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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 Second Quarter 2023 Results Review.

(Operator Instructions)

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

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

Thank you. Good morning, everyone. 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; 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 updated financial outlook for 2023. 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, 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. 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 2023 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 after-tax special item charges of \$5 million or \$0.01 per share for the integration and transaction-related cost. Additionally, please note that when we make prospective comments regarding financial performance, including our full year 2023 outlook, we will do so on a basis that includes the potential impact of future share repurchases and anticipated 2023 dividends. With that, I will turn the call over to David.

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

Thanks, Ralph. Good morning, everyone, and thanks for joining our call today. For the second quarter, again, we delivered a strong performance, fueled by continued growth across our diverse portfolio of businesses. Today, I'll review key strategic drivers contributing to our momentum, and why we believe we're well positioned to sustain our growth as we continue to support the health and vitality of those we serve with our differentiated solutions and capabilities.

Brian will cover additional details about our financial performance in the quarter and our 2023 outlook. As part of our ongoing effort for you to hear more from members of our leadership team, Eric Palmer, President and Chief Executive Officer of Evernorth Health Services, will be joining our call and is available to take your questions. With that, let's get started.

In the second quarter, we delivered total revenues of \$48.6 billion, adjusted earnings per share of \$6.13 and cash flow from operations of \$2.5 billion. We're pleased with our performance overall during the quarter and through the first half of the year. With focus on affordability and innovation, we are continuing to strengthen our competitive position and grow our businesses.

In Evernorth Health Services, we saw another strong quarter of our market-leading pharmacy, care and benefits portfolio. Express Scripts, our pharmacy benefits business harnesses our deep relationships, extensive clinical expertise and is delivering innovations and innovative solutions for those we serve.

We've long been a leader in supporting access to prescription drugs and to further enhance our efforts, we took a series of actions in the quarter including launching co-pay assurance to support further affordability for patients and ClearCareRx to provide our clients with broader choice. We also introduced IndependentRx, which is a first of its kind support program for rural pharmacists that recognizes the critical role they play in improving access for millions of Americans. We will continue to lead the way through the current environment of elevated legislative and regulatory activity, and we're encouraged by the positive recognition of our work to make safe, effective and affordable access of prescription drugs within reach for millions of people who need them.

Our client retention is also strong, and we're continuing to build and expand new relationships. For example, we're making good progress for our implementation with Centene, which begins on January 2024. Our teams are working collaboratively, and we are on track as we prepare to further improve affordability in serving 20 million Centene customers.

In the quarter, we had strong growth in Accredo, our specialty pharmacy business. In a moment, I'll profile the deep clinical expertise and capabilities that make Accredo a differentiated leader in the space.

Turning to Cigna Healthcare. We delivered another quarter of organic customer growth, reinforcing how well our consultative approach and capabilities continue to resonate in the market. Our U.S. Commercial business continues to build momentum. We've had sustained success with commercial customer growth outpacing the overall market, and 2023 is shaping up to be another very strong year for this business. With our

affordability initiatives and deep consultative sales approach, we're delivering highly competitive total cost of care for employer clients as well as providing programs supporting healthy engaged workforces that they need.

In U.S. Government, our Medicare Advantage business is achieving above-market customer growth with high-quality affordable plans and targeted investments that we continue to make to further strengthen our network and offerings.

In our Individual exchange business, we will continue taking a focused approach by engaging customers to improve health outcomes and managing risks in the expanding population we serve. In the quarter, while our medical care ratio is generally in line with expectations, we did have an increase to our 2023 risk adjustment payable. Relative to the risk adjuster impact, we expect this to be a 2023 event, and we've already taken actions for 2024.

And, in our International Health business, we drove continued innovation and growth in target markets with solutions for the globally mobile population and employees of multinational corporations as well as intergovernmental organizations. Overall, our second quarter results show that The Cigna Group is performing well with underlying strength in our complementary businesses.

We believe we're well positioned to continue growing our company and deliver on our commitments. With the strength of our results, we are increasing our outlook for full year revenue and customer growth as well as cash flow from operations, and we are reaffirming that we're on track to deliver adjusted EPS of at least \$24.70 for full year 2023.

Now I'll talk about how we are working to sustain our momentum with our differentiated and diversified capabilities and our durable strategic growth framework. Our framework guides us in continuing to respond to customer, patient and client needs as well as capturing growth opportunities within our foundational businesses and our accelerated growth businesses.

Additionally, we harness the power of our talent, client relationships and partnerships as well as an expanding technology portfolio for cross enterprise leverage. Technology increasingly provides us with opportunities to accelerate innovation and growth. Artificial intelligence and machine learning, for example, are capabilities further enhancing ways for us to support patients and their clinical care teams as well as drive additional efficiency initiatives.

Today, I'll talk more about one of our accelerated growth businesses, Accredo, our flagship specialty pharmacy, where we have a competitive advantage in an area of growing need and opportunity.

Earlier this summer, we welcomed a group of investors to Warrendale, Pennsylvania at one of our Accredo clinical care sites. The visit provided an opportunity to see the breadth of our specialty capabilities and the depth of our clinical expertise, a critical driver for the positive outcomes and impact we achieved for patients requiring complex and high-cost treatments for chronic conditions. Here are a few headlines from the day at Warrendale.

