REFINITIV STREETEVENTS

EDITED TRANSCRIPT

CI.N - Q2 2025 Cigna Group Earnings Call

EVENT DATE/TIME: JULY 31, 2025 / 12:30PM GMT

OVERVIEW:

Company Summary

REFINITIV

CORPORATE PARTICIPANTS

Ralph Giacobbe *The Cigna Group - Senior Vice President, Investor Relations*

David Cordani *The Cigna Group - Chairman and Chief Executive Officer*

Brian Evanko *The Cigna Group - President and Chief Operating Officer*

Ann Dennison *The Cigna Group - Executive Vice President and Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

AJ Rice *UBS Equities - Analyst*

Lisa Gill *JPMorgan Chase & Co - Analyst*

Josh Raskin *Nephron Research - Analyst*

Justin Lake *Wolfe Research LLC - Analyst*

Charles Rhyee *TD Cowen - Analyst*

Kevin Fischbeck *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Jason Cassorla *Guggenheim Securities LLC - Analyst*

Erin Wright *Morgan Stanley - Analyst*

Andrew Mok *Barclays - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for The Cigna Group's second-quarter 2025 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 Vice President, Investor Relations*

Thanks. 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, President and Chief Operating Officer; and Ann Dennison, Chief Financial Officer.

In our remarks today, David, Brian, and Ann will cover a number of topics, including our second quarter 2025 financial results and our financial outlook for 2025. Following their prepared remarks, David, Brian, and Ann 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 second quarter, we recorded net after-tax special item charges of $171 million or $0.64 per share. Additional 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 will do so on a basis that includes the potential impact of future share repurchases and anticipated 2025 dividends.

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

David Cordani - *The Cigna Group - Chairman and Chief Executive Officer*

Thanks, Ralph. Good morning, everyone, and thank you for joining our call. We entered the second quarter with momentum, and I'm pleased to report that The Cigna Group delivered another quarter of differentiated financial results. And recognizing the meaningful disruption in the industry, we're also pleased to reaffirm our guidance for full year 2025.

At The Cigna Group, we continue to meet our financial commitments by delivering innovative new solutions to improve access and affordability for customers and patients and working to build a better, more sustainable healthcare model. At the same time, we also remain laser-focused on delivering every day for the benefit of those we serve.

Today, for our discussion, briefly, I'll discuss how the strength and durable nature of our model enables us to continue to grow. Then Brian will discuss the performance of our growth platforms and how we continue to expand our total addressable market. After that, Ann will provide details on our financial performance in the quarter, and we'll take your questions.

So let's get started. In the second quarter, we delivered $67.2 billion in total revenue and grew adjusted earnings per share to $7.20. This builds on our long track record of sustained attractive results, where over the average of each of the last three, five, and 10 years, we've achieved our growth algorithm of 10% to 14% compounded adjusted EPS growth.

Our results are a direct reflection of our clear and deliberate strategy to position The Cigna Group with differentiated services and integrated benefit capabilities, coupled with strong execution and led by the most tenured and capable leadership team in the industry.

At a macro level, we continue to operate with the assumption that the environment will remain dynamic. We see eroding health status, affordability and access challenges as key forces of change in the healthcare system in the US and around the globe. In addition, we have operated in and will continue to operate in this space with elevated regulatory and legislative activity as well as significant technological, clinical and pharmacological advances.

We have a number of differentiators, which enable us to lead through these dynamic markets. The first is our orientation toward anticipating, and in some instances, creating constructive disruption, which better positions us to identify opportunities. This is a foundational part of our strategy. For us, it means listening to our customers, patients and clients and leveraging their feedback to continue to evolve, innovate and deliver even more value.

For example, as we stepped into 2025, the forces of change in healthcare further accelerated our efforts to help shape a more sustainable healthcare system, and in part, fueled our customer-focused commitments and actions we announced earlier this year. These commitments, which we refer to as our commitment to better, call on us to deliver easier access to care, better support to help customers and patients navigate the healthcare system, increase value, greater accountability and greater transparency.

This quarter, we took another step forward with Cigna Healthcare introducing a new AI-powered virtual assistant to improve our customers' experience during common interactions such as checking benefits, estimating costs and finding care.

As it relates to regulatory and legislative activity, we continue to proactively lean in with a partnership orientation. We continue to believe in and embrace public-private partnerships, which are essential for the healthcare system to continue to be responsive to all stakeholder needs. And we are proactively working to bring forward new solutions with the current administration, Congress and within states.

The recent industry announcement to further streamline and simplify prior authorizations for the benefit of patients and physicians is a good example of this, and we partnered closely with HHS on this advancement. Each of these actions represent a commitment from The Cigna Group to build a better future, and I'm pleased that we continue to make good progress.

Our second differentiator is our diverse portfolio of businesses, which provides us with the strategic flexibility to pursue multiple avenues for delivering and capturing value. This is made possible by our service-based model, which provides us with significant amount of agility and nimbleness.

We've deliberately shaped our services-based model over years, and today, they are configured in three strong platforms that together provide us with a diversified position and multiple pathways for growth, serving employers, health plans, governmental agencies and healthcare delivery systems. In Evernorth, that includes Specialty and Care Services and our Pharmacy Benefit Services business; and in our Cigna Healthcare portfolio, our integrated benefits offerings, both in the United States and globally.

Our proven approach leverages the combined strength and capabilities of these platforms to create even more value for the benefit of those we serve. Over the long term, the way we've architected our company, coupled with our strategic choices, including a capital-light model, has given us both the resilient model and the ability to pivot and evolve as the marketplace changes.

Now, a third key differentiator for us is our relentless execution fueled by our tenured and talented team. Ultimately, our results are made possible by our coworkers, including the most experienced enterprise leadership team in the industry. And along with the great depth and continuity of our leadership, we also continue to strategically infuse talent into our company in areas such as technology and clinical.

