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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 Fourth Quarter 2024 Results Review. (Operator Instructions) As a reminder, ladies and gentlemen, this conference, including the Q&A session, is being recorded.

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

Ralph Giacobbe - *The Cigna Group - Investor Relations*

Thank you. Good morning, everyone. Thanks for joining today's call. I'm Ralph Giacobbe, Senior Vice President of Investor Relations. With me on the line this morning are David Cordani, The Cigna Group's Chairman and Chief Executive Officer; Brian Evanko, Chief Financial Officer of The Cigna Group and President and Chief Executive Officer of Cigna Health Care; 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 fourth quarter and full-year 2024 financial results and our financial outlook for 2025. 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 2025 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 fourth quarter, we recorded net after-tax special item charges of $64 million or $0.23 per share. Details of the special items are included in our quarterly financial supplement. Additionally, please note that when we make prospective comments regarding financial performance, including our full-year 2025 outlook, we'll do so on a basis that includes the potential impact of future share repurchases and anticipated 2025 dividends.

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

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

Thanks, Ralph. Good morning, everyone, and thank you for joining our call. Today, I'll discuss key headlines from the quarter and our full-year 2024 performance. I'll also share more on the actions we are accelerating to build a better and more sustainable health care model. And then Brian will provide additional details on our financial results and our 2025 outlook, and we'll take your questions.

Before I get into our earnings, I want to start by sharing a few comments on the current environment. During my tenure as the leader of The Cigna Group, there have been a number of periods in our industry where we faced unique challenges, whether the financial crisis, the introduction of the ACA to global pandemic or several significant shifts in political, regulatory and societal landscape.

At The Cigna Group, our resilience and the durability of our business model have allowed us not only to overcome obstacles, but to lead through change while focusing on achieving our long-term objectives for sustainable growth. In early December, we were all witnesses to the tragic murder of Brian Thompson, a leader at the UnitedHealth Group. The past several weeks have further challenged us to even more intensely listen to the public narrative about our industry. At the Cigna Group, we are further accelerating improvements in innovations to increase transparency, expand support and drive even greater accountability. I'll come back to this important topic in a few moments.

With that, let me start with a summary of our 2024 results. We delivered full-year revenue growth of 27% to approximately $247 billion. Full-year adjusted earnings per share of $27.33 representing an increase of 9% year over year, but short of our expectations. We returned $8.6 billion to shareholders through dividends and share repurchase. And our Board of Directors declared an 8% increase to our quarterly dividend to $1.51 per share and increased our share repurchase authority to $10.3 billion.

The Cigna Group also maintained a strong capital position in 2024. We're also nearly complete with the sale of our Cigna Healthcare Medicare business to HCSC, and we continue to expect to close in the first quarter and plan to use the majority of the proceeds for share repurchase.

Now turning to our business results and actions, I want to cover just a few headlines. First, our fourth quarter results were below expectations due to higher-than-expected medical costs in our stop loss product within Cigna Healthcare. We are taking corrective actions on this near-term pressure and expect to recapture margin over the next two years. This is a specific issue we identified and are mitigating and I'll reinforce that we believe our US Employer and Cigna Healthcare businesses are strong and remain well positioned, and we're confident in our long-term growth strategy. Brian will discuss this in greater detail in his remarks.

The second headline for the quarter is that Evernorth continues to drive strong results in line with our expectations, primarily driven by our Specialty and Care Services segment. Our continued leadership with biosimilars is a good example of how we are addressing some of the biggest challenges facing clients and patients today. We began dispensing our HUMIRA interchangeable biosimilar last summer to eligible Accredo patients with $0 cost to our patients. We are pleased that biosimilar use for eligible HUMIRA scripts reached nearly 50% by year-end 2024.

We took another step forward as we announced that we will be an offering an interchangeable STELARA biosimilar, again, for a $0 cost to our patients. Looking forward, we expect approximately $100 billion of specialty drug spend in the US will be subject to biosimilar and generic competition over the next five years. Our HUMIRA and STELARA biosimilar offerings are just the start of this opportunity, and Accredo is well positioned to lead and continue to deliver real savings for our clients, customers and patients.

Now stepping back, prescription drug coverage is the most frequently used health care benefit. On average, it's used about 15 times per year per person. And how our nation and industry captures the full promise of prescription drug innovation while addressing affordability has been subject to continued debate. Pharmacy benefit managers are essential in helping patients access medications at fair and affordable prices. In fact, approximately 80% of Express Scripts patients spend less than $100 out of pocket per year for their prescriptions. Yet, we recognize for those Express Scripts patients who pay more than $100, for some, it's too high.

For example, consider the increased use of GLP-1s in the United States, it is the number one driver of drug trend across employers of all sizes in 2024. Despite these medications being relatively cheap to produce, Americans are paying prices that are multiples higher for GLP-1s compared to other countries, even with full pass-through of rebates. Said otherwise, even including all discounts and rebates, the end result is that the US costs are multiples higher than other OECD countries. This is not acceptable, nor sustainable.

As for innovations, led by Evernorth and Express Scripts, we are proud that last year our EncircleRx solution grew to approximately 8 million lives enrolled, where we are supporting the best possible patient outcomes by providing those on GLP-1s additional lifestyle support and tools to help sustain long-term improvement.

Now the next headline I want to touch on a bit more is the current environment. We have long been on a path to evolve and drive continuous improvement. As we step into 2025, we have further strengthened our urgency and resolve on this path. That means we are accelerating investments that will positively impact the way our customers and patients experience health care.

