

LSEG STREETEVENTS

EDITED TRANSCRIPT

CI.N - Q4 2025 Cigna Group Earnings Call

EVENT DATE/TIME: FEBRUARY 05, 2026 / 1:30PM GMT

OVERVIEW:

Company Summary

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

Lisa Gill *JPMorgan Chase & Co - Analyst*

Scott Fidel *Goldman Sachs Group Inc - Analyst*

Charles Rhyee *TD Cowen - Analyst*

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

Justin Lake *Wolfe Research LLC - Analyst*

Erin Wright *Morgan Stanley - Analyst*

AJ Rice *UBS Equities - Analyst*

Stephen Baxter *Wells Fargo Securities LLC - Analyst*

Jason Cassorla *Guggenheim Securities LLC - Equity Analyst*

Andrew Mok *Barclays - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for The Cigna Group's fourth 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 fourth quarter and full year 2025 financial results and our financial outlook for 2026. 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 2026 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 after-tax special item charges of \$483 million or \$1.82 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 2026 outlook, we will do so on a basis that includes the potential impact of future share repurchases and anticipated 2026 dividends.

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 thanks for joining our call. 2025 was a pivotal year for our company as we delivered new innovations for the benefit of our customers, strengthened meaningful partnerships, and extended strategic client relationships.

Today, I'll briefly focus my comments on delivering our financial commitments for 2025, and how we are leading through a dynamic environment by evolving and advancing our business for the benefit of our customers, clients and partners. Then Brian will provide an update on our performance and our growth platforms and perspective on the year ahead. Then Ann will review additional details on our results and our '26 outlook, and we'll take your questions.

So let's get started. In 2025, I'm pleased to report that The Cigna Group delivered full year adjusted revenue of \$275 billion or 11% growth. Full year adjusted earnings per share of \$29.84, a 9% increase, building on our multi-year track record of sustained earnings growth. We also took steps forward in improving our customer experience as evidenced by the increase in our customer Net Promoter Score year-over-year in each of our largest businesses.

At The Cigna Group, we also continued to shape our portfolio in 2025, emphasizing businesses where we see clear opportunities to generate attractive sustainable growth. For example, we further expanded our Specialty capabilities to serve hospitals and health systems in part with our new investment in Shields Health Solutions. And we completed the sale of Cigna Healthcare's Medicare business earlier last year.

We are well positioned to continue leading and growing in a rapidly changing environment. To that end, I want to briefly comment on our global settlement with the Federal Trade Commission announced yesterday.

The settlement is a comprehensive resolution of all matters brought by the FTC regarding our pharmacy benefits business. It includes the industry-wide insulin lawsuit and ongoing investigations. To be clear here, the beneficiaries of the settlement are our customers and patients. The settlement noted \$7 billion in out-of-pocket cost relief over the next 10 years for the 100 million customers and patients we serve. The savings will be delivered through lower insulin prices and reduced cost for brand name medications for consumers at the pharmacy counter.

The settlement will also increase transparency for our customers and clients and strengthen our relationship further with community pharmacists. We were well positioned to execute on the terms of this settlement because of the new pharmacy benefit model that we began developing in the beginning of 2025 and announced in the third quarter of 2025.

Our new model clearly positions us to achieve this comprehensive settlement. It enhances the value we provide to customers and clients, all while we continue to strengthen our position and deliver on our long-term shareholder commitments. With the FTC matter now resolved and the additional clarity from the federal PBM reform legislation that passed earlier this week, we are squarely focused on driving affordability improvements and value for those we serve.

We know health care affordability impacts everyone from individuals and families to employers and governmental organizations. At The Cigna Group, we are steadfast in our focus on leaning into lower health care costs and expanding access to quality care and medications, but doing so requires confronting the underlying cost drivers, including both the demand and the supply side.

Demand for health care in the United States is growing rapidly. Our population is aging and chronic conditions are increasing. Today, chronic disease and mental health conditions account for roughly 90% of total health care spending. Together, these forces drive heightened demand for health care services and, as such, increased costs.

Now relative to supply, in most industries when additional supply comes online, costs go down. However, in health care, costs are rising even as additional supply becomes available. Consider that since 2000, the cost of a hospital stay has increased more than 220%. And according to 2024 data, the median price of a new drug launch was over \$370,000 compared to only \$2,000 just 20 years ago.

The organizations and professionals that supply and deliver costs – be they hospitals, doctors, pharmaceutical manufacturers, and medical device companies – are advancing significant innovations, but they are coming at an elevated cost. At The Cigna Group, we're moving forward with purpose and conviction to counter these focuses. Let me share a few ways of how we're doing that.

First, our approach to investing in and shaping our portfolio guides us to collaborate rather than own physician practices or pursue capital intensive care delivery infrastructure. This gives us more agility to offer new solutions and services that expand access, lower cost, and focus on prevention and treatment adherence. Our transformative rebate-free pharmacy benefits model is one of those improved innovations for prescription drugs. Another example is our new Clarity solution in Cigna Healthcare that Brian will talk about in a few moments.

A second way we are addressing affordability is by informing decisions more clearly on the location where care is provided as locations could significantly impact patient affordability, whether in a hospital, freestanding facility, or a physician's office.

A third way is through meaningful partnerships and collaboration. For example, when the new TrumpRx site launches, Evernorth is the pharmacy partner to the site and will dispense EMD Serono treatment for fertility. This will make treatments more accessible for all Americans struggling to start or expand their families, at the lowest available cash price.

