LSEG STREETEVENTS

EDITED TRANSCRIPT

CI.N - Q2 2026 Cigna Group Earnings Call

EVENT DATE/TIME: JULY 30, 2026 / 12:30PM GMT

OVERVIEW:

Company Summary

LSEG DATA & ANALYTICS

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Stephen Baxter *Wells Fargo Securities LLC - Analyst*

Lisa Gill *JPMorgan Chase & Co - Analyst*

AJ Rice *UBS Equities - Analyst*

Charles Rhyee *TD Cowen - Analyst*

Justin Lake *Wolfe Research LLC - Analyst*

Erin Wright *Morgan Stanley - Analyst*

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

Scott Fidel *Goldman Sachs Group Inc - Analyst*

Jason Cassorla *Guggenheim Securities LLC - Equity Analyst*

Sarah James *Cantor Fitzgerald LP - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for The Cigna Group's second-quarter 2026 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*

Great. Thank you. Good morning, everyone. Thanks for joining today's call. I'm Ralph Giacobbe, Senior Vice President of Investor Relations. With me on the line this morning are Brian Evanko, The Cigna Group's President and Chief Executive Officer; and Ann Dennison, Chief Financial Officer.

In our remarks today, Brian and Ann will cover a number of topics, including our second quarter 2026 financial results and our financial outlook for 2026. Following their prepared remarks, 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 second quarter, we recorded after-tax special item charges of $153 million or $0.58 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 Brian.

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

Thanks, Ralph. Good morning, everyone, and thank you for joining our call. I'm pleased to share we delivered strong performance in the second quarter as we continue to execute at a high level, drive results, and accelerate momentum across our enterprise.

Today, I'll discuss our performance for the quarter and key strategic drivers of our growth and demonstrate how the strength and durable nature of our model is fueling our success. I'll also share some examples of how we are leveraging data, AI, and technology to deliver more personalized health care experiences for our customers and patients. Then Ann will review additional details about our results and outlook for the rest of the year. Then we'll take your questions. So let's get started.

As I've stepped into the CEO role, I'm energized by our strategic direction, our execution, and the impact we're having for those we serve, while leveraging the power of one of the most experienced leadership teams in the industry.

Over the past few months, I've been spending even more time carefully listening to our partners across the health care system, including clients, customers, health care professionals, and brokers. Throughout these conversations, a few themes consistently emerge. First, an elevated focus on affordability as new expensive therapies continue to enter the market and demand for complex care grows. Second, growing expectations for more personalized experiences as people want health care to feel as easy as other areas of their lives. And third, the need for actionable insights and clinical programs to keep people healthy.

These themes within health care are coupled with continued economic pressures, geopolitical uncertainty, and a rapid pace of change fueled by AI advances. While the current environment is certainly dynamic, I see the landscape as ripe with opportunity to innovate, drive change, and forge a new path in health care, all while continuing to execute on our commitments today.

This orientation has fueled our strong second quarter performance, where I'm pleased to report that both Evernorth and Cigna Healthcare results were ahead of expectations. In the second quarter, The Cigna Group delivered total revenues of $71.7 billion and adjusted earnings per share of $7.78, all while we continue to reinvest in our business to fund growth, expansion, and innovation for our customers. I'm proud of our team around the world for continuing to focus on those we serve. Our strategy is aligned with what customers and patients need most. And our portfolio is purpose-built for where health care is headed, and its relevance has never been greater.

Now looking at our performance across our businesses, we continue to drive impact and growth across both Evernorth Health Services and Cigna Healthcare. Overall, Evernorth's earnings were slightly ahead of expectations, with revenues increasing 6% year over year, reflecting the continued demand for our services while we invest in broadening our offerings and expanding our reach.

Our Specialty and Care Services businesses delivered pre-tax adjusted earnings growth of 22% year over year, fueled by secular tailwinds as well as the differentiated strengths in Accredo and our expanded suite of specialty pharmacy services that support hospitals and health systems. This quarter, we also saw faster-than-expected adoption of specialty generics and biosimilars both of which improve affordability for patients and clients.

Our growth in specialty continues to be fueled by our unique portfolio capabilities, which enables us to better serve patients with more complex clinically intensive needs. We're seeing continued growth in the number of patients relying on specialty medications, and we are uniquely positioned to serve them with our market-leading access to more than 330 limited distribution medicines. Our highly personalized capabilities, including our clinical care teams, tailored engagement, and deep understanding of complex health journeys distinguish us in our ability to serve these patients.

Turning to our Evernorth Pharmacy Benefit Services business. We delivered pre-tax adjusted earnings of $609 million, reflecting the impacts of the previously discussed renewals and extensions of large client contracts as well as investments to support the transition to our new rebate-free model, which we call Signature.

The team is making strong progress in the build-out of our Signature pharmacy benefits model. We see significant early interest from health plans and employers as we prepare for our broader market launch in 2028. This will follow our important next step of introducing Signature to Cigna Healthcare's fully insured plans next year.