The strength of our team continues to be a key differentiator in our ability to consistently execute on our strategy and deliver on our core fundamentals. Our team's deep expertise in the healthcare industry and strong understanding of the competitive landscape enables us to adapt quickly. This strategic agility helps us navigate challenging environments as well as to identify and seize new opportunities for growth.

We have drawn upon each of these differentiators time and time again to continue to grow in times of uncertainty, from the launch of the ACA to leading through the global pandemic. And during each of these events, we have sought to innovate through and deliver sustainable value for our customers, patients, clients and shareholders. As a result, we've delivered 13% compounded adjusted EPS CAGR over the last decade.

Now, to wrap up my comments. Against the backdrop of a dynamic environment, we continue to deliver and are well positioned for the remainder of 2025. Our second quarter results underscore the strength of our diverse portfolio of businesses and our disciplined focus on innovation and partnership.

We are confident in our ability to sustainably deliver 10% to 14% compounded adjusted EPS growth over the strategic horizon, along with an attractive dividend.

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

Brian Evanko - *The Cigna Group - President and Chief Operating Officer*

Thank you, David. Good morning, everyone. To underscore David's comments, we continue to execute well and delivered against our customer and shareholder commitments through a dynamic operating environment.

Our capabilities across our three platforms, Cigna Healthcare, Evernorth Pharmacy Benefit Services and Evernorth Specialty and Care Services, uniquely positions us in the market with strong assets and expertise. Across our portfolio, we are leaders in serving employers, health plans and government entities. And we are increasingly entrusted to service health systems, hospitals and other providers with our Evernorth Specialty and Care Services capabilities.

Now, let me go a bit deeper on our second quarter business performance. Beginning with Cigna Healthcare, Cigna Healthcare delivered financial results that were in line with expectations even as we've seen persistently elevated medical costs throughout the year. Importantly, our flagship US employer business continues to grow, particularly in our Select segment through a consultative approach with clients.

Overall, our performance reflects a medical care ratio of 83.2% in the second quarter. This is in line with expectations, driven by our sustained disciplined execution against our commitments.

And we have intentionally positioned our Cigna Healthcare portfolio with a product mix that has proven favorable in the current environment as we have no exposure to Medicaid or Medicare, instead choosing to serve these customers through our Evernorth services portfolio. Our planning assumption within Cigna Healthcare for 2025 is that we will continue to experience elevated medical costs throughout the year.

Within the second quarter, we experienced pressures in our individual exchange business that we were able to overcome due to the strength of our broader Cigna Healthcare portfolio and the relatively small scale of our individual exchange business within that portfolio as a result of strategic choices we've made to reposition this product offering.

Turning to Evernorth. Earnings were slightly ahead of expectations. This reflects our strong momentum within the Specialty and Care Services platform, coupled with continued good execution within Pharmacy Benefit Services.

In our Pharmacy Benefit Services business, we continue to see strong client retention with demand across diverse buyer groups, from employers to health plans and other PBMs. And today, we are proud to serve more than 120 million Americans. This includes long-standing client and partner relationships, many of them being the largest and most sophisticated purchasers in the US who come to us for solutions that help them best serve their needs.

This demand for our services has resulted in a number of multiyear renewals and other ongoing agreements with large clients. For example, we recently finalized a multiyear contract extension with Prime Therapeutics. Our clients also look to us for partnership around innovation. This quarter, Evernorth launched another first-of-its-kind benefit option that will save patients money on their GLP-1 weight loss prescriptions with greater choice and predictability.

Building on our Encircle and EnReach offerings, this new benefit, negotiated directly with two drug manufacturers, limits the patient's out-of-pocket cost to no more than $200 per month and applies to their annual deductible. This benefit offers our clients flexibility to cover these medicines in multiple ways to best serve customers. As always, we continuously explore new approaches and models to drive greater access, affordability and transparency.

And in our Evernorth Specialty and Care Services businesses, we delivered another quarter of strong growth, led by Accredo, our industry-leading specialty pharmacy, which provides specialty medications for the treatment of complex and rare diseases.

Across the Specialty and Care Services portfolio, adjusted earnings increased 12% in the quarter when normalizing for the absence of the VillageMD dividend. This was driven by increased specialty prescription volume and ongoing biosimilar adoption, further powered by the strong secular tailwinds that we've discussed on prior calls.

Finally, our specialty distribution business serving health systems, hospitals and other providers delivered significant growth in the quarter. And our ability to serve these buyers with both distribution and our unique set of broader enablement capabilities drives future expansion opportunities.

I'm going to spend a few minutes unpacking this theme further. David talked earlier about our ability to find opportunities in a challenging environment to expand our addressable markets. Previously, we highlighted how our specialty pharmacy business uniquely supports patients through Accredo and our other pharmacies with our clinical expertise and services such as our in-home nurses.

Today, I want to share a bit more about the important addressable market expansion opportunity we see serving health systems, hospitals and other providers with our specialty services across The Cigna Group. As a reminder, the specialty space is more than a $400 billion market today and is growing at high single digits annually. In 2024, approximately 70% of new drugs approved by the US Food and Drug Administration were specialty medications.

These medicines flow through both the pharmacy and medical benefit with the medical benefits segment representing about 40% of the specialty space. Specialty represents one of the highest growth areas in healthcare and within The Cigna Group, and we continue to expect long-term average annual income growth of 8% to 11% across our specialty portfolio.

Increasingly, health systems and other providers are seeking to manage their in-house pharmacy capabilities and inventory, most specifically within specialty drugs as this provides an important source of revenue that can help to counterbalance pressures in other aspects of their business.

Let me outline a few of the unique capabilities within Evernorth that position us to provide innovative solutions and support health systems, hospitals and other providers as they seek to optimize their specialty pharmacy management.

First, across the supply chain, we can help health systems and providers procure specialty medicines, including highly complex and limited distribution therapies. Our specialty distribution serves more than 12,000 providers today, distributing some of the most complex and critical medications to physician offices, health systems and infusion centers. We do this through CuraScript SD, which has seen double-digit average revenue growth over the past three years and is now a $25 billion business.