And we're helping providers focus on care by minimizing their administrative burden, for example, in prior authorization processes. Over the past year alone, we further reduced the number of prior authorizations by 15%, and going forward, we are partnering with the Administration to further streamline the prior authorization process.

And a fourth way we are driving affordability is by leveraging competition and encouraging the use of the most cost-effective solutions. Generics and biosimilar medications are important opportunities here. Today, for example, in the United States, approximately 90% of all prescriptions filled are generic, and they make up only 10% of the total pharmacy spend. As a result, the US has some of the lowest generic prices in the world and highest uptake levels, reflecting what happens when robust competition is harnessed.

We see similar promise with biosimilars, and our company is already saving Americans money on the widely used brand-name medications such as HUMIRA and STELARA, where we offer access to \$0 out-of-pocket offerings for our patients, saving them thousands of dollars each year. Looking ahead in the coming years, there will be more than \$100 billion of savings for the US in the biosimilar space alone. At The Cigna Group, we will continue to make advancements in each of these areas in addition to the work we do day in, day out to support our customers, patients and our clients every day.

Now to summarize. Time and again, at The Cigna Group, we have demonstrated the ability to evolve to meet the needs of our stakeholders, something we've done over years and decades. Against the backdrop of a disrupted operating landscape, in 2025 we delivered full year adjusted earnings per share of \$29.84, and we returned over \$5 billion to shareholders through dividends and share repurchase.

Looking ahead to 2026, our adjusted EPS outlook of at least \$30.25 reinforces the sustained growth and strength of our company. We will also continue to make strategic investments in strengthening our capabilities and broadening our total addressable market profile, while we remain focused on harnessing the breadth of our capabilities across our organization for the evolving needs of those we serve.

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. I'll start by outlining some highlights of our business performance in the fourth quarter and the full year. I will then highlight the key innovations we introduced in a dynamic environment and outline our view of the years ahead.

Our performance underscores the value we provide for those we serve through our three business platforms, providing multiple paths for sustainable growth, including our Specialty and Care Services businesses within Evernorth, our Pharmacy Benefit Services business also within Evernorth, and Cigna Healthcare, our health benefits business.

During the quarter, our Evernorth portfolio demonstrated continued performance. Starting in our Specialty and Care businesses, we delivered strong results with 14% adjusted revenue growth, reflecting the demand for our services, and we saw 13% year-over-year growth in the number of specialty scripts in 2025. This is supported by the shift to biosimilars and our industry-leading patient support in Accredo. Our portfolio shaping efforts have resulted in an expansion of our Specialty capabilities to serve hospitals and health systems, in part through our investment in Shields Health Solutions that we announced in late 2025.

Next in Evernorth Pharmacy Benefit Services business, our fourth quarter and full year results reflect continued solid performance. We built on our track record of innovative pharmacy benefit solutions to meet market demands. This includes our suite of GLP-1 solutions.

In 2025, we added EnreachRx, a new patient support model designed for pharmacies dispensing GLP-1 drugs committed to providing enhanced clinical services. We also expanded our Patient Assurance Program to include these GLP-1 medicines, which sets caps on member out-of-pocket costs to improve predictability and affordability. And we are proud of our continued focus on service. We delivered a seamless January 1st implementation for new and existing clients, ensuring customers and patients have access to care when they need it. Overall, we're pleased to deliver another year of solid results across our Evernorth portfolio.

Now turning to Cigna Healthcare, our consultative approach and focus on affordability are driving strong overall performance. We delivered financial results that were slightly ahead of expectations. We maintained disciplined pricing while driving affordability and introducing or expanding differentiated clinical offerings.

We're doing this in a number of ways, including encouraging customers to utilize lower cost generic and biosimilar medicines, optimizing sites of care between hospital facilities and lower cost alternatives, and improving administrative processes for providers. We also continue to maintain a disciplined pricing stance. For sold business in the first quarter of 2026, our price increases are in excess of what we achieved for the comparable period in 2025.

We expanded our suite of AI-powered digital tools to improve and personalize customer experiences. These include a provider matching tool to help customers find in-network providers based on their specific needs and preferences, and a real-time cost tracking tool to provide a simple breakdown of costs, both before and after clinician and specialist visits.

We also launched new partnerships to expand our offerings. For example, we collaborated with Progeny and Carrot to offer new coverage options for employers to support patients through their fertility journeys. And we announced an industry-first collaboration with Headspace to support the mental health of millions of Cigna Healthcare customers with exclusive digital features and content.

We see partnerships like these as critical to building a more sustainable model for health care and further accelerating innovation for our customers. Our performance across Cigna Healthcare underscores our focus on driving innovation, improving personalization, thoughtfully shaping our product portfolio, and our execution orientation.

As we look ahead over a multi-year horizon, we are focused on leading the changes needed in health care to better serve our customers and clients, resulting in improved affordability and access. To do this, we are taking bold actions, including investments in defining the future of health care. Let me outline a few of these.

First, we're focused on putting the customer at the center of everything we do, through new innovations that are data-driven and tech forward. To do this, we are focused on personalizing the health care experience by leveraging and growing our digital and analytics capabilities.