At the same time, we're adding value and winning business today with 2027 representing one of our strongest selling seasons in recent years. We've been able to achieve this performance in Pharmacy Benefit Services through our winning combination of superior unit costs, clinical programs designed to improve adherence to therapies, and market-leading innovations that help our clients anticipate what is around the corner in a rapidly changing environment, helping them build and tailor solutions to meet their needs today while planning for the future.

Turning to Cigna Healthcare. We delivered results ahead of expectations with pre-tax adjusted earnings growth of 17%. While the needs of every client are unique, several factors contribute to why we continue to win in this segment. Our deep focus on the employer-sponsored health care market, where we have differentiated expertise, generating continued customer growth in our US Employer business.

Our disciplined pricing and execution, including in our stop loss business where we continue to make progress on margin recapture, our strategic portfolio shaping to drive focus, our ability to continuously find new ways to innovate by leveraging data and clinical programs that keep people healthy, and our integrated solutions that provide improved access and coordination across medical, pharmacy, and behavioral health services.

For example, given the growing demand for mental health services, our most recent solutions demonstrate our continued industry leadership and make us the partner of choice. Our provider matching capabilities for behavioral health patients are reducing costs by matching patients with high-quality providers. And offerings like Headspace are expanding access to lower acuity behavioral health options, improving affordability, encouraging earlier intervention, and complementing demand for outpatient services.

As you can see, a consistent reason why we win in both Evernorth and Cigna Healthcare is our ability to innovate to meet evolving customer and client demands.

Now I want to spend a few minutes sharing more about how we are applying data, technology, and AI to improve customer outcomes and transform business models. Our AI approach is built on a simple principle: start with the customer and patient and identify where innovation can drive the most meaningful impact for them.

We are leveraging technology and AI to drive better health outcomes, simplify and personalize customer experiences and lower costs, and then execute that at scale. This has enabled us to use AI to change the trajectory of the most complex clinical journeys to improve the lives of our customers and patients.

One example is Pharmacy Forward, our recently announced AI-powered program designed to improve how patients access and incorporate specialty medications into their treatment plans. We are unlocking new ways to coordinate care for patients by shortening the time between when a patient received their prescription and when they can begin treatment, while minimizing administrative friction along the way.

With Pharmacy Forward, we're focused on personalizing support, streamlining processing, and helping patients start and stay on therapy with greater ease and confidence. Our targeted use of AI is expected to cut time to therapy in half on average. And for clinicians, it enables them to deliver more connected, informed support, reducing their documentation time by up to 50%, freeing capacity to spend more time on patient care.

We'll find the same philosophy within Cigna Healthcare. We know patients navigating complex conditions benefit from personalized clinical support to improve both outcomes and affordability. This month, we announced an expansion of our AI-enabled care coordination capabilities to help us identify customers with emerging complex or chronic health needs earlier such as cancer, heart disease, and high-risk pregnancies, and connect them more quickly to the personalized clinical support they need.

Through predictive models and AI-enabled insights, we will be able to expand support to 20% more customers with emerging complex health needs. This is not about replacing clinicians with technology but helping clinicians spend more time where they can make the greatest difference.

And the results speak for themselves. Customers who engage in these programs reduce medical costs by approximately $2,000 per year on average. Early engagement has already yielded a 42% reduction in avoidable inpatient stays amongst those customers.

What makes these efforts unique is that they're not standalone technology initiatives. They are enabled by the combination of data, clinical expertise, and pharmacy capabilities that exist across our enterprise, all focused on better serving our customers. We believe this ability to connect insights with action and action with measurable outcomes is a significant competitive advantage for The Cigna Group.

As we look ahead, we'll continue to focus our investments on meaningful applications of AI that improve affordability, enhance the customer experience, help clinicians work more effectively, and create long-term value.

Now let me summarize our results. We have a proven track record of delivering differentiated value for those we serve by innovating new solutions like Signature, Clearity, Pharmacy Forward, and personalized care coordination, as well as through our flexible model and meaningful partnerships.

As a result, in the second quarter, we delivered on our financial commitments with adjusted EPS of $7.78, and are pleased to increase our guidance for full year adjusted earnings per share to at least $30.45. Further, our company has attractive, sustainable growth opportunities in the long term, building on our history and track record of results delivery.

Overall, our strong performance and disciplined execution throughout the first half of the year reflects the intentional design of our company and the passion of our coworkers for serving our customers.

With that, I'd like to turn it over to Ann.

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

Thanks, Brian. Good morning, everyone. As Brian mentioned, our second quarter results reflect another quarter of strong execution for the enterprise with both Evernorth and Cigna Healthcare delivering pre-tax adjusted earnings above expectations.

During the second quarter, we delivered total revenues of $71.7 billion, adjusted after-tax earnings of $2.1 billion, and adjusted earnings per share of $7.78. With our strong second quarter performance, we are raising our full year 2026 adjusted earnings per share outlook to at least $30.45. This outlook reflects the strong first half performance while maintaining a prudent view of the current environment.

Now turning to our segment results. I'll start with Evernorth. Second quarter 2026 revenues grew 6% year-over-year to $61.5 billion and pre-tax adjusted earnings were $1.7 billion. Specialty and Care Services delivered strong performance with pre-tax adjusted earnings growing

22% year-over-year to $1.1 billion, ahead of expectations. The year-over-year growth reflects the strength of our Specialty businesses supported by continued specialty utilization growth and increased biosimilar adoption.

