doubt our team will continue to lean into the challenge for the benefit of our patients, clients and the health care ecosystem and we are proud of the work that our team does every day and the role we play and the results we're able to achieve.

Now let me pause and summarize before transitioning to Brian. When you combine our compelling growth potential and strong execution focus, we have confidence in our ability to meet our 2024 and long-term growth targets. We have a proven track record of delivering differentiated value for those we serve by innovating new solutions like in EncircleRx and our Pathwell suite as well as expanding meaningful partnerships.

As a result, in the second quarter, we delivered on our financial commitment with adjusted EPS of \$6.72, and we remain on track to deliver our guidance for full year adjusted earnings per share of at least \$28.40 for 2024.

Further, our company has attractive sustainable growth opportunities over the long-term, and we remain on track to deliver average annual adjusted EPS growth of 10% to 14% and building on our track record of achieving 13% adjusted EPS growth over the last decade, all while we generate cumulative operating cash flow of \$60 billion over the next five years, while continuing to meaningfully invest capital for the benefit of shareholders.

We also continue to make strategic investments in strengthening our capabilities in our foundational and accelerated growth business and remain focusing on harnessing the breadth of our capabilities of our organization to meet the evolving needs of those we serve. Overall, our strong performance through the first half of the year reflects the balance in our company portfolio and the significant value creation that positions us for sustained and differentiated growth.

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

Brian Evanko - *The Cigna Group - Chief Financial Officer, Executive Vice President, President and Chief Executive Office - Cigna Healthcare*

Thank you, David. Good morning, everyone. Today, I'll review Cigna's second quarter 2024 results and discuss our outlook for the full year. We're pleased with our strong second quarter results, reflecting growth across Evernorth and Cigna Healthcare. The results underpin the strength and the stability of our diversified portfolio of businesses in a dynamic environment and demonstrate continued execution against our operating and financial commitments.

Key consolidated financial highlights for the second quarter include revenue of \$60.5 billion, which represents 25% year-over-year growth and adjusted earnings per share of \$6.72 or 10% year-over-year growth. With the strong first half performance, we continue to have confidence in our full year 2024 adjusted earnings per share outlook of at least \$28.40, which represents more than 13% year-over-year growth in EPS.

Now turning to our segment results. I'll first comment on Evernorth. Evernorth continues to deliver strong results driven by both of its operating segments. Second quarter 2024 revenues grew to \$49.5 billion, while pretax adjusted earnings grew 7% to \$1.6 billion, slightly ahead of expectations. Specialty and Care Services showed strong growth with revenue up 18% to \$22.9 billion, and pretax adjusted earnings were up 12% to \$756 million, at the high end of our long-term target growth range. This performance is a demonstration of our robust and diversified capabilities, as we delivered broad-based growth across our specialty businesses, Accredo and CuraScript as well as in our care services businesses. Pharmacy Benefit Services also posted strong revenue growth, driven by the addition of new business wins and expansion of existing relationships. Pretax adjusted earnings increased to \$798 million as our innovative capabilities continue to drive value for our clients, customers and patients. Overall, we're pleased with Evernorth's second quarter results and continue to expect strong income growth in the second half of the year.

Turning to Cigna Healthcare, second quarter 2024 revenues were \$13.2 billion and pretax adjusted earnings were \$1.2 billion. Second quarter earnings were in line with expectations and included approximately \$50 million of unfavorable prior year impact related to Medicare Advantage risk adjustment.

The second quarter medical care ratio of 82.3% was within our expected range, inclusive of the aforementioned unfavorable prior year impact of approximately \$50 million or 40 basis points on the medical care ratio. Absent this item, the underlying medical care ratio was broadly in line with expectations. As noted previously, we had planned and priced for 2024 medical cost trend to be above 2023 levels, which took into account both unit cost inflation as well as continued elevated utilization. Year-to-date, we have seen elevated cost trends, consistent with our planning and pricing assumptions. The net medical cost payable at the end of the second quarter was \$5.04 billion, compared to \$5.66 billion at the end of the first quarter. As noted previously, in the first quarter, we had booked approximately \$650 million in incremental reserves relating to the Change Healthcare disruption. Those reserves have since developed in line with expectations and claims payments have returned to more normalized levels, driving the sequential decline in net medical cost payable.

Moving to Cigna Healthcare Medical Customers, we ended the quarter with 19 million total medical customers. We expect growth in Cigna Healthcare medical customers for the remainder of the year, primarily driven by growth in our U.S. Employer Select and Middle Market segments. Overall, Cigna Healthcare delivered consistent results in a dynamic operating environment.

