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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 Third Quarter 2023 Results Review.

(Operator Instructions) As a reminder, ladies and gentlemen, this conference, including the Q&A session, is being recorded.

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

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

Great. Thanks. 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 third 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 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.

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.

Before turning over the call, I will cover a few items pertaining to our financial results.

In the third quarter, we recorded an after-tax special item charge of $171 million or $0.58 per share for charges primarily associated with our Medicare litigation settlement.

We also recorded an after-tax special item charge of $19 million or $0.06 per share associated with the sale of our international life accidental and supplemental business to Chubb, and an after-tax special item charge of $9 million or $0.03 per share for integration and transaction-related costs.

As described in today's release, special items are excluded from adjusted income from operations and adjusted revenues in our discussion of financial results.

Additionally, please note that when we make prospective comments regarding financial performance, including our full year 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'll turn the call over to David.

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

Thanks, Ralph. Good morning, everyone, and thank you for joining today's call. We had another quarter of strong performance, and we remain on pace for a year of sustained momentum in 2023.

With the strength of capabilities across our health services and benefits platforms, we are continuing to deliver on our mission for those we serve as we continue to grow our company.

Today, I'll highlight key drivers supporting our performance during the quarter, our priorities and opportunities for expanding our impact and continuing to advance our growth and our view of 2024, including some of the expected tailwinds and headwinds.

Brian will share additional perspective about our third quarter performance as well as our outlook for the rest of the year. So with that, let's get started.

In the third quarter, we delivered $49 billion in total revenue, adjusted earnings per share of $6.77, continued strong cash flow generation across our franchise, all while continuing to reinvest back in our business to fund growth, expansion and ongoing innovation.

These results are strong, and they show how we're continuing our track record of strong, sustained performance.

With our Evernorth Health Services and Cigna Healthcare benefits platforms, we are executing well in a dynamic period; and fueling customer growth with our deep clinical expertise, innovative solutions and breadth of market-leading capabilities.

Our results during the quarter demonstrate how we're continuing to deliver on our commitments for our customers and patients, our clients, as well as our shareholders. We are raising our full year 2023 outlook for EPS, customer and revenue growth, as well as cash flow from operations. With our continued affordability initiatives, we are also now guiding to an improved medical care ratio for 2023. Our businesses are performing well, and we now expect to deliver adjusted earnings per share of at least $24.75 for full year 2023.

Now I'll turn to how we are working to sustain our growth and impact. With our durable strategic growth framework, we harness complementary capabilities from across The Cigna Group. We have scale matured businesses that drive foundational growth, and businesses in faster-growing market segments that contribute accelerated growth. We fuel additional growth through cross enterprise leverage as we bring together the power of our talent, client relationships, differentiated capabilities and innovation from across our company.

Next, I'll share how we have deliberately shaped our portfolio of with businesses that are well positioned for today's market needs. Additionally, I'll highlight some of the ways we continue to drive our sustained success as we look to the future.

Evernorth Health Services continues to demonstrate a proven ability to create value with differentiated pharmacy, care and benefits capabilities. We had a strong pharmacy benefit selling season for 2024, and our teams are already actively engaged in the 2025 season.

We are continuing to innovate and provide our clients with expanded choice as well as market-leading value.

Many of the clients we serve leverage Evernorth's unique suite of solutions to support the needs of their customers. Centene is one new relationship we discussed before, and our teams have been collaborating effectively on implementation work, which is going very well as we prepare to serve approximately 20 million Centene customers beginning in January.

We have a leadership position in addressing a substantial market opportunity with the expanded wave of pharmacological innovation that is reshaping the healthcare landscape. Many of the treatments that are coming to market are pressuring affordability with high list prices from drug manufacturers.

At Evernorth, we are driving better experience, clinical outcome and affordability for patients and clients, given our deep clinical expertise, strong relationships with pharmaceutical manufacturers, as well as with physicians.

The surge of demand for the GLP-1 drug class for weight management offers a good example of how we provide value. Our EnCircleRx program is an innovative solution that addresses the complexity and costs associated with obesity, diabetes and cardiovascular disease. A prevalent combination of conditions that's also known as cardiodiabesity. Drawing on Evernorth's clinical expertise, breadth and depth of data and analytical insights, EnCircleRx guides patients to the most effective care and helps improve affordability for clients.

Beyond the GLP-1 drug class, we expect to see many different manufacturers bringing forth a growing number of new drugs, including gene therapies, additional treatments for cancer as well as others for Alzheimer's and other conditions.

We are uniquely well positioned to make medicine more accessible, affordable and clinically coordinated for those we serve as well as to continue to drive growth for our company.

Now in our International Health business, another foundational business within a portfolio, we are supporting continued growth in target markets and expanding our portfolio of solutions. During the quarter, for example, we introduced a new affordable health plan, customized specifically for the globally mobile seniors population.

Additionally, in the foundational portfolio, our U.S. Commercial business continues to harness cross-enterprise leverage capabilities for the benefit of their clients.

As we look forward to 2024, we know that additional -- in addition to affordability, one of the top priorities for many employers is expanding access, coordination and overall effectiveness of behavioral health programs and solutions.