To that end, this week, we announced actions we were taking in Express Scripts, our pharmacy benefit service business within Evernorth. Our commitment will help patients directly benefit further from the negotiations we drive to lower out-of-pocket costs as well as work to further enhance transparency.

Let me briefly recap the announcements. Going forward, our standard products will provide patients lower prices at the pharmacy counter, protecting them from paying full list prices for drugs, and they will fully benefit from our lower net negotiated prices. Next, patients will also have improved predictability, especially and importantly, in their deductible phase by receiving the benefit of Express Scripts negotiated savings like their employer does. We will also expand the benefit summaries and disclosures we provide.

Patients will receive a personalized summary that details their annual total prescription drug costs, plan paid amounts and the savings we deliver. And plan sponsors will also receive an enhanced report beyond what Express Scripts already provides, including additional transparency on costs and pharmacy claim level insights.

We know that more can be done within our health plan offering as well, for customers and patients as well as clinical partners to further ease access to care timeliness and expand support programs. More specifically, Cigna Healthcare will soon be announcing steps to improve value and address patient points of friction. Our focus is on making prior authorizations faster and simpler and expanding access to advocates for those facing complex health conditions to help them navigate every stage of their care journey.

These initiatives will require that we incur additional costs, but we firmly believe these are critical actions for the benefit of customers and patients. We will continue to take a prudent approach to these and future Cigna Healthcare and Evernorth actions in the weeks and months ahead as we are determined to continue to evolve for the benefit of those we serve and build a more sustainable health care model.

Now let me briefly summarize. Against the backdrop of a dynamic and challenging environment in 2024, we delivered full-year adjusted earnings per share of $27.33 and we returned $8.6 billion to shareholders through dividends and share repurchase.

Looking ahead to 2025, our EPS outlook of at least $29.50 reinforces the sustained growth and strength of our company, and we are focused on taking the prudent steps necessary to ensure our company is well positioned for future growth. And we remain confident in our long-term 10% to 14% growth target fueled by our differentiated capabilities and portfolio of businesses.

Finally, we recognize the need for accelerated positive change in our health care system to make it simpler and more affordable for everyone. And The Cigna Group is committed to continuing to take actions to drive further accountability and transparency as well.

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

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

Thank you, David. Good morning, everyone. Today, I'll review Cigna's fourth-quarter and full-year 2024 results, and I'll provide our outlook for 2025. For full-year 2024, we reported consolidated adjusted revenues of $247.1 billion, adjusted after-tax earnings of $7.7 billion, and adjusted earnings per share of $27.33. Our performance within the Evernorth Health Services segment ended the year strong with particular momentum in Specialty and Care Services. Despite this, our enterprise earnings results fell short of our expectations, driven by higher-than-expected medical costs in our stop loss products within the Cigna Healthcare segment.

This resulted in a full-year medical care ratio of 83.2%, which was above our guidance range. We are taking corrective action to recapture margin, and we remain confident in the long-term strength of our business despite the short-term pressure.

Now more specific to Cigna Healthcare's fourth-quarter results. Fourth-quarter 2024 revenues were $13.3 billion. Pre-tax adjusted earnings were $511 million, and the medical care ratio was 87.9%. As I noted, fourth-quarter earnings fell below our expectations as we observed elevated medical costs in stop loss. Results of our other products were in line with expectations, exhibiting a continuation of elevated trends that we had seen throughout the year.

Taking a step back, it's important to note that stop loss is a unique product within our portfolio where employers limit their risk from unexpected high-cost claims by transferring that risk for medical costs above a specific individual or aggregate employer dollar amount. We can see variability in this product at times, but we've generated and continue to expect attractive margins over the long term.

This year, variability was more pronounced in the fourth quarter as we had an increase in the number of high-cost claimants related to cost pressures from the continued acceleration in the prescribing and use of specialty medications as well as elevated high acuity surgical activity.

The fourth quarter also tends to be when more client settlements transpire, including true-ups for the full calendar year of activity. We had seen some of these trends emerge in the third quarter and began pricing for higher trend on high dollar claims. But did not capture the full extent of this trend acceleration that materialized in the fourth quarter. And as a result, we expect a slightly higher MCR for stop loss in 2025.

While this negatively impacts near-term margin, we expect to recapture approximately 100 basis points of margin in the overall Cigna Healthcare segment over the next two years, with the majority in 2026 and the remaining in 2027. We will do this by balancing pricing action, affordability initiatives, operating cost efficiency, and continued investments.

Now turning to Evernorth. 2024 highlighted another year of sustained growth, particularly within the Specialty and Care segment, highlighting the attractiveness of our market-leading clinical capabilities and innovative solutions that create affordability for customers and patients, amidst the growing trend of pharmacological innovation. Adjusted revenues for fourth-quarter 2024 grew 33% to $53.7 billion, and pretax adjusted earnings grew 14% to $2.1 billion, in line with expectations.

Moving to our businesses within Evernorth, Specialty and Care Services adjusted revenue grew 18% to $23.5 billion and adjusted earnings grew 27% to $948 million. This continues the pattern observed from last quarter, which reflects growth across our specialty businesses driven by higher utilization of specialty medications as well as a continued increase in the adoption of HUMIRA biosimilars. By the end of the fourth quarter, we saw almost half of eligible HUMIRA scripts transition to biosimilars.

Pharmacy Benefit Services also posted robust growth, reflecting client wins and the continued demand for new drugs through our innovative products and solutions. Pretax adjusted earnings increased to $1.2 billion as our differentiated capabilities continue to drive affordability and value to our patients, customers, and clients.