Now turning to our outlook for full year 2024. With our continued strong underlying performance in Evernorth and Cigna Healthcare, we are reaffirming our full year 2024 expectation for consolidated adjusted income from operations of at least \$8.065 billion or at least \$28.40 per share. Regarding cadence of earnings, we expect the third quarter adjusted earnings per share to be approximately 25% of the full year outlook.

Now turning to our 2024 outlook for each of our growth platforms. In Evernorth, we continue to expect full year 2024 pretax adjusted earnings of at least \$7 billion. This reflects continued momentum into the second half, with third quarter Evernorth earnings expected to accelerate to high single-digit year-over-year growth, in part due to an increase in adoption of our interchangeable biosimilar offering.

For Cigna Healthcare, we continue to expect full year 2024 pretax adjusted earnings of at least \$4.775 billion, and we expect the third quarter adjusted earnings to be approximately 25% of the full year outlook. We continue to expect the full year medical care ratio within the range of 81.7% to 82.5%. With the first half medical care ratio coming in at 81.1%, the midpoint of our guidance implies an 83.1% medical care ratio for the second half of the year. We would expect the third quarter to be slightly below that level.

Turning to our 2024 capital management position. As of July 31, we have repurchased 14.7 million shares of common stock or approximately \$5 billion, consistent with our previous commentary. We continue to expect at least \$11 billion of cash flow from operations. Our balance sheet and cash flow outlook remain strong, benefiting from our efficient asset-light framework that drives attractive returns on capital.

Now to recap. Our first half 2024 consolidated results reflect strong contributions and execution from both Evernorth and Cigna Healthcare. Our 2024 outlook reflects the sustained momentum and strong fundamentals of our two growth platforms, which gives us confidence to deliver on our full year 2024 adjusted earnings per share outlook of at least \$28.40.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Justin Lake, Wolfe Research.

Justin Lake - *Wolfe Research, LLC - Analyst*

Appreciate the commentary on cost trend. Maybe you can give us an update on what you're seeing by business line and also how things have trended 2Q versus 1Q? When you say it's in line with your pricing and your expectations, is that a year-to-date discussion? Or is that where trend is running today coming out of the second quarter? Is that in line? Or is that more or less elevated versus what you expected?

Brian Evanko - *The Cigna Group - Chief Financial Officer, Executive Vice President, President and Chief Executive Office - Cigna Healthcare*

Justin, it's Brian. So I'll start by saying we're pleased to have delivered another solid quarter of MCR performance at Cigna Healthcare which ran toward the lower end of our MCR guidance range when you exclude the prior year Medicare risk adjustment revenue impacts in the quarter that I mentioned earlier. Now within the quarter, total cost of care was broadly in line with expectations. There are a few puts and takes that I call out if we get into specific cost drivers.

So we continue to see elevated usage of facility-based services, including emergency room. Additionally, we saw a continuation of elevated utilization of mental health care services, which we do see as a positive over the longer term given the correlation to whole person health. You'll recall in the first quarter, I highlighted slowing growth in surgical costs.

During the second quarter, we continued to see abatement in the rate of growth of surgical costs although costs still did grow. Now taken all together, we are seeing sustained high cost trends, yet these are broadly in line with our guidance as we planned and priced for the elevated utilization levels that began in 2023 to continue throughout 2024.

Now specifically in the second quarter, we did not witness aggregate acceleration or deceleration of care patterns within the quarter. I also would not note any month-to-month variability relative to the year-to-date experience that we've seen. So overall, we remain confident in the full year MCR range outlined in our guidance.

Operator

Lisa Gill with JPMorgan

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

I want to start with the 2025 selling season on the pharmacy side. You made comments around GLP-1. We continue to see new indications there. I'm just curious, one, when we think about the opportunities in '25, how would you characterize that to what kind of programs are people buying going into 2025?

And then lastly, David, you made a comment that the facts need to be more widely understood when it comes to the pharmacy business. What are your plans around making those facts more widely known? Because as you know, I agree with you that both Congress as well as the media reports don't fairly reflect what the benefits are of the business.

Eric Palmer - *The Cigna Group - Executive Vice President - Enterprise Strategy, President and Chief Executive Officer, Evernorth Health Services*

Lisa, it's Eric. I'll start then maybe invite David to add some additional comments on the end here. But overall, our foundational pharmacy benefit services business, Express Scripts is off to a really good start for 2025. We've got strong new sales and our 2025 retention rate is going to be consistent with three years and the mid-90s or better.

