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CI.N - Q1 2022 Cigna Corp Earnings Call

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OVERVIEW:

Co. reported 1Q22 adjusted revenue of $44.1b, after-tax adjusted earnings of $1.9b and adjusted EPS of $6.01. Expects 2022 consolidated adjusted EPS from operations to be at least $22.60.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for Cigna's first quarter 2022 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 Mr. Ralph Giacobbe. Please go ahead, Mr. Giacobbe.

Ralph Giacobbe - *Cigna Corporation - Senior VP & Head of IR*

Thank you. Good morning, everyone. Thanks for joining today's call. I'm Ralph Giacobbe, Senior Vice President of Investor Relations. With me on the line this morning are David Cordani, Cigna's Chairman 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 2022 financial results as well as an update on our financial outlook for the year. 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.

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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 2022 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 $37 million or $0.12 per share, for integration and transaction-related costs. 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.

Additionally, please note that when we make prospective comments regarding financial performance, including our full year 2022 outlook, we will do so on a basis that includes the potential impact of future share repurchases and anticipated dividends. Also, our full year 2022 outlook assumes that the pending divestiture of Cigna's international life, accident, and supplemental benefits businesses will close in the second quarter of 2022, but does not assume any impact from other business combinations or divestitures that may occur after today.

Finally, I'd like to remind you of our upcoming Investor Day on June 3 in New York City, where we look forward to sharing our strategy and opportunities for sustained success and growth.

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

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Thanks, Ralph. Good morning, everyone, and thank you for joining our call today. We're off to a very good start to the year with the first quarter defined by strong results across both Evernorth and Cigna Healthcare, positive momentum, and focused execution, all of which are advancing our strategy and driving growth. We're pleased with our performance overall specifically with delivering adjusted EPS above our initial expectations.

Today, I'm going to keep my comments relatively brief and focus on some of the key drivers of our performance. Brian will then provide additional details about our financial results and our outlook for 2022, and we'll take your questions. Then on June 3, we'll host our Investor Day, where we will provide a deeper level of insights relative to our strategic vision, the growth profile of our businesses, and differentiated drivers that will deliver sustained attractive growth. So let's jump in.

In the first quarter, we delivered adjusted revenue of $44 billion and $6.01 of adjusted earnings per share. As a result of our strong results this quarter, we are now raising our full year adjusted EPS guidance, underscoring our view that we will achieve another strong year of performance for our company in 2022. We also remain on track to generate $12 billion in deployable capital for the year and directing at least $7 billion to repurchase our shares.

I want to take a minute to thank our team for all their hard work that led to these outstanding results. Our more than 70,000 colleagues around the world are committed to delivering on our promise in the market day-in, day-out. And as a result, expanding our client customer relationships, all of which enables us to grow and deliver strong results for our shareholders.

Now let's take a deeper look at Evernorth and Cigna Healthcare platforms and the drivers of their performance.

Following an outstanding year of growth in 2021, Evernorth maintained momentum with strong top and bottom line results in the quarter, driven in part by the sustained growth of our Accredo and CuraScripts specialty pharmacy business, which continues to represent one of the fastest-growing parts of our health service portfolio. A key driver of this performance is the way in which Evernorth is increasingly resonating with a wide range of buyers, including employers, health plans, governmental organizations and health care delivery systems, in an environment where getting people the right care and treatment at an affordable price is of paramount importance.

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I've spent meaningful time over the past few months meeting with a number of our clients and partners, and they consistently point to the attractive breadth and depth of Evernorth's services and expertise. Our clients rely upon these services and expertise to solve the most pressing health care needs. For some clients, this means tapping into the strength of our pharmacy services. Others it may mean our behavioral health support. With others, the unique specialty pharmacy expertise we bring to the table.

More and more, our clients are seeking our solutions that leverage our broad high-performing portfolio of capabilities. For example, Evernorth recently launched a new provider consult service for patients with cancer. This service leverages our powerful analytics to identify and connect patients to their oncologists, to cancer subspecialty experts at designated National Cancer Institute Centers. And this process enables patients to gain access to the latest innovations and research with better health outcomes, lower costs, and importantly, keeps the patient's care close to home and their family. This service augments our existing suite of oncology solutions, including personalized case management, mental health care, financial support services, pharmacy solutions, and collaborative partnerships with oncology providers.

