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CI.N - Q1 2021 Cigna Corp Earnings Call

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OVERVIEW:

Co. reported 1Q21 consolidated adjusted revenue of $41b, consolidated adjusted after tax earnings of $1.7b and consolidated adjusted EPS of $4.73. Expects 2021 consolidated adjusted revenue to be at least $166b and consolidated adjusted EPS from operations to be at least $20.20.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for Cigna's First Quarter 2021 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 Ms. Alexis Jones. Please go ahead, Ms. Jones.

Alexis Jones - *Cigna Corporation - IR Lead Principal*

Good morning, everyone, and thank you for joining today's call. I am Alexis Jones, Lead Principal for Investor Relations. With me on the line this morning are David Cordani, our President and Chief Executive Officer; and Brian Evanko, Cigna's Chief Financial Officer.

In our remarks today, David and Brian will cover a number of topics, including Cigna's first quarter 2021 financial results as well as an update on our financial outlook for 2021. As noted in our earnings release, when describing our financial results, Cigna uses certain financial measures, 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 cigna.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.

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In our remarks today, we will be making some forward-looking statements, including statements regarding our outlook for 2021 and future performance. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our current expectations. A description of these risks and uncertainties is contained in the cautionary note to today's earnings release and in our most recent reports filed with the SEC.

Before turning the call over to David, I will cover a few items pertaining to our financial results and disclosures. Regarding our results, in the first quarter, we recorded an after-tax special item charge of $101 million or $0.29 per share related to debt extinguishment costs incurred during the period as well as an after-tax special item charge of $22 million or $0.06 per share for integration and transaction-related costs. We also recorded an after-tax special item benefit of $21 million or $0.06 per share related to charges associated with litigation matters. As described in today's earnings release, special items are excluded from adjusted income from operations and adjusted revenues in our discussion of financial results.

As previously noted, as a result of the sale of the Group Disability and Life business, in our first quarter earnings release and quarterly financial supplement, Corporate and Other Operations combines the results previously reported as Corporate and the segment previously reported as Group Disability and Other. In our securities filings, the segment previously reported as Group Disability and Other is now reported as Other Operations.

Additionally, please note that when we make prospective comments regarding financial performance, including our full year 2021 outlook, we will do so on a basis that includes the potential impact of future share repurchases and anticipated 2021 dividend and excludes the impact of any business combinations or divestitures that may occur after today, such as our recently announced planned divestiture of the Texas Medicaid business, which we expect to close in the second half of 2021.

With that, I will turn the call over to David.

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Thanks, Alexis. Good morning, everyone, and thank you for joining us on our call today. Today as we meet, our environment remains highly dynamic, with COVID-19 continuing to affect the world, our industry and our economy. At Cigna, this rapidly changing landscape has only reinforced the tremendous responsibility we have to improve the health, well-being and peace of mind of those we serve. This remains the primary focus that drives our 70,000 coworkers each and every day, and it's the reason we work to continue to deliver for our customers, clients, patients, partners and our communities, all while delivering strong financial results for you, our shareholders.

During the first quarter, we delivered adjusted revenue of $41 billion, and adjusted EPS of $4.73 per share. We also deployed significant capital to our investors through share repurchase and the payment of a meaningful quarterly dividend, reinforcing the strength of our capital-light framework.

Building on our conversation from several weeks ago at our Investor Day, today, I'm going to talk more about how we are continuing to navigate through the current environment to balance and meet the needs of all of our stakeholders, our ability to consistently deliver strong results by executing on our growth framework and the confidence we have in achieving our increased outlook by delivering differentiated and sustained growth for the long term. Then Brian will share more details about our first quarter results and our 2021 outlook. And after that, we'll take your questions.

Since we last met at our Investor Day in March, the macro landscape remains fluid. In the U.S., proposed legislation as well as regulation and executive actions seek to expand, extend and further support both public and private programs. Globally, social and political tensions remain high as COVID-19 with its multiple variants continues to take a toll on a number of countries such as India, where cases have again dramatically spiked. All of these forces are shaping health care and influencing the political and economic landscape around the world.

At Cigna, we are navigating through this environment by continuing to innovate for and support our stakeholders with COVID-19 services, while also executing on our strategy to make health care more affordable, predictable and simple. For U.S. Commercial customers, we are ensuring to get the preventative care they need, including mammographies, colonoscopies, cervical cancer screenings and childhood immunizations, which today are consistent with pre-pandemic levels, reflecting the continued strength of our clinical programs and proven engagement capabilities.

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Within Evernorth, for those customers served by Express Scripts home delivery, we delivered further improvements in medication adherence for people with diabetes, high cholesterol and high blood pressure. At the same time, we're also supporting the mental well-being of our customers. We are doing this through our own best-in-class capabilities where, for example, we engage with oncology patients with comorbidities by spending an average of $2,000 on their behavioral health care, we can save an average of $20,000 in avoidable costs. And we continue to innovate and leverage our strategic partnerships, including, for example, with Ginger through Cigna Ventures, which provides industry-leading on-demand, 24/7 behavioral health coaching, further extending our behavioral health access for the benefit of our customers.

We're also leveraging data and actionable intelligence to understand the most common long-term complications of COVID-19 infections, then building predictive models to determine who is at greatest risk of becoming a COVID long-hauler, so we can quickly provide targeted case management and behavioral health services as well as other resources to help our customers regain their health.

For our clients, we are serving as a trusted partner by supplying additional physical and behavioral health assistance to aid in the recovery for employees who are infected by COVID-19. We're helping employers build their own communities of immunity by assisting them in launching vaccination clinics. And we're leveraging our data and analytics to help employers determine when and how it is safe for employees to return to work.

For our provider partners, we're working to guide people to the most effective sites of care and further closing gaps in care with our clinical teams and our virtual capabilities.

For our coworkers, we're supporting them in this highly disruptive environment by, for example, providing a $200 incentive for coworkers who choose to become vaccinated for COVID-19 and continuing to offer expanded leave capabilities with our emergency time-off program to provide flexibility necessitated by the current conditions.

And finally, for our communities, we're taking steps to address social determinants of health. For example, we all know the alarming statistics on the disproportionate impact that COVID-19 has had on communities of color. As part of our SAFE initiative, we brought additional underground resources to targeted communities by launching COVID-19 awareness campaigns, distributing PPE kits, dispatching our health improvement mobile resources to help to administer free flu shots and provide healthy meals as well as other support.