Additionally, we were successful in improving the penetration of specialty generics, including generic Revlimid. The higher penetration of biosimilars and specialty generics drives affordability and value to patients and clients and contributed favorably to earnings in the quarter.

Year-over-year earnings growth was further augmented by operating efficiencies and the income from our investment in Shields Health Solutions, which expands our reach into hospitals and health systems. The sustained growth in our Specialty and Care Services business reinforces our confidence in the long-term growth opportunity within Specialty and reflects the deliberate steps we've taken to position our company at the forefront of this attractive market.

Within Pharmacy Benefit Services, pre-tax adjusted earnings were $609 million, down from the prior year, broadly as expected. Our performance reflects the previously discussed renewals and extensions of large client contracts and investments associated with the transition to our Signature rebate-free model.

As we previously mentioned, we saw higher biosimilar and specialty generic adoption during the quarter, which benefited Evernorth's results, driving increased contribution in Specialty and Care Services while reducing contributions in Pharmacy Benefit Services.

Additionally, in the second quarter, we observed moderating GLP-1 growth as coverage levels slightly declined and utilization growth lowered from elevated levels experienced in prior periods. We expect this trend to continue throughout the remainder of the year, and it is contemplated in our full year outlook.

Overall, Evernorth's second quarter results reflect the continued strength of our Specialty and Care Services business, alongside progress in the evolution of our Pharmacy Benefit Services business.

Turning to Cigna Healthcare. Second quarter 2026 revenues grew 10% year-over-year to $11.8 billion, and pre-tax adjusted earnings were $1.3 billion. The Medical Care Ratio for the second quarter was 84.5%, slightly ahead of expectations. Cigna Healthcare delivered results ahead of expectations, driven by strong performance within the US Employer business. Broadly, overall cost trends remain elevated but stable.

Against that backdrop, medical cost trends were slightly favorable to expectations during the quarter, reflecting lower outpatient trends, including lower surgical spend. Additionally, we continue to see good traction in the Employer market with medical membership growing year-to-date, reflecting the strength of our client relationships and the value of our offerings. Overall, we are pleased with Cigna Healthcare's performance, which reflects our disciplined pricing, effective care coordination, and focused execution.

Now turning to our outlook for the full year 2026. The strength of our second quarter performance gives us the confidence to increase our full year adjusted earnings per share outlook to at least $30.45, while maintaining a disciplined and prudent approach to the full year. Regarding the earnings cadence, we expect second half adjusted earnings per share to be split roughly evenly between the third and fourth quarter.

Within Evernorth, we continue to expect full year pre-tax adjusted earnings of at least $6.9 billion and for the third quarter earnings seasonality to be consistent with prior years. Within Cigna Healthcare, we are raising our full year pre-tax adjusted earnings outlook to at least $4.55 billion and we expect the third quarter pre-tax adjusted earnings to be over 60% of the second half earnings.

For the Medical Care Ratio, our full year MCR guidance remains unchanged, and we expect the third quarter MCR to be slightly above second quarter, consistent with historical seasonality.

Turning to our 2026 capital management position. Second quarter operating cash flow was in line with expectations and consistent with historical patterns, which is influenced by calendarization impacts that shift a portion of receivables into early July. We continue to expect

our cash flow to be back-half weighted, consistent with prior years. Our debt to capitalization ratio was 42.8% as of June 30, and we expect to end the year closer to our target of 40%.

In the second quarter, we repurchased approximately 900,000 shares of common stock for approximately $250 million. We continue to view share repurchases as an attractive use of capital, while maintaining a focus on debt paydown and disciplined capital management.

Now to recap. Our second quarter results reflect focused execution with both Evernorth and Cigna Healthcare delivering pre-tax adjusted earnings above expectations, while we continue to make progress on initiatives to support our long-term growth strategy. We are pleased with our performance in the first half of the year and are confident in our increased full year 2026 adjusted earnings per share outlook of at least $30.45.

We look forward to our upcoming Investor Day in September, where we'll go deeper on our long-term strategy, growth opportunities, and the outlook for Evernorth and Cigna Healthcare.

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) Stephen Baxter, Wells Fargo.

Stephen Baxter - *Wells Fargo Securities LLC - Analyst*

I was wondering if you could maybe speak a little bit about how you'd expect the earnings growth progression within Evernorth to develop both for Specialty and Care and Pharmacy Benefits and how the pace of investments is impacting that.

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

Thanks, Steve. So we are really pleased with Specialty and Care's second quarter results, which exceeded our expectations. Now performance during the quarter was driven by continued strength in specialty utilization, faster-than-expected adoption of biosimilars and specialty generics, which improves operating efficiency. We saw improved operating efficiency and contributions from Shields.

Notably, specialty generic penetration exceeded 80% for newer products during the quarter. These therapies improve affordability for patients and for clients, and contributed favorably to earnings performance.