Second, our technology suite of services can support providers and hospitals as they navigate this complex specialty market.

And finally, bringing our exceptional range of clinical services to these buyers provides them with peace of mind and the assurance that best practices are being drawn from across our client base. We offer specialty pharmacy and infusion services on behalf of more than 700 hospitals, health systems, and physician groups across the country, helping them expand their ability to offer coordinated access and continuity of care. Whether at home at the pharmacy or in a physician office or hospital, we are built to serve the needs of patients in any setting, delivering greater affordability and better clinical care. Overall, we see the opportunity to serve health systems and other providers holistically as a meaningful growth opportunity.

As I wrap up, I want to reiterate some notable bright spots for the quarter that underscore our strong business performance and operational execution. Cigna Healthcare earnings were solid and reflect the strength of our diverse portfolio and intentional choices around product offerings. We continued our strong track record of client retention with large strategic client renewals in our Evernorth Pharmacy Benefit Services segment.

We delivered 12% growth in normalized earnings within our Evernorth Specialty and Care Services operating segment, which has attractive growth exposure over the long term, particularly with health systems, hospitals and other providers.

We continue to drive net growth in the US employer select segment within Cigna Healthcare. And our ongoing innovation for clients includes new enhancements in the quarter associated with GLP-1s in Evernorth and an AI-powered virtual assistant within Cigna Healthcare. Across our businesses, I'm excited about the ongoing growth opportunities we have.

Now, I'll turn it over to Ann.

Ann Dennison - *The Cigna Group - Executive Vice President and Chief Financial Officer*

Thank you, Brian, and good morning, everyone. Today, I will review Cigna's second quarter 2025 results and discuss our outlook for the full year, which we reaffirmed this morning.

As David and Brian mentioned, our second quarter results underscore the strength of our diversified portfolio of businesses in a dynamic environment and demonstrate continued execution against our operating and financial commitments.

Key consolidated financial highlights for the second quarter include revenue of $67.2 billion and adjusted earnings per share of $7.20.

Our solid performance and disciplined execution in the first half of the year reinforce our confidence in delivering our full year 2025 adjusted earnings per share outlook of at least $29.60.

Now, turning to our segment results. I will start by commenting on Evernorth, our services chassis, which now contributes over 60% of our enterprise earnings. Evernorth's results reflect sustained strength across our Pharmacy Benefit Services business and Specialty and Care Services business.

Second quarter 2025 revenues grew to $57.8 billion, while pretax adjusted earnings grew to $1.7 billion, slightly ahead of expectations. Specialty and Care Services demonstrated strong growth with revenue up 13% to $25.9 billion. Normalizing for the impact of lower net investment income due to the absence of the VillageMD dividend, pretax adjusted earnings increased 12% year-over-year.

This performance showcases the power of our robust and unique specialty capabilities as we delivered broad-based growth across both Accredo and CuraScript.

Pharmacy Benefit Services delivered another quarter of solid growth. Pretax adjusted earnings increased to $833 million as we continued to drive affordability for our patients, customers and clients through innovative product offerings while continuing to invest to drive long-term growth.

Turning to Cigna Healthcare. Second quarter 2025 revenues were $10.8 billion. Pretax adjusted earnings were $1.1 billion. And the medical care ratio was 83.2%.

These results were broadly in line with expectations and reinforce the strength and stability of our portfolio of businesses, which, as David mentioned, was strategically constructed for sustainable long-term growth in a dynamic environment.

Cost trends for our commercial business, including stop-loss, remained elevated in the quarter, consistent with expectations.

For our individual business, utilization was higher than expected, reflecting an increase in medical costs across the ACA marketplace. However, this pressure was manageable due to the smaller relative size of our ACA book, aided by our disciplined pricing actions over the past two years.

Overall, Cigna Healthcare delivered consistent results, underscoring the strength of our execution in an environment that continues to present challenges across the industry.

Now, turning to our outlook for the full year 2025. Recognizing the overall disruption in the industry, we are pleased to reaffirm our full year 2025 expectation for consolidated adjusted income from operations of at least $29.60 per share.

Regarding the cadence of earnings, we expect the third quarter adjusted earnings per share to be slightly above 25% of the full year outlook.

Now, turning to our 2025 outlook for each of our growth platforms. In Evernorth, we continue to expect full year 2025 pretax adjusted earnings of at least $7.2 billion, and we expect the third quarter adjusted earnings for Evernorth to be slightly above 25% of the full year outlook.

For Cigna Healthcare, our outlook continues to assume elevated cost trends to persist throughout the year. We continue to expect full year 2025 pretax adjusted earnings of at least $4.125 billion, and we expect the third quarter adjusted earnings for Cigna Healthcare to be slightly below 25% of the full year outlook.

We continue to expect the full year medical care ratio within the range of 83.2% to 84.2%. Additionally, we expect the third quarter medical care ratio to be toward the upper end of the full year range, reflecting typical seasonality.

Turning to our 2025 capital management position. It's important to note that our operating cash flow can vary from quarter-to-quarter, influenced by timing-specific factors such as the payment of supply chain receivables and payables as well as changes in inventory levels, particularly within Accredo and CuraScript.

Second quarter operating cash flow was impacted by working capital timing within Evernorth. We expect the timing-related impact to reverse and continue to anticipate strong cash flow generation in the second half.

Now, to recap. Our first half 2025 results reflect disciplined execution across both Evernorth and Cigna Healthcare. Our 2025 outlook reflects the sustained momentum and strong fundamentals of our growth platforms, which gives us the confidence to reaffirm our full year 2025 adjusted earnings per share outlook of at least $29.60.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) AJ Rice, UBS.