Stepping back a little bit, Evernorth overall continues to be well positioned to grow. The specialty business is also positioned for strong growth with significant growth driven by our pharmacy benefits clients electing to use our specialty capabilities as well as strong growth in services sold directly to health systems and other health plans.

So overall, we are quite excited about the strength of the solutions and how they continue to resonate with the market overall. The themes or specific programs that I would point to come back to areas that help to make the value of the dollar spent on medicine is more effective.

So programs like our EncircleRx program that helps to effectively manage weight loss medication GLP-1 or our most recent oncology benefit offering that David mentioned a bit ago in his prepared remarks. So targeted specific types of programs that work really well with the broader suite of benefit offerings continue to resonate really well in that scenario we continue to invest in. David, do you want to take a bit on the broader environment comment?

David Cordani - *The Cigna Group - Chairman of the Board, President, Chief Executive Officer*

I appreciate the call out. First and foremost, let me reiterate we're proud of the work we do daily, and I'm greatly appreciative of our team that gets up every day serving our patients and customers through employer relationships, health plan relationships, governmental entity relationships and increasingly through partnerships and collaborations to health care professionals.

Second, we will and need to continue to innovate for the benefit of those we serve, whether that's through the likes of ClearCareRx, our Patient Assurance Program, our Encircle program, our independent pharmacy program, all of which are first in the space.

Now specific to your question, we challenged ourselves to be much more aggressive and complete relative to communication and engagement in support of our clients, be they employers or health buying customers collaborate even more deeply and intensely with the independent pharmacies and subsegmenting the independent pharmacists who are truly independent and rural working on the hill, of course.

And then lastly, more aggressively leveraging credible third-party independent analysis of what our industry does and specifically what we do on behalf of those we serve in a fact-based and credible way. So you should expect to see us a bit more complete and aggressive ensuring that we're amplifying that. But make no doubt, we also need to continue to innovate as we have, and we will continue to innovate for the benefit of those we serve.

Operator

A.J. Rice, UBS.

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

I might just flip over and ask you about the any distinction you're seeing in the health benefit selling season across your book, and a large group and select, et cetera. And then also, you called out for quite a while now, fatigue on point solutions. I wonder, I understand how you're addressing affordability and understand how you're addressing behavioral health integration.

But on the point solution question, is there anything that is or do you think you'll consider buying some of these point solutions and then offering them as part of your integrated offering? Do you sort of see yourself getting in the middle of helping employers choose between the myriad of point solutions? How are you addressing that?

Brian Evanko - *The Cigna Group - Chief Financial Officer, Executive Vice President, President and Chief Executive Office - Cigna Healthcare*

A.J., it's Brian. I'll start on the Cigna Healthcare selling season and buying pattern dynamic. And then I think David will pick up on the second part of your question relative to point solutions and some of our inorganic activities.

So as it relates to the Cigna Healthcare selling season, I'll concentrate my comments on the larger end of the U.S. Employer market just given the time of the year. We're seeing a relatively consistent number of RFPs this year in comparison to last year at this time. And similarly, in terms of our existing clients, we have a similar amount out to bid as we did last year at this time. So, just for some context on the numbers.

Now each of these larger employer clients tend to have unique needs. There's a few areas that thematically I'd call out in terms of what our teams are seeing out in the market. One, as David made reference to earlier, affordability continues to be a key area of focus particularly with the wave of drug innovation, including GLP-1s and gene therapy hitting the market.

Secondly, to your point, some of the larger employers are seeking to consolidate vendors or point solutions with those who can supply more integrated offerings. Third, we're seeing mental health and substance of these benefits and programs becoming more and more important each year, particularly given some of the downstream effects of the pandemic.

And finally, many of these larger clients are interested in digitally enabled care navigation capabilities to drive either further site of care optimization or consumer empowerment. So taken all together, our Cigna Healthcare offerings are well positioned to address these themes and demands from large employers.

And importantly, we also continue to see strong traction in net growth in our under 500 Select segment as you'll see in the statistical supplement, 7% year-over-year growth in customers within our Cigna Healthcare Select segment specifically. David, maybe you want to pick up on the point solution question?

David Cordani - *The Cigna Group - Chairman of the Board, President, Chief Executive Officer*

Sure. So first, if you think about some of the solutions we identified both in today's call and in prior conversations, you can think about our digital health formulary, as a way that we connect capabilities and work to connect them seamlessly. You can think about the way the Encircle program is designed.