So overall, we expect it to continue to perform well as we look through the back half of the year. We expect specialty generics and biosimilars to be a meaningful tailwind, and we expect strong -- we expected strong penetration throughout the year and built that into our original full year guide. We experienced it earlier than expected. So the magnitude of the benefit we saw in the second quarter is not expected to repeat at the same level in the third and fourth quarters, but we still expect strong results as we look to the back half of the year for Specialty and Care.

Operator

Lisa Gill, JPMorgan.

Lisa Gill - *JPMorgan Chase & Co - Analyst*

Brian, you made a comment that the PBM selling season was very strong. Can you maybe just do two things? One, can you talk about renewals and where your renewals are at? And two, can you size new business wins? And then thirdly, as we think about how important, how big your Specialty business is, can you talk about are there incremental opportunities within Specialty?

What did you see in this year's selling season specific to Specialty? Are you seeing carve-outs where you're winning more business? Is it just incremental business through the PBM contracting? Just want to better understand how you're thinking about the selling season.

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

Lisa, I appreciate the multifaceted nature of that question. So maybe I'll talk about the '27 selling season just more generally across the company and get to some of the specifics of your question on our Pharmacy Benefit Services and Specialty businesses throughout that.

As it relates to just common themes in the selling season, affordability continues to be the most pronounced problem across the health care space, and that's exacerbated certainly in the prescription drug space by the high unit prices for brand drugs. And then, of course, on the medical side, by the upward march of hospital prices, which has continued.

And so those affordability pressures have led employers to consider alternate plan designs as well as financing solutions. Fortunately, we're well positioned to support employers and other buyers in those alternatives.

A second common theme we're seeing is the focus on customer experience, what we call personalization, with employer and health plan clients increasingly looking for partners who will engage individuals with the right information at the right time in their preferred modality. And these themes are squarely where we're focused as an organization.

So as it relates to the specifics on the growth platforms, within our Evernorth Pharmacy Benefit Services business, we closed 2026 with over 97% retention. And the preliminary indicators for 2027 also suggest mid-90s or higher retention. So both of those 2026 and 2027 years are very consistent with historical norms. And to your point, as I shared earlier, our 2027 new business performance is quite strong. Total new business already secured is above the prior two selling seasons combined. So a very strong '27 new business performance.

And looking forward, our new rebate-free signature model is generating considerable interest from both existing clients and prospects as we look to scale it in 2028 and beyond. So this is good evidence that our clients see us as a multi-year thought partner as they prepare for future changes in their pharmacy benefit programs.

In the Specialty and Care services platform, we continue to benefit there from secular tailwinds, as Ann was just referencing, which leads to more patients utilizing specialty drugs along with our Accredo specialty pharmacy being included as a network option and even more unaffiliated PBM offerings.

We also continue to see strong growth in the hospital and health system space where our fee-based offerings from Verity, from Carepath, and some of the synergy we've been able to accomplish from our Shields Health Solutions investments are starting to pay off.

So putting all those pieces together, our solutions continue to adapt to market needs. We're confident in the long-term durability of The Cigna Group and pleased with the performance so far in the '27 selling season.

Operator

AJ Rice, UBS.

AJ Rice - *UBS Equities - Analyst*

I might pivot over to the benefits side. I appreciate the prepared remarks comment about the surgery volumes. I was wondering, is the overall cost trend you're seeing in the commercial business consistent with what you thought, high single digits I think is where it was pegged, or is it what you're seeing in surgical enough to move the needle?

And then, I guess, your comment on GLP-1, mainly on the Evernorth side. Is that helping you on the commercial cost trend? And you're also referencing a risk adjustment benefit. I wondered if you could size how meaningful that was for you in the quarter?

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

AJ, I'll start on the first couple of components and Ann, maybe you can pick up on a risk adjustment and anything I missed from the first two pieces of AJ's question. So as it relates to Cigna Healthcare, obviously, we're pleased with the strong performance in the second quarter despite a challenging and dynamic operating environment, and the strong performance was driven by slightly favorable medical cost experience in the quarter, which resulted in the MCR being slightly favorable to expectations.

Now to your point of absolute level, we continue to see high single digit type cost trends. So persistently elevated cost trend levels, not a significant deceleration and no acceleration fortunately as well. So that's how I would encourage you to think about what's happening with the cost trend environment.

And to Ann's point, we're seeing -- we saw a little bit of favorability in the outpatient side, but again not enough to call it a break in cost trends at this juncture. And our forward-looking assumptions continue to assume an elevated cost trend environment through 2026 and 2027.

On the GLP-1 side, as we were talking about in respect to Evernorth, we saw some deceleration in the growth rate of GLP-1 prescriptions in the second quarter, which puts some very modest downward pressure on the PBS financial picture in the second quarter. That was more than offset by the strength in our Specialty business, which led to overall Evernorth results being above expectations.

To your point, on the Cigna Healthcare portfolio, the very modest benefit from the standpoint of GLP-1 prescriptions being a little bit lighter. But keep in mind, in the Cigna Healthcare portfolio, we serve many smaller employers who did not cover GLP-1s for weight management. So we continue to only see 15% to 20% of the book covering that for weight management. So the overall financial impact there was fairly immaterial as you think about the pull-through in the Cigna Healthcare portfolio.

Ann, can you address the risk adjustment question that AJ asked?