Similarly, we're leaning in to fight breast cancer where disparities, for example, amongst black women remain startling. To help to address this disparity gap, we again went directly into communities, starting in Tennessee, for example, where we collaborated with local partners to offer mobile mammography vans at churches and at other local neighborhood locations.

At Cigna, balancing the needs of our stakeholders is deeply rooted in our corporate purpose. We constantly challenge ourselves by asking the basic question, what more could we do? To help us stay focused on delivering each and every day for the benefit of our customers, our clients, patients and our partners. Against this backdrop, the strength of our foundation propels us forward and guides our growth.

As we shared with you at our Investor Day, through our 3 growth platforms, Evernorth, U.S. Medical and International Markets, we are well positioned to leverage the 3 trends we see shaping health care into the future. Specifically, pharmacological innovations, the rising demand for coordinated mental and physical health services and the changing preferences as it relates to access-to-care models. And through our proven framework, we're able to drive attractive sustained growth by delivering differentiated value within our portfolio of integrated, coordinated and point solutions, continuing to work to partner and innovate and working to expand our addressable markets. As a result, we're off to a strong start in 2021 with strong fundamental execution and the strategic and capital flexibility to further our momentum into the future.

During the first quarter, Evernorth continued to build on its differentiated and steady performance it has had delivered throughout the pandemic by evolving the health care experience for our customers and clients through continuous innovation, and by building, investing and strengthening our strategic partnerships. For example, in January, we further expanded our partnership with Prime Therapeutics by leveraging our home delivery and Accredo specialty pharmacy to drive greater value and deliver on our promise to make health care more affordable.

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We're also advancing our strategic capabilities with our MDLIVE acquisition, which closed last month. This acquisition will expand Evernorth Care's ability to further broaden access, lower cost of care and strategically position us to grow in the rapidly changing access-to-care environment.

At the same time, Evernorth Pharmacy is also driving affordability improvement. One example is our Patient Assurance Program, which caps the cost of prescriptions for patients with diabetes. During the quarter, the number of patients in this program increased by 64% and the value to patients delivered from this program is on track to more than double what we achieved last year.

Turning to our U.S. Medical platform, we see bright spots in growth in our U.S. Commercial portfolio. For example, we continue to take share in the Select segment, which includes employers with 51 to 500 employees, as clients continue to value our integrated, aligned, self-funded, medical, pharmacy, behavioral and stop-loss programs. And more broadly, we're driving value by bringing differentiated offerings to market, fueled by innovations and advancements we are accessing from our Evernorth capabilities, particularly in areas of pharmacy services and behavioral health.

Through our willingness to strategically partner with innovative companies like Oscar, we're also well positioned to take advantage of market growth opportunities in the small employer market, a market we view is currently being underserved. As a result, we expect to see an uptick in growth in our U.S. Commercial platform during the residual part of this year.

Additionally, one important impact of the pandemic is that businesses have expanded access to support services for their employees, by acting as a trusted source of information and providing an extended range of benefits to support whole person health, as more and more employers recognize the critical link between mental and physical health.

In the wake of COVID-19, more employers are also recognizing the connection between healthy workers, higher productivity and a growing economy. In fact, the National Bureau of Economic Research found in the U.S., we benefited by $1.5 trillion of value by having employers play a major role in health care. This reinforces the critical role our U.S. health care business plays as an important partner to employers in providing access to quality, affordable care for the benefit of their employees.

Turning to our U.S. Government business, we are driving strong year-over-year customer growth by continuing to expand our addressable markets. The number of Medicare Advantage customers increased by 11% year-over-year, reflecting the ongoing execution of our strategy as well as our sustained strong Star performance. And the number of customers in our Individual and Family Plan business grew by 17% year-over-year, driven by our geographic expansion and the introduction of new plans that provide expanded coverage for maintenance drugs to further improve affordability for customers with certain chronic conditions.

And in our International Markets business, we are focused on actively supporting our coworkers, customers and partners around the world who continue to be impacted by COVID-19. For example, in India, our foundation is providing financial support through UNICEF to meet the critical needs on the ground, including additional rapid testing capabilities and expanded access to vaccines. And we're providing matching gifts from the Cigna Foundation to our coworkers who donate to charities in India. Staying true to our mission is not only the right thing to do, it reinforces to our clients, our customers and our patients, our commitment to make a difference in the moments that matter most.

Our purpose-driven orientation, together with our strategic flexibility created by our service-based model and our capital-light framework that generates significant cash flow from operations, as well as our track record of strong financial performance, where we delivered a 15% adjusted EPS compounded growth rate over the last decade, all give us confidence we will continue to sustainably grow in both the short-term and the long-term in this dynamic environment.

And now taking into account the strength of our first quarter results, we expect our full year adjusted EPS to be at least $20.20 in 2021. And we remain confident in our ability to deliver our long-term targets of average annual adjusted revenue growth of 6% to 8%; average annual adjusted EPS growth of 10% to 13%; and continue to pay an attractive dividend while delivering cumulative operating cash flow growth of $50 billion through 2025.

Now to briefly summarize. We delivered strong first quarter results by executing our growth framework, while harnessing our capital strength to deploy meaningful capital for the benefit of our shareholders, reinvesting in our business and leveraging our strategic flexibility to continue to

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innovate and adapt, all of which sets us up for sustained long-term success. We remain confident in our ability to continue to grow as we focus our efforts to make health care more affordable, predictable and simple each and every day.

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

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

Thanks, David. Good morning, everyone. Today, I'll review key aspects of Cigna's first quarter results, including the ongoing impact of COVID-19 on our business, and I'll discuss our updated outlook for the full year.

Key consolidated financial highlights for first quarter 2021 include adjusted revenue of $41 billion; adjusted earnings of $1.7 billion after tax; and adjusted earnings per share of $4.73. Results in the first quarter reflects strong top line growth with contributions across our businesses, and first quarter earnings came in somewhat ahead of our expectations. The favorable first quarter earnings were primarily driven by strong Evernorth performance, favorable net investment income and favorable prior year medical cost development, partially offset by nonrecurring operating expenses. Our results reflect our ability to deliver in a dynamic, rapidly evolving environment, including navigating the ongoing impacts of the COVID-19 pandemic.