Overall, the fourth quarter capped another strong year for Evernorth, with full-year pretax adjusted earnings growing 9% for the year. We are the industry leader in pharmacy benefit services and in specialty pharmacy. And our strong 2024 performance gives us confidence for sustained attractive growth over the long term.

Now turning to our 2025 outlook. First, I'd note that the divestiture of our Medicare businesses to HCSC remains on track to close in the first quarter, and this is contemplated in our outlook. We expect full year 2025 consolidated adjusted revenues of at least $252 billion. And we expect full-year 2025 consolidated adjusted income from operations to be at least $7.9 billion or at least $29.50 per share. As David mentioned, we are accelerating investments that will positively impact the way our customers and patients experience health care. Our outlook reflects up to $150 million in costs for these initiatives, split between Evernorth and Cigna Healthcare.

When considering earnings seasonality, 2024 is not representative of typical patterns given the dynamics I referenced with our stop loss products. As such, we would expect the adjusted earnings per share pattern for 2025 to be more similar to 2023's pattern.

Now turning to our 2025 outlook for each of our segments. In Evernorth, we expect full-year 2025 adjusted earnings of at least $7.2 billion. This represents year-over-year growth within our long-term growth target range on a normalized basis. Within Evernorth, we expect first quarter earnings to contribute slightly below 20% of full-year Evernorth earnings.

For Cigna Healthcare, we expect full-year 2025 adjusted earnings of at least $4.1 billion. This represents mid-single-digit year-over-year growth on a normalized basis. Within Cigna Healthcare, we expect approximately 55% of full-year earnings to be in the first half of the year, slightly more weighted to the first quarter.

Assumptions in our Cigna Healthcare outlook for 2025 include our medical care ratio to be in the range of 83.2% to 84.2%. This reflects the expectation that our stop loss MCR continues to be above target levels for full-year 2025.

We expect the first-quarter 2025 medical care ratio to be below the low end of the full-year guidance range to reflect typical seasonal patterns. We expect approximately 18.1 million total medical customers at year-end, reflecting the divestiture of our Medicare businesses to HCSC, a reduction in individual exchange customers, and growth within our US Employer select and middle market segments.

For the enterprise, we project an adjusted SG&A ratio of approximately 5.4% for 2025. This percentage is lower in 2025, largely reflecting mix due to the absence of our Medicare businesses, which carried a higher SG&A ratio compared to the consolidated average. And we expect the consolidated adjusted tax rate to be approximately 19%.

Now moving to our 2024 capital management position and 2025 capital outlook. Our fourth-quarter cash flow is quite strong, and we finished full year by delivering $10.4 billion of cash flow from operations. In 2024, we repurchased 20.9 million shares of common stock for approximately $7 billion. In addition, the Board of Directors recently approved an increase of $6 billion in incremental share repurchase authorization, bringing the company's total share repurchase authorization to $10.3 billion as of December 31, 2024. Finally, we returned $1.6 billion to shareholders via dividends in 2024.

Now framing our 2025 capital outlook. We expect to deliver approximately $10 billion of cash flow from operations with the strength of our efficient service-based model. We expect to deploy approximately $1.4 billion to capital expenditures, and we expect to deploy approximately $1.6 billion to shareholder dividends, reflecting our quarterly dividend of $1.51 per share, an 8% increase on a per share basis.

Our guidance assumes full-year weighted average shares outstanding to be in the range of 266 million to 270 million shares. Our capital deployment priorities remain consistent with our long-term framework. We expect some debt paydown in 2025 as we look to bring our leverage ratio closer to our 40% target. As it relates to the sale of our Medicare business, we continue to expect a majority of proceeds will go towards share repurchase.

Now to close, as we look to 2025 and beyond, we remain confident in our long-term strategy and our ability to deliver sustainable growth through our differentiated portfolio of businesses. As David mentioned, we're operating in a highly dynamic environment. But as we've demonstrated in the past, we have a proven track record of meeting challenges and taking the actions to deliver affordable and innovative solutions for our customers and patients. We're confident in our ability to deliver full-year 2025 adjusted earnings of at least $29.50 per share, which we believe is prudent at this time, given the dynamic environment.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Justin Lake, Wolfe Research.

Justin Lake - *Wolfe Research - Analyst*

I wanted to ask a couple of things on the stop loss business. First, on the $7 billion of premium. I was hoping you can give us some split between the aggregate versus specific stop loss premiums and then maybe tell us if there was any more margin pressure in one segment versus the other in the fourth quarter.

And then I wanted to just make sure I'm understanding the magnitude of the miss correctly here. You talked about the fourth quarter miss being all stop loss. So I'm getting to like 1,500 basis points in the fourth quarter. Is that in the ballpark? And then I think you said your margins overall are 100 basis points higher because of this or lower that you'll recapture which would seem to indicate stop loss is off by about 5% given the percentage of revenue. Just making sure I understand all of that correctly. Any help, appreciate it.

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

It's Brian, a number of components to your question so I'll do my best to capture as much of that as possible. Let me just start with a little bit of context on the stop loss business. I'll try to get to your very specific questions there, on my way through here.

So obviously, we're disappointed by the shortfall that we reported in the fourth quarter. As I mentioned in my prepared comments earlier, the vast majority of the shortfall was driven by our stop loss products within Cigna Healthcare and the rest of the Company performed broadly as we expected.

Now it's important to keep in mind that our stop loss product performance in the quarter is really more representative of the full-year impact. It's an accumulation product reflecting 12 months of health care activity for a given individual or an employer. And we continue to feel very good about the long-term fundamentals of our US Employer portfolio and the stop loss products specifically. And the shortfall that we're currently experiencing represents an embedded earnings opportunity for the future.