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

Yes, sure. So AJ, the release of the 2025 final risk adjustment data and also the June Wakely update for 2026 confirmed our risk adjustment position, so results were consistent with our expectations, and it wasn't a driver for the quarter.

Operator

Charles Rhyee, TD Cowen.

Charles Rhyee - *TD Cowen - Analyst*

Ann, I think you mentioned in Pharmacy Benefits or about biosimilars that it kind of benefits Specialty and it was -- it sounds like there was a little bit of a headwind for Pharmacy Benefits. Is that a function of -- maybe you can talk about sort of the mechanics is that you get better

margins as on the SP side, but maybe the impacts in terms of rebate dollars and GPO fees on the Pharmacy Benefit side. And then just real quickly, if you could comment on in Cigna Healthcare, I know there's been a lot of concerns about IDR and maybe sort of talk about your exposure related to that and stop loss.

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

Charles, let me just provide a few opening thoughts here and Ann can get some of the details on both of those important questions that you raised. So first off, on the specialty generics and biosimilars. We're really pleased with the strong second quarter performance as we saw more rapid adoption of both biosimilars and specialty generics in the quarter.

And importantly, we're seeing this building momentum across America of biosimilars and specialty generics, powered forward particularly in the past couple of years as Humira biosimilars become more mainstream. And really, we're still in the starting point of a multi-year wave with respect to more biosimilars, especially generics coming to market.

And importantly, these cost-effective prescription drug alternatives are all examples of putting our patients first in our strategy because they result in lower out-of-pocket costs as well as a better net price for the employer, the health plan, or the government entity that's funding the drug underneath. So we're really pleased to see that.

On the Cigna Healthcare side, as I mentioned earlier in AJ's question, we're pleased with the favorability we saw in the second quarter in aggregate for Cigna Healthcare. Relative to the IDR aspect of your question, we do support the overall strategic intent of consumer protection from surprise billing. However, we're seeing some clear abuses of the IDR vehicle in practice. So we're seeing right now the IDR mechanism has seen unsustainable volume levels, much of which is concentrated amongst a small number of providers.

The vast majority of the settlements are favoring providers both in terms of the frequency of wins and losses as well as the result in payment amounts. And all of this just further exacerbates the affordability challenges for employers and health plans who are ultimately required to pay these outsized settlement amounts.

In fact, 2025 alone, the research that was published showed $15 billion in health care spending across the industry was processed through the IDR mechanism. And we view much of that spending as wasteful or abusive. Now for us, specifically, the impact has been manageable within our Cigna Healthcare planning and pricing assumptions. So a little bit of color on each of those parts of your question.

Ann, maybe you can talk a little bit about the P&L geography, if you will, on the generics and biosimilars, is there anything further you want to add on the Cigna Healthcare side?

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

Sure. So on the specialty generics and the adoption of that and how it sort of lands geography wise within the P&L -- as we see stronger adoption of biosimilars and specialty generics, it’s a benefit for us overall in Evernorth from a margin perspective. It benefits the patients and our clients as well. But the economics shift from Pharmacy Benefit Services to the Specialty and Care line. And there's also -- because drug costs are lower, you'll see a sort of not a proportional increase in the revenue line. So overall, I'd say, overall net benefit to Evernorth as a whole. Lower results in Pharmacy Benefit Services and higher results in Specialty and Care are sort of how it all comes together.

I think your last -- so I was just shifting over to the stop loss. I think your last question was there on stop loss, I’d just say that we're tracking in line with expectations. So it was not a variance driver in the second quarter. We've done a lot of work to enhance our analytics and clinical data to monitor early performance and these indicators are tracking well.

I'll just give one example. We've seen stable frequency trends in high cost claimants across multiple attachment point levels. So these trends have developed consistent with both our expectations and in line with the levels that we observed last year. So all in all, we -- all of these indicators support our confidence in the stop loss book and our expectations for the full year.

Operator

Justin Lake, Wolfe Research.

Justin Lake - *Wolfe Research LLC - Analyst*

Just want to follow up on something you just talked about here. Your Specialty growth has been phenomenal in the first half of the year. Your guidance is intact for Evernorth overall. So it does feel like the PBM services side is maybe a little weaker. And -- so that was kind of the core of my question.

It sounded like in your last answer, you were talking about the fact that there might be some geography of earnings shift because of biosimilars. So I was hoping maybe you can double-click on that a little bit. Is there any way to give us some proportionality or put some numbers around how that -- how much Specialty earnings are being benefited by that and how much PBM earnings are being kind of offset?

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

Sure. Thanks for the question, Justin. Maybe I'll just start just by saying we're really pleased with overall Evernorth's second quarter performance, which came in slightly ahead of expectations. So there were pockets of outperformance in the quarter. We saw faster penetration, like you said, for specialty generics and biosimilars in Specialty and Care and also some modestly lower-than-expected GLP-1 volume growth. So when you couple those together, it supports maintaining our current guidance rather than raising at the time.

As we look ahead at the back half of the year, we continue to expect specialty generics and biosimilars to be a meaningful tailwind. However, we came into the year, we expected strong penetration throughout the year, and we've built that into our original full year guide. So we experienced it earlier than expected. So the magnitude of the benefit that we saw in the second quarter is sort of not expected to repeat at the same level in the third and fourth quarters.