To benefit of our commercial clients and customers, we are leveraging innovations and capabilities that exist in our accelerated businesses. For example, stress, anxiety, among other mental health conditions create challenges for employers who need a healthy, engaged workforce, and we continue to expand the behavioral health solutions we offer through Evernorth Care businesses.

One of the newer solutions is Confide Behavioral Health Navigator. It's resonating well with clients, helping us both retain and win new business. Confide is guided by a proven model of a more proactive high-touch service level, effective monitoring and targeted follow-up engagement.

We will launch additional enhancements next year to provide digital tools that are personalized to the needs of individual patients that improve matching them with the right therapists and also offer greater convenience and accelerated scheduling opportunities.

Additionally, as we continue to advance our focus on vitality, including our latest research addressing the capacity of individuals across multiple dimensions, it reinforces that mental health, for example, is one of the most significant drivers. We know that adults without significant mental health challenges are 10x more likely to have high vitality. Now if you're an employer, this means higher engagement, higher productivity, lower turnover as well as lower medical costs.

In addition to addressing growing behavior health needs in Evernorth Care, we are also acting as a positive disruptor in care delivery and care management to improve experience, outcomes and access from a patient's perspective. We're developing innovative care models and clinical programs with continued investments, for example, to expand our digital and virtually-led capabilities, while making sure they are coordinated and connected with physical sites of care. For example, we continue to innovate and build on MDLIVE's leading virtual care platform and plan to further accelerate new capabilities in 2024.

Turning to another accelerated growth business. I'll touch on specialty pharmacy. Last quarter, we talked with you about Accredo's extensive clinical expertise in the assets that provide us with a competitive advantage in this fast-growing specialty pharmacy market, which continues to be an important source of growth for our company.

We also have additional capabilities contributing to our leadership and growth opportunities in this space. Accredo focuses predominantly on supporting patients who receive specialty drugs in their home. Sometimes, these complex medications also need to be administered in physician's offices or hospital outpatient settings.

Today, we support providers and health systems with our CuraScript Specialty Distribution capability and we continue to see meaningful growth in this aspect of our specialty pharmacy services.

Finally, an additional accelerated business is our U.S. Government portfolio of services. We are pleased with our recent Medicare Stars quality rating showing that we again have over 2/3 of our members in 4-Star or higher plans. This is recognition of the value we provide to seniors in supporting access as well as high-quality care.

With open enrollment now underway for both Medicare Advantage and the Individual Exchange businesses, we are balancing competitive benefit offerings, targeted market expansion and pricing discipline activity.

So to summarize, we are performing well across our diverse enterprise. And these highlights reinforce how our strategic framework guides us in accelerating innovation, expanding client relationships and continuing to broaden our reach.

Now as we look to 2024, we expect another strong year of performance for The Cigna Group as we build on momentum with EPS, revenue and cash flow growth. We'll share more detailed guidance with you on our fourth quarter earnings call, as we always do.

The tailwinds and headwinds we expect in the year ahead remain largely consistent with our prior conversation, and we continue to be confident in our ability to deliver adjusted EPS of at least $28 per share in 2024.

Notable tailwinds include growth-related contributions, including the full launch of Centene, which starts on January 1, a growing positive impact of biosimilar contributions, and an improved margin profile in our Individual Exchange business.

In terms of headwinds, we will continue to make strategic investments across our portfolio of businesses to drive sustained innovation as well as position ourselves for long-term growth.

Now I'll just briefly summarize our performance for the quarter. We had another strong quarter, and it builds on good momentum throughout the course of the year. We delivered adjusted EPS of $6.77, as well as strong customer, revenue and cash flow growth.

Our company continues to deliver for the benefit of those we serve, and we have been able to increase our outlook for adjusted EPS to at least $24.75 for full year 2023, and we expect to deliver adjusted EPS of at least $28 in 2024, which is consistent with our past discussions.

We are well-positioned with a clear durable strategic framework that leverages the power of our differentiated services within our benefits portfolio and services portfolio.

And 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 The Cigna Group's third quarter 2023 results and discuss our updated outlook for the full year.

We are proud to deliver another strong quarterly performance, including all of our most critical metrics running in line or favorable to expectations. With this performance, we are increasing our full year adjusted 2023 earnings outlook to at least $24.75 per share.

Now looking at the quarter specifically, some key consolidated financial highlights include: revenue growth of 8% to $49 billion, after-tax adjusted earnings growth of 8% to $2 billion, adjusted earnings per share growth of 12% to $6.77, and cash flow from operations of $2.8 billion.

Our two growth platforms continue to perform well, with Evernorth posting a bottom line growth rate that improved sequentially as expected, and Cigna Healthcare delivering results ahead of expectations.

Regarding our growth platforms, I'll first comment on Evernorth. Evernorth continues to deliver strong results, with third quarter 2023 revenues growing 8% to $38.6 billion, and pretax adjusted earnings growing 6% to $1.7 billion in line with expectations.

Evernorth's results in the quarter were driven by strong performance in our specialty pharmacy business, which continues to see double-digit year-over-year revenue growth. We continue to provide a variety of differentiated services and solutions that drive affordability and value for our customers and our clients, while also enhancing cross enterprise leverage across our Evernorth and Cigna Healthcare growth platforms.