As we look back to 2024, the aggregate health care costs within the Cigna Healthcare portfolio were broadly in line with our expectations, reflecting the persistently elevated cost trend environment that I referenced. But the mix of those costs shifted more toward high-cost claimants than we had expected, which has a disproportionate impact on the stop loss products.

And given when we identified the magnitude of the 2024 stop loss pressure, we were not able to fully recognize this in our January 2025 renewal pricing as much of that pricing work was completed in the fall. Now some of the later 2025 renewals will reflect the updated estimates, with the majority of the 2025 stop loss pricing will not capture that elevated cost structure.

So when you put all those pieces together, we would expect to see 100 basis points of margin improvement across the Cigna Healthcare portfolio by 2027 with the majority of that to be captured in 2026.

Now more specifically to your questions. When you think about the $6.7 billion of premium in our stop loss book of business, there's a mix of individual and aggregate stop loss in there. And there are a variety of attachment points and different client choices embedded in there. You can think of it as more tilted toward the individual versus the aggregate, but we have a wide range of stop loss offerings that are out there.

And for full-year 2024, the overall stop loss MCR ran in the low 90s in terms of the percentage, which you can think of as being a mid-single-digit percentage amount worse than our expectations had been in 2024. So again, that $6.7 billion of premium multiplied by a mid-single-digit percentage miss gets you about the earnings impact that we're seeking to recover over time on the stop loss portion of the portfolio. But importantly, the balance of the Cigna Healthcare portfolio ran broadly in line with expectations. Thanks for the question.

Operator

Stephen Baxter, Wells Fargo.

Stephen Baxter - *Wells Fargo - Analyst*

I'll ask another one on stop loss. I guess, when you've gone through these cycles in the past, can you talk a little bit about how it's impacted retention and membership for the impacted accounts that have seen these kind of larger above-trend increases for stop loss? And I can definitely appreciate why it takes until at least 2026 to get meaningful improvement. But when you're talking about some of this improvement leaking out into 2027 potentially, could you just help us understand a little bit why it could become even that far extended?

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

Stephen, it's Brian again. So one thing that's critical to keep in mind as it relates to our stop loss portfolio is that we don't write standalone stop loss coverage. So our entire book of business reflects an integrated employer offering where we're providing the first dollar coverage alongside. So as a result, our overall relationship with the employer is multifaceted in nature and involves many products and solutions, which ends up creating numerous opportunities for value creation and the associated value capture.

And even with the stop loss claims pressure that we experienced in our 2024 results, our overall client level relationships are profitable for those employers who choose our stop loss offerings.

When we look back historically over many years, decades, in fact, we've been able to overcome the short-term ups and downs of our stop loss portfolio and generate attractive long-term returns. And our clients value these long-term relationships and the associated budget certainty that our offerings can provide to them, which really is evidenced by the fact that well over 50% of our employer clients who choose our stop loss products have been clients of Cigna Healthcare for five years or more.

So the shortfall in our 2024 results offers a substantial embedded earnings opportunity for the company, and we're confident in our ability to execute against this, balancing the timing of margin recovery with client persistency.

Operator

Charles Rhyee, TD Cowen.

Charles Rhyee - *TD Cowen - Analyst*

Just related to sort of the stop loss again a little bit. You called out specialty meds at the start contributing to that. Is that related to GLP-1s at all? And related to that, as we think about the Evernorth guide going forward, you're starting at a 3% operating income growth starting point. But you finished '24 up 9%, which, if I remember correctly, right, including onboarding costs related to Centene in the first half of the year. Anything to call out relative to '25 because otherwise, it seems this part of the guidance seems pretty conservative, particularly given the growth you saw in specialty in the back half of '24.

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

Charles, it's Brian. So as it relates to the stop loss specific drivers, I think was the core of your first question, you can think of this as being a situation where we had a greater frequency of high-dollar claimants than we have been expecting, particularly driven by high cost specialty pharmaceuticals and by high acuity surgical activity.

Now within the specialty drugs, I would not point to GLP-1s as a driver of this. Think of it as more specialty injectables, so when you look at the nature of that particularly for the stop loss books, it's drugs like KEYTRUDA or OCREVUS, those sorts of specialty injectables that drove some of the upward pressure. And then on the high acuity surgical side, think of that as more tilted to inpatient procedures, for example, oncology and cardiac-oriented procedure. So that was really the core of the upward pressure on the stop loss products.

Now as it relates to Evernorth's 2025 income outlook, just again, I'd start by saying how pleased we are with the overall performance of that portion of the company. We delivered a strong result in '24, as you noted in your question. As it relates to 2025, specifically, our outlook for the income growth is within our long-term growth rate range of 5% to 8% when a few adjustments are made. So specifically, the absence of VillageMD net investment income, which was recorded in 2024 as well as the Evernorth share of stranded overhead from the Medicare divestiture.

And then as I noted in my prepared comments, we have earmarked up to $150 million across the company for incremental 2025 investments in patient and provider facing initiatives, and our guidance reflects a portion of that spending in the Evernorth segment. So adjusting for these factors, we look forward to Evernorth delivering income growth within our long-term average annual growth rate range. So overall, Evernorth performing well. We're positioned for another good year.

Operator

Lisa Gill, JPMorgan.

Lisa Gill - *JPMorgan - Analyst*

David, I wanted to go back to the comments that you made around Express Scripts and some of the offerings that you now have, lowering the price at the counter, et cetera, and really tie that back to comments you've made in the past around roughly 20% of total profits coming from rebate retention. Can you talk about two things? One, are clients shifting more where they want more of the rebate retention? And if so, how do we think about that impact to profitability over time?