It's designed to have actually coordination and continuity that is patient-centric the oncology program that we will roll out in 2025 is another example of taking specific care need or episode of care and redesigning the pathway to care in a much more coordinated basis, staying focused on the patient and the health care professional.

The Cigna Behavioral Group offering that I referenced has much more continuity and coordination of the care experience, starting from the access to the medical professional, the matching and the coordination and there'll be new offerings.

You can think about all those as largely having been built organically as we continue to invest back in the organization. To the core question through acquisition, you could think about that as well, you never rule it out largely not fueled through acquisition, although there could be episodic coordination of point solutions.

And then I would graph in the middle, I'd remind you that we operate the Cigna Ventures organization where we have a now meaningful track record of partnering with organizations where they are, by definition, almost point solutions and helping collaboratively to co-innovate with them as we go forward.

So stepping back, largely organically driven proven track record and the acceleration of new innovations that are coming to market for the benefit of those we serve to meet that demand.

Operator

Andrew Mok, Barclays.

Andrew Mok - Barclays - Analyst

Hi, good morning. With all the changes coming to Part D, there could be significant changes, not only to membership, but also formulary management for next year. How does the shifting risk to Part D sponsors impact Evernorth more broadly? And how are you helping clients navigate these changes?

David Cordani - The Cigna Group - Chairman of the Board, President, Chief Executive Officer

Andrew, it's David. Let me comment briefly on the PDP macro environment and then ask Eric to walk through our capabilities and our proven track record of supporting our clients relative to their PDP offerings. As you step back, it was clear that the Inflation Reduction Act as it was designed and the ultimate implementation of it was going to cause PDP premiums to rise meaningfully. And most likely, that was going to create some meaningful disruption for seniors.

Now as the bids have gone in, CMS has assessed those bids and has drawn apparently some of the similar conclusions relative to the acceleration of the bids and the acceleration of the premiums required given the design features. And after reviewing those has created a short-term window for some bid adjustments that we and like others are going through that on an accelerated basis.

So that disruption was designed from the Inflation Reduction Act and? the marketplace is reacting to that. I will ask Eric to talk more specifically to our capabilities and how we work and supportive in many cases, our health plan clients in their PDP book of business to ensure we deliver great quality and overall affordability. Eric?

Eric Palmer - The Cigna Group - Executive Vice President - Enterprise Strategy, President and Chief Executive Officer, Evernorth Health Services

Evernorth and Express Scripts specifically has a long history of supporting health plans to offer Medicare Part D plans. We've got a great track record of a treatment of strong stars outcomes for them and supporting our plans and their offerings and helping them with the tools to manage formularies and model the impacts of changes for example.

We're continuing to make investments to help ensure our plans are well positioned with the continued evolution of Part D coverage. We even with the most recent round of changes from the IRA like the administrative requirements associated with the copay smoothing is one example. This

continues to be an important part of the Evernorth and Express Scripts business that we're positioned to continue to help our plans succeed and thrive as they work through these changes.

Operator

Scott Fidel, Stephens.

Scott Fidel - *Stephens Inc., Research Division - Analyst*

Hi, thanks and good morning. I was hoping to maybe just touch on the marketplace and a couple of things there. One, just with the HIX 2023 risk adjustment true-up, if you can tell us what the net impact was to earnings if there was any relative to how you had accrued for that?

And then also, just when thinking about the commentary on cost trends. Maybe if you could overlay that into the marketplace in terms of if you're seeing a similar trend there and how that's influencing your view on exchange margins for the full year. I think that prior view had been probably still a bit below long-term target there for marketplace margins this year, just interested in an updated view on margins for the year.

Brian Evanko - *The Cigna Group - Chief Financial Officer, Executive Vice President, President and Chief Executive Office - Cigna Healthcare*

Morning, Scott. It's Brian. Maybe I'll try to just take a big picture view of the individual exchange business in aggregate and hit your risk adjustment question as part of that. So the headline I'd ask you to take away broadly speaking, our individual exchange book is performing as we expected in 2024.

As it relates to the final 2023 individual exchange risk-adjusted true-up, we had already been accrued for a sizable risk adjustment payable. And in the second quarter results, we did have a small unfavorable true-up that was recorded in the Cigna Healthcare P&L. But overall, this was not a meaningful performance driver in the second quarter for us.