AJ Rice - *UBS Equities - Analyst*

I appreciate the comments about the innovative products that Evernorth brought to the market, particularly around GLP-1s. It makes me think even a little more broadly about your positioning in the commercial market, ASO insurance and how you use potentially Evernorth's PBM and pharmacy services business. You have insight on what's happening into those markets, and that's probably the biggest pressure point for commercial trends these days. And that insight is not something that, for example, your big Blue Cross competitors have.

Just maybe try to flesh out a little bit more how you're using that? How much of an advantage do you think that is? Any thoughts on any of that?

David Cordani - *The Cigna Group - Chairman and Chief Executive Officer*

AJ, it's David. Maybe just a couple of macro comments and I'll hand it over to Brian. First, I appreciate your broad framing.

Two, contextually, as we step back, you go back a decade or so ago, aggregate pharmacy services was low double-digit percentage of the total medical cost equation. Fast-forward to today, the pie is both larger and aggregate pharmacy services, including specialty, is mid-20s growing, starting at potentially a 30% slice of the pie in short order.

So one, to reinforce your point, it's a more significant part of the overall care equation. Two is the interdependency between medical pharmacy, both traditional pharmacy and specialty pharmacy. And I would simply add mental health further consolidates in terms of a lot of our capabilities to be able to look at the whole person, both the predictive nature of more complex medical issues based on pharmaceutical consumption as well as the interdependency between the mental health aspect, which includes pharmacy as well as medical.

So I'll turn it across to Brian, but I just wanted to amplify the interdependencies of those three areas, not just the 2. Secondly, the size of the overall healthcare equation of what pharmacy is today, 25-plus percent of the overall pie, on its way to 30% on a larger pie versus 10%, 12% just a decade ago or so. Brian?

Brian Evanko - *The Cigna Group - President and Chief Operating Officer*

So I certainly agree with the thesis underneath your question here that our three growth platforms, Cigna Healthcare, Pharmacy Benefit Services in Evernorth and our Specialty and Care Services platform in Evernorth, are mutually reinforcing and create value for one another. So that's indisputable.

And to your point, specialty pharmacy continues to be one of the highest trend categories across the healthcare system. That and mental health services, in particular, were large contributors to the overall cost trend environment that we've seen year-to-date.

As Ann mentioned in her comments, overall, though, cost trends have been elevated, but in line with our expectations. So having the Evernorth insight certainly has been helpful for our Cigna Healthcare team, and it's the way we're able to manage the health plan MCR to the levels that we've committed.

As David was just making reference to, 20% of an average employer's total cost of care is specialty drugs today. Now, that's not all in the drug benefit. A portion of that's in the medical benefit. So one of the things we really like about the way we've constructed the company is we can see a specific patient have their care journey start in the medical benefit and transition over into the pharmacy benefit.

So a patient may have a specialty injectable that starts in the medical benefit that moves to a self-injectable under the drug benefit. We're able to manage that longitudinally given our suite of services across The Cigna Group.

So all things considered, to the core of your question, we're really pleased with the way we've constructed the company and it's helped us to manage the Cigna Healthcare financial performance.

Operator

Lisa Gill, JPMorgan.

Lisa Gill - *JPMorgan Chase & Co - Analyst*

Can you maybe comment on the 2026 selling season? I heard you talk about specifically the renewal of Prime Therapeutics, but really a couple of components to this. One, what do you have up for renewal on the pharmacy benefit side? Two, what do you see as opportunities and what are people looking for?

And then if I could just also add on to that, we saw the Arkansas ruling and the injunction. Can you maybe just comment as to how you're thinking about that and as to how you're thinking about legislation, generally speaking, on the PBM side?

Brian Evanko - *The Cigna Group - President and Chief Operating Officer*

It's Brian. I'll start with some of the selling season themes and then I'll turn it over to David, he could talk a little bit about what's happening with the legislative and regulatory dynamics.

So maybe to kind of round out the first picture, I'll give you a sense for each of our growth platforms, some of the dynamics that we're seeing and then I'll get into some of the themes. So within our Express Scripts Pharmacy Benefit Services business, we're currently tracking toward mid-90s or better retention for 2026, which overall is a strong retention level consistent with prior years. And as I noted earlier, the largest and most sophisticated buyers of pharmacy benefit services continue to trust us and appreciate our value creation with an example of that being the multiyear renewal of Prime Therapeutics that was recently completed.

Within the Cigna Healthcare portfolio, it's still pretty early in the season for small employers, but we do have some good insights on the larger end of the market. And we continue to view the National Accounts space as one that will be a flat to shrinking market over time. And our strategy in the National Accounts space is to maintain our share in Cigna Healthcare. And at this point, we're not seeing anything unique for '26 that would cause us to deviate from that multiyear expectation.

Within Cigna Healthcare, we do continue to be a net share winner in the under 500 Select segment, which is a function of our affordability improvements that we've driven, coupled with our consultative employer engagement model.

And finally, in the Evernorth Specialty and Care Services platform, we do continue to benefit from secular tailwinds there, which leads to more patients utilizing specialty drugs, along with our Accredo specialty pharmacy being included as a network option in more unaffiliated PBM offerings.

In terms of some of the market dynamics or themes that apply more holistically across our businesses, first, I'd characterize this as a pretty active sales season, both as we compete for 2026 new business, both amongst our existing client base, but also new business opportunities for us.

Affordability continues to be the number one area of focus for employers, particularly with the persistently high cost trend environment that the industry has been experiencing. And part of that's driven by the question that AJ asked around specialty injectables as well as GLP-1s and the continued growth we're seeing in mental health spending.

And amongst larger employers, we're seeing some elongated decision-making time frames, particularly as employers are seeking reassurance that their benefit decisions are appropriate given the continued pressures on affordability.

The second theme is personalization. This we're seeing across our buyer groups, which can take the form of network solutions, product offerings, clinical programs and service experiences. And during the quarter, we announced our new AI-powered virtual assistant for our Cigna Healthcare customers to help them navigate the complexity of the healthcare system with the most modern digital capabilities, and the feedback there has been very positive.