And then secondly, the programs that you talked about, are those more of an opt in, so you're selling those into the marketplace. And I'm just curious around what you're seeing on the uptake side. So really two questions here, how I think about the future. And if we have changes, what that could do to the profit of the model. And then secondly, the uptake around this.

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

Lisa, it's David. I'll start and I'm going to ask Eric to expand. I think your latter part of your commenting question was the summary you were seeking. At the enterprise level, we do not see this as a change to our profit model. So I'll come back to that headline in a moment.

We've worked for an elongated period of time through innovation, through ongoing efficiency to continue to deliver more value while maintaining an attractive margin and by maintaining a stable low single-digit margin, which we think is responsible given the nature of this book of business. Coming back up to the top, I'd ask you to not think that your statement was 20% of the profit is correlated to rebate retention. The vast majority of rebates are passed through today. The model has evolved rather rapidly through the vast majority of all rebates being passed through.

We continue to offer choice in the marketplace. There are instances where employers, large sophisticated employers or collective bargaining arrangement unions, want to continue to use rebates a little differently in their overall benefit program.

And then to the core of the second part of your question, we're really excited about, and I couldn't be more appreciative and proud of the innovation of our team, with the most recent innovations we announced this week, which take even more precision to identify those patients who due to deductible phases or otherwise have some financial dislocation.

As I noted, 80% of all Express Scripts customers have less than $100 cumulative out-of-pocket through the course of the entire year. However, we recognize some have more, and we need to bring more precision there and that's where some of the new innovations are targeted.

So I'll ask Eric to expand a little bit more on those exciting innovations.

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

Great. Thanks, David, and good morning, Lisa. As David noted, as you noted, we announced yesterday a couple of additional enhancements and just built on our track record of innovation to make medicines more affordable. So first, we announced that customers will not have to pay a list price at the pharmacy counter. And regardless of where they're at with deductible, our go-forward approach will be to ensure that they get the benefits of the discounts we negotiate.

Second, for customers who are in a phase of a deductible or coinsurance plan, we work to ensure that they receive the same price as their underlying plan would pay. And we also announced an additional series of patient and plan sponsor level reporting enhancements building on the transparency we deliver. So taken together, those are just another set of examples in our track record and our history of continuing to bring innovations to market.

And the kind of last piece of your question, I'd expect this will be the default way that we bring these solutions to market for employers and like. As David noted, our clients undertake significant work to structure their benefits in a deliberate way, and we offer them choice on how they wish to structure them. But as the years passed, rebate value that we share with our clients is continuing to increase, and we're proud of the choices we're able to offer and the work that we do to bring improved affordability to medicines to the millions of people we serve.

Operator

A.J. Rice, UBS.

A.J. Rice - *UBS - Analyst*

Hi, everybody. Just to maybe get a little bit of clarification on a couple of points with respect to the 2025 guidance. And when you gave some preliminary comments on third quarter, I don't think you had incorporated this, but now you're incorporating the sale of the MA book by the end of the first quarter in the outlook as well as presumably some redeployment of that capital.

I'm trying to figure out what is the underlying assumption around what that does to the earnings outlook of the company when you start to factor that in. Also, I think the other aspect of the '25 outlook was -- there was some pressure on the Evernorth margin in '24 related to the big new contract wins that you are absorbing and that there was presumably going to be some favorable step-up in '25 as that contract -- that one big contract, in fact, matured a little bit. Are you assuming some level of step-up on that? Or are you now sort of assuming it's sort of steady-state margin?

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

A.J., it's Brian. So let me do my best with your questions here. The former in terms of the Medicare divestiture, as I mentioned earlier, on track to close in the first quarter. We've reflected that in the revenue and the income guide as well as the capital deployment expectations here for the year. And you can think of it as about $12 billion of revenue from 2024 that will be obviously removed with the divestiture.

We'll recognize a stub here with one month of January revenue and then whenever the closing date happens to be in February or March. As it relates to capital deployment, as I mentioned earlier, we expect to use the majority of the proceeds for share repurchase. That's reflected in our share count guide. And then relative to the other contributions when you think about the Cigna Healthcare income guide, the removal of Medicare is reflected in that.

So maybe just to put a finer point on that. If you look at our segment income guide for Cigna Healthcare this year and you compare it to 2024, if you look at 2024 as actual income and remove the contribution from the Medicare financials, remove the stranded overhead from the divestiture and remove the favorable prior year development that we saw in 2024, the normalized Cigna Healthcare earnings would have been slightly below $4 billion in 2024. So that just gives you a basis to compare our 2025 outlook, reflecting the removal of Medicare and the removal of the prior year development. We do not forecast future prior year development.

As it relates to the client contribution in Evernorth and the guide that I walked through to the earlier question that Charles asked me, the implied normalized growth rate that I referenced being within our 5% to 8% long-term growth rate range reflects the continued maturation of our large client contracts. So it's in there. The relationship continues to be very strong across the teams, and we're pleased with the overall financial contribution of that relationship.

Operator

Scott Fidel, Stephens.

Scott Fidel - *Stephens - Analyst*

Just wanted to sort of put the stop loss repricing efforts into some context. First, just curious around the fact that we know that the stop loss pressures were not unique to Cigna. We did see data points during the quarter from other large stop loss carriers also discussing very similar effects. So the first piece would be, as you reprice the business in '25 and into '26, do you think that the persistency of the clients may benefit from the fact that others in the market will also be needing to take similar pricing actions?