First, Accredo has a proven track record of growth. Only 5 years ago, when Express Scripts combined with Cigna, Accredo was approximately a \$30 billion business. Today, Accredo has grown to approximately \$60 billion and in 2023, serves approximately 900,000 patients with some of the most complex conditions and needs. Accredo now represents about 40% of Evernorth's total revenue and because of its unique strengths, Accredo has grown faster than the overall marketplace.

Second, is secular tailwinds in the market creates significant growth opportunities as we look to the future. Those who need specialty drugs make up about 5% of the population and they drive more than 40% of total health care costs across medical, behavioral and pharmacy services. This is fueling expected mid- to high single-digit annual growth in what is already a specialty pharmaceutical market of approximately \$380 billion.

Biosimilars represent a force of change and a substantial opportunity for further growth and impact, and we will leverage them for greater affordability for clients and patients. We've long been a leader in supporting greater adoption of biosimilars as we did with the wave of generic medications when they became available decades ago. And like generics, we believe biosimilars will drive much needed affordability improvements for those we serve; and thereby, create more financial capacity to pay for new pharmaceutical innovations today and as we look to the future.

Third is the breadth of our clinical capabilities and use of data that further fuels precision and impact. We've built and strengthened our clinical capabilities and far-reaching operating model over decades. Within Accredo, we have therapeutic resource centers with clinical teams of pharmacists, nurses, dietitians and social workers, specializing in different disease states such as blood and neurological disorders and multiple types of cancers. Unlike many of our competitors, we directly employ hundreds of field-based infusion nurses. Today, they are located within 75 miles of approximately 90% of the U.S. population. And as they care for patients inside their homes, they provide better, more coordinated and personalized experiences, including addressing social determinants of health.

With the clinical care models focused on each individual patient, we're able to provide a level of personalized clinical support that is vital in specialty pharmacy. Many new high-cost drugs for oncology, gene therapies and rare conditions are coming to market, further pressuring affordability for clients and requiring greater support for patients that take these complex medications safely and effectively. I would note drug manufacturers also recognize our expertise and capabilities as well as our superior outcomes that we produce with our unique coordinated clinical model.

Putting all this together, we're excited about the accelerated growth opportunities we have with Accredo's differentiated specialty pharmacy and view it as a powerful growth engine for our company today and into the future.

Now stepping back to the enterprise level, I'll briefly recap. We drove strong earnings that built on our momentum from the first quarter and last year. We delivered adjusted EPS of \$6.13, strong customer, revenue and cash flow growth. Our progress gives us confidence to reaffirm our guidance of adjusted EPS of at least \$24.70 for full year 2023, and we also remain on track for adjusted EPS of at least \$28 in 2024. This reinforces how we are creating value for our customers and clients and leveraging differentiated capabilities to give us flexibility to continue performing well in a dynamic environment.

Now Brian will share additional perspective about our performance in the quarter and our outlook for the rest of the year. Brian?

Brian C. Evanko - *The Cigna Group - Executive VP & CFO*

Thank you, David. Good morning, everyone. Today, I'll review Cigna's second quarter 2023 results and discuss our updated outlook for the full year.

Second quarter results were strong, reflecting continued execution across the enterprise. Looking at the quarter specifically, some key consolidated financial highlights include revenue growth of 7% to \$48.6 billion, after-tax adjusted earnings of \$1.8 billion, adjusted earnings per share of \$6.13 and cash flow from operations of \$2.5 billion.

Revenue and cash flow both exceeded expectations, while adjusted earnings per share were slightly ahead of expectations. Our 2 platforms continue to perform well, with Evernorth posting solid top- and bottom-line growth, while Cigna Healthcare delivered results in line with expectations despite an unfavorable risk adjustment impact in our Individual exchange business, which I will discuss shortly.

First, turning to Evernorth results. Evernorth continues to deliver strong performance, with second quarter 2023 revenues growing 10% to \$38.2 billion, and pretax adjusted earnings were \$1.5 billion. Evernorth's results in the quarter were driven by continued strong performance in our differentiated specialty pharmacy business, which had year-over-year revenue growth in the mid-teens, and our focus on providing a variety of solutions that drive affordability and lowest net cost for our customers and clients.

Additionally, we continue to build out our cross-enterprise leverage capabilities harnessing data and technology to accelerate innovation for customers and clients. And we also continue to make strategic investments to further enhance and expand our client relationships, diversify our portfolio of products and services, prepare for new clients in 2024 and advance our technology capabilities.

Overall, Evernorth has delivered strong first half results and we are well positioned as we look to the back half of the year. Our diversified solutions allow us to sustain momentum by delivering differentiated value to our customers and clients, helping them overcome key healthcare challenges.

Turning to Cigna Healthcare. Second quarter 2023 adjusted revenues grew 12% to \$12.7 billion. Pretax adjusted earnings were \$1.2 billion, and the medical care ratio was 81.2%. The medical care ratio reflects some items specific to our Individual exchange business that largely offset one another in the quarter.