Additionally, on the strength of our offerings a couple of weeks ago, we announced a new long-term strategic collaboration between Evernorth and Kaiser Permanente. We're drawing on capabilities across both Evernorth and our Cigna Healthcare platforms in a way that creates new opportunities for serving a broad range of Kaiser's clients and customers. This builds on our successful relationships, for example, with Prime Therapeutics and the Department of Defense, both of which were recently renewed for extended contract periods.

Finally, it's still early into our 2023 selling season, but we are continuing to see strong demand for our Evernorth services amongst existing and new clients; and additional opportunities to deliver even more value, particularly as we expect more biosimilars to come to market over the coming years, and we are seeing strong retention in our Evernorth portfolio of businesses.

Turning to Cigna Healthcare. We delivered a strong start to the year. Our medical care ratio during the quarter was 81.5%, which was better than we had projected. This reflects the disciplined and targeted actions we initiated last year to improve our results, including implementing new affordability efforts and pricing actions. In U.S. Commercial, we achieved strong membership growth during the quarter with growth across each of our segments. At a time when employers are trying to navigate a complex economic landscape for their businesses and an emotionally taxing environment for their employees, many are turning to us as the right strategic growth partner to improve presenteeism, productivity and health outcomes.

Employers tell us that they value the ability of our U.S. Commercial teams to partner with them in developing programs that guide employees to the right care, at the right place, at the right time. Programs supporting them and attracting and retaining talent through strong employer-sponsor benefits, programs and services, and programs providing greater predictability in managing financial risk for the companies, while optimizing their cash flow during these uncertain times.

Our International business also contributed to our growth during the quarter as it achieved higher customer retention and membership growth levels. We also remain on track with the divestiture of our international life, accident, and supplemental benefits business in certain countries to Chubb. With our sharpened focus on health services, we continue to see attractive opportunities for serving multinational employers, intergovernmental organizations, nongovernmental organizations, and the globally mobile population.

In our U.S. Government business, enrollment was down, as expected, as we prioritized margin expansion and completed the divestiture of our Texas Medicaid business. We continue to take actions to position our Government business for growth in 2023 and over the long term.

Now to wrap up. Our first quarter results are strong. They underscore the momentum we're building as we serve the evolving needs of our customers and clients, as well as continue to drive growth and margin improvement in our company. We delivered adjusted EPS of $6.01 and we continue to make strategic investments in our business while paying a meaningful dividend and remaining on path to repurchase at least $7 billion of our shares in 2022. With focused execution, we are demonstrating our ability to navigate and lead through this continued dynamic environment for the benefit of all of our stakeholders.

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

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

Thanks, David. Good morning, everyone. Today, I'll review key aspects of Cigna's first quarter 2022 results, and I'll discuss our updated outlook for the full year.

As David noted, we are very pleased with our strong start to the year as first quarter adjusted earnings per share were above our expectations. This performance, combined with our continued momentum, give us the confidence to increase our full year adjusted earnings outlook to at least $22.60 per share, representing growth of at least 10% off of our reported 2021 EPS.

Looking at the first quarter specifically, some key consolidated financial highlights include adjusted revenue growth of 8% to $44.1 billion, after-tax adjusted earnings of $1.9 billion and adjusted earnings per share of $6.01. Regarding our segments, I'll first comment on Evernorth.

First quarter 2022 adjusted revenues grew 10% to $33.6 billion, and pretax adjusted earnings were $1.3 billion, both in line with our expectations. Evernorth's results in the quarter were driven by strong growth in our high-performing specialty pharmacy business and a continued focus on delivering lowest net cost solutions for our clients and customers. We also continue to make meaningful strategic investments for the expansion of client relationships, as well as a new solution development and digital capabilities. These investments ensure the continued differentiation of our scaled Evernorth businesses, and support the expansion of our Evernorth Care capabilities. Overall, Evernorth continues to perform very well with attractive top and bottom line growth in line with our expectations.