And then when we think about the renewal cycle of the clients that typically takes stop loss for Cigna, which has always been a bit more weighted towards select and middle market, there's a different renewal cycle for those clients. They're not as entirely weighted to sort of Jan 1, for example. So basically, also, if you could remind us for '25 basically, walk us through how much of the business you still have an opportunity to reprice on where you see these higher stop loss costs.

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

Scott, it's Brian. So as it relates to your first question in terms of the client relationships, the timing to recover, et cetera, and putting that into context. As I mentioned to the earlier question, I think Stephen had asked me, important to keep in mind, these are all integrated client relationships where we have both the first dollar and the stop loss coverage.

And if you look across the totality of the relationships, on average, about 20% of a given client's cost is stop loss oriented. In terms of the clients that choose to work with us on stop loss, about -- on average, 20% of it is stop loss. Some are higher, some are lower depending on how much risk appetite they have, how much risk they seek to transfer.

So the point being a point of overall claim cost is only 20% of that on the stop loss. So there's a little bit more of a buffer here as it relates to repricing in terms of the overall client persistency, which in our estimation gives us an advantage being an integrated stop loss carrier compared to the standalone stop loss carriers who might be competing up against us.

Now your question on the renewal cycles. The way that our stop loss products happen to work, it's actually a little bit more tilted toward the beginning of the year. So we have about two-thirds of our stop loss premium that renews in the first quarter, given that we also have large clients who purchased stop loss from us.

So it's not quite as uniformly distributed throughout the calendar year as our select segment happens to be. And as a result of that, that's one of the primary reasons why we're not able to recapture more in 2025. But again, we have the confidence that we'll capture a majority of that 100 basis points of Cigna Healthcare margin expansion in 2026 with any residual in 2027.

Operator

Erin Wright, Morgan Stanley.

Erin Wright - *Morgan Stanley - Analyst*

Great. So you spoke to the buyback authorization increase, but how are you thinking about, I guess, capital deployment from an acquisition standpoint? And just any sort of change in your thought process around the regulatory environment on that front? Or just your broader framework and thought process around acquisitions, I guess. Has anything changed there?

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

It's David. First, to frame the M&A question, our capital priorities remain intact and consistent in terms of how we deploy our capital, in terms of supporting ongoing growth of the business, including our CapEx. We have a disciplined process attached to that and then evaluating both strategic M&A and ongoing deployment of targeted M&A activities, which I'll come back to in a moment. And as both Brian and I noted, an attractive dividend sits in there as a part of it that continues to grow.

Now specific to M&A, first, our three growth platforms continue to perform well. And I would just highlight and amplify how pleased we are overall with the sustained performance there, and call out the specific significant growth opportunity we continue to see in the Specialty and Care platform. By way of just our actions and our words lining up as we noted, we deployed in excess of $8.5 billion in 2024, mostly for share repurchase as well as with dividend payments. And our capital outlook and our cash flow outlook of greater than 10% cash yield for 2025 remains attractive.

So as we look forward, we will continue to evaluate strategic, what we consider, bolt-on acquisitions that will advance our portfolio, but our ongoing growth of our core platforms will be the underlying driver, and we will support that with ongoing share repurchase as we believe that is a prudent ongoing investment back into the organization, and we'll evaluate those targeted bolt-on acquisitions as they make good strategic sense for us.

Operator

Andrew Mok, Barclays.

Andrew Mok - *Barclays - Analyst*

I understand the different mechanics of the stop loss business. But if you're seeing pressure in that part of the business related to higher specialty cost trends, I'm a little confused why you're not seeing that pressure on the fully insured part of the business. Maybe help clarify that.

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

Andrew, it's Brian. So as it relates to your question on the different pockets of the Cigna Healthcare portfolio, maybe I'll expand a little bit on the MCR performance for the different components. But again, I'd come back to something I said earlier, where the all-in cost structure that we saw in 2024 was comparable to what we expected it to be, an elevated cost structure, but comparable to what we had planned and priced for in totality, but the mix of those costs shifted more toward high-cost claimants than what we had been anticipating coming into the year.

If you think about the Cigna Healthcare portfolio in aggregate, you can think of it as three broad components. So the largest portion of Cigna Healthcare, which represents about 60% of the Cigna Healthcare premium, and it's unrelated to stop loss, unrelated to Medicare, so think of everything else, broadly in line with expectations, and we ended the 2024 full year with an MCR of around 80% on that block of business. So that 60% ran at about 80% MCR and we're projecting a roughly similar MCR performance in 2025 for that portion of the book as our pricing yields are expected to track cost trends on that portion.

The second component is our Medicare business, which represents about 25% of the Cigna Healthcare premium and ran broadly in line with expectations in 2024. And then the final 15% is the stop loss products. So for 2024, as I mentioned in Justin's earlier question, the overall stop loss ran in the low 90s on that 15% portion of the book. So we ended up seeing, within the total health care pie, a shift toward more high-cost individual claimants putting pressure on the stop loss line, but the all-in fully insured products ran broadly in line with expectations.

David, do you want to add anything?

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

Sure. Thanks, Brian. And Andrew, maybe just to give you an illustration to click that down a notch as you're rightfully thinking about the aggregate cost structure versus stop loss. For example, if you take facility costs for 2024, we saw a bit more moderation in lower dollar inpatient events, but an acceleration of higher dollar inpatient events. And you can think about those as cardiac surgical events or oncological events; in the oncological events, aided by specialty pharmaceuticals as they correlate against oncological program.