And then as it relates to the 2024 performance year, we did receive our first look at the industry-wide risk adjustment data for the specific states we participate, as we closed up the second quarter books and the preliminary industry data confirmed that our previous 2024 risk adjustment assumptions were reasonable.

My earlier commentary on cost trends was broadly applicable to the individual exchange business as well. So when you put all the pieces together, we are tracking toward the improved 2024 margin profile we outlined during our first quarter call. And therefore, we'd expect to land the year slightly below our long-term target margin range of 4% to 6% for the individual exchange business.

Operator

Ryan Langston, TD Cowen.

Ryan Langston - *TD Cowen, Research Division - Analyst*

Hey, good morning. Just looks like the exchange business was down maybe 99,000 to 100,000 members sequentially. I certainly understand why it was down versus '23 year-end, but wasn't exactly expecting that sequential move anything to call out there? And maybe a little early, but I'll ask just any expectations on 2025 in terms of growth trajectory and perhaps even margin profile?

Brian Evanko - *The Cigna Group - Chief Financial Officer, Executive Vice President, President and Chief Executive Office - Cigna Healthcare*

Thanks. Morning, Ryan, it's Brian. Congratulations on your new role. As it relates to the individual exchange lives intra year, maybe I'll just step back and give you kind of a year-to-date perspective, and then I'll get into the sequential component of your question.

So as we discussed during our first quarter results call, the primary driver of the year-to-date change in Cigna Healthcare customer volumes is our individual exchange book. You'll recall that we repositioned this business in 2024, including taking some needed pricing actions in certain geographies in order to improve profitability and we expected to see a reduction in customer volumes as we have witnessed. And sequentially, the individual exchange business drove the majority of the modest decline in the second quarter customer volumes.

Now you should think of the primary driver of that being non-payment of premiums as a result of some of the pricing actions we took in a couple of the larger geographies. So it's essentially the delayed effect of those grace periods kicking in. It was an immaterial impact to our financial results in the quarter. Over the course of the balance of this year, we would expect to see continued strong growth within our U.S. Employer under 500 Select segment, which should result in sequential growth in U.S. Employer and Cigna Healthcare lives for the balance of the year.

So taken all together, we're pleased with the overall balance in the Cigna Healthcare portfolio. As it relates to 2025 in the picture there, we've just recently completed all the pricing and rate filings network design. And until we really see all the competitive dynamics, it's hard to know how that will shake through. We would expect our margins to be similar or potentially a little bit better next year in the individual exchange book as we look forward. But too early to know exactly how we'll shake out from a membership standpoint.

Operator

Josh Raskin, Nephron Research.

Josh Raskin - *Nephron Research LLC - Analyst*

Hi, thanks. Good morning. I'd be curious to get your views on the potential for ICHRA and specifically how that could impact the small group or select market? And maybe how does stop-loss fit into that equation?

Brian Evanko - *The Cigna Group - Chief Financial Officer, Executive Vice President, President and Chief Executive Office - Cigna Healthcare*

Josh, it's Brian. I'll take that one as well. So we see the ICHRA market in its current form is likely being a niche market, but one that we're monitoring closely. So more specifically, we see the ICHRA market as something that could be an appealing option for smaller employers who tend to be more commoditized buyers. And we expect this is most likely to be an attractive option for employers with less than 50 employees, which is a market segment that is financially immaterial for us today. And within the under-50 market, the average employer there has fewer than 10 employees, so very small employers typically.

Now all that said, our individual exchange business represents an opportunity for us to participate in the ICHRA space, should it gain more momentum. Again, I then go where I started and that we see this most likely being a niche market our stop-loss offerings, to your question, are fully integrated with our Select segment business. So you should not think of that as something that is a net threat to us in the select market provided that the under-50 concentration transpires the way that I described earlier.

Operator

George Hill, Deutsche Bank.

George Hill - *Deutsche Bank AG, Research Division - Analyst*

Yes. Good morning, guys. I thought I'd just ask a question on what I consider to be your cost of goods sold line, which is there continues to be a lot of discussion from the retail pharmacy side of the business around trying to negotiate new payment models or changes in terms. I don't know if there's any update that you can provide on how those conversations are progressing?

Eric Palmer - *The Cigna Group - Executive Vice President - Enterprise Strategy, President and Chief Executive Officer, Evernorth Health Services*

Good morning, George, it's Eric. First, I'm not going to comment on any specific negotiations with any pharmacies or things along those lines. But as you know, we've got a wide array of choices and options for our clients. That extends to how we've constructed our network as we look to balance access and affordability that best meets the needs of our clients and their patients.