Turning to Cigna Healthcare, which as a reminder, now includes our U.S. Commercial, U.S. Government and retained International Health businesses. We ended the year prioritizing margin expansion having taken targeted pricing and affordability actions during 2021 for impact in 2022. We also expected to drive customer growth in each of our U.S. Commercial market segments, and we're pleased with how we started the year.

For Cigna Healthcare overall, first quarter 2022 adjusted revenues were $11.4 billion, pretax adjusted earnings were $1.3 billion and the medical care ratio was 81.5%. The medical care ratio was better than our expectations in the quarter, primarily due to lower COVID testing and treatment costs. In January, COVID incidence was at its highest level throughout the pandemic, but case counts dropped significantly in February and March. Importantly, even during the January Omicron peak, we observed substantially lower severity than earlier in the pandemic, and subsequently, lower treatment costs.

In total, Cigna Healthcare's earnings exceeded our expectations, driven by the favorable medical care ratio, strong specialty contributions and net investment income on our alternative asset portfolio. Net medical customer growth in Cigna Healthcare was also strong, as clients and customers continue to recognize the differentiated value we bring as a partner through our consultative approach and our innovative solutions.

We ended the quarter with 17.8 million total medical customers, growth of 4% or approximately 700,000 customers sequentially. This growth was driven almost entirely by an increase in fee-based customers. Notably, we grew across all of our U.S. Commercial market segments and in International Health. U.S. Government enrollment decreased as expected, inclusive of the divestiture of our Texas Medicaid business. Overall, Cigna Healthcare is off to a strong start in 2022. For Corporate and Other Operations, the first quarter 2022 pretax adjusted loss was $117 million. Across the enterprise, we delivered strong first quarter financial results with contributions across our diversified portfolio.

Now with respect to our outlook for full year 2022 our strong start gives us the confidence to increase our full year earnings per share outlook as I will detail in a moment. At Evernorth, we expect continued strong performance with both top and bottom line growth in line with long-term targets, all while continuing to invest in growth and innovation. In Cigna Healthcare, we expect to continue to grow customers while expanding margins over 2021. We are raising our medical customer outlook to growth of at least 725,000 customers, and reaffirming our 2022 medical care ratio outlook of 82% to 83.5%. For Cigna Healthcare in total, we now expect full year 2022 adjusted earnings of approximately $3.95 billion.

Taken as a whole, we are raising our EPS guidance and now expect consolidated adjusted income from operations to be at least $22.60 per share, representing growth of at least 10% over our reported 2021 earnings per share.

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Now moving to our 2022 capital management position and outlook. We expect our businesses to continue to generate strong cash flows and attractive returns on capital. In the first quarter of 2022, we increased our quarterly dividend by 12% to $1.12 per share. And year-to-date, as of May 5, 2022, we have repurchased 7.6 million shares for approximately $1.8 billion.

For full year 2022, we continue to expect at least $8.25 billion of cash flow from operations, and to deploy at least $7 billion to share repurchases. We now expect full year weighted average shares of 310 million to 314 million shares, an increase of 2 million shares at the midpoint from our prior guidance, primarily due to our updated expectation for the timing of closing the International divestiture. We now expect this to occur later in the second quarter impacting the timing of our anticipated share repurchase. As a reminder, the financial performance of this business is included within Corporate and Other Operations until the divestiture is complete.

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

So now to recap. Results in the first quarter were above our expectations, reflecting strong contributions across our diversified portfolio. Evernorth continues to deliver strong top and bottom line growth in line with our expectations while Cigna Healthcare has had a strong start to the year, giving us the confidence to deliver on our increased 2022 EPS guidance of at least $22.60.

I look forward to continuing to discuss our performance, our strategy and our long-term financial outlook with all of you in our upcoming Investor Day on June 3.

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. Matthew Borsch with BMO Capital Markets.

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

I guess I was hoping you could just talk to the gain on ASO enrollment and how you saw the National Account selling season although I gather that probably as much from middle market as it is from large employers. Can you just talk to that?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Matthew, it's David. As I noted in my prepared remarks, we're quite pleased with the start of the year and our full year outlook relative to our Commercial portfolio. And the Commercial portfolio performed very well across each of the segments, National Accounts, Middle Market and our Select segment. And as Brian noted, our growth is essentially all ASO self-funded services with our appropriate specialty services attached to it. I'd highlight a few things. One, strong retention across the block of business. So we're really pleased with our retention rate even as we sought to move forward with some pricing in some of the segments.