After receiving our first view of industry-wide risk adjustment data in early July, we increased our full year 2023 estimated Individual exchange risk adjustment payable. It's important to note, this was primarily driven by two states. Within those two states, the unfavorable impact from the first half of 2023 was about \$80 million and was recognized in the second quarter. We expect a similar magnitude of impact in the back half of the year. Additionally, this impact is isolated to the 2023 calendar year as we have taken corrective pricing actions in the impacted geographies in our 2024 rate filings.

Specific to the second quarter, the unfavorable risk adjustment payable impact was largely offset by a favorable update to our 2022 risk adjustment receivable within the Individual exchange business. Underlying fundamentals across the Cigna Healthcare segment continued to perform well as we further expanded our relationships and delivered affordability for our customers and clients. As we have mentioned on prior calls, we planned and priced for more normalized levels of utilization this year.

Our year-to-date claims experience has been broadly in line with this expectation, across both Commercial and Medicare Advantage.

Turning to Cigna Healthcare medical customers, we ended the quarter with 19.5 million total medical customers, growth of approximately 1.5 million customers year-to-date across all businesses. Within our Government business, medical customers grew sequentially and year-to-date Medicare Advantage has grown 12%.

Overall, Cigna Healthcare's results in the quarter were solid as we demonstrated strong underlying fundamentals despite the increased 2023 Individual exchange risk adjustment payable previously mentioned. And we continue to grow our customer and client relationships, providing differentiated value and driving affordability.

Now turning to our outlook for full year 2023. We have increased our expectations for full year 2023, consolidated adjusted revenues to at least \$190 billion, driven by continued strength in our businesses as we continue to deliver innovative services and solutions for the benefit of our customers, patients and clients. We are reaffirming our adjusted earnings per share outlook of at least \$24.70 per share. And we expect adjusted EPS to be split approximately evenly between the third and fourth quarters.

In Evernorth, we continue to expect full year 2023 adjusted earnings of at least \$6.4 billion. With respect to Evernorth earnings' cadence, we expect mid-single-digit year-over-year adjusted earnings' growth in the third quarter and mid- to high- single digit adjusted earnings' growth in the fourth quarter.

In Cigna Healthcare, we continue to expect full year 2023 adjusted earnings of at least \$4.425 billion. We expect third quarter Cigna Healthcare adjusted earnings to be slightly below 55% of second half adjusted earnings to reflect seasonal patterns as well as the rate and pace of investments. This incorporates the impact from the estimated Individual exchange risk adjustment payable in the second half of the year, which is offset by other items in Cigna Healthcare, including expense efficiencies. Additionally, we continue to expect our 2023 medical care ratio to be within the range of 81.5% to 82.3%.

Switching gears, let's move to our 2023 capital management position and outlook. Year-to-date through August 2, 2023, we have repurchased approximately 3.8 million shares of common stock for approximately \$1.1 billion. The continued strength of our cash generation gives us the confidence to increase our full year 2023 expected cash flow from operations by \$500 million to at least \$9.5 billion for the full year. Our balance sheet and cash flow outlook remains strong, benefiting from our highly efficient service-based model that drives strategic flexibility, strong margins and attractive returns on capital.

Now to recap. Second quarter results were strong, reflecting high-quality underlying fundamentals in our foundational and accelerated businesses, giving us confidence to deliver on our 2023 adjusted EPS guidance of at least \$24.70. And we continue to expect 2024 adjusted EPS of at least \$28 consistent with our prior commentary. 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 Mr. Scott Fidel with Stephens.

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

Appreciate the color on the risk adjustment dynamics. I think that helps also explain some of the rate increases that we've seen in your filings in some of those pertinent states like Georgia for 2024.

My question is if we back out the risk adjustment impacts from both '22 and '23, can you give us an update on how you view sort of underlying utilization and cost trends in the marketplace and the Individual business for 2023?

And how you'd say sort of core, I guess, its exchange margins are tracking towards your longer-term view in '23. And as you put these price increases in for '24, how that will sync up relative to the long-term sort of 4% to 6% pretax margins that you've historically sort of manage the Individual business for?

Brian C. Evanko - The Cigna Group - Executive VP & CFO

Scott, it's Brian. I'll try to take each of those bites kind of one at a time. So as I mentioned in my comments, in the quarter, we had an \$80 million impact from the risk adjustment payable matter in 2023, which reflects essentially a true-up for the first two quarters of the year. But that was largely offset in the quarter by the favorable true-up we had on the 2022 risk adjustment settlement.

The other residual piece within the Individual exchange business is we had some favorable claim cost experience in the first half of the year. So the \$80 million was offset largely by the 2022 risk adjustment settlement, but also, to a lesser degree, by favorable cost trend within our Individual exchange business, which reflects a younger, healthier population than what we had in 2022. So claim costs there, certainly within check, but we had the larger payable, which creates the pressure point for the year.

As it relates to the profit margins and how to think about where we are in '23 and the rate increase impact on '24. Just for some context here, you can think of this business being approximately a \$5 billion block for us in 2023 in terms of premium revenue. And we had shared on a prior call that we were anticipating the Individual exchange book to run below our target margins within 2023. As you noted, our long-term target for this business is 4% to 6%.