Regarding our segments, I'll first comment on Evernorth. First quarter 2021 adjusted revenues grew to $30.6 billion, and adjusted pretax earnings grew to $1.2 billion. Evernorth's strong results in the quarter were driven by effective execution of supply chain initiatives, continued strong performance in Accredo, our industry-leading specialty pharmacy, and organic growth of our services with deepening partnerships, all while continuing to invest for ongoing growth.

Our adjusted pharmacy script volume was 393 million during the quarter, a 9% increase over first quarter 2020. Overall, Evernorth continued its positive momentum and delivered another strong quarter of financial results.

Turning to U.S. Medical. We entered the year expecting to see the majority of COVID-19 testing and treatment cost pressure in the U.S. Medical segment in the first half of 2021, particularly in the first quarter. As we progressed throughout the first quarter, we saw COVID-19 case counts and hospitalizations decline more rapidly than we originally anticipated. Additionally, as COVID-19 cases decelerated, we saw an increase in non-COVID utilization. Importantly, throughout all of this, we continue to see key components of preventive care, utilized at pre-pandemic levels for our U.S. Commercial customers. Taken as a whole, and excluding prior year medical cost development, our first quarter medical care ratio was in line with our expectations.

With that as context, I'll now comment specifically on first quarter financial results for the U.S. Medical segment. First quarter adjusted revenues were $10.4 billion, and adjusted pretax earnings were $987 million. Our first quarter U.S. Medical earnings were slightly ahead of our expectations, primarily driven by favorable net investment income and prior year medical cost development, partially offset by nonrecurring operating expenses. Excluding these one-time factors, our U.S. Medical earnings were in line with our expectations.

Turning to membership. We ended the quarter with 16.7 million total medical customers, an increase of 30,000 customers sequentially. As expected, U.S. Commercial customer volume declined sequentially due to disenrollment throughout the first quarter, partially offset by new sales in the Select segment, and our U.S. Government businesses performed well throughout the annual open enrollment periods. Overall, results for Cigna's U.S. Medical segment reflect strong fundamentals.

In our International Markets business, first quarter adjusted revenues were $1.6 billion, and adjusted pretax earnings were $262 million, reflecting business growth, favorable net investment income and foreign currency movements offset by higher claims costs during the period. I would also note that a refinement to the accounting for acquisition costs led to a one-time favorable benefit in the first quarter of 2020 that did not recur in the current period.

Corporate and Other Operations reflects a first quarter adjusted loss of $330 million. These results reflect lower interest expense due to lower levels of outstanding debt offset by the absence of contributions from the Group Disability and Life business, which was divested on December 31, 2020.

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Overall, as a result of strong execution in a dynamic environment, we continue to deliver value for all of our stakeholders and strong financial results across our businesses.

Now looking forward to our outlook for full year 2021. As we look to the balance of the year, we expect continued strong execution across our growth platforms, and we expect to make continued meaningful investments in our businesses that are responsive to the forces changing health care, positioning us for continued long-term growth. Taken as a whole, we are raising our prior guidance for full year 2021. We now expect consolidated adjusted revenues of at least $166 billion, representing growth of approximately 7% after adjusting for the divestiture of our Group Disability and Life business.

We now expect full year 2021 consolidated adjusted income from operations to be at least $7 billion or at least $20.20 per share. Within our outlook, we continue to expect a full year COVID-19-related headwind of approximately $1.25 per share, primarily within our U.S. Medical business. And we continue to project an expense ratio in the range of 7.5% to 8%.

I'll now discuss our 2021 outlook for our segments. For Evernorth, we now expect full year 2021 adjusted earnings of at least $5.65 billion, which represents year-over-year growth of at least 5%. This outlook reflects ongoing investments in our Evernorth portfolio, including investments in Care Solutions and MDLIVE, as we continue to see significant opportunity to bring new innovative solutions to market.

For U.S. Medical, we continue to expect full year 2021 adjusted earnings of at least $3.8 billion. This outlook reflects focused execution in our businesses as we expect to drive organic customer growth and deepening of customer relationships. We expect direct COVID-19-related testing and treatment to decline throughout the balance of the year and also anticipate more normalized non-COVID utilization. And with the strength of the U.S. Medical first quarter results, we will further accelerate strategic investments to support future growth, thus leaving our full year earnings outlook for U.S. Medical unchanged.

Regarding total medical customers, we now expect 2021 growth of at least 350,000 customers. This includes organic growth throughout the remainder of the year in our Commercial business, led by the Middle Market and Select segments, partially offset by disenrollment in National accounts. We also expect Medicare Advantage customer growth in our target average annual growth range of 10% to 15%, and we expect continued growth in our Individual business.

Turning to medical costs. We continue to expect the 2021 medical care ratio to be in the range of 81% to 82%, reflecting the impacts in 2021 of elevated medical costs, including the impact of direct COVID-19-related costs and more normalized non-COVID utilization and the repeal of the health insurance tax effective for 2021, all while we continue to deliver strong clinical quality and overall affordability for our clients and customers. We also expect continued growth and strong margins in International Markets.

All in, for full year 2021, we now expect consolidated adjusted income from operations of at least $7 billion or at least $20.20 per share. Overall, these expected results reflect the differentiated value, strength and strategic positioning of our businesses as we deliver growth while navigating the impacts associated with COVID-19.

Now moving to our 2021 capital management position and outlook. We expect our businesses to continue to drive exceptional cash flow with strong returns on capital, even as we continue reinvesting to support long-term growth and innovation. For 2021, we continue to expect at least $7.5 billion of cash flow from operations, reflecting the strong capital efficiency of our well-performing businesses.

During the quarter, we met our previously stated share repurchase expectations. And year-to-date, as of May 6, 2021, we have repurchased 14.4 million shares for $3.2 billion. And we now expect full year 2021 weighted average shares of 346 million to 348 million shares. We ended first quarter 2021 with a debt-to-capitalization ratio of 39.9%, in line with our long-term target of approximately 40%. We had $2.5 billion of cash available to parent at the end of the quarter. And on April 28, we declared a $1 per share dividend payable on June 23 to shareholders of record as of June 8.

Our balance sheet and cash flow outlook remains strong, benefiting from our highly efficient service-based orientation that drives strategic flexibility, strong margins and attractive returns on capital.