Two, we've probably deepened relationships, and we had some wonderful new business adds across the portfolio and notably within the Middle Market. So headline - there is some very good strength across the Board, from both retention as well as new business adds. And as you noted, essentially all self-funded, which as you know, we really appreciate the self-funded opportunities because we have good alignment, good transparency and ongoing collaboration with our clients around the program development and the program service we're able to deliver.

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Operator

Our next question comes from Mr. Stephen Baxter with Wells Fargo.

Stephen C. Baxter - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

I just wanted to follow up on that a little bit. Would just love to get a better sense of how that retention rate for the Commercial business compared to previous years? And then as you look at -- the growth that you saw, I guess, would love to hear a little bit about -- any color you have on the split between in group and new clients? And then I guess, how you think about the sustainability of that growth given where you are in the process of rebuilding margin in the stop-loss product?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Sure Stephen, it's David. So a couple of dimensions to your question. First, broadly speaking, the retention rate - quite strong, and I would note that we were quite pleased with the retention rate across the portfolio, but specifically in the Select segment where we pushed for a little bit further rate execution on the guaranteed cost or risk side of the portfolio. Even without our retention rate was capably a bit stronger than we anticipated, showing that our product and our portfolio continues to resonate.

Secondly, a nice mix of, obviously, retention to achieve the growth we have, we have to have new business growth. That's both in existing relationships expanding to new geographies or subsets of portfolios and new business adds. I'd highlight, as we talked in the prior quarter, a very nice large win, which shows up in our Middle Market portfolio because it's a locally dense relationship that was achieved through an excellent collaboration between Evernorth and Cigna Healthcare, where we had a large, longstanding, high-performing Evernorth relationship that we're able to introduce the Cigna Healthcare portfolio to it and grow from that standpoint.

So retention a bit stronger, I would call out the Select segment, and great work that team is doing. Retention is strong across the board and new business adds in each of the segments, both in existing relationships and new relationships that we added.

Operator

Our next question comes from Mr. Justin Lake with Wolfe Research. Please check your mute feature.

We'll go on to the next question. The next question comes from Mr. Nathan Rich with Goldman Sachs.

Nathan Allen Rich - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

I wanted to ask on Evernorth. Nice revenue performance in the quarter. It sounds like specialty continues to be a tailwind. I guess, for the year, can you maybe talk about where the gains in specialty are coming from? Is that kind of continuation of maybe some new exclusive relationships on that side? And then given the revenue strength, we didn't quite see the flow-through to the bottom line. It looked like expenses might have been a little bit higher there. And David and Brian, I think you mentioned some investments. Are those more onetime? Or should we think about that as sort of the run rate for SG&A in that segment?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

It's David. Let me take the first part of your question, and I'll ask Brian to take the second part of your question. As you called out, the specialty performance within Evernorth continues to be quite strong. We're really pleased with the performance of our overall portfolio and specifically specialty, as you know. I'd remind you that our specialty portfolio serves multiple segments. Specifically, Accredo, think about that as serving

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individual direct patient needs on a highly focused basis, including in-home care coordination where appropriate. And then CuraScript is supporting medical professionals by delivering the right drug at the right time for purposes of their services and their needs.

I'd also note that as you would expect, our team is quite excited about and well positioned for the accelerating biosimilar trend that we see in front of us for the coming years. And where success in the biosimilar space will require not only strong performing specialty capabilities, in terms of the breadth of the specialty capabilities, but high coordination on the medical side of the equation because those decisions, as you know, are typically made one patient at a time in terms of coordinating the transition of care where appropriate, unless there's a perfect match from that standpoint.

So strength in both the consumer part of our specialty portfolio as well as the healthcare professional part of our specialty portfolio and well positioned for evolving biosimilar acceleration as we go forward, leveraging our specialty capabilities as well as our medical capabilities. I would not call out any unique drug class changes as a driver of growth, but let me transition to Brian to expand on that in the second part of your question.