Already this year, we have seen a significant increase in digital registrations for our US Employer businesses and decreased call volumes. We are facilitating seamless interactions for customers based on their engagement preferences, whether that be mobile, web, text, or phone, including chat options with AI virtual assistance and easy connectivity to our service agents for even more personalized support. Beyond this, we are finding new ways to utilize data and analytics, insights, and digital tools to better identify patients who need help earlier, particularly those with complex and high-cost conditions.

We continue to lead the way in transforming our models and capabilities for those we serve through meaningful innovations. In October of last year, we announced the transformation of our pharmacy benefits model to meet the demands of the market and improve both affordability and transparency for our customers and patients.

As David mentioned, our new rebate-free model will help people stay healthy and get the medications they need by lowering costs and supporting local pharmacies, so care is always within reach. We have received positive feedback about our new model from our broker partners, clients, and other stakeholders. Moving ahead and following our recent settlement with the FTC, we are confident in the transformation of pharmacy benefits we are leading for the industry.

In Cigna Healthcare, we are similarly driving step changes in our product offerings to create patient-centered solutions that simplify health care, and ensuring we're rewarding outcomes rather than volume. One example is Clarity, our newest offering that we introduced in November, which puts customers and patients in control so they can focus on getting the care they need, designed with cost transparency, available to customers at the time they need it.

Clarity helps individuals manage their health with ease and saves clients up to 10% in medical costs. And it has a simple co-pay-only structure. Clarity also has a single digital front door for all Cigna Healthcare customers, integrating experiences for pharmacy, dental and supplemental health, and patients have access to our trusted national network without referrals, supported by clinically sound externally validated quality measures.

Finally, in our Specialty and Care Services business, our expanded suite of offerings has helped grow these businesses from around 25% of the company three years ago to around 35% this year, driven by high secular growth and our deliberate portfolio shaping to increase exposure in this highly attractive growth sector. And we see significant runway for additional growth in our Specialty platforms in the future. This includes leveraging competition and the shift to more biosimilars and specialty generics, with expected launches and uptake across other drug classes such as oncology, bone, autoimmune, and inflammatory conditions. Guided by a clear mission and vision that prioritizes improving health care and keeping the customer at the center, paired with a partnership orientation and a portfolio intentionally shaped for sustained growth markets, we are leaning into the disruption necessary to drive industry transformation.

As I wrap up, I'd like to reflect on some bright spots for the quarter and the full year. Throughout 2025, we delivered through a dynamic environment. Revenues for the full year increased 11%, driven by specialty pharmacy growth and client relationships. We had a strong selling season in Pharmacy Benefit Services with the retention rate over 97% for 2026. And we grew customers in our Select segment in Cigna Healthcare by 7%.

We are a leading change in our industry, from our commitments to better that we announced early last year, to our partnership with the Administration on improving prior authorization, to our announcements of affordable fertility drugs available through TrumpRx, to our transformative new model for pharmacy benefits, and our introduction of Clarity in Cigna Healthcare. Our mission, coupled with our capabilities, deep expertise, and diverse portfolio of businesses, positions us well to continue our track record of delivering for all stakeholders.

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'll review Cigna's fourth quarter and full year 2025 results, and I'll provide our outlook for 2026.

We are pleased to deliver another strong year for The Cigna Group, reflecting focused execution across Evernorth and Cigna Healthcare with both segments achieving pre-tax adjusted earnings at or above the outlook we shared a year ago. For full year 2025, we delivered consolidated adjusted revenues of \$275 billion, adjusted after-tax earnings of \$8 billion and adjusted earnings per share of \$29.84. Now turning to our segment results.

I'll start with Evernorth. 2025 marked another year of growth in Evernorth and the introduction of an industry-leading innovation in pharmacy benefit services as we advance our more simple, predictable, and transparent rebate-free model. We also advanced our Specialty and Care Services capabilities through a strategic investment in Shields Health Solutions as we build on our market-leading position and enhance our offerings in one of the largest and fastest-growing areas in health care.

Fourth quarter revenues grew to \$63.1 billion, and pre-tax adjusted earnings grew to \$2.2 billion, in line with expectations. Our Specialty and Care Services business delivered strong growth, generating \$26.7 billion in revenue, an increase of 14% year-over-year and \$1 billion in adjusted earnings. This performance reflects sustained momentum in our fastest growing business, driven by robust specialty volumes and rising biosimilar use, which continues to generate meaningful savings for our patients and clients.

Our Pharmacy Benefit Services business delivered \$36.3 billion in revenue and \$1.2 billion in adjusted earnings, reflecting the impact of our strategic investments, including initiatives to enhance the patient experience. Overall, the fourth quarter capped another year of growth for Evernorth. The underlying strength across our Evernorth businesses reinforces our confidence in making deliberate near-term investments to transform our pharmacy benefit services model, positioning us well for sustained long-term value creation.

Turning to Cigna Healthcare. In 2025, Cigna Healthcare delivered strong results above our original expectations in a dynamic environment. This performance underscores the strength and resilience of our purposely constructed portfolio, including the divestiture of our Medicare businesses, which positions us to navigate volatility and drive durable growth.

For fourth quarter 2025, Cigna Healthcare delivered adjusted revenues of \$11.2 billion and pre-tax adjusted earnings of \$734 million. Adjusted earnings slightly exceeded expectations as favorable net investment income more than offset modestly higher medical costs. The higher medical costs equated to approximately 60 basis points of MCR, or about \$50 million, without notable impact to any one part of the portfolio. Relative to our stop loss products, the full year MCR was slightly higher in 2025 compared to 2024, consistent with what we expected and communicated at the beginning of the year, and we remain on track with our margin improvement plan.