In addition, we continue to make strategic investments to support onboarding of new clients and expansion of existing client relationships, all while advancing our digital and care solutions capabilities to enhance customer experiences and provide clients with greater options to achieve their critical goals of access, quality outcomes and affordability.

Overall, Evernorth delivered strong third quarter results, consistent with expectations, and we remain well positioned as we look to the remainder of the year.

Turning to Cigna Healthcare, third quarter 2023 adjusted revenues grew 14% to $12.8 billion. Pretax adjusted earnings grew 16% to $1.2 billion, and the medical care ratio was 80.5%. Our medical care ratio was better than expectations, driven by our U.S. commercial business. More specifically, our favorable MCR performance was a reflection of ongoing disciplined pricing and continued affordability initiatives, ensuring patients get quality care in appropriate settings.

An example of this is Pathwell Specialty, our site of care program that aligns patients who have high-cost specialty conditions with high quality, yet cost-effective care settings.

Moving to Cigna Healthcare medical customers. We ended the quarter with 19.6 million total medical customers, which represents growth of approximately 1.6 million customers year-to-date. On a sequential basis, we delivered medical customer growth across all businesses within Cigna Healthcare, ahead of expectations.

Overall, Cigna Healthcare continues to provide differentiated value and drive affordability for our customers and clients, and the results in the quarter demonstrate our strong underlying fundamentals.

Now turning to our outlook for full year 2023. We have increased our expectations for full year 2023 consolidated adjusted revenues to at least $192 billion, driven by strong growth across our businesses. And we are increasing our full year 2023 adjusted earnings outlook to at least $24.75 per share.

In Evernorth, we continue to expect full year 2023 adjusted earnings of at least $6.4 billion. This implies mid-to-high single-digit growth in the fourth quarter, consistent with our prior commentary.

In Cigna Healthcare, we are raising our medical customer growth expectation to at least 1.6 million customers. This updated outlook represents the third consecutive quarter we have increased our customer growth despite the dynamic economic backdrop. We now expect our medical care ratio to be within a range of 81.5% to 82%, an improvement of 30 basis points from the high end of the prior range. And we continue to expect full year 2023 adjusted earnings of at least $4.425 billion.

This outlook reflects our continued focus and execution across our Cigna Healthcare businesses.

Additionally, our full year 2023 enterprise adjusted SG&A ratio is now expected to be approximately 7.4%, an increase compared to our prior guidance as we further accelerate investments across both our Evernorth and Cigna Healthcare platforms.

And finally, our full year 2023 adjusted tax rate is now expected to be in the range of 20.5% to 21%.

Turning to our 2023 capital management position and outlook. Year-to-date through November 1, 2023, we have repurchased approximately 7.7 million shares of our common stock for approximately $2.2 billion. The continued strength of our cash generation gives us the confidence to increase our full year 2023 expected cash flow from operations by $1 billion to at least $10.5 billion for full year 2023. And our updated guidance assumes full year 2023 weighted average shares outstanding to now be in the range of 296 million to 298 million shares.

Our healthy balance sheet and cash flow outlook benefit from our efficient service-based model that drives strategic flexibility, strong margins and attractive returns on capital.

Now to recap. Third quarter results were strong, reflecting execution across our diverse portfolio of businesses, giving us confidence to deliver on our increased 2023 adjusted EPS guidance of at least $24.75. While we will provide formal 2024 guidance on our fourth quarter call, we continue to expect 2024 adjusted EPS of at least $28.

That said, I'd like to expand upon the tailwinds and headwinds David spoke to earlier. Our tailwinds include revenue growth, inclusive of the full launch of our Centene relationship starting January 1, and continued momentum of the biosimilar opportunity to drive more savings to benefit our patients and clients.

We also anticipate improvement in our Individual Exchange margins next year driven by our pricing actions taken in targeted geographies. Given these actions, we are likely to have fewer customers in the Individual Exchange business relative to where we are in 2023.

These tailwinds will be partially offset by continued strategic investments across our portfolio of businesses to drive sustained innovation and long-term growth.

We look forward to providing detailed guidance on our fourth quarter call. And with that, I'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 Lisa Gill with JPMorgan.

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

I just really wanted to focus on a couple of things. One would be potential PBM legislation as we think about potentially an end of year bill. What are your thoughts on what could be included on the PBM side?

And then secondly, David, you talked about EnCircleRx and talked about GLP-1. I think this is a real benefit, especially when I think about your PBM business for the self-insured market.

Can you maybe just talk about the opportunities that you see there? And how you see that going forward? Are we seeing more people sign up for this in '24, et cetera?

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

Lisa, it's David. I'll take the legislative question, a little tee up relative to the GLP-1 question in the broader marketplace, and I'll ask Eric to expand on the EnCircleRx program.

Specific to legislation, as you know, we have continued to expect to operate in a very active regulatory and legislative environment. As a result, we remain active and constructively engaged in the ongoing dialogue. And by way of framing, before I get the specific, potential legislative activities, we positioned our company with a breadth of capabilities, both modular configured and otherwise, and value creation and value capture capabilities that we believe will be able to thrive and grow under a variety of environments.