And so -- at the same time, within Pharmacy Benefit Services, we saw the moderation of GLP-1 growth rates that had a slight impact on the actual quarter, but we expect that dynamic to continue through the balance of the year.

So when we look across Evernorth, we've got a couple of offsetting dynamics. PBS tracking modestly below our earlier assumptions due to the shift in economics and the faster adoption of specialty generics and slightly lower GLP-1 volume growth, while Specialty and Care is performing above our expectations, driven by the continued strength in the specialty generics and biosimilars. So when we put that all together, we remain confident in the overall strength of the Evernorth business and in our prudent full year outlook.

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

Just to simplify this down a bit as you think about what happened in the second quarter versus the full year, we had strength in the second quarter above expectations for Evernorth. We're anticipating a little bit of modest downward pressure on the GLP-1 volumes for the back half of the year.

So essentially, the outperformance in the second quarter is given back in the form of slightly lower GLP-1 volumes in the back half of the year. So that's how I encourage you to think about the overall segment. But importantly, the overall strength of our enterprise allowed us to raise adjusted EPS for the full year to at least $30.45, which we feel very good about heading into the third quarter here.

Operator

Erin Wright, Morgan Stanley.

Erin Wright - *Morgan Stanley - Analyst*

Great, thanks. And might be getting ahead of the Investor Day, but you're obviously taking a step back in the PBM with a -- or PBS with the transition that you're making this year, but do you remain relatively flat in that business in 2027 and then grow 2% to 4% PBS long term? Is that the right kind of growth algorithm with durable margins in that 3% to 4%? And net-net, does that mean that you hit the low end of the 10% to 14% EPS growth in 2027?

And just as it relates to that PBS model transition, you spoke to the selling season, which, yes, is important, but it's also early. But there's other levels of recontracting here that are important, right, like in terms of the renegotiation process with pharma companies and pharmacy as well. I guess how is that part of the transition progressing relative to plan?

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

Good morning, Erin. There's a few different aspects to your question. So let me talk first about the financial side, and then I'll pivot over into the status of our Signature model build-out. So relative to where we are on '27 and the multiyear trajectory of PBS, obviously, we're only halfway through '26. So it's a bit early to provide formal guidance for '27.

That said, at the enterprise level, our view for '27 continues to be consistent with our prior commentary to deliver against our 10% to 14% EPS algorithm. And we'll provide more detailed guidance as we typically do on our segments during our fourth quarter call.

As it relates to Signature and the status of where we are right now, first off, we're proud to lead the industry with our new Signature pharmacy benefits offering. As I mentioned earlier, affordability continues to be the number one challenge facing patients, and that's particularly acute for high-cost branded prescriptions, which represents just 10% of all prescriptions in America, but some 90% of the drug spending.

And as we engage with all key stakeholders across the pharmacy benefits ecosystem, whether that's an individual employer or broker or drug manufacturers themselves, everyone acknowledges that the status quo is unsustainable.

So the market feedback so far on our work there has been positive as these stakeholders learn more about the model. When you think about the Signature model, it's fully aligned with the requirements of the Consolidated Appropriations Act provisions, which will be effective in mid-2028. And with our Signature model, we took it even multiple steps further beyond that regulatory minimum in order to simplify pharmacy benefits for our stakeholders.

So for patients the Price Assure capability guarantees customers the lowest possible out-of-pocket cost. So whether that's through our negotiated price, their co-pay, or a cash pay alternative for employers and other clients. We're seeing a lot of interest and appetite here because there are increasing fiduciary obligations, and they see the Signature model as a direct way of meeting those obligations, and the model offers greater budget predictability through simple fee-based arrangements.

You also asked about drug manufacturers. We've been actively engaged in conversations there for months, starting with the larger ones. The conversation so far, positive and productive. Manufacturers know that lower prices for patients at the counter will ultimately result in greater satisfaction, better adherence, less need for copay assistance. You also asked about the network pharmacies. Our new reimbursement model of cost plus a dynamic dispensing fee will ensure that clinical complexity is properly reflected in what the pharmacies are ultimately paid.

So put all those pieces together, we're tracking well to scale our Signature offerings in 2028, and we'll have the Cigna Healthcare insured book as early adopters in 2027. And I shared the strong 2027 selling season as an early data point that our clients are seeing us as a multi-year thought partner that they prepare for all those future changes in their pharmacy benefit programs. And we're confident that ultimately, our Signature product will yield margins in that 4% range as you asked about, similar to what our legacy pharmacy benefit solutions products were able to deliver.

So apologies for all the detail there, but hopefully, that hits the core of your question.

Operator

Kevin Fischbeck, Bank of America.

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

Great. Maybe if I sneak in two just real quick. What kind of free cash flow are you expecting in the back half of the year? I think you've talked about that accelerating? Just trying to figure out what's available for capital deployment.

But then also kind of maybe building on the Signature commentary. Any update on just how the transition expenses are coming in, you still feel good about those numbers and then those numbers going away starting in '28 and then by '29?