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

So in terms of the expense growth in the quarter for Evernorth vis-à-vis the revenue growth and how we're thinking about the full year there. As you noted, the SG&A was up 13% quarter-over-quarter in Evernorth while the revenue was up 10%. You can think of the expense growth as predominantly fueling future growth within Evernorth. So I mentioned earlier, we're making strategic investments to build out our Evernorth Care platform.

So when you think about care management, care coordination, care delivery, alternate sites of care, we talked to you about virtual care in the past, behavioral health in home care. We're making a series of investments there. That won't just be limited to the first quarter. There will be multiyear investments to continue to diversify our health services portfolio within Evernorth.

But for the full year, importantly, our income for Evernorth will be up 5% from where it was in 2021, and our revenue will be up in that same general zone. So you should not think of margin erosion transpiring for the full year even though expenses grew a bit faster than revenue within the first quarter.

Operator

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

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

I was interested in the announcement you mentioned around the cancer consult service launch. And can you speak to who the targets are for that product? Is that an internal sales process to your existing health plans? And I guess more importantly, are there other physician enablement services that you think you can add in the future through Evernorth?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Josh, it's David. First, relative to the space, and really appreciate you reamplifying the oncology opportunity. As we know, the volume of oncology needs in the United States, other markets as well, but in the United States continues to grow. And we're really pleased with the innovation that is taking place.

So we're taking an analytical approach to identify individual patients; so the target market are individual patients that we serve today. So think about that through either Cigna Healthcare, and our diverse Cigna Healthcare relationships, and increasingly going forward, a service that will be able to be offered to our Evernorth health plan clients. As an example, as a consult to bring that level of precision, identify individual patients who, in coordination with their specific oncologists, so analytical matching of the patient, their oncologist where we determine that by matching them

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to a Center of Excellence and bringing the consult precisely back to the patient with their oncologists, we could advance quality, affordability and the overall care equation without, in many cases, needing to have the patient transport themselves to the Center of Excellence.

So it's an example of bringing the precision too, by using the data and the care coordination in our partnerships. So the target audience is individual patients, largely through our Cigna Healthcare portfolio through the rollout that's taking place right now, but increasingly as an Evernorth service, be able to be offered to our health plan clients and others.

And then secondly, if I heard your -- the latter part of your question correctly. Think about these types of approaches as indicative, and we talk about what Brian made reference to in terms of Evernorth Care, opportunities to, again, curate and coordinate more of the care equation using data and then the breadth of care to bring more services forward. And we'll seek to provide some additional insights relative to, at our Investor Day, some additional programs that we'll be rolling out in this year, not oncological based, but taking a similar harnessing of data and real-time service delivery. Really appreciate your question.

Operator

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

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

Sure this is another topic that you're going to be delving into more at Investor Day. But just interested from this point in time as we look out to 2023, if you could just give us some updates on how you've been looking to refresh the strategy for MA to resume growth in the market for 2023, especially now that we've got the final rates out, which clearly looks pretty solid for the industry?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Scott, you're right, we will cover that in June, but let me just profile the broader direction. First and foremost, we continue to see our Government segment and, specifically within that, Medicare Advantage as a very attractive sustained growth opportunity. In 2022, we're in year 3 of our expansion and growth initiative. And while clearly, 2022 was well short of our specific growth algorithm for a variety of reasons, including market conditions, our 3-year average growth was just a bit below our low end of our strategic range. Now specific to '23, we are building our plans and initiatives specifically to drive attractive growth in 2023. We'll profile a little further. We'll leverage our strong Star's positioning, our NPS positioning and our overall medical cost in our targeted MSAs. And I would remind you that we're largely an individual HMO and individual PPO oriented organization.

Two, we will demonstrate at Investor Day, but we'll -- our plans are building on harnessing now some of the investment we've made in terms of our market expansions over the last couple of years whereby the early yield and traction in market expansion is low in year 1. But by the time you get out to year 3, we have higher expectations, targeted investments in marketing and distribution. And then importantly, we expect in 2023 to begin to realize more yield off of our Commercial aging population and PDP and med sup [Medicare Supplement] conversion opportunities that's in front of us. So specifically, our expectations will be, and we're building our plans around an attractive growth year for 2023.

Operator

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

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

Regarding the medical cost trends, is there any further color around the pace of traditional non-COVID utilization trends versus baseline exiting the first quarter and into the second quarter? Also I'm curious, was there any thoughts in narrowing the top end of the MLR guidance range of '22 just given the better-than-expected 1Q MLR result?