And finally, we're hearing more of our larger employers seeking to reduce the number of point solutions, in some cases, finding that the ROI isn't there, or in other cases, finding that there are gaps in integrating these point solutions, which drives a level of fragmentation in the individual's healthcare journey.

So a lot that I just covered there in a few minutes. But taken all together, we're well positioned to meet all these market needs and we expect 2026 to be a year of attractive results.

David, maybe you can comment on Arkansas and the associated PBM dynamics.

David Cordani - *The Cigna Group - Chairman and Chief Executive Officer*

So yes, macro and specific to Arkansas. So at a more macro level, as I noted even in my prepared remarks, we believe that the industry will continue to operate in an active legislative and regulatory environment. And we believe the sustained environment requires a very strong and collaborative public-private partnership and relationship.

And highlighting back to the industry leaning in on evolving prior authorization more broadly with the health plans coordinating a direction in the solution and collaborating with HHS, that's not a declaration of success. That's a positive indication of public-private partnership and collaborating to drive sustained improvement.

And I would say just broadly underlying mostly all the legislative and regulatory activity, there's an orientation around the affordability challenge that everybody is confronting, federal government, state government, employers and individuals, so desiring improvements in affordability while balancing access and quality. They have to actually get squared together. When you over-architect on one, you potentially push too hard on the other.

Specific to Arkansas, to be very clear, we're quite pleased with the expeditious and clear decision of the courts thus far to put a TRO in place because the legislation, while potentially well intended, is contrary to what we believe society needs. And if you look at the legislation, the legislation essentially arbitrarily constrains access. The legislation would, as it's configured, break continuity of care. The legislation would restrict choice. And the legislation would have an undoubtable positive impact or upward impact in a negative way on affordability.

So we are pleased with the outcome and the temporary restraining order to look at the facts relative to that. We will continue to stay engaged both at the state level and federal level, and I come back to the imperative. The imperative is sustainable improvements to overall affordability that harness choice and innovation, that don't architect it away arbitrarily. They have to harness choice and innovation and then balance appropriate access and drive sustained quality.

And we're confident, as Brian noted, our capabilities are well positioned to be able to drive that. Thanks for your questions.

Operator

Josh Raskin, Nephron Research.

Josh Raskin - *Nephron Research - Analyst*

Could you provide an update related to the exchange business on your risk adjustment accruals? It just looked like revenue jumped in 2Q on a PMPM basis by a decent amount. And so I'm just curious if there was any specific adjustment for 2024 final settlement or as you're thinking about mortality for this year?

And then could you provide maybe broader commentary on expectations for that book in 2026 and how you're pricing -- how you're approaching the pricing environment?

Brian Evanko - *The Cigna Group - President and Chief Operating Officer*

It's Brian. I'll start with maybe a little bit of context for the individual exchange market and then ask Ann to take the question you asked more specifically about risk adjustment accruals and such.

I think it's important to step back and rewind the clock a couple of years to 2023. At that point in time, we served nearly 1 million customers in the individual exchanges, albeit with mixed financial performance.

Based upon our performance as well as our forward view of the market, we made the strategic choice to prioritize margin over growth, which included adjustments to product and network strategies, refinements to our geographic footprint and increased prices where necessary.

And this decision to prioritize margin over growth in the individual exchanges has helped us to navigate some of the industry-wide pressures that have emerged here in 2025. And we now serve fewer than 400,000 customers in this business, down materially from the nearly 1 million we served in 2023.

Additionally, across both the 2024 and 2025 pricing cycles, our nationwide price increases were roughly double the industry average in each of those years. So as a result of those actions, some of our competitors showed meaningful growth in their individual exchange businesses while we chose to reposition our portfolio, which resulted in fewer individual exchange customers for Cigna Healthcare.

So again, just to summarize what's transpired over the past two years in the individual exchanges. We made the choice to prioritize margin over growth, which resulted in a reduction of our customer base from nearly 1 million customers in 2023 to fewer than 400,000 customers today. Meanwhile, across the industry, individual exchange enrollment is up nearly 50% over that same time period.

As it relates to 2026, we expect to take further price increases. We're in the process of working through the refiling of that as we speak. And again, we'll prioritize margin over growth for the 2026 year in the individual exchanges.

Ann, maybe you can pick up on the risk adjustment component of this question?

Ann Dennison - *The Cigna Group - Executive Vice President and Chief Financial Officer*

Sure. So specifically on your question related to risk adjustments, there's a couple of things to note. Reflected in our results this quarter is a 2023 RADV adjustment, which we had visibility into coming into building our expectations for the year. So that was built -- already built into our expectations.

Beyond that, we had a very modest positive adjustment to the 2024 risk adjustment that helped offset some of the pressure we saw related to utilization that I mentioned in my prepared remarks.

Operator

Justin Lake, Wolfe Research.

Justin Lake - *Wolfe Research LLC - Analyst*

I wanted to ask about your views on the impact of more sophisticated hospital billing and coding to commercial trend, right? We're hearing about this all over. Curious what you're seeing here? And do you think this might have an above-average impact on stop-loss?

And then lastly, just with rate increases running double digits for employers. David, I'd love to hear what you're hearing from employers on their ability to absorb it and what they're thinking here.

David Cordani - *The Cigna Group - Chairman and Chief Executive Officer*

Let me take a portion of the question and ask Brian to give you some insights in terms of what we're experiencing specifically in terms of our stop-loss actions from a marketplace standpoint.

So we have several questions here. First, are we seeing elevated billing sophistication harnessing AI or other capabilities? Broadly speaking, we think the answer to that is yes.

I'm going to park on the side, there's a significant number of AI-related activities that we are driving as an organization in terms of driving efficiency and effectiveness and productivity, driving accelerated speed, precision and personalization and working to design new capabilities and there's a series of bright spots within that. Some of those capabilities help us to counteract, address and proactively engage very differently in terms of some of the forces we're seeing.