I'd highlight an area where we have a lot of passion, and that is to ensure that and amplify the fact that any legislative or regulatory activity should not remove choice, especially from the Commercial market for employers as well as Health Plans given that they are large, sophisticated organizations and fund the vast majority of the comprehensive benefit costs.

Having said that, there is intensified activity around transparency, and we are highly supportive of transparency so long it is targeted and constructive, meaning it could drive a requisite level of actions on a go-forward basis.

As it relates to the innovation that's taking place, as I noted in my prepared remarks, we believe we are exceptionally well positioned. We took very deliberate actions 5 years ago by acquiring Express Scripts, 3 years ago by launching Evernorth, our continued ongoing investment in our specialty capabilities, et cetera, are all oriented around positioning toward both today's class of drugs that we're seeing like the GLP-1s, but future innovations, be they for Alzheimer's, additional cancer therapies, gene therapies, et cetera. And we believe we're well positioned to support both Commercial clients as well as Health Plans.

EnCircleRx is a wonderful new innovation. It's the first of its kind in the marketplace and highly supportive of clients.

Eric, can I ask you to expand on that?

Eric Paul Palmer - *Evernorth Health, Inc. - CEO, President & Director*

Sure, David. Thank you. Lisa, It's Eric. As you can imagine, there is significant interest and need from our clients on the EnCircleRx program and helping them with GLP-1s more broadly. They're looking for our help with managing the affordability and ensuring that they get good outcomes from the spending on these treatments.

As David teed up, I'm really excited about, and I think the EnCircleRx program is a great example of the power of the collective capabilities that we have within Evernorth. It's the first of its kind, comprehensive solution that brings together our supply chain and procurement expertise, along with our clinical capabilities to target the right patient population, the relevant clinical markers, it targets the pharmacy network management, working to eliminate any waste or abuse in the system, and it works to engage patients with additional support that they need to help make changes that makes the impact last here. And we wrap this all with a guarantee of clinical outcomes and such for our clients as well.

So we're -- in short, we're really optimistic and excited about the opportunity this product brings to self-funded markets and would expect additional growth as we look into 2024 and beyond.

Operator

And this question comes from Justin Lake with Wolfe Research.

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

I wanted to focus on the Individual market for a second. Membership was up pretty significantly there, almost 100,000 members. Curious if that's what's driving your 200,000 member guidance increase? You're expecting another big slug of those members in the fourth quarter.

And then can you remind us where you are on margins relative to target this year, and where you kind of -- you talked about improving that,Do you expect to get into target margins next year? That would be helpful.

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

Justin, it's Brian. Just to clarify, your second question was specifically on the Individual Exchanges, correct, in terms of the margin profile?

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

Exactly.

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

Yes. Yes. So first off, as it relates to the Cigna Healthcare customer guide increasing by 200,000 customers, I'd start by saying we're really pleased with the strong momentum across the healthcare book with our year-to-date customers running ahead of expectations. And that builds off a really strong year we had in 2022, where we added nearly 1 million customers in the Cigna Healthcare business, primarily in our U.S. Commercial business.

To your point, we have continued to show sequential growth in our U.S. Government businesses in the third quarter, particularly Individual Exchanges. But we've also seen favorability in our U.S. Commercial membership, as we have not seen the disenrollment levels we had incorporated into our prior outlook.

You may recall that we had been anticipating some economic weakness late in 2023, but this has not yet materialized in any notable impact on our customer volumes. So all in, we're really pleased with 9% projected full year customer growth in Cigna Healthcare, a portion of which is related to the Individual Exchanges, but a portion of which is related to the strength in our U.S. Commercial business.

As it relates to the Individual Exchange margin profile, just for a little bit of context, you can think of this as being approximately a $5 billion block of business for us in 2023. And as we shared in our second quarter call, we anticipate the Individual Exchange book to run below our target margins in 2023, and our long-term target for this business is 4% to 6%.

A primary driver of this is the increased risk adjustment payable that we expect to owe, with the majority of that impact driven by our 2 largest states, notably Texas and Georgia.

Now for 2024, we've taken sizable price increases in both of these two large states, and we would expect some degree of margin expansion in the Individual book overall. The exact amount of the margin improvement will be a function of our geographic mix and our duration mix in 2024, and we're likely to have fewer customers in the Individual Exchange products in 2024 compared to where we are in 2023. But hopefully, that helps a bit, as you think about how to model the '24 Cigna Healthcare outlook.

Operator

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

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

Great. In the tailwind side of things. You talked about revenue growth, including the Centene launch. You've talked so far about the exchanges as well as, kind of, other kind of one-time items.

Does that mean that we should generally think about the rest of the businesses growing more or less in line with those long-term growth targets? Or is there any other business where you would highlight a specific headwind or tailwind to the revenue growth outlook for next year?

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

Kevin, it's David. I'd ask you to step back and first look at the consistency of our performance over the years relative to the portfolio. And if you look at the -- our EPS CAGR, even over the past several years, with a slight downtick this year because of the investments we've made to onboard Centene and our outlook for 2024, we remain consistently within our growth algorithm of 10% to 13% on average EPS CAGR as we've delivered that over the last 3- years, 5- years and 10-year time horizon.