For the remainder of this year, we're expecting another \$80 million of risk adjustment payable impact across the second half, which, as I mentioned, will be offset by the strength across the broader Cigna Healthcare portfolio including expense efficiencies.

When you put all this together, the Individual exchange margins in 2023 will be below our prior estimates. And for 2024, we have taken sizable price increases in our 2 largest states. So we would expect some degree of margin expansion in the Individual exchange book overall in '24 relative to '23. The exact amount of that margin improvement will end up being a function of our geographic and customer mix in 2024 as we are likely to have fewer customers in the Individual exchange business in 2024 relative to where we are in 2023.

So thanks for the question. Hopefully, you can follow all those moving pieces.

Operator

Our next question comes from Mr. A.J. Rice with Crédit Suisse.

Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

I know at this point in the year, large employers are well on their way to thinking about their '24 outlook both from health benefits and also on the pharmacy benefit side. I wondered if given you've got a great window on all of that, anything interesting to call out in terms of priorities for employers around benefit design, focus on particular categories of healthcare, whether -- I know sometimes it's diabetes, sometimes family planning. Anything on the cost management focus? I know there's a lot of discussion about GLP-1s and wonder whether they're focused on trying to manage that more effectively. And then just overall expectations in those customers around cost trends and -- are they assuming it's sort of a more normalized outlook going into '24? Or are they making any assumptions about pent-up demand or anything?

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

It's David. Let me describe a little bit of the -- we'll say the buying characteristics and areas of focus in the market more broadly, and then I'll ask Eric to give you a little bit more color in terms of the pharmacy-specific space and using your GLP-1 as an example.

So stepping back, and it's for the latter part of your comment to reinforce it. The buying behaviors continue to have an intense focus on what I will call base-buying needs focus on affordability, coupled with consistent high-quality service levels.

There's two additional dimensions, I would say, that have intensified recently relative to need state. One, as employers, because you're coming at through the employer lens continue to intensify their focus on having healthy, engaged, highly productive workforce. They're intensifying their focus and need and awareness of the complex behavioral health needs from their population, inclusive of, but also beyond the more intense behavioral health dimensions. This includes anxiety, stress, depression and complexity to come along with that.

Here, I would note that within our Cigna Group portfolio of solutions, we're well positioned to meet the needs because there's a lot of coordination that's necessary to advance there.

The second trend I'd highlight is what the marketplace is sometimes calling point solution fatigue, where over time, employers have aggregated many individual point solutions that made sense at a given moment in time, but they find themselves stepping back and looking at that inventory questioning whether or not either, a) they're getting all the value out of each individual solution; or b) the friction and/or abrasion for their coworkers or medical professionals is worth the value of the fractured point solutions, and therefore, are challenging more opportunities to coordinate or integrate solutions to get more value, leverage and better service from that standpoint.

And again, our portfolio is really well positioned there and continues to resonate in the market as evidenced by our growth. I'll ask Eric to provide a little bit of color of areas of focus for buyers more broadly in pharmacy, including the GLP-1.

Eric Paul Palmer - *The Cigna Group - President & CEO of Evernorth*

Great. Thanks, David. I'll start with the GLP-1. GLP-1s are definitely top of mind for many of our clients. There's been a meaningful uptick in utilization here. And as I think you know, we have coverage for these medications on our formularies from early on. For value-based arrangements with pharma manufacturers, we've seen contributions for the benefit of patients and our clients by result of the structures. We have recently launched a program called EnCircleRx, which brings together management of the GLP-1 cardiac, diabetic conditions, obesity. So these conditions often tend to be interrelated, to bring together a benefit plan design, the clinical support as necessary and the overall resources we can bring to help these patients, better manage their health and ultimately get to a better plan costs.

So the GLP-1 and the broader cardiac, obesity, diabetes space is a real area of focus. I would also note as David touched on in his comments, continued interest in behavioral solutions. That's an area that we've got strong expertise within Evernorth, and we're excited about the opportunities in that market, and the need to help manage behavioral care more effectively.

Those will probably be the top couple of specific themes I would call out at this point, A.J.

Operator

Our next question comes from Mr. Justin Lake with Wolfe Research.

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

A couple of quick questions. One, just so I appreciate your comments on cost trend, but did see a pretty big pickup in medical costs payable in the quarter relative to reserve growth. Just curious what drove that.

And then, just stepping back, the Stop Loss business has seen a nice acceleration this year up in the teens. Just curious what you're seeing there? And do you expect that to be the kind of the trajectory after we've seen a bit of a slowdown over the last few years?

Brian C. Evanko - *The Cigna Group - Executive VP & CFO*

Justin, it's Brian. I'll start, and I think David will pile on in terms of the Stop Loss component. So as it relates to our medical cost payables or reserves, nothing particular I'd flag here. We continue to employ a consistent methodology as it relates to how we set our reserves. There'll be some natural variability in this metric as product mix shift tends to occur from quarter-to-quarter. And I know the days claims payable metric is one that's commonly looked at.

We don't target or forecast any specific level of DCP rather this is more the output of our detailed assumption setting that's been aggregated up to the enterprise level. So we remain comfortable with our reserving methodology and confidence in the adequacy of the balance sheet.