Overall, we're pleased with Cigna Healthcare's performance in 2025. Looking ahead, we remain focused on driving greater affordability and value for the patients and clients we serve while continuing to execute with discipline against our financial targets.

Now turning to our 2026 outlook. We expect full year 2026 consolidated adjusted revenues of approximately \$280 billion, and we expect full year 2026 consolidated adjusted income from operations of at least \$30.25 per share. Considering earnings seasonality, we expect first quarter EPS to be slightly above 25% of our full year guidance. Now turning to our 2026 outlook for each of our segments. In Evernorth, we expect full year 2026 adjusted earnings of at least \$6.9 billion. As we discussed previously, we expect investment spending to build

the infrastructure required for our transformative rebate-free model to commence in 2026, with this spend more back-half weighted. As a result, we expect Evernorth's first half earnings to be higher than the historical pattern with the first quarter representing over 20% of full year earnings.

For Cigna Healthcare, we expect full year 2026 adjusted earnings of at least \$4.5 billion. Within Cigna Healthcare, we expect earnings seasonality to be consistent with prior years with the first quarter representing over 30% of our full year adjusted earnings expectations for the business. Assumptions underlying our 2026 outlook for Cigna Healthcare include a Medical Care Ratio in the range of 83.7% to 84.7%, incorporating the pricing actions taken across stop loss and Individual Exchange businesses, as well as the assumption of a cost trend environment that remained elevated.

We expect the first quarter 2026 Medical Care Ratio to be below 81%, reflecting typical seasonality. We expect approximately 18.1 million total medical customers at year-end, including growth in our Middle, Select, and International markets offset by lower membership in our National Accounts and Individual Exchange business.

For the enterprise, we project an adjusted SG&A ratio of approximately 5% for 2026, consistent with the 2025 level, reflecting both the investments to advance our pharmacy benefit services model and continued improvements in operating efficiency. We expect the consolidated adjusted tax rate to be approximately 19%.

Now moving to our 2025 capital management position and 2026 capital outlook. Our fourth quarter cash flow was strong, and we finished the full year by delivering \$9.6 billion of cash flow from operations. In 2025, we repurchased 11.9 million shares of common stock for approximately \$3.6 billion and returned \$1.6 billion to shareholders via dividends. We also improved our debt-to-capitalization ratio to 43% during 2025, including an improvement of 190 basis points in the fourth quarter. Now framing our 2026 capital outlook. We expect to deliver approximately \$9 billion of cash flow from operations. As previously noted and consistent with 2025, we expect the majority of operating cash flow to be realized in the second half. Our capital deployment priorities remain consistent with our long-term framework.

We expect to deploy approximately \$1.3 billion to capital expenditures, and we expect to deploy approximately \$1.6 billion to shareholder dividends, reflecting our increased quarterly dividend of \$1.56 per share. Our guidance assumes full year weighted average shares outstanding to be in the range of 261 million to 265 million shares. And during 2026, we expect to continue progressing towards our long-term debt-to-capitalization ratio of approximately 40%.

Now to close. As we move into 2026 and beyond, we remain confident in the strength and the resilience of our enterprise. Our disciplined execution, balanced portfolio, and strategic investments to drive innovation, affordability, and an enhanced customer and patient experience, all position us well to deliver differentiated value for our customers, clients, and shareholders over the long term. We are confident in our ability to deliver full year 2026 adjusted earnings of at least \$30.25 per share, and our ability to deliver attractive long-term EPS growth.

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) Lisa Gill, JPMorgan.

Lisa Gill - JPMorgan Chase & Co - Analyst

Thank you very much. Good morning. David, I feel like we've been waiting for a long time for this PBM legislation to finally pass. It's finally passed. You've put behind you the FTC suit. Can we talk about a few things? The first, the change in economics. You talked about this with

the new plan in October. But now that everything is kind of settled in place, we've got legislation, etc. Can you spend a few minutes talking about the margin profile of what we would expect in the steady state for the PBM?

And then secondly, one of the things that stood out to me in the FTC settlement was the moving of the GPO back to the US from Switzerland. I want to understand what that means to the tax rate. My understanding is that the tax rate over in Switzerland is about 15%. So when I think about Ascent coming back, what's the financial implication for that as well?

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

Good morning, Lisa. Thanks for your comments and your question. So first, pulling back up, we've been saying for some time that the pharmacy services space would go through a clearing event, be it driven by market innovation, legislation, or regulation. And when you step back, many of those forces converged this week. And the clarity of direction that we established back in 2025 with the work we started in early 2025 and announced in the third quarter of 2025 with our new innovative model, from our point of view, is directly aligned.

So to the first part of your question, at a macro level, as we said in the third quarter of last year, we believe the margin profile will remain similar. We have significant experience with a variety of programs today with the diverse population we serve, be it fee-based, full pass-through, the continued innovation we drive with our clinical programs and services that we are able to offer, that from a big picture standpoint, we believe the margin profile will be similar. And therefore, we believe the underlying growth algorithm for the Pharmacy Benefit Services portion of our portfolio will remain intact to be similar as we get through this innovation.