We called out a few of the headwinds and tailwinds to try to amplify some of the components. I would suggest that the first component, the outsized growth, and specifically the Centene contribution, given the offset in 2023, you can view that one as more directionally additive. That pushes us to the high end of the range from an EPS growth standpoint versus the low end of the range.

The other items that we've talked about are largely contemplated in the core parts of our business and the core parts of our operations on a go-forward basis. And as Brian and I both noted, we'll give you more detailed guidance on our fourth quarter call, as we typically do.

Operator

Our next question comes from AJ Rice with UBS.

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

Just to maybe continue to focus on some of those potential tailwinds for next year. I think the investment to get that large Centene contract up and running for this year was about $0.50 drag roughly $200 million pretax.

When you think about that for next year, should we just assume that, that drag goes away? I know PBM contracts typically ramp up over time. Or is there some potential level of profit contribution, so the swing is greater than $0.50?

And then on the biosimilar comment. I know this year, in the second half, you'd included some benefit from the HUMIRA conversion or having some biosimilar competition. Should we think of -- what you're thinking about as a tailwind of just annualizing that? Or are there other opportunities that go beyond just annualizing the second half benefit from that HUMIRA conversion?

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

AJ, it's David. You've packed a lot in there. I'm going to ask Brian to start by framing the economics year-over-year on the Centene relationship, our investment, the year-over-year performance, et cetera.

Asking to transition that over to Eric, he could talk about how the relationship is going importantly. And I'll ask Eric to amplify a little bit relative to the biosimilar impact we're seeing in the latter part of this year and into next year. Brian?

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

Thanks, David. AJ, as it relates to the Centene economics, your math is broadly right. We continue to expect to spend about $200 million this year in the process of preparing for the onboarding.

We expect next year to be approximately breakeven or slightly positive. So that's the way to think about the modeling of that, '25, we continue to expect, it will be at run rate profitability.

As it relates to the biosimilars component, for '24, we expect it to largely be a HUMIRA driven biosimilar story. So that the '25 and thereafter biosimilars, will be further accretive to Evernorth in time, but '24 is really going to be primarily driven by the annualization of the HUMIRA related biosimilar benefit.

Eric, do you want to pick up?

Eric Paul Palmer - *Evernorth Health, Inc. - CEO, President & Director*

Sure. Thanks, Brian and AJ, we've said from the beginning that the adoption of biosimilars is going to be a more extended and slower process. And the experience to date has been consistent with our expectations. We've driven meaningful savings for the benefit of our customers and clients so far this year, and we continue to see this opportunity ramp throughout the course of next year, and as part of the market ongoing.

We've talked in other settings about the meaningful opportunity for biosimilars, not only for HUMIRA but for other conditions, and expect there to be more competition over time where up to 25% or 30% of the spend in the specialty market, we'll have competition, compared to something like less than 10% today.

So in short, this is an area that we're well positioned to drive meaningful value for the benefit of our customers and clients that we have seen unfolding consistent with our expectations. And we're positioned to lead through over the course of the coming years.

Operator

Our next question comes from Stephen Baxter with Wells Fargo.

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

I was hoping you could expand a little bit on the MLR outperformance in the quarter. I guess, could you talk a bit more about what you saw on utilization? I guess, how did the seasonal patterns and the third quarter compare to a more normal pre-COVID environment?

And then, it looks like you assume a decent step-up in Q4, pretty consistent with what you've seen in the past couple of years. Can you talk a little bit about the assumptions there on utilization?

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

Steven, it's Brian. So I'll start again, just reiterating how pleased we are to have delivered another strong quarter of MCR performance in Cigna Healthcare, which was favorable to expectations and drove really the income outperformance that we saw in the Cigna Healthcare segment.

Just as a reminder, if you rewind the clock a bit here, we planned and priced for more normalized utilization levels coming into 2023. And our claims experience is largely consistent with that expectation.

Now within the quarter specifically, our Government product lines, you can think of the Medicare lines and Individual Exchange lines ran largely in line with expectations, while our U.S. Commercial business drove the favorability in the medical care ratio.

As it relates to the full year MCR outlook, we have improved the expectation by 15 basis points at the midpoint, reflecting the favorable third quarter experience, but no significant change in our fourth quarter MCR outlook compared to our prior expectations. So that's the way I'd encourage you to think about the 3Q versus 4Q dynamics.

As it relates to specific utilization patterns and categories and such, I actually wouldn't call out any specific categories in terms of driving outsized favorability. We did see some modest amount of inpatient favorability in the third quarter, particularly on higher unit cost procedures, which did contribute to that MCR outperformance.

But I'd also note that our site of care strategies continue to produce really strong results. A tangible example we often talk about is shifting inpatient procedures to outpatient, for example, on orthopedics. But the site of care strategies have advanced in many other areas as well. For example, Pathwell Specialty, which I talked about earlier, a program we introduced that optimizes site of care for high-cost infusions of specialty drugs. Historically, these have been administered in the hospital outpatient setting. However, certain patients can experience equal or better clinical quality at a lower cost by having the infusion in their home.

So that's just an example of something that has continued to build over time and contributed to the favorable MCR performance we saw in the quarter.

So just to summarize, we're pleased with the performance., U.S. Commercial drove the majority of the favorability in the third quarter. And as noted, the fourth quarter MCR is very consistent with our prior expectations.