So that's an example where the aggregate inpatient may be closer to what we thought it would be throughout the course of the year. Because of the deceleration or the less growth on the lower dollar inpatient costs versus the higher dollar, it aggregates more in the stop loss component. That's an illustration of what Brian was articulating.

Operator

Josh Raskin, Nephron Research.

Joshua Raskin - *Nephron Research - Analyst*

Just on the pending Medicare asset sale to Health Care Service Corp, are there any potential adjustments to the purchase price based on revenues, membership MLR, and maybe a comment on the strong membership to start 2025. And then any pending approvals or any sort of last-minute things you're looking for?

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

Josh, it's Brian. So overall, I'd just start by saying the Medicare businesses performed broadly in line with expectations in 2024, and we're on track to close the divestiture in the first quarter, as I mentioned earlier. We have a very collaborative, constructive relationship with HCSC. We've completed all federal antitrust approvals and nearly all state approvals, just one more state to get through.

We have typical financial adjustments to the final purchase price in terms of subsidiary capitalization and things along those lines, but nothing else that I would note that's particularly relevant to the core of your question.

Now as we approach 2025, as we always do, we employed a local market county level bid approach. And based upon our final product positioning, we did see attractive growth in this business, specifically in the geographies and the products where we were targeting. In particular, we're pleased to see net growth coming primarily from HMO products in our more mature markets where we have years of experience and strong provider relationships. So the business is on a solid footing. We're tracking for attractive growth in 2025, and we're ready to hand it off to HCSC.

Operator

Adam Ron, Bank of America.

Adam Ron - *Bank of America - Analyst*

I'd like to dig a little deeper into the Evernorth guidance. I know we somewhat touched on it already, but if you could distill it down into a couple of more specific items. So just curious, like, this time last year, what gave you the confidence to raise the growth rate in the segment that is now coming worse than those higher expectations. It sounds like specialty growth, in particular, is coming in better, if anything. So are there any specific items like VillageMD or on trend guarantees that you gave customers that are driving the underperformance for 2025 in the outlook?

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

Adam, let me ask Eric just to talk about the strategic positioning of the business and the ongoing sustained growth of the components in the business with our sustained strong performance of our PBS and talk a little bit about the retention rates and the growth profile as well as the ongoing focus on the innovation within our specialty business.

And then Brian, if you can take it from Eric and just talk a little bit further around the number aspect of where Adam's question comes back to. Eric?

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

Adam, it's Eric. I'd start at the headline. We're really proud of the growth rate and the track record that we've had here. In fact, we've increased the growth rate for Evernorth a number of times over the course of the last number of years and are committed to and excited about the long-term growth rate of 5% to 8% that we see for the Evernorth portfolio overall. And I wouldn't call out anything that's changed relative to that as the long-term growth rate for the segment. We are continued and committed to delivering that.

Brian walked through a couple of the specific kind of tactical items that were incorporated as we built up our 2025 specific guidance, and I think about those in the short term, but the long-term tailwinds and our positioning for innovation across both the Pharmacy Benefit Services and the Specialty and Care Services portfolio continue to be set up really well and we're leaders in both of these spaces. And we think they're real opportunities for us to continue to grow and thrive there.

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

Thanks, Eric. And just to reiterate, there are three unique items as you look at the '25 over '24 Evernorth income growth rate. The VillageMD recognition of the dividend, that was in '24 will not be there in '25; stranded overhead from the Medicare divestiture, a portion of that. We'll see in the Evernorth P&L in 2025.

And then finally, the investments that I made reference to that David covered earlier, we've earmarked at the enterprise level up to $150 million, split between the Evernorth and Cigna Healthcare segment that will hit the 2025 P&L. So those three items are discrete, '25 over '24 items, but the long-term mega trends remain very intact, as Eric mentioned earlier.

Operator

Ann Hynes, Mizuho Securities.

Ann Hynes - *Mizuho Securities - Analyst*

I just want some more clarity on 2025 MLR. So I think you said earlier that off a $6.7 billion base of stop loss was off mid-single digit. So if I do the calculation, that's maybe like around $335 million or $340 million hit versus expectation. But when I look at the 2025 healthcare EBITDA it's about $800 million below the Street. So I'm just trying to figure out what the difference is versus our expectations.

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

It's Brian. So as it relates to the stop loss dynamic we were discussing earlier, that was a 2024 reference when I described the low 90s MCR on the stop loss book on the $6.7 billion of premium. For '25, we're expecting a slightly higher MCR on the stop loss book because of the timing of repricing cycle. And as I made reference, we're unable to capture all of the elevated cost trend on the stop loss for 2025.

So we expect a slightly higher MCR on stop loss in 2025, and that will be on a higher premium base because that $6.7 billion will grow at an attractive rate again. So that dollar amount will grow in '25.

In addition, as I made reference earlier, we do not forecast future prior year development, which was a benefit to 2024, and we have earmarked up to $150 million at the enterprise level for the provider and patient-facing initiatives that David described, and a portion of that will be reflected in the Cigna Healthcare P&L. So those dynamics help to bridge, I think where you were going with the 2025 prior expectations to our 2025 guidance we've initiated today.

Operator

Sarah James, Cantor Fitzgerald.

Sarah James - *Cantor Fitzgerald - Analyst*

Since you started seeing the stop loss claims pressure in 3Q, was some of that pressure already included in the 3Q guide of more than 10% growth and was any of the $150 million investment spend, including in that? Because I'm trying to run the math, bridging the 8% to the more than 10%, and I kind of feel like I'm missing a few good guys. I'm wondering if your outlook improved on some of your other businesses.