So we work to assemble a range of different network options under a range of different reimbursement types that match up with the needs for cost, access and the associated trade-offs and touch there for our clients. So overall, that approach has served us well.

We work to continue to innovate to bring new solutions to market. An example of a new solution there would be like late last year, we announced our ClearNetwork Solution. ClearNetwork provides a comprehensive simple solution in that, the pricing is based off of an independent, externally created index and then it's got a simple margin that's shared between us and the pharmacy.

So it's a new offering we put in the market last year that's generating interest. But again, overall, the portfolio of offerings that we continue to pull together resonates with our buyers and is part of the reason we've continued to grow the pharmacy benefits services, chassis nicely over the last few years.

Operator

Kevin Fischbeck, Bank of America.

Unidentified Participant

Hey. This is Adam Ron for Kevin. So you raised guidance in Q1 on what seems like a smaller beat at least for street expectations, but you didn't raise guidance this quarter. Can you give a little more color on why maybe you wouldn't raise and how things came in versus your expectations? And if there's anything to read into on the PYD or maybe on DCPs being down. Any color would be helpful.

Brian Evanko - *The Cigna Group - Chief Financial Officer, Executive Vice President, President and Chief Executive Office - Cigna Healthcare*

Morning, Adam, it's Brian. So first off, we're pleased to have delivered another strong quarter of results on both the top and bottom lines with overall results slightly ahead of our expectations in the second quarter. Now within the quarter, we did have some timing-related benefits, including tax items that contributed to the strength in the EPS line, and we're pleased to reaffirm our full year guidance as well as all key supporting metrics considering this dynamic environment.

And importantly, both Evernorth and Cigna Healthcare are delivering against their respective commitments. Taking into account the environment, we're being prudent with this attractive full year EPS outlook of at least \$28.40, representing over 13% growth near the high end of our long-term average annual EPS growth rate range of 10% to 14%.

Operator

Erin Wright, Morgan Stanley.

Erin Wright - *Morgan Stanley, Research Division - Analyst*

So you called out the strength across specialty and services at Evernorth. I guess, how do we think about the Humira strategy contributing to the results now? And then how does that influence sort of the quarterly progression across Evernorth in the back half of the year? And just the strategy around Humira, and how that's playing out relative to your expectations? Have you, for instance, in-sourced the Humira biosimilar across your CuraScript business. Does it make sense to in-source more than the 50%, for instance, that you're targeting on that front?

David Cordani - *The Cigna Group - Chairman of the Board, President, Chief Executive Officer*

Okay. Thanks. Good morning. It's David. Let me start. You have a lot in your question and appreciate it, given the importance of the space. First, just to reiterate, the Specialty and Care part of the portfolio represents really 30% of our enterprise today. And we're quite excited about the growth potential for that business. We see the product business portfolio as a provision of care business that leverages in many cases, and we're talking about the specialty services.

As noted, we had strong growth in the second quarter of 12% and as we discussed for quite some time, the breadth of our capabilities positions us well relative to changes in the marketplace, more specifically the biosimilar opportunity. Now you have multiple questions here that I'll ask Eric to peel back a little bit relative to the more specific opportunities we see both in terms of our core business through Accredo as well as through CuraScript as we're expanding our capabilities in our portfolio. Eric?

Eric Palmer - *The Cigna Group - Executive Vice President - Enterprise Strategy, President and Chief Executive Officer, Evernorth Health Services*

Thanks, David. So, just stepping back a little bit again as well. Biosimilars are a really important opportunity to improve the affordability of these high-cost specialty medicines. And we're really well positioned to help to connect our clients and their customers with these therapies. Our approach here has been consistent in that we offer choice and value to best align with our clients' needs.

And we're focused on getting to low net cost, fueling competition and aligning incentives for everyone involved. The patients, our clients, our plan sponsors and the pharma supply chain. As you've made reference to in your question through Quallent Pharmaceuticals, our private label distributor we contracted with multiple manufacturers for interchangeable biosimilar Humira, and this is available at no cost to patients and an attractive cost to plan sponsors who began shipping this product at the very end of June, So just a few weeks ago. We've already seen meaningful uptake in the last few weeks, consistent with our expectations. We expect the customer adoption to continue to grow over the balance of the year. And it's early, five weeks in, really or so, but we see biosimilars having about a 20% share of our book at this point after just shipping this product for the last five weeks. I've said to overall continue to see that this is a real opportunity for us to improve the affordability of health care for the benefit of our clients and our plan sponsors.