As it relates to Stop Loss, you're right. We're seeing nice growth in that product line. We've got 13% year-on-year premium growth. We're on track to achieve our target profitability in that business this year. So nice performance, and it continues to resonate with our clients. David, anything you want to add in that regard?

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

Yes. Thanks, Brian. The item I amplify is just a recall from prior conversations, part of our consultative approach and go-to-market approach is when you work with clients of a variety of sizes around the benefit design that matches their strategy, the clinical programs in support of that match their strategy, the service support program that match their strategy. The final thing we work on is the funding mechanism. And as the market conditions change, we have the ability to flex between risk or guarantee cost, shared returns and/or self-funded with Stop Loss. And our stop-loss program, as you call out, continues to perform well, grow well and resonate in the marketplace because it provides that peace of mind and predictability for employers around their cash flow and any dislocation that may happen in a given year.

So our specialists in that space have a high-performing book. It continues to resonate well. And you'll see ebb and flow over time based on market buying conditions, but continued growth.

Operator

Our next question comes from Ms. Lisa Gill with JPMorgan.

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

I just want to come back to the pharmacy side of the business for a minute and ask a couple of questions. When I think about the quarter, can you talk about the margin impact from, one, GLP-1s, I know you talked about strength there; two, the shift to biosimilars; and three, the Centene implementation costs. Can you just talk about how each of those had an impact on the margin in the quarter?

And then just as a follow-up, when you talked about the 2024 selling season, more specific on the PBM side. Can you maybe just give a little more detail as to how renewals went and what your retention rates are expected to be for '24?

Brian C. Evanko - *The Cigna Group - Executive VP & CFO*

Lisa, it's Brian. I'll start. I think that's a multiparter, and then Eric is going to chime in with some comments on the sales season. But as it relates to the quarter, overall, Evernorth continues to perform really well. So I'd start there and largely in line with our expectations when you put all the different moving pieces together.

The individual components you kind of called out there, Eric referenced earlier, GLP-1 utilization does continue to build, which in the Evernorth business is a positive contributor to our earnings at this point in time, whether that be for diabetic indications or nondiabetic indications. So that's certainly a net positive relative to the Evernorth business in 2023.

On the biosimilar side of the house, you should think of, thus far, relatively low adoption of AMJEVITA in the first half of the year. On the second half of the year, we obviously added two additional biosimilars into the National Preferred Formulary. And one of the reasons we expect acceleration in income growth in the third and fourth quarter is the impact of greater biosimilar adoption as well as improved overall positioning relative to the dynamics of competitiveness across the four drugs that will be on the National Preferred Formulary. But in the second quarter, I wouldn't characterize biosimilars as a particular driver of the margin profile.

On the Centene impact, we remain very much on track relative to the implementation against our commitments. As we mentioned before, we expect to spend about \$200 million over the course of 2023. You should think of that as gradually building quarter-to-quarter over the course of the year. And so the money is being spent as we speak. And all those factors did impact the second quarter. But again, nothing in particular I would call out being significantly deviating from our expectations compared to what we expected three months ago. Eric, maybe you can pick up both on Centene and the selling season.

Eric Paul Palmer - *The Cigna Group - President & CEO of Evernorth*

Great. Thanks, Brian. So just a couple of other comments on Centene. I'm really pleased with how we are working together to deliver an implementation program to serve Centene's customers. We are on track, and there's good momentum in the readiness for our January '24 implementation. So continue to be excited about that opportunity.

With respect to the selling season more broadly, we operate in a competitive market, and the strength of our solutions really continues to resonate. We will deliver another strong retention rate. As we look to the 2024, I think mid-90s or higher, consistent with our prior commentary around what a strong retention rate looks like. We'll have additional new growth, new client wins on top of the large Centene wins as well. So feeling good as we kind of wind down the 2024 selling season at this point, and we'll provide more detail on that when we provide our 2024 guidance later on.

Operator

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

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

I wanted to get a little more color on the increased enrollment outlook. I guess you've indicated in the past that you're being a little bit conservative about the recession and redeterminations. Were those -- anything changed there to drive that? Or was it new customer growth? Just a little color.

Brian C. Evanko - *The Cigna Group - Executive VP & CFO*

Kevin, it's Brian. So I'll start, and I think your question is specific to Cigna Healthcare, which is where I'll go. So first off, we're really pleased with the strong growth momentum across the Cigna Healthcare book. If you look at our year-to-date customer growth, it's running ahead of expectations at 1.5 million net growth, and that builds off of a strong performance we had in 2022, where we added nearly 1 million customers across the Cigna Healthcare platform.

As it relates to our refreshed membership outlook for the year, you can think of the primary driver of that being an elevated expectation for Individual exchange customers by year-end 2023. The other components of the Cigna Healthcare customer outlook are broadly unchanged from our prior projections. We're not yet seeing meaningful signs of any economic pressure within our Commercial book of business. But that said, we have assumed some elevated disenrollment in the U.S. Commercial business in the second half of 2023 in order to be prudent.

We continue to exclude any potential Medicaid redetermination lives from our Commercial forecast for the balance of the year. And taken all together, again, pleased to see a full year outlook of 8% growth in total medical customers across Cigna Healthcare. One minor refinement we made this year or this quarter relative to the Individual exchange business, we are now forecasting some level of Medicaid redeterminations coming in through the balance of the year. So you should think of the Commercial business, excluding Medicaid redetermination and the Individual forecast now including some level of redeterminations for the balance of the year.