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So now to recap. Results in the first quarter reflect strong top line growth with contributions across our businesses and first quarter earnings came in somewhat ahead of our expectations. These favorable first quarter earnings were primarily driven by strong Evernorth performance, favorable net investment income and favorable prior year medical cost development, partially offset by nonrecurring operating expenses. Our strong results give us confidence in our increased outlook for full year 2021, all while continuing to support our customers, clients and coworkers. As such, we now expect 2021 full year adjusted EPS of at least $20.20 per share and have continued confidence in our long-term growth targets.

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) Our first question comes from Mr. Robert Jones with Goldman Sachs.

Robert Patrick Jones - *Goldman Sachs Group, Inc., Research Division - VP*

Great. Maybe just on the PBM. The segment grew pretax income 13% year-over-year, and I think this is the quarter where you're actually lapping some benefits from COVID pull forward last year. So just wanted to see if there's anything you'd call out further within the PBM in the quarter? And then relatedly, if I look at the guidance from this point forward, it does seem to imply, for the remaining 3 quarters, kind of mid-single-digit growth -- income growth within the PBM. So curious if you have line of sight into what might cause a deceleration from the strong performance in the first quarter?

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

Bob, it's Brian. So thanks for the question. And yes, we're really pleased with the strong start to the year in Evernorth, which, as I mentioned in my comments, gives us the confidence to increase the full year guidance to at least $5.65 billion of operating income. Quarter-to-quarter, there will be some level of variability in this segment. So I would encourage you not to overreact to the singular quarter that we had here. But certainly pleased with 13% quarter-over-quarter earnings growth.

I would remind you that our Prime Therapeutics partnership launched April 1, 2020. So the base period last year in the first quarter did not have contributions from Prime Therapeutics. So that was a bit of a benefit to this quarter that will not recur to the same degree for the balance of the year. So to your point, on the operating income growth appearing to slow to some degree later in the year. That's one contribution that you should keep in mind.

Additionally, we continue to invest aggressively in Evernorth to expand and diversify the suite of solutions in that portfolio. So as you think about Care Solutions, Benefits Management, Insights, we will make continued organic, and on a targeted basis, inorganic investments to continue to expand that portfolio, which will increase SG&A, and to some degree, temper the income growth for the balance of the year.

David, anything you want to add to that?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Just highlighting the fact that in support of that, for example, our Evernorth Benefits business performed very strongly in the first quarter. So on a year-over-year basis, that was a partial contributor to the year-over-year increase, as Brian articulated, and we remain committed to continue to invest in the businesses, all while meeting now our increased earnings outlook for the full year.

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Operator

Our next question comes from Mr. Ralph Giacobbe with Citi.

Ralph Giacobbe - *Citigroup Inc., Research Division - Director and Co-Head of Americas Healthcare Research*

The SG&A on the U.S. Medical side was higher, and I think you mentioned nonrecurring operating expenses. So just hoping you can give a little bit more details on what that exactly was? And if you're willing to quantify that amount?

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

Ralph, it's Brian. So maybe let me unpack the U.S. Medical nonrecurring items a little bit. This might speak to the core of your question a little bit. As I mentioned in my comments, overall, our U.S. Medical earnings in the quarter were above our expectations. But when you remove the effect of the 3 nonrecurring items, we were in line with our expectations. So the 3 nonrecurring items that I cited, we had some favorability in the quarter in net investment income. We had some favorability in the quarter in prior year medical cost development, and that was offset by nonrecurring operating expenses.

And so to the core of your question, the nonrecurring operating expenses, you can think of as litigation-oriented matters associated with operations from several years ago. So these are not related to current time periods. These are unrelated to Anthem. These are matters from several years ago, but they're related to operations. And as a result of that, we chose to book them through SG&A as opposed to considering them as a special item below the line or anything like that. They were appropriate in our eyes to book through SG&A above the line.

And order of magnitude, you can think of that as approximately offsetting the favorable benefit that we had from net investment income in the quarter within U.S. Medical. But those are truly nonrecurring items since they're related to periods from several years ago, and those matters should now be closed.

Operator

Our next question comes from Mr. Justin Lake with Wolfe Research.

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

I want to squeeze in a couple of quick questions. First, in terms of medical cost expectations through the year, you gave us an update on COVID, but wanted to get an idea of what you're thinking into the back half of the year in terms of utilization pickup post the vaccine, what you built in versus kind of typical trend.

And then you mentioned you divested -- or plan to sell that Texas Medicaid business. Just wanted to see if there's any background there in terms of what drove you to kind of divest that? And any kind of updated thoughts on your kind of Medicaid strategy going forward would be helpful.

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Justin, it's David. Let me just frame the medical cost for a moment and then ask Brian to talk a little bit more about our framework and our expectations for the year. And then I'll come back and address the Medicaid divestiture and our Medicaid direction more broadly. First, from a medical cost standpoint, big picture, we're pleased with the start to the year. Big picture, broadly speaking, we're pleased with the start to the year. And I just want to underscore a couple of components.

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One, our organization works tirelessly to try to drive elevated utilization of certain services like preventative care services. And importantly, we saw in the first quarter the use of preventative care services like mammographies, colonoscopies, childhood immunizations, cervical cancer screenings to be at an approximate level of pre-pandemic levels. That's a tremendous result, offsetting what might have been a dampening to utilization. The national data we see more broadly is that utilization of those preventative care services is at a more dampened rate, but ours is an elevated or more consistent rate from that standpoint, which is quite important.

Secondly, I would just remind you that, and I'll tie this back in our Medicaid comment a little later, is that we have a de minimis amount of Medicaid within our portfolio, and our national data suggests to our Services business, though our Evernorth Services business that in the first quarter, Medicaid medical costs were a bit more dampened year-over-year in the first quarter of 2021. That's not an effect on our portfolio, but we can see that in the services that we're providing. Now I'll ask Brian to give you a little bit more color forward-looking in the year, then I'll come back and address Medicaid.

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

Yes. Justin. So just a few other comments on the quarter and the balance of the year. Overall, as I mentioned in my comments, the U.S. Medical MCR was in line with our expectations for the first quarter when you exclude the benefit of PYD or prior year development. When you include the benefit of prior year development, we're actually a little bit favorable in the first quarter. And that was at an elevated level, as we expected, when we stepped into the year. For the balance of the year, we expect a deceleration in COVID-19 testing and treatment costs. We expect an uptick in non-COVID-related utilization in quarters 2 through 4 with those factors roughly offsetting one another. And so when we constructed our full year outlook of an 81% to 82% medical care ratio, we've stress tested a variety of scenarios about -- associated with those 2 levers and are quite confident in our ability to achieve the full year 81% to 82% medical care ratio for U.S. Medical.