But to your first part of your question, we believe the answer to that is indisputably yes. We engage in that in terms of hospital contracting and provider contracting engagement modifications, our own AI and technology capabilities and seeking to get a balanced net outcome.

On the back side of your question, before I hand it back to Brian to talk more specifically about the marketplace and stop-loss, there's no doubt that affordability is pressuring everybody. And before we come to the employers, it's important to articulate it's impacting the federal government as a payer. It's impacting state governments as a payer. It's impacting employers as payers and it's impacting individuals, which is why we always come back and articulate the impact of affordability as the number one issue to be able to drive forward.

The precision, the personalization, new program designs, and in many cases, integration of point solutions are opportunities to mitigate some of that. And what I would say from an employer standpoint, what this is doing is it's raising the decision criteria in the C-suite even higher.

It's potentially increasing openness to what may have been deemed to be more disruptive solutions, so more precise network solutions or more aggressive adoption of some of our new innovations like our Pathwell programs -- or Pathwell specialty program, which is an example to AJ's question of significantly more precision of network configuration around specialty infusions that deliver exponentially more volume and affordability.

So there is pressure there, no doubt. We see it as actually opening the door for more innovative conversations and bringing more precision to the solution.

Brian, can I ask you to talk about the stop-loss traction we're seeing in the marketplace and some of the progress there?

Brian Evanko - *The Cigna Group - President and Chief Operating Officer*

Sure, David. I know you asked a very specific question on stop-loss, I'm just going to zoom out for a bit and kind of remind of the big picture in terms of where we are with that product line. Our stop-loss offerings are a very important part of our US employer portfolio within Cigna Healthcare that work in complement with our other products and solutions for employers who choose to self-fund their health benefits.

And importantly, they provide employers with budgetary protection against unexpected large claimant activity or aggregate cost levels being higher than projected.

And for us, all of the stop-loss business that we write is through an integrated offering with the employer where we also administer their overall medical benefits. And we continue to see very strong market demand for these solutions as evidenced by the 13% growth in stop-loss premiums in the second quarter.

As we've talked about on prior calls, we're working to improve the margin profile on this business over the course of the next two renewal cycles and we're confident in our ability to deliver against this. And over the past few months, we have been able to make progress on this plan with the revised cost structure being reflected in our later 2025 client renewals, and we've been able to execute this while preserving typical client retention levels.

And in fact, our sold rate increases for 2025 coverage effective dates after January are higher than our January 2025 sold increases, underscoring that our recovery plan is in motion. And it's important to keep in mind that about two-thirds of our stop-loss portfolio renews on January 1. So the pricing work for that cohort will be completed in the fall, and that will inform our 2026 outlook.

But thus far, through the first six months of the year, the stop-loss portfolio is performing broadly in line with expectations and the more sophisticated or intensive billing that you made reference to, while it is impacting our US employer book, does not have an outsized impact on the stop-loss portfolio. So thanks for the question.

Operator

Charles Rhyee, TD Cowen.

Charles Rhyee - *TD Cowen - Analyst*

Maybe I'd like to ask, Brian, if you could expand a little bit more. You talked about a lot on CuraScript and just curious sort of what does this market look like when you're selling into health systems, in particular? Do you have to go through the GPOs like Novation? Now, what does the contracting cycle there look like? And who are the incumbents? Are we talking about maybe some of the more traditional drug distributors like a McKesson or Cencora in this market?

And then added to that, you talked about biosimilars in the press release. Just curious sort of what the experience you've had so far with maybe something like biosimilar STELARA through Quallent? And is this something you're also selling to health systems through Quallent?

Brian Evanko - *The Cigna Group - President and Chief Operating Officer*

Charles, there's a lot in there, so I'll try to hit each of the components as best as I can. So I appreciate you asking about CuraScript and that part of our company because many people are not familiar with that. And we decided to spend a few minutes in my prepared comments on this opportunity that we see in further expanding the addressable market to serve more health systems, hospitals and provider groups with their specialty pharmacy capabilities. And this is one of the most exciting growth opportunities that we have across The Cigna Group going forward.

And if you think about one of the core problem statements here for these providers is margin compression in their core business, it's often driven by some combination of payer mix, wage inflation, clinician burnout and other factors. So as a result, providers are increasingly looking to their in-house pharmacy capabilities, most notably specialty medication management as an alternative revenue source.

And we're able to support these providers both through distributing specialty medications to them, along with offering clinical coordination, inventory management and other enablement services to help providers manage their specialty pharmacy capabilities.

The specialty capability is fulfilled by our CuraScript business, which is already a $25 billion business and has been growing at a double-digit annualized rate in recent years. And the CuraScript business is primarily focused on the provider-oriented or medical benefit-oriented component of the specialty market, which represents about 40% of the over $400 billion specialty pharmacy addressable market.

And going forward, CuraScript has got multiple avenues for growth, both through serving these unaffiliated health systems and other providers, along with increasing its distribution reach through our Accredo specialty pharmacy.

Now, the wholesalers that you made reference to, we don't compete with them directly in this space. They tend to be more focused on the prescription drug or the pharmacy benefits side of the specialty market, which is where our CuraScript business has very little volume today. So we're almost exclusively focused on serving providers through CuraScript. And so our value prop is a bit more holistic because we're able to offer those other enablement services that I made reference to as well to the health systems and other providers.

As it relates to biosimilars, obviously, we're really pleased to see the building momentum of biosimilars across the US, particularly in the last 18 months as HUMIRA biosimilars have become more mainstream, and we see this as part of a multiyear wave for biosimilars more broadly. And beyond HUMIRA, we expect another $100 billion of specialty drug spend to be subject to competition from biosimilars and generics by 2030, representing a tremendous opportunity to reduce net cost for patients and clients.