Operator

Our next question comes from Josh Raskin with Nephron Research.

Joshua Richard Raskin - *Nephron Research LLC - Research Analyst*

Just clarification on the exchange true-ups and the impact there. I just want to make sure I get this right. I assume you've got a bigger payable, but that probably means that your claims costs are coming in a little bit better. So I just want to see if there's actually any offset from the receivable from last year. So I just want to see if there's actually an EPS impact expected for this year.

And then my real question is just could you speak to your MA bid strategy for 2024? I'm specifically interested in how you're thinking about benefit design in light of rates and the risk model changes? And then if there's anything to talk about the VillageMD partnership, if that impacts any way you're bidding in certain markets?

Brian C. Evanko - *The Cigna Group - Executive VP & CFO*

Josh, it's Brian. So I'll take the first one, and then David will pick up on the Medicare Advantage question. So as it relates to the different payable dynamics, let me try to give you the full picture here. So just for some context, we ended the quarter with about 820,000 customers in the individual exchange business. That was up significantly from where we were at the end of 2022.

And during the 2022 year, we were in a risk adjustment receivable position on this business. So when we stepped into '23, we had been anticipating that, that would switch over and that we'll -- we'd be in a payable position for 2023. The first look we got at the industry-wide risk adjustment data that we received in early July indicated that we'll be in an even greater payable position for the 2023 plan year, and that was driven by two large states. Those two large states represent about half of the Individual exchange premium base.

And the adjustment in the first half of the year that came through the second quarter was an \$80 million increase in the payable. That was offset largely by a favorable true-up on the 2022 receivable, you can think of that in the range of about \$50 million, and then the residual is primarily driven by favorable claim costs in 2023 relative to our expectations.

So that favorability in the 2023 claim costs partially offset the increased payable that we have, that ran through the second quarter. So hopefully, that helps to square the picture a little bit on the Individual exchange business. David, do you want to pick up on MA?

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

Sure, Brian. So you had 2 questions. Specific to MA and our bid strategy, I'll just speak more broadly. I'm not going to go into detail specifically, Josh, just to manage expectations given the time cycle and the competitive nature.

First and foremost, as I noted, we're pleased with our growth in 2023, point one. Two, as we look to 2024 to some of the points you made reference to, we expect to see larger-than-average local market variability in terms of offering and positioning by competitors. And at this point, I would highlight and reinforce that we remain convicted to and comfortable with our bid assumptions relative to underlying medical costs based upon what we've seen through the first two quarters of the year and our outlook for the year. I'd also note that our Stars position coming into the cycle is consistent and strong and our early look at the Stars on a go-forward basis remains consistent and strong from that standpoint.

Specifically to your last point around Village, first and foremost, I'd ask you to think about initiating the relationship with Village, we seek to have a long-term strategic positive impact. I would note that day one for the benefit of our customers who are experiencing Village and Summit relationships, they began to see benefits immediately by the nature of the structure of our relationship. And then we continue to collaborate, innovate on value-based care, whether it's leveraging some Evernorth capabilities like behavioral, virtual or other services, and/or go more deeply into individual markets around more precisely leveraging data and insights to curate subspecialty networks to get the best possible quality and cost and affordability. That benefit will continue to mount as we go forward. And to the core of your question, contribute to market by market, our posture in MA. But specifically, we're driving this initiative with Village and with our Evernorth team to benefit our Commercial space as well. So we're pleased with the early traction, a lot of work to do, and it will continue to yield dividends both today and into the future. Thanks, Josh.

Operator

Our next question comes from Mr. Nathan Rich with Goldman Sachs.

Nathan Allen Rich - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

I wanted to go back to biosimilars. How has the pricing of biosimilar HUMIRA compared to expectations as more competition come to market?

And given what appears to be a very significant reduction in pricing, does that pull forward the benefit from the HUMIRA biosimilar at all? And for the different options that you added to the formulary, should we think of the economics of each of those as being similar to Evernorth?

And then just a quick follow-up on the Cigna Healthcare segment. Brian, could you maybe help us think through the seasonality this year and maybe why that's different than a typical year? And as we think about the 2024 and going forward, do you go back to more normal seasonality in that business?

Eric Paul Palmer - *The Cigna Group - President & CEO of Evernorth*

It's Eric. I'll start. So as you noted and implied in your question, biosimilars are a really important opportunity to drive competition and for us to then help to make the competition efficient to drive improvements to the affordability of these high-cost specialty medicines. Now in 2023, we've continued to co-prefer HUMIRA on the formulary towards the beginning of the year, we added AMJEVITA to our National Preferred Formulary and

recently added Cyltezo and Sandoz's products, both the low and high WAC versions onto the NPF. So that's the activity that's gotten us to this point to date.

I would note, we work through with the manufacturers on the terms of those to drive to the best available cost, the best available expense for our clients. And we have visibility into that pretty early on. So we've navigated and made our arrangements in constructing the placement such as we came into this year, and so I wouldn't want you to think about there being dynamics kind of playing out simultaneously. These are things we have negotiated in advance. We have visibility into as the products come into the market and we work to leverage the competition to continue to improve affordability for the benefit of the clients we serve.