Operator

Our next question comes from Josh Raskin with Nephron Research.

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

I didn't hear in the prepared remarks anything about Commercial, large group membership to start the year. So I'm curious on that. But my real question is, if you could compare and contrast the traction you're getting around VillageMD in the Commercial markets versus the Medicare markets, I'd be specifically interested in the appetite from large employers. And if there's any sort of pull for demand? Or are you getting more traction when you're presenting what those arrangements can look like?

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

Josh, it's David. Let me speak to the Commercial large market, and then frame your specific question relative to early traction with Village. And then I'm going to ask Eric to just describe a little bit more broadly the evolving relationship and the strategic work we continue to advance with Village.

First, specific to the Commercial marketplace and the selling season. You didn't miss it, we didn't profile the 2024 outlook in any level of detail.

Stepping back, as Brian noted in his prior comment, we're really pleased with the 2023 results, now increasing the outlook for our overall lives for our Cigna Healthcare portfolio, yet again, in excess of 1.5 million lives, and coming off of a 2022 number, approaching 1 million lives.

For 2024, I give you some directional indicators at this point in time. First, big picture for the enterprise: we expect it to be another attractive year of growth for The Cigna Group in aggregate, specific to the Commercial marketplace, we expect within the Commercial marketplace portfolio our results continue to be led by our sustained strong performance. The combination of our Select segment and our Middle Market segment where our value proposition and our products and services are resonating quite well. Strong retention and good new business adds within that portfolio.

And then specific to National Accounts. Currently, our outlook for 2024 is on the benefit side of the equation, after some outsized growth in 2023, 2024 will look a little bit more normalized relative to prior years. And to remind you, strategically for that segment, we've expected to see that segment be a flat to slightly shrinking segment in the market in aggregate within the employer landscape. Our strategy has us maintaining share and deepening our relationship with our clients through our further expanding portfolio of specialty services.

So to put a circle around it, it will be another strong year of growth for The Cigna Group in aggregate, and the Commercial portfolio in 2024 will be led by the sustained strength of the Select and the Middle Market business[es].

Specific to Village, a quick tee up to your comment. Our Commercial employers today already are seeing a step function to benefit from our relationship with Village and then the Village-Summit acquisition in the nature in which we've structured that relationship. So we were able to deliver a step function of value to our Commercial clients already, be they self-funded, be they shared returns, be they guaranteed cost from that standpoint.

And then the team is aggressively at work to further enhance the value proposition there.

And Eric, I'll just ask you to provide a little color in terms of the way in which the teams are working together to advance the value-based care traction.

Eric Paul Palmer - *Evernorth Health, Inc. - CEO, President & Director*

Sure. Thanks, David and Josh, stepping back a bit for Village, I'd have you think about both the financial and the strategic component of our relationship with Village. As you know, we got a minority stake of ownership now. And so that's performing consistent with our expectations.

From a strategic perspective, think of our work with Village is one Village and us being committed partners to work together. We're working to build an alignment of an ecosystem of high-performing providers where we can ramp Village and Summit's operations with some of our clinical assets, wrapped and support[ed] with the data and insights from both organizations to help to ensure patients can get to, the best care they need, the best specialists they need, the highest quality, et cetera.

And I really think of that as ultimately applicable across Commercial or Government plans. Our focus in the near term has been, I'll say, more skewed towards the Commercial market, but it's an approach that works across any payer here, right, because it focuses on getting to the highest quality, best care available for an individual. And that transcends across all the markets.

Over time, we'll work to continue to expand this. But to date, off to a good start and pleased with the progress and the momentum that we're building with our partnership with Village.

Operator

Our next question comes from Scott Fidel with Stephens.

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

I was hoping maybe we could just toggle over to MA for a second, and maybe just give us sort of a framing, of course, on how sort of MLR was performing, and pretax margin sort of baseline versus the long-term government 3% to 5% target for '23?

And then, if you want to give us some initial observations on how the AEP seems to be developing for you, and how you feel about MA growth next year versus, let's call it, the industry forecast around 7% growth.

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

Scott, it's David. Just a couple of comments, and I'll ask Brian to peel back a couple of your specific points.

First, as I noted in my prepared remarks, we're pleased with the Stars position, the stable, strong Stars position we have, and continued traction of our ongoing focus to expand our geographic footprint. And then I'll ask Brian to expand on a little bit more significantly, as well as our ongoing investments in terms of our broad set of capabilities.

2023 was a very good year of growth for us in terms of this business portfolio, and our market expansion plans are on track for 2024.

Brian, could I ask you to expand on that a little bit?

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

Sure, David. Scott, maybe I'll take your questions in a little bit of a reverse order, and start with AEP and the growth expectations, then I'll get to the margin profile.

As David just referenced, we're really pleased with the growth in the MA book year-to-date. Customers are up 13% year-to-date 2023. And since 2019, as you know, we've gradually expanded our geographic footprint in this business, from covering just 20% of Medicare Advantage eligibles in 2019 to over 40% today. And for 2024, we have some further expansion transpiring, and we'll now have offerings in about 45% of the addressable market.