And I wasn't sure -- I mean, I think most of your comments about Signature and reception to Signature have been on the PBM side of things. And I understand that the rebate aspect, it might be the biggest component of Signature so it doesn't really apply to the risk customers, but there are other aspects to it as far as you mentioned the point-of-sale rebates and things like that. How are those things being received by your risk customers as you head into 2027? Any feedback there?

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

So thanks for the question, Kevin. I'll start on the first two parts of the question related to cash flow and transition expenses. So as you know, our cash flow can move around from quarter to quarter, largely because of the timing of supply chain receivables and payables. Second quarter is typically lighter than other quarters, primarily because of calendarization shifts -- shifts a portion of receivable payments into early July. So that timing, if you're looking at our second quarter or first half cash flows, that timing affected the numbers that you see, but our full year outlook remains unchanged. We continue to expect operating free cash flow of approximately $9 billion and that to be mostly back half weighted.

Specifically with respect to your question on the transition expenses, we came into the year with an expectation of continued investment in Signature. We are tracking exactly to what we expected to spend this year. We expect to spend similar levels in '27. And then we'll continue -- obviously, continue to invest in the business over time at the right level. But the levels of investments should ramp down over time.

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

And the final piece of your question in terms of market receptivity from our employer clients. It's -- obviously, the impact of moving into Signature model will vary client to client. So those that have high deductible plans tend to see the most amount of change relative to where they are today. Those that are in co-pay plans today tend to have minimal impact relative to what it does to their financials, what it does to patient by patient cost sharing dynamics. So the impact varies by client.

For our risk book thus far, Kevin, it's actually very smooth because if you think about the way risk business is priced, everything is in there from the standpoint of there's one price and as a result of that, we consult client by client with any plan design changes that they may want to consider. But so far so good on the risk book of business.

In 2028, we'll scale the model more broadly and we'll have a lot more self-funded business in this model. And as I was making reference to earlier, that's where we see particularly the increase in demands on fiduciary obligations being important and a lot of our clients interested to move to this simple fee-based transparent model that we've introduced.

Operator

Scott Fidel, Goldman Sachs.

Scott Fidel - *Goldman Sachs Group Inc - Analyst*

Interested if -- just with the planned exit from the exchange business and how that's going to free up some capital and also just some of the resources -- just looking at the looking at the Cigna Healthcare business, are there other end markets or existing lines of business that you're sort of thinking about emphasizing more or looking to potentially sort of roll out additional offerings? And clearly, Middle Market and Select have been sort of the long-term historical focus, I'm sure that you're going to continue to do that. But maybe National Accounts or large group? Curious around how you're thinking about maybe redeploying resources of capital into them as you as you remove the exchange capital and resources off of the portfolio.

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

Scott, I'll start and then Ann can pick up on the implications of the Individual exchange sunsetting that will happen at the end of this calendar year. Overall, we really like our positioning in the Cigna Healthcare business and do not feel any compelling need to enter different end markets at this juncture.

And a lot of that comes back to the discipline we've had around portfolio shaping and being really focused as to where we feel we have the differential right to win and not trying to be all things to all people in terms of serving all different end markets where we maybe don't have the specialization or the expertise.

So we'll continue to invest in our US Employer business in the way that we have for many years, and we continue to see more headroom for growth, particularly in the under 500 Select segment, where we've continued to grow even in a very complex dynamic operating environment. You'll see, customers are up 5% year-over-year, and we couple that with our expertise in risk transfer with our stop loss offerings where we're tracking for over $8 billion of premiums this year. So we continue to really like the US Employer space.

Now along with that, there are a variety of additional products that can attach. So things like more and more supplemental health benefits or voluntary benefits as employers look for opportunities for affordability improvement. So we see more and more benefits potentially going to a voluntary chassis over time. So we're excited about that opportunity.

We continue to look to scale our International Health business, which has been, while a small part of the overall company, a very strong source of performance over a multi-year period. So do not feel compelled to get into other elements of the health plan space at this point. We're quite pleased with what we have in terms of the current franchise. Ann, do you want to pick up on the Individual exchange exit implications?

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

Yes, sure. So there are two key factors to consider regarding the impact of the ACA exchange exit when you're thinking about our 2027 results. So as a reminder, for this year, we're coming into the year, we expected margins in the business to be positive, but below target levels. Year-to-date, we're tracking consistently with that expectation, sort of right on point. So that's a consideration as you look into '27.

Second, we do expect some stranded overhead as we exit the business. We're continuing to evaluate, manage through this impact. We'll provide further details on that as we close out the year. And then lastly, to your point on capital release, there'll be a modest capital release, but nothing of significance to note with respect to that.

Operator

Jason Cassorla, Guggenheim.

Jason Cassorla - *Guggenheim Securities LLC - Equity Analyst*

Great, thanks. Maybe just on the medical side of Specialty and Care. You've had the investment in Shields for almost a year now. You flagged opportunities to partner with hospitals and health systems. I was just hoping maybe you could delve into that a little bit more.

It sounds like you're seeing strong growth there. But I guess where are you seeing in terms of your solutions resonating, if the momentum that you're seeing kind of gives you greater confidence in penetrating that market? I guess, just a bit more on the trends and expectations within the hospital and health system opportunity would be very helpful.