David, maybe on the Texas Medicaid and our broader Medicaid strategy, over to you.

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Sure. Justin, as you noted, we chose to divest that single-site Medicaid operation we had. So number one, it was -- we had 1 of 1. So it was one-off within our portfolio. It has a de minimis impact on our P&L at the enterprise level. So putting that aside, we determined it was best for that business to be served by an expert or a specialist, and we're pleased to effectuate and seek to close a successful transition to Molina. We think that's beneficial to the customers being served and our coworkers in that business.

Looking forward, we continue to see Medicaid and government services, first and foremost, as an attractive growth opportunity within our Evernorth Service portfolio, whether it's Evernorth Pharmacy, Evernorth Care, Evernorth Benefits, Evernorth Intelligence, the opportunity to bring expanded services largely through health plans today in support of Medicaid will be a growing organic part of our portfolio. Over time, we see opportunities that will manifest themselves state-by-state on state-specific service relationships again through Evernorth.

And then finally, as you recall from our Investor Day conversation within our M&A priority, we continue to have expansion of our U.S. Government programs as an M&A priority. So we'll be opportunistic from that standpoint if we see the ability to further strengthen any of our capabilities looking forward. But that divestiture was, again, it was a one-off de minimis impact, and we deemed that it was best in the hands of a specialist.

Operator

Our next question comes from Mr. George Hill with Deutsche Bank.

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George Robert Hill - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

I guess, David, I would ask a little bit more color about the MDLIVE acquisition and how you guys are thinking about care delivery partnerships. And I'd love a little bit of commentary maybe on how the digital formulary is progressing. And if you could maybe talk about if that's kind of meaningful revenue contribution yet to the Evernorth segment?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

So thanks for the question, George. So specific to MDLIVE, first, important to reference the fact that we had a multiyear relationship with MDLIVE, both partnering to consume the services, but also through our very successful multiyear Cigna Ventures organization. So we start from a learned, shared experience and even deeper collaboration during the COVID environment.

Specific to the asset and the direction, as we discussed at our Investor Day, we see a rapid expansion of what we call alternative site of care to be 1 of the 3 major trends as we look forward over the next 5 to 10 years. This is an important part of those building blocks and it's an important part of our Evernorth Care portfolio of capabilities. We see it as much greater than telemed or even basic virtual care triaging. We see the ability to obviously expand virtual care, primary care, behavioral care. We see the ability to expand that further in terms of longitudinal chronic care programs, polychronic and ultimately complex care programs and capabilities.

So it provides us an accelerant to our strategic direction with a known partner that will now be part of the overall Cigna portfolio. And we're excited because net-net, it drives improved service, improved access, improved affordability with strong clinical outcomes for the benefit of our consumers. So truly an aggregate win-win in the portfolio.

Specific to the digital formulary, that innovation continues to be somewhat unique in the marketplace. Our clients really appreciate the approach relative to the digital formulary, helping to essentially curate and apply externally validated expertise to the vast array of digital alternatives that exist in the ecosystem to help to provide employers more informed decisions for those that may have the greatest outcome and impact for the benefit of the customer. So I view that as a part of our consultative approach in terms of providing support and a part of our approach to, in this case, partner and curate additional services on a go-forward basis.

Taken as a whole, we see, again, our Evernorth Care capabilities as an exciting part of the broader Evernorth growth capabilities, and we see the ability to do that in a complementary nature with our proven value-based care relationships within our Cigna portfolio as well. I hope that helps, George.

Operator

Our next question comes from Mr. A.J. Rice with Credit Suisse.

Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

I might just ask about the selling season, both for Medical and for Evernorth on the PBM side. I know last year, there was some discussion about potentially people being delayed. Different people had different views as to how much of that activity actually happened. I wondered what you've seen in terms of RFP activity on both sides of the business? Anything to discuss in terms of new and innovative ways that Cigna is going to market in those 2 sides of your business? And any discussion about early wins, losses?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

A.J., it's David. So relative to the selling season, looking to 2022, your question goes at the Commercial side as well as the Services side of the business. First, on the Commercial side of the portfolio, at this stage of the year, we're typically looking at the National accounts environment and remind you that we define National accounts for our U.S. Commercial portfolio a little bit more narrowly than some in the market. So it's commercial

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employers, 5,000 or more employees who are multistate in nature. As we look to 2022, right now, we see an environment where the RFP volume, so the opportunity to pursue new business, is up somewhat. Think order of magnitude 10%.

And we see the portion of our book of business that's out to bid is being up marginally, less than that 10% number. So that's a little bit of framing. We have some early traction, some early wins that exist in our portfolio. And as we sit here at this stage of the environment, we're optimistic that we'll have a very good Commercial outlook in aggregate for our portfolio as we look to 2022.

I'll bridge with a trend comment, and then I'll come to the Evernorth portfolio. Clearly, affordability remains a top decision criteria for commercial employers. There's no doubt about that. We spent ample time on that at our Investor Day, and it remains a top strategic imperative. Further beyond that is the flexibility necessary and then the innovation required to truly integrate or coordinate mental and physical health programs, and then expand and coordinate access to care in a less fragmented way through alternative site of care framework, et cetera. So we see the trends being well lined up to our direction.

As it relates to within Evernorth and specific to your question within pharmacy services, as you recall, we have now multiple years of very attractive growth under our belt as a combined organization, and we're pleased with that. As we look to 2022, we have an environment where, to date, our employer renewal process is manifesting itself quite strongly. And our health plan renewal process is manifesting itself rather strongly beyond the 2 known losses that we previously discussed relative to the health plan business.

Taken as a whole, we'd expect the retention in that business as we sit here right now to be a bit less than our recent couple of years, which have been historic highs, in the upper 90s. We'll expect it to be more in the mid-90s as a consistent rate. And then taken as a whole, we will expect to see both revenue and earnings growth in our Evernorth portfolio in 2022. So both pointing in a positive direction would be the summary I would leave you with.