As we approach the 2024 bid cycle, we employed a micro-market posture as we always do, and this resulted in stable benefits in most geographies and a few areas where we had targeted pullbacks and benefits in light of the funding environment.

Now it's really early in the AEP, as you can appreciate, and there's still several weeks to go. But taken all together, based on what we know today, we would expect to see net customer growth again in 2024.

As it relates to the margin profile, as we expected, our 2023 margins continue to be below our long-term target margin range, which is 4% to 5% on this book of business. You can think of this as primarily driven by administrative expenses as we have outsized investment spend and geographic expansion, product expansion and new capabilities.

So you should think of the MA margins as representing a source of future embedded earnings power that will contribute toward our long-term growth in Cigna Healthcare segment income over a multiyear basis.

For 2024, we expect to continue running below our long-term target margin range in this business. The final projected margin here will also be a function of geographic mix, product mix and customer duration mix, depending on how that shakes out in the AEP and across the balance of the year.

So we'll certainly be prepared to give you more detailed guidance during the fourth quarter call, but hopefully, that helps turn out.

Operator

Our next question comes from Gary Taylor with Cowen.

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

I just wanted to go back and ask one more question about the Exchange business and expectations for next year.

When we look at the pricing actions you guys took -- about - across markets, it looks very, very outsized versus what the rest of the industry did. So I think that's a huge positive in terms of the margin expectation.

But historically, companies that have done that have seen really significant deterioration of enrollment.

So I guess the question is, how much of the at least $28 in 2024 is dependent upon exchange earnings? If we saw the enrollment decline by 30%, 40%, something like that, yet the margin was better, is that impactful to getting to the '24 guidance? Like how much should we care about where we see the enrollment numbers come in?

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

Gary, it's Brian. So certainly, your point is well taken in terms of large price increases can have impacts on the customer volumes in disproportionate ways. We have to see how this cycle plays out in terms of the elasticity of the customer growth relative to those pricing actions.

To David's comments earlier on our tailwinds, this is one of several tailwinds that we have. So I would encourage you not to over-index on the customer volumes in terms of our ability to deliver against the $28 of earnings per share.

Just if you think about the context of this, it's a $5 billion block of business. Target margins, that's $250 million of profit. The midpoint of the 4% to 6% range. So if you think about the delta there, relative to the year-over-year, we're talking about $100 millions of income growth at the enterprise level.

So I just -- I would encourage you not to over-index on this one specific factor. But we're confident we're going to see the margin expansion. We're confident we'll see the income tailwind, and we'll give you more updated guidance on the fourth quarter call.

Operator

Our next question comes from Nathan Rich with Goldman Sachs.

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

I wanted to follow up on the comments around GLP-1 through obesity, and the potential value Evernorth can deliver for clients there.

I guess, could you go into a little bit more detail on the nature of discussions you're having with the drug manufacturers right now on pricing and getting that to a level that could expand access?

And what role, maybe, the outcomes trials will play in those discussions in terms of potentially -- from your kind of Commercial customers, their desire to expand access to these therapies for their populations?

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

It's David. Just a little framing. And consistent with prior conversations we've had. To date, within our benefits portfolio, you could think about 10% to 20% of our clients currently having adopted an optional buy-up or coverage for weight management outside of the already formulary positioning for diabetes for the drug class, number one.

On the Evernorth side of the equation, as we've discussed before, the percentage is higher, and you can think about why the difference. The difference is within the Evernorth portfolio, the Commercial employer landscape is larger employer size on average versus the diversity that exists on the Cigna Healthcare side. And then within the health plan portfolio, enabling some aspect of it from an access. So that gives you little stage setting of the fluidity of the current environment.

Your question comes down to a fair amount of detail relative to pricing and working with the manufacturers. I'll ask Eric to talk just more broadly, this is an area where, as we discussed in our prepared remarks, where the broad capabilities of our Evernorth portfolio significantly thrive in terms of data clinical aspects, clinical coordination, relationship with pharmaceutical manufacturers and importantly, relationship with practicing physicians to get the best coordinated care.

So Eric, could I ask you to expand on that a little bit?

Eric Paul Palmer - *Evernorth Health, Inc. - CEO, President & Director*

Great. Thanks, David and Nate, so with respect to this, stepping back, I would have you think about the impact here that will need to unfold, will be around improving affordability. As has been said and reported across a variety of different channels, these therapies are effective, but they're also very expensive. We would expect that over time, we'll be well positioned to harness the power of competition to improve the affordability to bring the cost down. And that's an important element.

But then in addition to that, we're positioned to wrap and support these patients with additional services, clinical services, the right approach, the right targeting to ensure the maximum effectiveness here.

So I don't know that it's constructive to talk about any of the kind of ongoing dialogue with manufacturers. But rest assured, that we are very engaged with the variety of pharma manufacturers in this space, looking at ways to expand access and improve affordability, just like Express Scripts has a long history of doing, as new innovations have come to the market and the pharmacy space, and we'll continue to be a leader there.

Operator

Our next question comes from Dave Windley with Jefferies.

David Howard Windley - *Jefferies LLC, Research Division - MD & Equity Analyst*

Mostly a clarification. On the Government utilization, maybe particularly Medicare Advantage, it sounds like it was in line with your expectations. But I wondered if you could comment if you are seeing elevated -- in the elevated outpatient that gets called out by others in the space, and that was just, again, in line with your expectations.