And importantly, before I come to your tax question, it's important to really underscore the underpinnings of our innovation. First and foremost, it starts with a customer-first orientation in its design. It's therefore built to ensure that we are capable of delivering the lowest out-of-pocket cost for the consumer each and every time they consume a pharmaceutical at the counter, most likely through their benefit program in the vast majority of cases. That's the instance and the unique cases where it could be a cash pay program or a direct program, etc., we have the ability to be able to support that.

Additionally, meaningfully expanding the support programs for independent local world pharmacies. And then lastly, as we've discussed, it's built on a more modern, no rebate, no spread framework that gives all visibility to employers on a fee-based transparent environment, and ultimately provides shareholders more visibility of the sustainability relative to it. So big picture, no change in overall margin profile, and therefore, no change in the growth algorithm over time for our Pharmacy Benefit Services business.

As it relates to the second part of your question, the Ascent GPO has been and continues to be an important tool to improving affordability for customers and patients. We will move capabilities to the United States, bringing them closer to our US operations. We remain confident in the, as I said before, the growth algorithm of the business.

At the macro level, you could think about an outside impact to the effective tax rate of our organization of up to 1% over time, because there's a phase-in here if unmitigated. So if you want to put a box around that, you can think about a maximum impact of 1% in the future if unmitigated. Therefore, given the strong performance of our portfolio and our diverse enterprise, we see that as totally manageable, even at the outside parameters of that, against our long-term earnings growth algorithm of 10% to 14%. Thanks for your question.

Operator

Scott Fidel, Goldman Sachs.

Scott Fidel - *Goldman Sachs Group Inc - Analyst*

Thanks. Good morning. Just wanted to follow up on Lisa's and then ask a follow-up around Brian's comments on the new pricing model with the customer.

So the first question, just following up on Lisa's question is just, it really does feel like there's been a real sea change in collection and just the amount of activity and developments that actually occurred around sort of moving the premium pricing model forward. And just curious from your perspective is, do you feel like at this point now you've largely fully aligned your PBM model with how the regulators, with how the policymakers have been really pushing the industry to adapt to, or are there still some sort of regulatory battles, residual battles still ahead?

And then I wanted to just ask Brian around the PBM clients in terms of moving to the new pricing model, just the traction that you're seeing there in terms of sort of your updated view on the ramp that you're expecting in terms of '26 through '28, the percentage of clients that you expect to move on to the pricing model. Thanks.

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

Scott, good morning. It's David. Let me take the first part of your question, and I'll transition to Brian for the second part.

First, just contextually, it's important to note we are proud of the significant value that has been delivered over a long period of time to the people we have the privilege of serving, our customers across the United States. And by way of context there, fully 80% of the Express Scripts customers have less than \$250 out of pocket over the course of a full year. I'm going to come back to that in a moment.

And as I noted, through the good work of the pharmacy benefit services industry over a long period of time, 90% of all drugs consumed in America are generic, and they make up just over 10% of the total cost equation. But 10% are brand, which make up almost 90% of the cost equation. That's creating undue pressure in force on everybody in the model today, including out-of-pocket dislocation for consumers.

So when you come back to our model, we are confident that our model is built, the new innovation is built, through customer first, no rebate, no spread, fully transparent, fee-based model, where we step into the advocacy role for the consumer at point of consumption of a pharmaceutical each and every time at the counter to dynamically shop and make sure they get the lowest out-of-pocket costs. So when you look at any of the legislation or regulation, it's been oriented around improving affordability and predictability, harnessing, ultimately, transparency, and expanding value for ultimately the consumers, along with the clients. Our innovation squarely goes in that direction, and we are excited and confident to lead the way for the industry.

I'll transition to Brian for the second part of your question.

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

Thanks, David. Morning, Scott. As it relates to the adoption rates and the pricing model, etc., consistent with what we talked about in the third quarter call, the entire Cigna Healthcare fully insured book will be adopting this new model in 2027, and we expect at least 50% of our Evernorth business will adopt the model by year end 2028. Early feedback from clients, brokers, and other external stakeholders have been positive to date.

And I think importantly, coming back to link Lisa's question and yours, the core value creators in both our legacy models and our new rebate-free model really remain the same. If you think about securing better unit pricing for prescription drugs, administering benefits for plan sponsors, and supporting patients with clinical safety checks and advanced clinical programs – those three core value creators are the same in the legacy model as they are in the new model that we've introduced.

The primary difference is the way in which we're compensated. So there's two primary ways we will be paid in the future in this model. The first is a core admin fee that will be per member per script, delinked from the price of the drug. That will grow with inflation over time. And then the second category will be for clinical programs and other innovations that we bring to market, and we expect to take risk on this portion of the compensation. But in aggregate, as David said earlier, we expect to achieve a comparable level of profitability between the legacy model and the new model, although the sources of profit will evolve as I outlined.

Operator

Charles Rhyee, TD Cowen.

Charles Rhyee - TD Cowen - Analyst

Thanks for taking the question. First one, just on a clarification is just, I think, Brian, you kind of mentioned it. With the settlement, the timing of the settlement requirements, is that aligned with the launch of the new rebate-free model is the first just sort of clarification question.

But the second, my second question really is more, obviously, your, all these settlement agreements are related to the standard, to provide a standard offering, right, which largely aligns it feels like with the new model that you're launching by 2028. I guess the question is, to the extent that clients don't take this new offering, what is the responsibility for Cigna or Evernorth in this case to push the new standard offering so that these requirements are met? And if clients don't choose to take the new offering, is there any sort of liability to Cigna down the road?