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

Steve, it's Brian. So I'll try to tackle both of those questions here. In terms of the medical cost performance in the first quarter, as I noted earlier, we saw some favorability come through in the form of COVID costs in particular compared to our expectations in the first quarter. So both testing and treatment came in a bit favorable to what we had been forecasting for the first quarter of the year. And that was true across the Commercial book of business in the most pronounced fashion, but in totality for Cigna Healthcare.

As it relates to non-COVID, the non-COVID cost came in essentially right where we were expecting them to. Meaning, if you look at it on a cost trend basis, the cost trends, compared to the first quarter of '21, were very much in line with our expectations in terms of seeing a normal kind of low to mid digit type cost trend on the non-COVID services. We're not really seeing any signs of acuity spikes or pent-up demand emerge. Things like blood screenings, preventive exams, mammograms, colonoscopies are all in line with where they were in 2019 on a per capita basis. And for that matter, where they were in 2021 as well. So non-COVID shaping up very much in line with what we had been expecting coming into the year.

As it relates to the full year outlook for the medical care ratio, you're right, we reaffirmed the 82% to the 83.5% range despite the first quarter coming in a bit favorable. We felt like just being one quarter into the year this was a prudent thing for us to do and a prudent posture to take given there's 3 more quarters, and respecting that COVID has had a lot of twists and turns over the past couple of years. But it would be reasonable to assume the midpoint of our range may be shading slightly towards the lower half of the range if you were thinking about where the full year is likely to shake out based on what we've seen so far.

Operator

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

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

Maybe I'll just ask about the biosimilar opportunity. I know that is out there, but it's a little bit difficult to quantify what it might look like. I guess, can you give us any update on ongoing discussions you're having with the various players and whether that's provided any clarity? And in your mind, when do you think you will get a sense of what the opportunity might be both for Evernorth and I guess, to some degree, even with the benefits business?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

A.J., it's David. In some ways, it's early. In other ways, the trend is upon us, right? We're seeing the convergence, which is a net positive. We think it's a net positive from a societal standpoint relative to the opportunity to further improve affordability. And given our Evernorth model, we have the services within Evernorth and some leverage relative to Cigna Healthcare to really harness this opportunity on a go-forward basis.

We don't think there's a single inflection point that exists. Maybe that's inferred in your comment. So it's not as though '23 or '25 is the single year we see a ramping of activity. And our teams, as you would expect, are working class by class, drug by drug with manufacturers, as well as with the programs that we will have in place, and the choices we will be able to offer our clients. I think very importantly, the consultative nature of the way Evernorth supports our clients will be even more pronounced and more beneficial with the biosimilar trends as it evolves.

As you would expect, given the energy we have relative to our specialty portfolio and its respective traction, this will be an area we will seek to amplify a bit more specifically at our Investor Day. But suffice to say, there's not a singular inflection point, '23 is an important year with some convergence, but '24, '25 begin to ramp and beyond. So we're well positioned relative to that to improve affordability for our clients and customers, and have Evernorth benefit from the value it's creating for our clients, customers, and patients.

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Operator

Our next question comes from Mr. Gary Taylor with Cowen.

Gary Paul Taylor - *Cowen and Company, LLC, Research Division - MD of Health Care Facilities and Managed Care*

I wanted to ask a little bit more about PBM when we look at the adjusted claims down 2% year-over-year. A couple of questions. I don't think vaccines were yet material to the prior year so I just wanted to see if that was mostly just the health plan losses impacting that, it wasn't related to vaccines. And then a few months ago when you were asked about PBM selling season, obviously, it was very early, it's still early, but you had said you expected at least similar, if not better, retention than '22, which I think was mid-90s. I just wanted to see if there was any update to that thinking?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Gary, it's David. Let me start and then ask Brian to talk a little bit more relative to the Evernorth growth framework and why scripts are, I think, an important example, but given the breadth of Evernorth, no longer the sole example, that you should be looking at. Specific to your framing relative to the current year, broadly speaking, I think your walk-in framing is right. There was -- we had a little lower retention rate than our historic average and clearly lower than our phenomenal 2019 and 2020 retention level from that standpoint.