And then in terms of managing utilization in site of service. You mentioned good success in managing site of service and Pathwell. Is Pathwell the primary vehicle by which you're doing that? And what is the kind of customer adoption or the penetration, I guess, of Pathwell in your site of service utilization management?

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

Dave, it's Brian. So on your first question on the MA utilization patterns, as I mentioned earlier, when we stepped into 2023, we expected more normalized utilization levels across all of our different product lines, and the claims experience is broadly in line with that.

And within the MA book specifically, throughout the entire year, we've seen elevated utilization in both outpatient and professional services in particular. But again, within the context of what we had forecasted and planned for. So the third quarter, our Government lines ran broadly in line with where we expected them to. And as I said earlier, our U.S. Commercial business really drove the favorability.

So again, the MA patterns were broadly a continuation of what we saw in the first half of the year, and our 2023 guidance and 2024 bids anticipate that these dynamics will continue as opposed to assuming any meaningful amount of cost abatement occurs.

On your second question on site of service, I did call out the Pathwell Specialty example. But you should think of that as one of the many arrows that we have in the quiver, if you will. So the work we've been doing over the past several years has largely been moving inpatient to outpatient. We've been moving things from emergency rooms to urgent care, moving things from physician offices to virtual.

So Pathwell Specialty is another example of the evolution of our site of care program. So I wouldn't view that as the silver bullet here by any means, but it's an incremental contributor to the strategy we had in place for several years now.

Operator

Our last question comes from Lance Wilkes with Bernstein.

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

Yes. Just wanted to turn to the PBM within Evernorth. And kind of two elements to the question. One was, if you could just talk a little about the strategic role of Part D, both for the PBM and for healthcare for driving kind of MA business going forward? And how you see that going forward, given some of the changes in the Part D program.

And then the specific question was on adjusted home delivery and specialty scripts. There were some drops in that. I was just interested if that was a driver -- if that was driven by the Prime relationship and any sort of in-sourcing that's going on there? Or what the other drivers of that move was?

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

Lance, it's David. I'll take the first part of your question. I'll ask Brian to address the second part of your question.

First, specific to Part D broadly, with the size, shape and scope of our enterprise today, it's a portion of our enterprise, but I would call it as not a significant part of our overall portfolio. That's not to dismiss the importance of it from a societal standpoint, by any stretch of imagination. But when you look at the scope of our enterprise approaching $200 billion of revenue this year, I would not call it as a significant component.

Secondly, inferred in your question, I would submit that we've under-realized or underleveraged the potential to effectively convert PDP lives or enroll PDP lives into MA. That's an untapped opportunity that exists within our portfolio today relative to our level of activity and initiation.

Lastly, in your comment, we do recognize that the PDP landscape is disrupted, based on some of the legislative and policy activities that have transpired. And we will effectively position our portfolio, obviously, to be responsive to that disruption. But we have the tools to be able to manage within our portfolio in totality.

I'll ask Brian to pick up the second piece of your question, just relative to the script volume and the puts and takes in the portfolio this past quarter.

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

Yes, Lance, as it relates to the adjusted home delivery and specialty scripts, you can think of a couple of different drivers in there. Specialty scripts continue to grow at attractive rates, so I think mid-to-high single-digit-type unit growth. But given the relatively small numbers there, they're outweighed by what happens in home delivery.

So in that line item, you can think of 95% plus of the volume is home delivery, and less than 5% is specialty scripts, but attractive growth in specialty, which continues to drive the double-digit revenue growth that we've seen in that business all year.

The specific driver of the home delivery decrease, just to put a finer point on it, is we had a transitioning client that we've known about for several years, [that left 1/1/23] that had some outsized home delivery volumes, but we'll see some improvement in that on a go-forward basis with additional clients coming in.

Operator

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

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

First and foremost, thank you again for joining our call today and for the ongoing conversation.

Just to highlight and summarize our dialogue today. We are very pleased with our performance for the quarter and the momentum we've been able to carry now through three quarters of the year. And we remain on track to deliver our overall commitments for 2023.

We increased our outlook for adjusted EPS to at least $24.75 for full year 2023, as well as increasing the overall outlook we have for revenue, customer lives and cash flow based on our strong performance. And remain committed to our 2024 EPS objective of at least $28.

I do want to pause for a moment and thank my colleagues around the world. The healthcare landscape continues to change, with accelerated forces impacting our clients, our customers, our patients and our partners. And our team leans in day in, day out, working to make a positive difference, for those we have the benefit to serve, those we have the benefit to partner with, as well as our orientation around making a positive difference in the communities we work, serve and play in each and every day.

So I want to call out and thank our colleagues that continue to make such a positive difference in the marketplace each and every day.

With that, we look forward to our ongoing conversation and our future dialogues, both in person and investor events as well as our fourth quarter conversation coming up. Have a great day.

Operator

Ladies and gentlemen, this concludes The Cigna Group's Third Quarter 2023 Results Review.

The Cigna Group's 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) 839-1171 or (203) 369-3030. There is no passcode required for this replay.

Thank you for participating. We will now disconnect.