And in particular, I'm kind of looking at, for example, ensuring members out-of-pocket expenses are lowest net cost. But if an employer doesn't choose that new option or if the employer chooses to maybe increase a coinsurance amount or deductible, is there any kind of, does any kind of responsibility fall by to Cigna? Thanks.

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

Charles, good morning. It's David. Let me take the second part of your question, and I'll tag team with Brian on that, as well as the first part of your question to pick up on.

So a few important points here. First, macro, we have and we continue to believe in offering choice to the marketplace. And we serve a diverse number of clients from governmental agencies to health plans, to employer clients, etc. Two, as Brian noted, we will adopt this innovation January 1, 2027, for the Cigna Healthcare guaranteed cost book of business, where Cigna is the purchaser. So we will lead in the accelerated adoption. And third, we expect to see significant adoption in 2028, as Brian mentioned before.

Second, it will be our standard offering. It will be our lead offering in 2028, and that is congruent with the settlement and the direction.

Third, there is no liability that we assume if the adoption rate is above or below that. We will lead the market. We will support this with marketing dollars because we are convicted and believe that this is the future of pharmacy benefit services, for the benefit of consumers as well as clients as well as community pharmacists.

So our conviction, we will lean in and support the aggressive adoption of this. But choice will still be in the marketplace. We will still be able to afford, enable solutions and afford solutions, be they rebate, rebate pass-through, or otherwise as the market goes through its transitional process and ultimately adopt this model on a go-forward basis.

Brian, anything to add to that or to the first part of...

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

That's a pretty comprehensive answer, David. But just a few additional comments, Charles. So our launch plan from the standpoint of our new rebate-free model is unchanged based upon the FTC agreement that we reached this week. So we'll continue with the same milestone, the same expectations.

And importantly, as David made reference to earlier, inherent in our new model is what we call our Price Assure technology, which guarantees patients the lowest possible price on the drug when they get it filled. So whether that's the price we've negotiated with drug manufacturers, whether it's a cash pay alternative, whether it's their co-pay, whatever the lowest possible price is, we're guaranteeing in the new model of the patient will get that. And so that enables us to meet the spirit of the FTC's goals as well to drive lower patient out-of-pocket. And to the point of what else could be a little bit different, Lisa's question earlier, the move of our GPO capabilities from Switzerland or the US unrelated to the new rebate-free model. So there's some elements of the FTC agreement that are unrelated to it, but the launch plan for our rebate-free model is unchanged as a result of the agreement.

Operator

Kevin Fischbeck, Bank of America.

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

Great. Thanks. I'm a little bit surprised that the MLR in 2026 isn't expected to make any progress given exchanges should be repriced and smaller, and stop loss. It sounds like you're repricing that again, getting generally speaking better pricing this year than last year. Why is that? And then I guess if you could just maybe give us a sense on the current business mix, what the right MLR to think about is when the business is fully repriced in the future? Thanks.

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

Hi, Kevin. So I'll start by just reminding you what I mentioned in my prepared remarks, our 2026 MCR outlook incorporates the pricing actions we've taken across stop loss and the Individual Exchange businesses, as well as the assumption that the cost trend environment remains elevated. So when thinking about the walk, the MCR walk from '25 to '26, I'd point to two things that reduce the MCR and two things that increase it. With respect to the reductions, within stop loss, pricing is tracking in line with expectations, and we've achieved rate increases consistent with our targets for improvement in 2026. And then the second is for our Individual business, we've repriced for margin improvement. So those are the two things that will reduce MCR going into '26.

Items that increase the MCR on a comparative basis. If you recall that the 2025 MCR benefited from several one-time items in our Individual business, both of which impact the jump-off point for the year and tempers the year-over-year MCR improvement. And beyond those items, there are mix dynamics to consider as well. And lastly, I'd say sort of overall, our assumptions incorporate appropriate prudence given the continued elevated cost environment.

So summarized, our MCR outlook incorporates stop loss and Individual pricing actions, one-time impact to '25, as well mix considerations, impact that year-over-year view. And we continue to assume an elevated cost environment and appropriate prudence. And for your question around the MCR, I'd point you to the outlook that we provided in terms of the range of where we expect to end up for 2026.

Operator

Justin Lake, Wolfe Research.

Justin Lake - *Wolfe Research LLC - Analyst*

Thanks. Good morning. I wanted to ask a couple more PBM questions. As you look out to 2027, it certainly seems like you don't expect the business transitions associated with the FTC settlement. The legislation would be a headwind to earnings. But wanted to confirm that is the case, and you expect 2027 PBM's earnings growth at this business to be in line with your long-term algorithm.

And then just from an accounting perspective, is there any change to PBM revenue recognition here from all these business model changes, effectively the move away from spread pricing, rebate guarantees, towards a fee-based model. Will PBM still be able to book the total pharmacy spending as revenue? Or would it move to kind of booking fee revenues similar to ASO on the medical side? Thanks.

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

Good morning, Justin. It's Brian. On the first part of your question, at this point in time, the FTC agreement will not impact our '27 financial outlook. Many of the agreements and commitments are multi-year in nature, as we talked about earlier. And as David said, our long-term growth algorithm for PBS remains intact as we move through the transitional period here.

As we talked about on the third quarter call, we do expect 2026 and 2027 to have investment-related costs as we build out technology and infrastructure to support our new rebate-free model. So that's really the only thing I'd have you think about as it relates to 2027 in terms of the PBS outlook.