Operator

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

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

Okay. Great. The way that you were framing the drop-off in COVID utilization and then, I guess, the earlier return in volumes, to me, imply that the COVID impact might actually end up being less than what you were forecasting. But you obviously reaffirmed that number. So just any thoughts about kind of the puts and takes of COVID's dropping faster than you thought. And then do you still feel like about half of that coming back next year is the right way to think about that?

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

Kevin, this is Brian. So a few thoughts on your question. I appreciate the framing of it. Broadly in the quarter, as I said earlier, the MCR for U.S. Medical was in line with our expectations when you exclude the favorable benefit from prior year development. Now the components within were a little bit different than we anticipated. So to your point, the COVID-19 testing and treatment burden on our book was a little bit lower than we anticipated for the quarter. However, non-COVID utilization was a little bit higher than we anticipated coming into the quarter. So the net effect of those 2 factors led to the U.S. Medical MCR being back in line with where we expected it to be.

And as we trend out the balance of the year, we continue to expect that phenomenon to proceed, meaning deceleration in COVID-19 testing and treatment costs and a little bit of an uptick in non-COVID-related utilization. So to your point, we expect about 50% of the EPS headwind associated with COVID-19 $1.25 to continue to show up in the U.S. Medical MCR.

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And bridging over into 2022, we continue to anticipate about half of that $1.25 or a little bit over half of that to return in the form of earnings in our 2022 enterprise portfolio. And as such, we would expect that our long-term annual growth rate in EPS of 10% to 13%, we would expect to achieve a result that's at or above the high end of that range relative to our updated guidance of at least $20.20 per share.

Operator

Our next question comes from Ms. Lisa Gill with JPMorgan.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst*

I just wanted to go back, David, and ask a question around the comments that you made around MDLIVE. Specifically, you talked about expanding primary care and longitudinal care. You talked earlier about your relationship with Ginger around mental health. So my question here is really twofold. First, where do you see the opportunities with MDLIVE around lowering overall medical costs for Cigna?

Second, do you believe that you need to buy or continue to build out something around behavioral health?

And then thirdly, can you just give us an idea of how many Cigna lives actually use MDLIVE today?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Lisa, thanks. And I appreciate the ongoing interest in the space for sure. So number one, bigger picture framing, I appreciate that you brought MDLIVE, Ginger together, for example. We do not believe that this is a one-and-done type activity. So we don't believe that the corporation secures itself a virtual care asset, and then they're squared for the alternative delivery space. This is a fluid environment. It's a dynamic environment. And it's an environment that has massive promise relative to bringing the expanded access, coordination of services and improved overall value, coming back to the affordability. Our organic capabilities, our strong -- the MDLIVE asset advances that massively. But as Brian noted in his prior comments as well, we continue to invest in this space. So I want you to view that we view it as a dynamic and fluid space, and we very much like our positioning.

Two is, just like in the, we'll call it, the traditional care delivery space, the coordination of physical and mental health is mission-critical. Just because it's in a virtual care environment doesn't mean that the coordination or the leverage opportunity there is not as critical. And in fact, the virtual capabilities allow us to take fragmentation out of the system more aggressively and more comprehensively.

To your affordability comment, unequivocally, we see an ability to further improve affordability through alternative site of care and through our virtual capabilities. You may recall from Investor Day, we identified alternative site of care or site of care leverage as a meaningful opportunity to further deflect or improve overall affordability. And an example may be we see already in our virtual care delivery less use of unnecessary or redundant diagnostic services. That's a tangible illustration of an improvement in affordability.

Conversely, we see opportunities to even further close gaps in care or increase utilization of the right services like maintenance medications through the dynamic, more intimate, ongoing interaction with customers or patients from that standpoint.

So my points are threefold: one, continuation of investment here in innovation off of a very strong base; two, a continued need to use the capabilities to close fragmentation within the system or get more complementary leverage, most notably between the medical health and the mental health capabilities; and three, unequivocally a contributor to further improved affordability.

Operator

Our next question comes from Mr. Josh Raskin with Nephron Research.

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

Here with Eric Percher as well. Can you speak to the progress in both the individual exchanges, I think I heard a 17% number as well as the small group markets? I'm specifically interested in membership growth. And when you think you have enough information around medical cost and sort of utilization of new product, et cetera, to better understand sort of profit trajectories here this year?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Josh, it's David. Let me just start and frame the growth trajectory and then ask Brian to provide a little bit of additional color relative to our insights on the performance. First, we're very pleased. We're very pleased with the sustained performance, starting with the individual exchanges. Just have you recall, we entered the exchanges in the first year, and we've sustained engagement in the exchanges since its inception. We've innovated within the exchanges. We've delivered a proven model, and now we're in an expansion mode relative to additional geographies, in large part with our collaborative accountable care and aligned value-based relationships from the health care delivery system.

And we're pleased with the results, both the base results in the individual exchange as well as, thus far, our early look at the additional enrollment we're seeing because of the expanded SEP. And I'll ask Brian just to give you a little color relative to that dimension.

As it relates to the small employer marketplace, as you know, we Cigna historically have not played in the small employer marketplace, but we've focused above 51 lives or above 100 lives depending on the regulation more broadly. We have continued to view it as an underserved market, a market that has had more traditional or rigidly designed programs, lacked innovation and less flexibility and less leverage of more modern specialty and clinical services.

And our determination was, it was best to pursue that market in partnership, leveraging our partnership DNA, and we've entered that market successfully with our partnership with Oscar. We're really early in that journey. Some positive indicators for sure. We're early in the journey. Our early indicators are positive though that has us accelerating our geographies and in collaboration with Oscar, and again, back to -- in partnership with our health care delivery partners. So Brian, maybe just a little color in terms of what we view the SEP process looking like in the economics within the individual exchange?

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

Sure. Josh, our individual membership year-to-date is a little bit above our expectations for a couple of different reasons. One is, I'm sure you know, we stepped into 80 new counties in 2021, and the enrollment in the annual enrollment period there was a little bit above our expectations. Additionally, the expanded special enrollment period window that President Biden introduced has generated some new lives in our portfolio as of the end of the first quarter. We have no reason to believe at this juncture that those customers will perform meaningfully differently than the balance of our individual exchange portfolio. To your point on when will we know for sure, it will take several months as we understand the risk adjuster profile and the persistency of those new lives, et cetera. But I also would remind you the individual exchange membership only represents about 5%, 6% of our total U.S. Medical portfolio. So it won't be a significant needle mover relative to the MCR full year outlook for U.S. Medical.