Over time, as we drive even more products, more competition, we'll work to continue to bring improved levels of affordability to our clients and continue to construct our offerings in a way that best meet their needs. I hand it over to Brian on the second part of your question.

Brian C. Evanko - *The Cigna Group - Executive VP & CFO*

It's Brian. So as it relates to the Cigna Healthcare seasonality, I'd start to remind you, we expect the second half earnings to be a little bit less than 55% in the third quarter. Relative to the MCR component of that, our prior expectations on the MCR seasonality have not changed. So what I mean by that is the directional pattern we saw, for example, in 2022 on MCR is a reasonable proxy for we'd expect the 2023 quarterly pattern to be, and as a result, the fourth quarter MCR is likely to be the highest quarter of the year as we see more customers meet their deductible and out-of-pocket maximum obligations.

However, we do expect the pace of SG&A spending to look different than it did last year. For example, we had a step-up in SG&A in the fourth quarter of 2022 that we would not expect to recur in the fourth quarter of '23. The other item that I call your attention to is our net investment income in the fourth quarter of '22 was considerably weaker than what we're expecting to see in the fourth quarter of '23. So those are the primary things to think through as it relates to the seasonality pattern.

As it relates to '24, at this point in time, there's nothing I'd call your attention to that will lead us to think there's any abnormal pattern.

Operator

Our next question comes from Mr. Steven Valiquette.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

So I guess to the extent that your Medicare Advantage book is seeing a more normalized utilization trend this year that you baked into your pricing and guidance. Just curious if you have any additional color just for the second quarter and whether it normalized more in the outpatient setting versus inpatient. I just want to hear a little more color on some of the trends by cost category, just given the topic of this is for the industry this quarter?

Brian C. Evanko - *The Cigna Group - Executive VP & CFO*

Steve, it's Brian. So as you noted, we planned and priced for more normalized utilization levels in 2023, and our claims experience is largely consistent with that expectation. So within the MA book specifically to the core of your question, we have seen elevated utilization of both outpatient and professional services all year. But important, this should be viewed in the context of what we had forecasted and priced for. So the overall cost trends are largely in line with our expectations in both our second half 2023 guidance and our 2024 bids anticipate that, that dynamic will continue. As it relates to specifically within outpatient and professional, surgeries are the area that I'd call your attention to, in particular, orthopedic and cardiovascular. We did see some level of favorability in inpatient. So those are a few of the subcategories that I'd call your attention to, but all in line with what we had anticipated coming into the year.

Operator

Our next question comes from Mr. Stephen Baxter with Wells Fargo.

Stephen C. Baxter - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

I wanted to ask about some of the moving parts in the P&L this year for Evernorth. In the first half, there's a pretty notable divergence in the growth of revenue and gross profit. And then what you're seeing drop through to earnings? I know that Centene is a big part of that and the investments you're making there. But the trend underneath that still feels like it's pretty notable. Any additional color on what's going on within Evernorth SG&A would be helpful, whether that's investments or mix or anything else that we should be keeping in mind?

Brian C. Evanko - *The Cigna Group - Executive VP & CFO*

Steve, it's Brian. So a few things I'd call your attention to in regards to the profitability margins relative to revenue. We had an expansion of our relationship with the Department of Defense that was effective on January 1, and we had some additional spending that we're kind of working our way into in terms of growing into that. So that certainly weighed down the income growth a bit in the first half of the year.

To your point, the rate pace of investments, particularly around the accelerated growth businesses in Evernorth, both the healthcare services as well as the Accredo specialty pharmacy also impacted the income growth. And then for the back half of the year, we expect accelerated income growth, again, mid-single digits in the third quarter, mid- to high- single digits in the fourth quarter, largely driven by the increased ramp for biosimilars. And I would note that, that's not predicated on any meaningful share shift. We have strong visibility to that income emerging in the back half of the year.

Operator

We'll go ahead to Mr. George Hill with Deutsche Bank.

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

I know it's a small piece of the business, but the other revenue inside of Evernorth grew 35% this quarter, accelerating actually versus the prior quarter. I guess it's becoming to some degree, a meaningful portion of the segment. I guess, could you talk about what's driving that growth? And how should we think about the margin profile that's attached to that business?

Brian C. Evanko - *The Cigna Group - Executive VP & CFO*

George, it's Brian. I'll start and then Eric can pick up a bit. So yes, the fees and other revenue in Evernorth is a strong driver of growth granted off of a low base. So important to keep that in mind as you think about the overall P&L. Multiple areas of growth underneath this line. One I'd call out is we're seeing increased demand for PBM service-based solutions, meaning more fee-oriented relationships as we have more and more clients looking for those types of mechanisms.

We also have contributions from our Evernorth Care businesses reflected here. So for example, MDLIVE and Evicore are both contributing to that. And then if you're looking at pharmacy other revenue, the CuraScript Specialty Distribution business has been a strong grower year-on-year. You also recall from some of our prior conversations that we're very focused on driving cross-enterprise leverage between the Cigna Healthcare business and Evernorth. So as Cigna Healthcare procures more and more services from Evernorth, we have some benefit that comes through the fees and the other revenue lines in Evernorth from that as well.