On the revenue recognition question, at this point in time, we do not expect there to be changes in the way that our revenue is being recognized in the PBS segment, even with the transition to a fee-based model as opposed to spread or rebate-oriented model that we have today. So we'll refine that over time and certainly can take that offline with you. We do not expect a change in the denominator and the margin profile.

Operator

Erin Wright, Morgan Stanley.

Erin Wright - *Morgan Stanley - Analyst*

Great. Thanks. I know there's a lot of focus on the PBM. But can you talk about the Specialty business? You mentioned some of the strong organic growth there. Can you unpack a little bit some of the key drivers there, what you're anticipating in 2026? Any other implications from some of the dynamics at the PBM side as well, but also biosimilar pipeline, and as we head into 2026, how you're thinking about that? Thanks.

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

Good morning, Erin. It's Brian. So as we mentioned in our prepared comments, really pleased with the momentum of the Specialty business, 14% top line growth and attractive earnings contributions alongside of that. And we've talked about before with you, this is already a \$400 billion-plus addressable market growing at a high single-digit secular growth rate, and we're really well positioned to capitalize that, on that over the longer run.

And we certainly saw the dynamics emerge throughout 2025. So the full year, we had 13% growth in prescriptions. Higher rate of growth in our Medicare book of business, but also strong growth in the Commercial Employer and the Medicaid portfolio. And our Evernorth business is really well positioned to capitalize on each of those different payer types. We continue to expect long-term average annual income growth of 8% to 12% in this business, benefiting from some of these strong secular tailwinds.

A few specific TRCs or cost categories I'd highlight that were particularly strong growers included inflammatory, asthma, and allergy. Those were, those generated a good bit of the year-over-year growth in the Specialty space. And as it relates to biosimilars, we're really pleased to see the building momentum across the United States, really HUMIRA, the past two years, becoming mainstream was a great win for the market.

And as David said earlier, we expect another \$100 billion of Specialty drug spend to be subject to competition from biosimilars and generics by 2030. Each of these biosimilars have a slightly different adoption rate based on factors such as interchangeability, dosage levels, branded alternatives, and other dimensions. But we've, as you know, introduced a zero-dollar patient out-of-pocket for both HUMIRA and STELARA. And the HUMIRA penetration in 2025 ended up representing the vast majority of eligible scripts. So that's clearly been a success story for American health care from the standpoint of patients getting significant savings, financiers, whether those be employers or health plans, getting the benefit of the savings on these biosimilars, and we look forward to continue driving savings for patients in the future in the biosimilar and specialty generics space.

So to kind of wrap this up, this space we're really excited about. It's 35% of the company's income now. That percentage will continue to grow in the future as we execute.

Operator

AJ Rice, UBS.

AJ Rice - UBS Equities - Analyst

Hi, everybody. Thanks for the question. First, just a point of clarification to the previous comments. You guys gave the outlook for the new rebate-free model. And with that I mean for growth, when you talked about third quarter, you haven't really changed that today, but you've obviously had the FTC settlement and other things, were those, I know those don't happen overnight, were those largely contemplated when you made your comments about the outlook in the third quarter?

And then the other thing I was wondering on your deals with manufacturers on the pharmacy side, do those need to be significantly renegotiated? How much of an unknown is that over the next few years? And do you envision formulary changes significant or any other things we should be thinking about from the cost side of the pharmacy business?

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

AJ, good morning. It's David. A few parts to your question there. First, on the, your opening portion of your question. You're correct. Our outlook for the '26 time frame and our outlook for the direction of our new pharmacy benefit innovation remains consistent, both the adoption target for '27, the adoption target for '28, and the overall margin profile.

Two, as I noted earlier, we began working on that in early 2025, the architecture of it, the design of it, etc., and we announced it in October, as you recall, of '25. And the architecture of what we've built is quite congruent with where the regulatory environment was heading and was likely to head. So when you step back, you can look at the legislative environment or the regulatory environment, and say, what is the focus? The focus here is on increased transparency. The focus is on an environment that puts the customer first, and tries to optimize the customers' out-of-pocket costs, and improve the customers' affordability.

It's one that is more performance-oriented. In some examples, I'll focus on the critical role of independent pharmacists in rural locations, etc. All that was contemplated in our design that we began approximately a year ago. So therefore, no change in the direction as a result of the settlement. No change in our direction as a result of what we saw in the legislation that passed this week.

On the second part of your question, there's work that sits in front of us to do, as Brian talked about, in the third quarter call and we referenced briefly here in terms of the build-out of the capabilities. But it is very familiar work to us and for our organization in terms of whether it's the technology work that needs to be enhanced, amplifying capabilities that we're already using for the benefit of consumer pricing at point of consumption today, or the work directly back with the manufacturers in terms of the restructuring of the economic arrangements that are aligned with this more transparent model on a go-forward basis.

And your final question is will there be formulary changes. The formulary is a bit fluid. It's governed by clinical efficacy and comparative effectiveness. So clinical efficacy around the notion of the clinical impact of like-for-like drugs. When they're similar, then it moves on to comparative effectiveness, which is the economics to generate that, but always led from a clinical standpoint with independent oversight. And the fluid nature of that will transpire.