Your question, I think, goes to 2023 and as I noted, we're positioned to have another strong growth year for 2023 for Evernorth, both on a new business and on a renewal basis. Now specific to PBM, before I transition over to Brian to talk a little bit more relative to the Evernorth growth, we're at about a 90% visibility. So about 90% of the books already renewed, which is good at this point in time of the year, and we feel quite strong relative to that.

And as we sit here right now, specific to the PBM portion of Evernorth, which is what you're asking about, we expect our retention to be higher than 2022's retention level and revert back to more of the historic norm of 95% or a bit better from that standpoint. But importantly, 90% of the book is renewed, and we still have some active selling that sits in front of us right now because the marketplace continues to be pretty fluid in the current environment. Brian?

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

Gary, back on the first part of your question in terms of the first quarter '22 scripts volumes and such. I think your macro conclusion is right in terms of the scripts being down 2% is largely a function of the client wins and losses and the net effect of that. The vaccines were pretty flat year-over-year. If you look at the first quarter of '22 versus first quarter '21 within 1 million or so scripts, so that's really not a material driver quarter-over-quarter.

Importantly, though, as David hinted at here, as each day passes, the total script count metric becomes less and less important to measuring Evernorth's overall performance. And what do I mean by that is - we have more and more volume coming through our specialty pharmacy; as we have more and more volume coming through our Care platform, you're going to see more earnings and more revenue associated with things that are not directly linked to scripts. So as an example, within specialty, specialty just crossed over the 35% mark in terms of contribution to overall Evernorth revenue, but it represents less than 1% of our overall prescription volume. So over 35% of the revenue, less than 1% of the prescriptions. So again, just that metric, I would encourage you to gradually move away from when you're looking at the health of the Evernorth business in totality.

Gary Paul Taylor - *Cowen and Company, LLC, Research Division - MD of Health Care Facilities and Managed Care*

Yes. I mean, the revenue performance supports it. So got it.

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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*

David, I just want to follow up on Evernorth Care capabilities? And how you think about MDLIVE fitting into that? And there's been some pressure in the market when we think about behavioral health. And I've heard you talked so many times about whole person health and really thinking about the integration of the two. But how do we think about how Ginger fits into that? And how we think about, again, Evernorth Care capabilities overall when we think about your offerings going into 2023?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Lisa, good to chat with you this morning. So there's a couple of different, I think, flavors to your question. Let me try to be succinct as I can with them. First, the whole person health or the coordination of care and services remains mission-critical as we've learned as a society, has been amplified in this COVID environment. So first, by way of background, we continue to expand access to behavioral services, whether it's expanding a network in a traditional sense, whether it's expanding behavioral services through virtual care, whether it's being the first to have virtual care capabilities be covered as in-network services through the likes of Ginger. But then the next step is how do you coordinate point solutions like that and bring them together. And so let's walk that across to MDLIVE.

MDLIVE is a great example, and we couldn't be more pleased by having that asset as part of the company to be able to innovate off of because MDLIVE underscores as a symbol, our view and commitment that harnessing technology and data to bring more services on a real-time, highly personalized basis to a patient or individual presents one of the biggest opportunities in front of our society for the coming years.

And specifically, as you take virtual care and you coordinate medical, behavioral, pharmacy services, et cetera, and coordinate those services, patients benefit at a significant level. As we click it down another notch, we've seen some disruption in the marketplace, but I would remind you that our model is not a B2C model dependent upon B2C activation only building off of a triage of it. Ours is more B2B and then cultivating the relationship with the customer, whether it's through an employer, a health plan or a health care professional organization and, to end with a fact to underscore, our MDLIVE volumes year-over-year Q1 2021 versus Q1 2022 were up about 29%. So an area where we have significant conviction being able to, again, coordinate point solutions as opposed to just push point solutions and having it be highly patient-centric in real time represents a tremendous opportunity, and we're pleased with our progress thus far.