Operator

Stephen Baxter, Wells Fargo.

Stephen Baxter - *Wells Fargo Securities, LLC, Research Division - Analyst*

Yes, hi. Thanks. One of the questions has been asked, but I wanted to ask about in-group membership trends. It does seem we're starting to see more mixed data on the job front. Could you spike out a little bit what you're seeing in the in group trends? And do you think your sequential membership changes are generally a good reflection of that?

David Cordani - *The Cigna Group - Chairman of the Board, President, Chief Executive Officer*

Steve, good morning. It's David. As we discussed back in 2023, as the year was unfolding, just by way of context, we were very mindful of the potential for some softening of the employer marketplace. And then to your point, in group trends softening a little bit. And when we stayed quite close to monitoring it, it didn't really manifest itself in any material way, given employers were still working to get to a full level of employment.

For 2024, we've taken a similar cautious monitoring approach and built a little bit of consideration relative to softening. And by and large, we have not seen that to date. So the membership headlines that we've delivered represent good fundamental strength as Brian noted previously, the change in our membership is largely driven by our as expected, dampening of the marketplace, as you would call it, our individual exchange business. But we remain closely monitoring any dampening tied to the economy and thus far haven't seen anything material to call out there.

Operator

Dave Windley, Jefferies.

Dave Windley - *Jefferies LLC, Research Division - Analyst*

Hi, good morning. Thanks for taking my question. Brian, in your comments, I think I heard you say that the excess reserves from 1Q have basically developed in line with your expectations. I think I also heard you say that you didn't see any, say, intra quarter trends or a particular month in the quarter that stood out as an anomaly.

And I think in looking at your progression looks like MLR implied for the second half is maybe in the neighborhood of 200 basis points above the first half historical normal, maybe about half of that. So just wanted to understand if the higher MLR expectation for the second half is kind of cautious posture or if you're expecting certain things to accelerate in the second half that would drive that.

And maybe a last question would be relative to pricing, would you view yourselves as pricing to forward view of trend as you head into next year? Or would you be pricing to expand margin? Another long question.

Brian Evanko - *The Cigna Group - Chief Financial Officer, Executive Vice President, President and Chief Executive Office - Cigna Healthcare*

No problem, Dave. So as it relates to the second half MCR guidance, I think your question was in a year-over-year context. Really, three factors that I'd highlight, if you're looking at it relative to the back half of '23, you may recall from our first quarter earnings release, we discussed that the 2024 seasonality would be more similar to pre-pandemic norms with the MCR increasing as the year unfolded, in part driven by our individual exchange business metal tier mix, which is skewed more bronze this year.

Additionally, we had some favorable stop loss utilization in the fourth quarter of 2023 that we are anticipating will normalize in 2024 and our year-to-date experience is consistent with that expectation. And then finally, there is one additional business day in the third quarter of this year, which has some elevation in the MCR in the third quarter specifically for that.

So all those factors combined to generate a higher second half MCR year-over-year. But again, we remain comfortable and confident with the full year MCR guidance range that we provided here.

As it relates to the pricing environment, and I'll comment specifically on our U.S. Employer business, as a reminder, this is a book that's nearly 85% ASO or self-funded. So therefore, we have earnings levers that go well beyond a pure risk-based MCR, but that said, our U.S. Employer book is currently operating from a position of strength as we've been performing within target margin ranges.

And we remain disciplined with our own pricing strategy in the current environment. We continue to price to our best estimate of forward-looking cost trends. To your point, I don't need additional margin recapture at the book level. We are seeing the impact of inflation work its way through our provider contracts. As these contracts renew, we continue to expect elevated levels of utilization through 2024.

So when you put all those pieces together, our all-in pricing trend for 2024, slightly higher than what we had assumed a year ago for the corresponding 2023 pricing cycle. And we're confident in our ability to secure appropriate pricing for 2025 and beyond. So a long answer to your long question.

Operator

Jessica Tassan, Piper Sandler.

Jessica Tassan - Piper Sandler - Analyst

Hi, thank you so much for taking the question. I'm curious how you're thinking about the possibility that Skyrizi and Rinvoq substitutions could maybe foreclose the Humira biosimilar opportunity? And I guess just what recourse do you have to ensure that the biosimilar products that you've got in the market succeed, I think you've given us plenty of evidence that they're the best for the patients. So just yes, how are you thinking about the possibility of foreclosure and what can you do to kind of prevent or mitigate that? Thank you.