Operator

Our next question comes from Mr. Scott Fidel with Stephens.

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

A question just, first, it would be helpful maybe you could break down just on the $1 billion raised revenue guide, and how you would sort of break that down between each of the 3 segments? And then also, interested just in sort of what you're seeing in aggregate right now around the debate around inflation and not just thinking about medical inflation, but obviously, Cigna has a lot of insights into just general inflation dynamics across

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all of your businesses. So interested in terms of what you're seeing in the first quarter as it relates to whether you're actually seeing inflation rising? And how you're thinking about the outlook for that over the course of the year?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Scott, it's David. I'm going to ask Brian to just give you a little color on our really strong sustained revenue performance, and then I'll come back and seek to address your inflation question.

Brian C. Evanko - *Cigna Corporation - Executive VP & CFO*

Scott, so I'm really pleased with the Q1 performance on revenue as well as the full year increase in our guidance of at least $166 billion. You should think of the majority of that increase coming from the Evernorth segment. But importantly, we're also seeing strength within U.S. Medical. So I would think of most of it from Evernorth and a bit of an uptick in U.S. Medical as well. David, back to you on the inflation question.

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Sure. Scott, on the inflation question, I'm going to come at it 2 ways. First, through the core visibility of our business, and then more broadly for those we serve. Thus far, within our business, we do not see a large trajectory change relative to what I would call cost of goods sold inflationary pressure. There's always some, make no doubt about it. There is always some. But through ongoing innovation, ongoing productivity, ongoing value-based collaboration, broadly speaking, I would not cause a, call it, large sea change from that standpoint.

Beyond that, in the broader economy, whether we look at it through a U.S. lens or pockets of the markets outside the United States, there's clearly a warming up. There's an indisputable warming up of the economy, and there's a clearly warming up of inflationary indicators, but none of which have triggered across a threshold to suggest to any one industry, save for some unique outliers, any kind of orange going to red threshold levels of inflation.

But the robustness of the economy and some of the underlying cost drivers in some subsectors are clearly beginning to elevate and I think have a lot of industry leaders watching to ensure that any movement in curves -- any movement in cost curves could be anticipated, and either eradicated through pricing actions like CPG companies that are being intensely discussed, cost pressures in some subsectors of the technology ecosystem where the chip industry is out of pattern relative to supply and demand from that standpoint. But broadly speaking, I would say, again, nothing affecting our space over the immediate-term horizon from an inflationary standpoint.

Operator

Our next question comes from Mr. Matthew Borsch with BMO Capital Markets.

Matthew Richard Borsch - *BMO Capital Markets Equity Research - Research Analyst*

Let me ask a question about Medicare Advantage and the outlook, how you think it's going to work with the rates? I know that I'm asking about 2023, and I know that's a light year away, but my question really is Medicare Advantage benefited from the lower expenses in 2020. I'm wondering how you think that's going to roll through the rate calculation. Because, right now, CMS has 2020 down 8% per capita and then increasing about 11% in this year and in next year. And so I guess my question is, do you think that kind of trajectory is likely for medical costs? And then if you can comment on it, how you think that might work into the 2023 rate?

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David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Matthew, a pretty complex Rubik's Cube be put on the table. Thoughtful, but nonetheless complex. I think as you -- as I take your question and process your question, if you look at the 2020 to 2021 environment, clearly, the posture of CMS recognized the COVID dislocation, recognized that dislocation, for example, its implication on risk adjusters sought to, in their own methodology, seek to provide some offset to that relative to their rate cutting environment as well as our guidance relative to delivery system reimbursement and set themselves up for what I would say is a pretty fluid and complex environment over the ensuing couple of years ahead.

So I would expect the next couple of years' cycle to be a little nontraditional from that standpoint, given the need to adjust the various moving parts that result in a net rate setting environment. History would tell us that the result of all of the above, plus or minus 1 point or 2, largely gets the program to a balanced sustainable outcome. And looking forward, I would expect that because the Medicare Advantage program continues to deliver outstanding value, as you know, for seniors. Hence, the tremendous support from a senior standpoint as well as overall clinical quality and affordability of which through the bonus programs and the reimbursement programs, the federal government's budget actually benefits from.

So I would expect it to be able to be balanced through that, but a little bit more lumpy than it has been in the past. And I think this year's risk adjuster true-ups will be really mission-critical in terms of how CMS sees the industry recapturing a little bit more of the information that they deem necessary to get the risk adjusters. And then they'll factor that into the forward-looking 2023 rate environment.

Stay tuned for more.

Operator

Our next question comes from Ms. Ricky Goldwasser with Morgan Stanley.

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

Yes. So one follow-up. David, you talked about sort of the return of some of the diagnostic procedures that now are in line with -- before pandemic. Are you clear the acuity is the big uncertainty for the rest of the year? But now that you're starting to have this data, as individuals are starting to come back for preventive care testing, are you seeing any changes in acuity? That's one.

And then my second question goes back to M&A and investments. Clearly, a very big focus and part of your growth strategy. So what metric do you use when you evaluate a buy versus a partner or a build decision?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Ricky, it's David. Let me take both of your questions. On your first question, to be very clear, we have seen consistent strong utilization of preventative care services. And notably, what I called out is, for example, in the first quarter of 2021, broadly speaking, preventative care services, inclusive of mammographies, colonoscopies, childhood immunizations, cervical cancer screening, plus or minus in the Commercial portfolio business approximate pre-pandemic levels. We think that's a very good thing. Let me underscore, it's a very good thing and something that our team has worked tirelessly to try to effectuate elevating those levels.

We see that performance against a national data set that suggests the utilization of those preventative care services are down versus pre-pandemic levels, 10% to 15%. But for our book of business, they are not. As a predictor then to the future, we see that as a mitigant for an elevation of acuity. All other things remaining equal because you're consistently identifying an earlier stage through the preventative diagnostics or the preventative services.

Equally as important, as I noted in my prepared remarks, are, for example, within our Evernorth portfolio and within our Evernorth Pharmacy portfolio for those customers being served by our mail order, we've actually seen get even further elevation of medication adherence. That's really

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important for the chronic population to avoid spikes in acuity moving forward, whether it's for a diabetic, COPD, asthmatic or other patients from that standpoint.