So Eric, anything you want to add in terms of further color?

Eric Paul Palmer - *The Cigna Group - President & CEO of Evernorth*

Brian, thanks. You hit the headlines in terms of the main drivers here financially. We'd just note on the fee-based portion of the PBM in particular. This is an area that we've continued to accelerate, David made reference in his prepared remarks around our ClearCareRx program. This builds off of a couple of years of experience that we've got in providing fee-based fully aligned mechanisms in terms of providing the pharmacy benefit and so those fee types of arrangements will come through there.

I would say, have you think about the margin profile for that business is very consistent with the other businesses in Express Scripts and the like and then likewise, the growth in our MD Live and behavioral platforms, continue to be an area of real focus for us and continued momentum and into that a driver as well.

And I would have you think about those margins is also generally in line with the Evernorth segment overall. So we continue to be excited about the opportunity and the momentum that we're building in all of the different lines across the Evernorth portfolio, and you're seeing the growth there come through that line.

Operator

Our last question comes from Mr. Lance Wilkes with Bernstein.

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

A question on the specialty products in the Healthcare segment. And just had kind of three elements to it. One was what sort of utilization trends you were seeing in behavioral, dental and some of the other areas where you're taking some risk? And then a broader question, just understanding how much specialty is contributing to the earnings' power of the business versus just the core medical? And what do you think the cross-sell opportunities might still remain for that business?

Brian C. Evanko - *The Cigna Group - Executive VP & CFO*

It's Brian. I'll start, and then David, if you want to chime in with anything, feel free. So for a long period of time, as I think you know, our specialty products within Cigna Healthcare has been a really core part of the value proposition as we seek to expand client relationships. So we have few clients that only purchase medical services from us more and more, purchase a full suite because we've demonstrated over time our clinical models perform best when we have a fuller suite of services.

As it relates to what we're seeing in terms of trends in terms of utilization, behavioral health has certainly been growing at a strong clip, not just this year, but for the past few years. Part of that is by design as we engage with our customers. And over time, that's a good thing because the more utilization we see in behavioral health services, it helps to defray core medical costs over time.

We've also seen an uptick in dental utilization this year as well, but all of these things are within, again, the boundaries of what we had forecasted and planned for and priced for within our Cigna Healthcare book of business, which is why you're seeing our Commercial employer business continue to perform so well financially. And again, that line is on track to achieve target margins here in 2023. And David, anything you want to pick up on here?

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

Sure, Brian. A few items to highlight, specifically, just clicked on one more notch in behavioral, as Brian noted, elevated trend and as you would expect, and over a prolonged period of time, I think the last 3 to 5 years. As you click down in it, think about the professional services as such, we continue to innovate new products, new programs, expansion of network, both physical network. We operate the largest virtual behavioral network in America today and then expanding behavioral services even further in our value-based care programs to help medical professionals be a first line of screening and support from that standpoint.

To the last part of your question around the expansion opportunities within our portfolio, you know our portfolio well in terms of the healthcare side of the equation. If you think about the old monikers of Select, think under 500 employees, Middle Market, 500 to 5,000 old monikers and National above 5,000 multi-geographic. Select still think about that as totally cross-sold and penetrated. We go to market with bundled solutions. It's a big part of our value proposition, helps us generate a predictable high quality, low trend and outcome.

Middle market remains and has a high level of penetration yet there are cross-sell opportunities, and National Accounts, a lower level of penetration versus the other segments. However, as I noted to A.J.'s question, the point solution fatigue in the marketplace present an even further opportunity as you coordinate those services.

The last note I would make is as we leverage the breadth of the Evernorth capabilities today and into the future, we're innovating new solutions. So you'll hear us talk more about Pathwell programs to take specific diagnoses and look at reengineering those episodes of care end-to-end. And in cases, to your phraseology, we take risk based on the performance, we hold ourselves accountable based upon the clinical service and financial outcomes.

So strong penetration down market, opportunities upmarket, market buying behavior is evolving because of point solution fatigue and importantly, continued innovation will continue to drive growth for us there. Thanks, Lance.

Operator

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

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

Thank you for your engagement and questions today. I just want to highlight a few items. We stepped into 2023 with strong growth and have been successful in building beyond that momentum throughout the first half of the year. We remain confident that we'll deliver on our commitments, including our adjusted EPS outlook for 2023 of at least \$24.70 and our commitment for at least \$28 of EPS in 2024.

I'd also note how proud and appreciative I am of our colleagues around the world who continue to be dedicated to driving innovation and delivering on the programs and solutions as well as partnerships that support every day in the health and vitality of our customers, our patients and our clients.

As always, we look forward to talking to you again soon about how we're working to sustain the growth of our company and capture more opportunities to serve more lives and achieve a greater impact. And we continue to invest in our future every day to drive further innovation. Have a great day.

Operator

Ladies and gentlemen, this concludes The Cigna Group's Second Quarter 2023 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) 839-1335 or (203) 369-3357. There is no passcode required for this replay.

Thank you for participating. We will now disconnect.

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