But my closing comment would be, I would not expect that the transitional model to the future, it will be a direct correlation to a formulary change. The formulary will continue to be guided by the proper governance of clinical efficacy first and then comparative effectiveness, optimizing the total cost structure. So taking it all in, again, we could not be more pleased with the direction that we have set for the industry around the transparent, customer-centric, rebate-free, fee-based model, and the ability to secure a broad closure of issues, both from a regulatory standpoint and clarity from a legislative standpoint. AJ, thanks for the question.

Operator

Stephen Baxter, Wells Fargo.

Stephen Baxter - Wells Fargo Securities LLC - Analyst

Thank you. I was hoping you could maybe expand a little bit more on the health care medical membership outlook that you gave. It seems like we're seeing a bit more of an outsized shift into ASO funding models based on some of the other reports this earnings season, maybe that's the higher cost trend environment. So I was hoping you could expand a little bit on what you're seeing there, whether you might see more outsized growth in Select this year? And then just broadly, how you're thinking about in-group enrollment trends given some of the uncertainty in the macro right now? Thank you.

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

Good morning, Stephen. It's Brian. So as it relates to the Cigna Healthcare membership outlook, as you saw in the press release, we expect flat year-over-year at about 18.1 million lives. And really, you can think of that big picture is we expect growth in our US Employer and International Health businesses, offset by a decline in Individual Exchange customers. Within the US Employer portfolio, we expect to see growth in both our Select and Middle market subsegments, reflecting the continued strength of the consultative model along with our integrated medical, pharmacy, and behavioral offerings, plus our focus on affordability for these employers.

I would not expect an outsized year of growth to your question on Select necessarily, but we do expect growth in that space in 2026. And that growth in Select and Middle market is partially offset by some decline in National Accounts customers in 2026, similar to what we signaled to you previously.

Within the Individual Exchange business, we expect to end 2026 with fewer than 300,000 customers, reflecting another year where we prioritized margin over growth. So again, the net effect of all of this is membership that's approximately flat, although we anticipate an attractive year of earnings growth within Cigna Healthcare.

As it relates to the funding mix, we expect our group risk business to be stable for 2026 compared to 2025. So think of around 2.2 million lives, which, again, reflects our disciplined pricing posture. And as we talked about in prior settings, our Select segment mix today is roughly 2/3 self-funded, and our net growth in Select has been coming from ASO and level-funded style solutions in recent years. And as a reminder, we're not active in the under-50 regulated small group markets. So our commercial group risk business here is essentially all large group in nature.

In group enrollment trends, we are not seeing anything out of the ordinary. Obviously, we continue to monitor economic data and unemployment data. But to date, we have not seen anything out of the ordinary. Our 2026 outlook reflects our current view of what the economy will do.

Operator

Jason Cassorla, Guggenheim.

Jason Cassorla - *Guggenheim Securities LLC - Equity Analyst*

Great. Thanks. Good morning. I wanted to ask, Specialty and Care for 2026. I just wanted to confirm, are you still anticipating AOI growth at the higher end of your 8% to 12% target for '26? And then can you help spike out what the implied AOI growth would be when excluding the income attribution from the Shields investment? Just maybe like more core basis, growth would be helpful. Thanks.

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

Sure. Good morning, Jason. So for Specialty and Care, we expect earnings to grow towards the high end of the long-term growth rate, reflecting both strong fundamentals and the contribution from the Shields investment. We're really pleased with what we saw in 2025 overall for Specialty and Care.

Our expectations for 2026 remain consistent with what we shared coming out of the third quarter. We haven't shared the details specifically around Shields. Its built into our expectations, but that takes us to the high end of the range.

Operator

Andrew Mok, Barclays.

Andrew Mok - *Barclays - Analyst*

Good morning. The operating cash flow and CapEx guidance implies less than 80% free cash flow conversion on your pre-tax income, which is below recent history and lower sequentially. So can you walk us through the drivers of that pressure and comment on the expected impact of the new rebate-free model on working capital? Thanks.

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

I'll start with the cash flow expectation. So we were really pleased with \$9.6 billion for this year coming out. And as I said in my prepared remarks, we do expect a dynamic of higher cash flow or more cash flow in the back half of the year next year.

When stepping back and looking at our 2026 cash flow expectations, that, the decline to the \$9 billion that we're guiding to next year is roughly \$600 million less than what we saw in 2025. That primarily reflects the lower contribution from the PBS business, from our Pharmacy Benefit Services business. And really, that includes the impact of large client renewals and some of the investments that we're making in 2026.

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

And Andrew, the rebate-free model will not impact the '26 cash flow outlook. And as we get closer to '27 to '28, we can square that up for you a bit in terms of reconciling how that moves year-over-year.

Operator

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

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

First and foremost, thank you for your questions and your time today. I just want to reiterate the items. First, with our momentum, we are confident we will deliver on our adjusted EPS outlook of at least \$30.25 for 2026. Important to note in the context of a very dynamic environment in 2025, we delivered competitively attractive results, and I'm proud of how our team works tirelessly each and every day for the benefit of those we serve, where we work to know our customers, help them by delivering personalized solutions and support programs for their unique needs, and working every day to make it easier to access affordable care. We look forward to our future conversations. Thanks, and have a good day.

Operator

Ladies and gentlemen, this concludes the Cigna Group's fourth 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 866-405-7290 or 203-369-0603. There is no passcode required for this replay.

Thank you for participating. We will now disconnect.

DISCLAIMER

LSEG reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES LSEG OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2026, LSEG. All Rights Reserved.