So broadly speaking, we're working tirelessly to get the right clinical quality and services to be consumed and supported with the clinical resources we have to avert spikes in acuity going forward. And therefore, we don't expect a large spike in acuity on a look-forward basis given the strong preventative or medication compliance.

As it relates to your M&A question, there's not a simple way to answer your question. Importantly, though, to frame, we look at all either growth or expansion of capability opportunities through buy-build-align frameworks. We relentlessly go through a buy-build-align frameworks. So for example, today, within our Evernorth Benefit portfolio, we're organically building out additional post-acute care capabilities after evaluating, buying, further partnering or in-sourcing those capabilities. We typically will look at that through a right-to-win strategic positioning and an economic framework.

So you look at it through a variety of frameworks. It's not a simple economic hurdle rate. Your question didn't infer that it was a single measure, but it's not a single economic hurdle rate. It's through a right-to-win size and trajectory of the market, the resources with which to pursue, whether it's organic build, collaboration through a partnership or from an acquisitive standpoint. And obviously, certain economic hurdle rates come into play, which we don't discuss publicly. Those are proprietary, but you would imagine we're quite disciplined in terms of our return to capital thresholds. Ricky, hope that helps.

Operator

Our next question comes from Mr. Steven Valiquette with Barclays.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

So there was a question earlier on inflation. I actually have a question on deflation. Just want to check the box and get your quick thoughts on generic pricing as there's been some mixed signals on the level of generic deflation in the first quarter. I guess I was curious, was there any evidence of accelerated deflation that may have played a role in better cost of goods sold in your mail order operations within Evernorth? And also, you mentioned the effective supply chain initiatives again this quarter. Just curious what that means for '21, in particular, whether -- is that just code for better drug purchasing and procurement this year? Or are there other factors within the "supply chain initiatives" driving better results?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

It's David. So a 2-point question. First, there's no doubt there are some pockets of generic deflation within the pricing environment or within the cost environment. Importantly, they're in line with our expectations. So it's not a deviant or driver of a deviation for us in any way, shape or form in terms of our broad portfolio. But unequivocally, there are some pockets of deflation there in line with our expectations. As it relates to the supply chain activity, I would ask you just to continue to think about supply chain initiatives as being an inherent strength within the overall portfolio through a variety of lenses, whether it's collaboration on the medical side of the equation, the traditional supply chain activity, the value-based supply chain activity, et cetera. And we have a continuous drive to improve value, albeit to partner as we go through the process.

And as we get into some more of the complex dimensions of the higher-cost drugs and medications, we think there's further opportunity through the supply chain activity around value-based care relationships, aligned incentive relationships more specifically with the manufacturers and with ourselves on a go-forward basis. So I wouldn't call out any unique driver. More importantly, it's a continuous improvement part of our portfolio, and it's an underlying strength of our portfolio. And lastly, our sustained growth supports that in a very positive way.

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Operator

Our last question comes from Mr. David Windley with Jefferies.

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

I wanted to come back to the telemedicine topic. And David, thinking about your capital-light strategy relative to providers and network. And I'm wondering if Evernorth and Cigna has an opportunity to leverage MDLIVE into your collaborative care partnerships or otherwise into partner networks as opposed to own networks in your case?

And then alternatively, do you have an opportunity to use MDLIVE to feed volume or refer volume, catch volume if you -- so to speak, in parts of -- other parts of Evernorth, specialty pharmacy, mail order delivery, things like that by owning and controlling telemedicine through MDLIVE?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

I appreciate the question. So twofold. To the first part of your question, the simple answer is yes. So to be really clear, again, we see the opportunity, obviously, from a stand-alone, if you will, fulfillment and delivery of the service, but also an opportunity in collaboration in alignment as a panel extender for high-performing collaborative accountable care relationships, and those conversations are dynamic and underway.

To the second part of your question, very thoughtful framework and appreciate it. If we come back and think about, first and foremost, our ability to further improve affordability, you may recall at our Investor Day, we talked about 4 major ways in which we further improve affordability off of our strong overall cost environment today.

One is to further increase the percentage of utilization that takes place in the highest performing clinical settings, be they physicians or facilities. Second is to work to reduce the cost of drugs further. Third is to effectively leverage alternative sites of care. For example, the difference between a knee replacement that is inpatient versus outpatient is about 1/3 less in cost, and we see a massive shift at the physical side of care, it's similar in virtual side of care. And then fourth, the ability to further coordinate the fragmented system, specifically in the areas of medical and behavioral.

So back to your question, our -- evolution of our telemedicine and virtual care capability present opportunities to contribute to a variety of these areas to help to support individual customers or patients, accessing higher-cost health care specialists or delivery system partners, helping to drive further leverage relative to the pharmaceutical equation in terms of medication compliance or alternative lower-cost medications and the ability to merge or coordinate services, be they behavioral and pharmacy behavioral and medical by being in that quarterback position with a customer patient from that standpoint. So we see it as being complementary to a variety of those initiatives, and we see it being both complementary to your first question, proprietary driving on our own and in collaboration as a panel extender for high-performing health care professional partners.

Operator

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

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

First, thanks for our time today. We really appreciate spending time to discuss our Cigna results and our outlook. I just want to wrap up our call with a few headlines.

First and foremost, we delivered strong financial performance during the quarter as we continue to navigate through what is undoubtedly a dynamic environment. And we work to meet and balance the needs of all of our stakeholders as we act as champions for health care that is affordable, predictable and simple.

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In addition, our strong foundation, driven by our growth framework and track record of success, gives us confidence in our ability to achieve our increased EPS outlook for 2021 of $20.20 as well as positions us well for our ongoing long-term average annual revenue growth rate of 6% to 8% and our 10% to 13% average annual adjusted EPS growth rate, all while continuing to pay an attractive dividend.

With that, again, we thank you for joining our call, and we look forward to our future conversations.

Operator

Ladies and gentlemen, this concludes Cigna's First Quarter 2021 Results Review. Cigna Investor Relations will be available to respond to additional questions shortly. A recording of this conference will be available for 10 business days following this call. You may access the recorded conference by dialing (800) 551-8152 or (203) 369-3810. There is no passcode required for this replay. Thank you for your participating. We will now disconnect.

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