Importantly, each biosimilar will have different rates of adoption based upon factors such as interchangeability, dosage levels, branded alternatives and other dimensions. And so far, we launched our $0 patient out-of-pocket biosimilar for STELARA in May, leveraging the learnings we had from HUMIRA biosimilars. The returns are very early, but we're seeing encouraging signs already of biosimilar adoption here. And we do expect to see gradual growth in STELARA biosimilars over the balance of the year, all of which is contemplated in the Evernorth outlook.

And to your point, importantly, CuraScript is a distribution vehicle for our Quallent biosimilars to many of the health systems and other providers that I made reference to. So appreciate the question. Hopefully, that captures the essence of what you were hoping to hear.

Operator

Kevin Fischbeck, Bank of America.

Kevin Fischbeck - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Great. I guess one of your larger competitors talked about how at least they're under-earning on the commercial side of the business and need to reprice over the next couple of years. I was wondering if you could just give us a little bit of color on what you're seeing within the competitive pricing environment within commercial broadly? And then if you can give any color what's the difference between the subsegments that you focus on versus maybe the segments that you deemphasized a little bit.

Brian Evanko - *The Cigna Group - President and Chief Operating Officer*

Kevin, it's Brian. I'll start and then Ann can pick up some of the questions around margin and such. So overall, I'd characterize the market as pretty firm right now from a pricing standpoint, meaning there doesn't appear to be a lot of appetite for competitors to go out and underprice business to try to pick up volume.

And as we talked about earlier, our planning assumptions for the balance of 2025, they do assume a continued elevated cost trend environment. And for 2026, our pricing assumptions assume another year of elevated cost trends. And at the current point in time, our expectation is that we will secure price increases for 2026 that exceed what we achieved in 2025, which were already at high levels compared to historical norms.

Now, of course, this is prior to clients making adjustments to their benefit designs or network strategies, which could serve to mitigate some of the price increase without impacting our margins.

As a reminder, the vast majority of our US employer business is self-funded or it's priced using client-specific experience as opposed to being block rated, which is one of the differences potentially from some competitive comments that you made reference to.

But again, the market overall is firm and rational at the current point in time as it relates to the pricing environment.

Do you want to talk, Ann, a little bit about the margin dynamics?

Ann Dennison - *The Cigna Group - Executive Vice President and Chief Financial Officer*

Sure. Thanks, Brian. So as Brian mentioned earlier, we continue to see elevated cost trends, but those are in line with our expectations. Most notably, we see it in specialty injectables and behavioral health services trends that have remained high and continue to be the primary contributors to the trend.

Last quarter, we saw some favorability on surgery trends. This quarter, we saw a more normalized trend in line with our expectations. So when you think about the impact across the Cigna Healthcare portfolio, the businesses are generally performing as expected and in the target margin range.

I'd note two exceptions to that. So the exchange business, given some of the pressure we're seeing there around utilization, we would expect to run below target margins for 2025.

And then Brian talked earlier about the stop loss business and our journey to recover to run rate margins through 2026 and into 2027. But overall, performance across the healthcare businesses was in line with our expectations, and we are really pleased to reaffirm our full year guidance.

Operator

Jason Cassorla, Guggenheim.

Jason Cassorla - *Guggenheim Securities LLC - Analyst*

Great. I wanted to ask about Evernorth margins in the quarter. You talked about the investment income headwind. But if we completely back out the investment income across both of your subsegments within Evernorth, it looks like Specialty and Care margins were relatively consistent year-over-year, but the PBM margins were down a little bit.

I know you've discussed investment spend across Evernorth, but maybe can you just walk us through the margin paradigm and the drivers in the quarter, just given the revenue strength?

And then you spent some time talking about the medical side of the specialty business in your prepared remarks. Can you give us a sense on how to think about margins as you go after that TAM opportunity? That would be very helpful.

Ann Dennison - *The Cigna Group - Executive Vice President and Chief Financial Officer*

So I'll start on the margin question as it relates to Evernorth Pharmacy Benefit Services and I'll pass it over to Brian for the second part of the question. So just to set the stage, so our performance in Evernorth continues to reflect strength across both Pharmacy Benefit Services and Specialty and Care. Considering the breadth of the business, there are a few dynamics to consider with respect to margin and I'd point to two things that are contributing to some of those dynamics that you see.

So one is client mix. So we've had some -- bringing on some large clients, some large client renewals and our largest clients are growing the fastest and they generally come with lower margin profiles. So that is a contributor to what you're seeing.

The second thing that I'd point to is drug mix. So we're seeing higher-priced drug sales, and higher-priced drug sales create a larger impact on revenues than on margins. So you put those two things together and that's really what's creating the dynamic that is coming through the numbers.

Taking into account those two things, we feel really good about the strength of the business and the ability to drive sustained growth across both of those businesses. But I'll turn it over to Brian for the second part of the question on healthcare.

Brian Evanko - *The Cigna Group - President and Chief Operating Officer*

Yes. Thanks, Ann. So as it relates to the medical side of specialty and the Evernorth services that we provide there, I'd encourage you to think of it in two buckets. So category one is our distribution business, CuraScript. So I made reference to that's a $25 billion business today, been growing at double digits in recent years, has a lot of runway ahead of it.

You can think of that as a low-margin business, call it, low single-digit type margins. Not that different than what the wholesaler margin profile is, although we provide a little bit more complexity alongside the distribution that we do, so we're able to earn a slightly higher margin. But think of that as a relatively low-margin business.

The second category of enablement services, you can think of that as a fee-based oriented business. So relatively low revenue contributions, but high margins on those fees. So you can think of that as not yet as noticeable in the P&L from a revenue standpoint, but we have quite a bit of long-term opportunity there as that addressable market continues to grow and we continue to build out our capabilities in that space.

Operator

Erin Wright, Morgan Stanley.

Erin Wright - *Morgan Stanley - Analyst*

Could you give us an update on some of the changes that you're seeing in the retail reimbursement model and landscape with more of the cost-plus models?