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

Jason. So I'll take that question as it relates to the, we call it our Health System Services business within Specialty and Care Services, and we call it Health System Services because it's both hospitals and health systems, and really builds on the expertise that we've amassed over a multi-year period in the specialty pharmacy space.

So if you think about specialty pharmacy space more broadly, it's approaching a $500 billion total addressable market with high single-digit secular growth moving forward. So one of the few subsegments of the US health care system with such strong secular growth, which is why we're so excited about our existing position as well as the expanding capabilities we're developing in the hospital and health system space.

Now within that $500 billion -- nearly $500 billion addressable market, approximately 60% of that is what we describe as direct-to-patient, where we've already achieved an industry leadership role in this clinically intensive business. So here, you can think of primarily through our Accredo specialty pharmacy. And then the remaining 40% of that $500 billion addressable market is provider administered drugs where we've historically had a relatively small position.

So this is where we've been making investments with our acquisition of Carepath, with our Verity capabilities, and where Shields Health Solutions is focused. So Shields is specifically focused on providing management services to health systems to operate their own specialty pharmacies, and Shields is the clear leader in the management services space. They serve over 80 sizable health systems, representing more than 1,000 hospitals across 50 states.

You can think of our future growth opportunities in this space really in three different categories. One is the natural secular growth of the market as specialty drugs continue to grow. Two, the percentage of health systems who hire a management company today is relatively small, which offers a natural growth opportunity for us as this market matures. And three, there are some mutual value creation opportunities

between Shields and Evernorth, through our respective client relationships and the broader suite of combined capabilities that we have, which could result in expanded solutions for those clients.

So this is an area we're going to continue to invest in. We're excited about the opportunities. As margins continue to compress for hospitals and health systems they're looking increasingly at their own in-house pharmacies and their specialty drug capabilities, and we are there to help them and to support them on that journey. So I appreciate the question.

Operator

Sarah James, Cantor Fitzgerald.

Sarah James - *Cantor Fitzgerald LP - Analyst*

Cigna ended employee coverage of GLP-1s for Wegovy and Zepbound on July 1, citing rising availability and new options. Are you seeing that same sort of driver being reflected in your mid-year updates or your early 2027 renewal conversations? Or has there been more pushback just on direct cost rather than the new oral entrants? And then how does that mix of drivers interact with how you see growth trends for EnCircle going forward?

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

Sarah, I'll attempt to hit the different components there. If I miss anything, please let me know. So starting with the GLP-1 coverage within our employee health plan. Just like other large employers in the U.S., we're faced with constant trade-off decisions related to the comprehensiveness of our employee benefit programs versus the competitiveness of our products and solutions in the market and the associated profitability of those.

So we did make the difficult decision during 2026 to discontinue financial support for GLP-1 drugs for weight management within our own employee health plan. And that coincides with broader availability of GLP-1 options that are now available in the market for individuals using the drugs for weight management, inclusive of the orals and tablets that you made reference to.

We are offering a supplemental discount program to those employees who wish to pay out of pocket, and our clinical programs are available to support them. We'll continue to cover GLP-1s for diabetes within our own plan. Now the decision that we made in our employee benefit plan is driven by the exact same set of challenges that many of our clients are facing, specifically where the net cost of the drug is straining the overall affordability of the plan.

Now of course, we'll continue to monitor the situation carefully and should drug manufacturers decide to meaningfully discount the net prices they offer, we may revisit this in the future. Across our broader client base, we're seeing some of those same decisions being made and made reference to earlier, a slight downtick in the percentage of our employers in Evernorth that are covering GLP-1s for weight management, and that produces a modest headwind to our 2026 results, which fortunately, it was overwhelmed or was more than offset by the strength in Specialty in the second quarter. And so overall, Evernorth results continue to deliver.

As it relates to the GLP-1 coverage decision and the implications for our support programs, we continue to offer a variety of financing solutions for employers that range from fully covering the cost of the GLP-1 drugs to covering a portion of the cost to offering it on more of a sponsored or voluntary basis.

So this space will certainly continue to evolve in the future. Our EnCircle program continues to be very effective for those employers who do cover it for weight management. But we expect that this is going to continue to be an area of debate and tension for employers in terms of funding for these drugs going forward.

So I appreciate the question. Let me know if there's any elements in there that I didn't cover.

Operator

I will now turn the call back over to Brian Evanko for closing remarks.

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

Thanks for your questions and for your time today. With our momentum, we're confident that we'll deliver on our increased adjusted EPS outlook of at least $30.45 for 2026. We look forward to hosting our Investor Day this fall, where we'll discuss advancements in our growth strategy and in each of our businesses. But before we close, I do want to recognize and express appreciation for our coworkers around the world. It's their continued focus and dedication that supports our ability to deliver on our commitments for those we serve and for our shareholders.

We're proud of what we've achieved and are excited about the opportunities ahead. Thanks for joining. Hope you have a great day.

Operator

Ladies and gentlemen, this concludes The Cigna Group's Second Quarter 2026 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 and or (203) 369-0603. There is no passcode required for this replay.

Thank you for participating. We will now disconnect.