Eric Palmer - The Cigna Group - Executive Vice President - Enterprise Strategy, President and Chief Executive Officer, Evernorth Health Services

Jessica, it's Eric. So I guess stepping back, our approach is focused on offering choice and value and getting to the lowest cost and best available solution from a patient perspective. So a couple of things I would note. First of all, our biosimilar offering is interchangeable. And so that facilitates an easier election if a patient chooses to choose a biosimilar, it's an easier process by being interchangeable, so that would be one thing I would note as a differentiator for us.

More broadly, we're here to facilitate and ensure patients have access to the medicines that they need. So if the Skyrizi or Rinvoq will be in a position to fulfill that as well. But overall, we're working to make sure that we've got the right access to all of the medication. As we look ahead, ensuring we've got on a fully developed portfolio of all of the available biosimilar offerings will be important, and we'll continue to be in a position to lead here.

Operator

Lance Wilkes, Bernstein.

Lance Wilkes - Bernstein - Analyst

Great. Thanks, guys. Could you just give me a little more color on some of the faster growth areas in Evernorth, in particular, if you could talk a little bit about GLP-1 coverage outlook for -- during the selling season for next year, so fee growth has been really strong. How much of that is coming from traditional PBM versus care services growth? And are you seeing any of that in Accredo? Thanks.

Eric Palmer - The Cigna Group - Executive Vice President - Enterprise Strategy, President and Chief Executive Officer, Evernorth Health Services

Lance. Good morning. It's Eric. So let me start and just talk a little bit about the Encircle and then I'll ask Brian to talk a little bit more about the numerical dimensions of things. So within the Encircle program, we've got over 2 million covered lives at this point. So that's growing nicely. Stepping back a little bit in terms of just looking at the coverage for GLP-1s for weight loss indications overall in the Express Scripts business, we've now got essentially 50% or so of plan sponsors covering for weight loss indications. So we've seen continued incremental growth there. The

underlying utilization levels also continue to grow nicely. We've seen growth there, consistent with what you might have seen from an industry growth perspective or things along those lines.

Looking ahead, we expect the use of these medications to continue to grow. And that is part of the growth algorithm for Evernorth overall. Stepping away from GLP-1 specifically, we see broader growth opportunity in specialty with continued growth, both through new therapies through biosimilars coming to market as well as us continuing to expand our relationships whether that's through our CuraScript, specialty distributor or through other direct opportunities. So overall, growth across a number of different fronts within Evernorth that we're pleased to be in a position to deliver. Brian, do you want to pick up the second part of Lance's question?

Brian Evanko - *The Cigna Group - Chief Financial Officer, Executive Vice President, President and Chief Executive Office - Cigna Healthcare*

Sure. So as it relates to the fees and other revenue line in Evernorth, which is up 14% quarter-over-quarter, I think about a number of different areas contributing to the strong performance. Contributions from our Evernorth Care businesses are reflected here. So think of EviCore, MDLIVE, our behavioral health business.

And then additionally, to the core of your question, we are seeing continued growth in service-based solutions within the pharmacy benefit services business where clients are electing more fee-based orientations with us.

So finally, the other contributor to this is the cross enterprise leverage that we're driving with Cigna Healthcare results in revenue from Cigna Healthcare showing up in fees and other revenue in Evernorth and then being eliminated at the corporate level. So all of those contribute to that strong growth in the fees and other revenue line.

Operator

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

David Cordani - *The Cigna Group - Chairman of the Board, President, Chief Executive Officer*

First, let me thank you all for your engagement today, your time and your questions. I just want to highlight a few headline points. With our momentum, we are confident that we will deliver on our EPS outlook of at least \$28.40 for 2024, which represents over a 13% growth rate from 2023.

Additionally, before we close, I want to recognize and express appreciation to our 70,000 co-workers across the globe. It's their continued focus, dedication and commitment to support our clients, our customers, our patients and our partners that enable us to deliver on our commitments, including those to you, our shareholders.

We're proud of what we've achieved, and we're excited about the opportunities that stand as we look ahead. And as always, we look forward to our future discussions. Have a great day. Thanks.

Operator

Ladies and gentlemen, this concludes The Cigna Group's second 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 (800) 839-1190 or (203) 369-3031. There is no passcode required for this replay. Thank you for participating. We will now disconnect.

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