Do you expect a large portion of the government business to start moving in that direction as well on top of the commercial that started kind of to move in that direction in 2025? And if so, kind of how do you embrace that on the PBM side? And just talk about how you're navigating that now.

Brian Evanko - *The Cigna Group - President and Chief Operating Officer*

It's Brian. So as it relates to retail reimbursement and more of the cost-plus and other alternative style models that are being advanced, there's certainly market curiosity around these topics. I would note, though, these types of solutions really aren't for everyone.

And as David mentioned earlier, we continue to prioritize choice as it relates to how clients choose to pay us. We've got a variety of formularies that clients can choose from, some of which are customized to a client. And we have a variety of network configurations available.

Specifically on cost-plus style offerings, as we hear from our Pharmacy Benefit Services clients, there's been relatively limited appetite for this thus far because many of them see this as paying more for the same thing in comparison to the more aligned incentive models that we've been able to drive historically and concerns around will I still have incentive for generic replacement continue to come up. So these are challenges with some of the cost-plus style models that have been advanced. That said, we do have certain network arrangements that are contracted on that basis.

To your point on government business, we have not seen a wholesale shift from one line to another as we think about commercial versus government versus other payer types within the Evernorth platform. David, do you want to get on this question?

David Cordani - *The Cigna Group - Chairman and Chief Executive Officer*

Sure. Just to amplify a point here, and Erin, I appreciate your question. I think when you think about the cost-plus terminology, sometimes it's used as a broader moniker for the industry. But to Brian's point, there is pressure on paying more for the same.

Conversely, evolution to more fee-based models, evolution to more enhanced performance-based models, evolution to enhanced transparency that are in support of fee-based models, those are all part of the bigger ecosystem. And our team continues to lean into that heavily and offer increased choice and opportunities for clients.

So I'd ask you to maybe step back and think about the theme. The theme is another push toward increased affordability while managing choice, and cost-plus is maybe used as a broader moniker of heading down that path of fees, but they need to be performance-based. There needs to be a performance-based dimension here to drive additional efficiency, effectiveness and value on a go-forward basis. And our team continues to be putting up some significant innovations in the marketplace that are responsive to this. Appreciate your question.

Operator

Andrew Mok, Barclays.

Andrew Mok - *Barclays - Analyst*

There's been a lot of developments in the GLP-1 market, including your announced partnerships with Lilly and Novo this quarter. And one of your peers called out a headwind from GLP-1 pharmacy services this year. So can you give us an update on your GLP-1 products and how we should be thinking about the dispensing economics for those drugs given the recent deals?

Brian Evanko - *The Cigna Group - President and Chief Operating Officer*

It's Brian. So maybe I'll talk for a minute about the most recent innovations that we've introduced and then get to the core of your question on dispensing economics and such.

The headline I'd ask you to take away, though, is, broadly speaking, the GLP-1 contributions to Evernorth in 2025 are in the range of what we expected coming into the year, and our guidance does contemplate that, which reflects some decelerating growth in overall scripts, but still strong growth year-over-year compared to what the 2024 volumes would have been.

But when you step back from the GLP-1 space broadly, at The Cigna Group, we're proud to introduce new solutions for some of healthcare's biggest challenges and GLP-1s are clearly an example of that. And during our first quarter call, you heard us talk about a series of programs that we introduced earlier to create new value in the GLP-1 space, namely, EnCircle, EnReach and EnGuide. These combine access, affordability, clinical safety as well as longer-term lifestyle changes all for the benefit of our clients and patients.

And to your point on economics, we earn fees for those programs as part of our client relationships in helping them manage GLP-1 clinical safety and cost levels. Subsequent to introducing these programs, we noted that many employers remain reluctant to provide access to GLP-1 drugs for weight management due to the price. So the net cost of a GLP-1 weight management prescription after reflecting the discounts we had negotiated from drug manufacturers and the patient cost sharing was still high and would incrementally pressure employer budgets.

So we challenged ourselves to develop a solution that would further reduce net cost for employers while ensuring that patient out-of-pocket costs will be lower than if they purchased the GLP-1 drugs directly. So in May, we announced a new program that targeted employers who are not yet offering GLP-1 coverage for weight management. And the new solution is coupled with a maximum out-of-pocket cost of no more than $200 per month for the patient while allowing for patient and physician choice.

And that generated some win-win dynamics. The net cost to the employer is reduced by our negotiated rates and by the cost share from the patient. The patient's cost sharing being capped at $200 per month offered a more affordable option than other pathways for FDA-approved treatments. And the drug manufacturers would benefit from higher volumes.

So we introduced this program in late May, again the most recent in our series of innovations. We only have a couple of months of market feedback. The feedback has been very positive thus far, although I would note changes to benefit offerings associated with this new program are more likely to be incorporated at client renewals as opposed to us seeing midyear benefit changes. But again, this is another example of the innovation we brought to the GLP-1 space.

Again, we continue to see growth in this market. The client adoption rates continue to be flattish in our book of business between 2024 and 2025, but the economic contribution is broadly in line with what we had anticipated coming into the year for Evernorth.

Operator

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

David Cordani - *The Cigna Group - Chairman and Chief Executive Officer*

Thanks. Just briefly wrap us up. First, we want to thank you again for joining our call. To highlight a couple of headlines. We continue to build on our momentum, and we have confidence in our ability to deliver on our commitments, which include our attractive adjusted EPS outlook of at least $29.60 for full year 2025.

I also want to say how proud I am of our coworkers across the globe and their dedication and commitment to making sure we serve all our diverse stakeholders who we have the privilege to support.

As an enterprise, we remain focused on executing on our growth strategy by leveraging the strength of our diverse businesses, continue to foster partnerships and drive innovation and systematically work to expand our addressable markets. Thank you again, and have a good day.

Operator

Ladies and gentlemen, this concludes The Cigna Group's second-quarter 2025 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) 835-8067 or (203) 369-3354. There is no passcode required for this replay.

Thank you for participating. We will now disconnect.