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

Sarah, it's Brian. So the third-quarter commentary that we made again was not meant to be formal guidance. It was meant to be just directional guidance. And at the time, we had said at least 10% which we felt was a prudent growth rate range at that point in time. You may also recall, we had moved the MCR guide for the full year at that point in time toward the upper end of the range because we've started to see some indications of some pressure on the stop loss but not to the degree that ultimately manifested across the full year.

So as you think about trying to do that bridge, the couple of things that I call out would be we have now factored in the up to $150 million of investment spend for the provider and patient-facing initiatives that David walked through, that's net new. The degree of the stop loss pressure for the full-year '24 was greater than what we had anticipated three months ago, that's net new.

And then to your point, are there other things going better than expected across the company? Directionally, you should think of the growth as strong yet again. So if you remove the Medicare business, we expect top line for the Company will grow in the, call it, 6% range, so we expect to have another year of good growth across the enterprise. So broadly speaking, I would think of it in those different buckets. But again, the third-quarter commentary was not meant to be formal guidance; it's just trying to give you some directional sense.

Operator

Ben Hendrix, RBC Capital Markets.

Benjamin Hendrix - *RBC Capital Markets - Analyst*

I just was hoping you could put a finer point on your 2025 earnings cadence comments. I appreciate the commentary that you would expect earnings to look a little bit more like 2023 patterns versus 2024. But knowing that we're going to be recapturing the stop loss margins over a number of years, any reason not to expect elevated 4Q cost trend in 2025 as well? Just any comments on that seasonality.

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

Ben, it's Brian. So just the nature of the stop loss products that I was referencing earlier are really full-year products. And so each quarter, we're making estimates of where the final full-year MCR will land for stop loss. In 2024, when the pressure was identified, it was late in the year, which is why the earnings impact showed up predominantly in the fourth quarter. But you should take that earnings impact and kind of spread it over the course of the full-year 2024, which is why we're saying that '24 seasonality is not reflective of what a typical year should look like.

So 2025, for that reason, you should think of it as more of a normal year, if you will, where typical cost-sharing seasonality will drive lower MCRs in the first half of the year and higher MCRs in the back half of the year. And we would expect the stop loss MCRs to have more of a level cadence over the course of 2025.

In addition to that, there are some dynamics unique to Evernorth, for example, the VillageMD and the stranded overhead that I made reference to are more first half weighted. So they serve to depress the Evernorth income a bit on a year-over-year basis compared to the 2024 pattern. But again, the stop loss dynamic, I think, is the most important point as you reflect on the seasonality of our expected earnings.

Operator

George Hill, Deutsche Bank.

George Hill - *Deutsche Bank - Analyst*

Two more quick ones, I guess, to close it out on stop losses. Number one, Brian, are there any other considerations on the stop loss margin recovery besides price (as it relates looking out to '26 or '27) that we should be meaningfully thinking about? Like, are there benefit design or kind of breakpoint levers that get pulled here that get you guys back? And then the second one is you talked about high acuity surgical activity. I'd be interested if you could comment on whether this is elective versus nonelective and if there's any particular procedure types you would call out.

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

George, it's Brian. So on the first question in terms of the stop loss recovery and are there other factors, to the comment I made earlier, given these are integrated client offerings, the stop loss is just one component of the conversation that we have when we go and renew with clients. And as a result of that, it is not just a price conversation, it's a total relationship conversation that we tend to have and it's not uncommon for a client to say, I want to move my pooling points or my attachment points up to reflect the cost inflation that's happened over time, which helps to mitigate the budget outlay for the employer clients.

So those types of dynamics often do work their way into the renewal conversations. And I made reference to earlier, we have decades of experience with this business and have shown during times of both good and bad the ability to keep persistency at strong levels with the employer clients that choose our stop loss offerings.

On the high acuity surgical activity that we saw specifically was a little more tilted toward inpatient. And as David and I both commented, a little bit more cancer-driven and cardiac-driven, which we don't necessarily see correlating with elective procedures. And broadly speaking, our planning assumptions for 2025 are for the high-cost claimant activity we saw in '24 to continue. So we see it as more of a structural shift than something that's temporary. And in the scenario where that assumption is incorrect and it is temporary, then that will offer some upside to the outlook that we've provided here this morning, but we don't see it as heavily correlated to electives.

Operator

Thank you. At this time, I'll turn the call back over to David Cordani for closing remarks.

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

Thanks. I'll be brief. First and foremost, thanks for joining our call and, of course, for your questions today. A few headlines just to reinforce as we wrap up against the backdrop of what is indisputably a dynamic and challenging environment. We're confident in our ability to deliver EPS commitment for 2025 of at least $29.50 and remain convicted and committed to our long-term growth algorithm of 10% to 14%.

We also continue to focus with our specific actions on further improving the health care ecosystem and delivery system and supporting our customers and patients with greater value, greater support and expanding transparency for the benefit of all that we serve.

And lastly, before I close, I want to express my personal appreciation and recognition to our colleagues across the globe. We have about 70,000 colleagues who wake up every day to make a positive difference in customers and patients' lives, and by and large, do that each and every day, and we're going to further strengthen our ability to make a difference for those who have yet even higher needs or at times we may fall short on. Sincere appreciation to our colleagues. Thank you. We look forward to furthering our conversation in the future.

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Operator

Ladies and gentlemen, this concludes The Cigna Group's fourth-quarter 2024 results review. Cigna Investor Relations will be available to respond to additional questions shortly. A recording of this conference will be available for 10 business days following this call. You may access the recorded conference by dialing 800-819-5739 or 203-369-3350. There is no pass code required for this replay. Thank you for participating. We will now disconnect.