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

And I'm sure you're going to answer this at the Analyst Day, David, but really the second part of my question was, how do we think about this opportunity in 2023? Do you feel that this is driving a bigger market opportunity for you? I know you talked earlier about the cross-sell of Evernorth with Cigna Health, but any kind of number of a market opportunity you can put around this?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

So Lisa, I'm sorry I didn't touch upon that. And you're right, we will touch upon that at Investor Day. So I'll just try to whet your appetite by saying, absolutely, we see tremendous opportunity. So when you think about it, the leverage between Evernorth and Cigna Healthcare's portfolio, we already have significant proof points and traction relative to that, and there's more opportunity that Eric and our colleagues will walk through when we're at Investor Day. But importantly, those services are not limited to Cigna Healthcare.

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Everything we're building within Evernorth is built with an eye toward, yes, Cigna Healthcare as a client to improve quality and affordability and we'll walk through proof points relative to that. But simultaneously to be able to bring it to market to stand-alone employer relationships that Evernorth serves, our health plan clients, integrated delivery systems, et cetera, on a go-forward basis. So we see that addressable market underscoring your point, to be quite broad, quite large in terms of what we're building, and the ability to improve affordability, personalization, and clinical quality, whether it's for Cigna Healthcare or other relationships present a tremendous opportunity, and we will amplify that at Investor Day.

Operator

Our next question comes from Austin Gerlach with Wolfe Research.

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

This is Justin Lake. Did I get in this time?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Justin, you're live, but you have a different name. So you have an alias this morning. It's good to hear your voice.

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

Well, since I can't figure out the mute function, I probably should change my name. So look, I want to squeeze in 2 quick questions here, just numbers based. One, can you give us a little color on how the rise in interest rates that we're seeing out there could affect you over the next year or two from an earnings perspective? And secondly, any help on earnings seasonality in terms of first half, second half would be appreciated?

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

Justin, it's Brian. So in terms of interest rates, the macro conclusion you should draw as you think about Cigna is directionally positive when interest rates move up, but also not terribly material in the grand scheme of things in terms of the direct quantifiable impact. The majority of our balance sheet, whether you look at the asset side or the liability side is in fixed rate, longer-term instruments, and those that are shorter term in nature or carry a variable rate, we tend to have, on a net basis, slightly more exposure on the asset side than the liability side, which creates some favorability in terms of the investment income spread and such. So -- but in terms of mentioning it, you shouldn't think of this as terribly material. It's in the, call it, $20 million to $30 million range annually, if you were to look at a 100 basis point move in rates order of magnitude.

As it relates to the earnings seasonality, and I'll talk in EPS terms. Given the strength of the first quarter, you should think of the overall first half of the year is generating about half or roughly half of the full year earnings per share emergence. And then in the back half of the year, we tend to see the fourth quarter as a lower point relative to the third quarter, just given the seasonality in the Cigna Healthcare book of business where deductibles and out-of-pocket maximums tend to be met more frequently. So you should think of third quarter being a little bit stronger than the fourth quarter.

Operator

Our next question comes from Kevin Caliendo with UBS.

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Kevin Caliendo - *UBS Investment Bank, Research Division - Equity Research Analyst of Healthcare IT and Distribution*

I just wanted to get a little bit more information on the Kaiser partnership. How that came about? What does it mean? How meaningful can it be? Where can it go in the future?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Kevin, it's David. Before we get into the Kaiser opportunity which I will remind you that we talk about a strategic imperative in the company that we referred to our objective as we seek to be the undisputed partner of choice. Why do we say that? Because we're guided by a tenet that suggests that if we could identify alignment with potential partners, which I'll come back to Kaiser, we could have the opportunity together to create more value, more reach, more service, more affordability, more clinical quality.

So specific to Kaiser, that fits into the category, and we could not be more excited and pleased with the opportunity to partner up with Kaiser Permanente. It represents a multiyear strategic relationship where we, together, can improve access, improve value and affordability. And as I noted in my prepared remarks, it builds on a successful track record with organizations like Prime Therapeutics, or we'll look at a totally different organization with the Department of Defense, where we successfully renewed both Prime Therapeutics and the Department of Defense and expanded both relationships, recently UPMC, et cetera. So it's an orientation relative to collaborating in a different way and leveraging not only Evernorth's capabilities, but in many cases, the Cigna Healthcare capabilities.

So as it relates to the core of your question, in 2022, I would not view it as a major topline or bottom driver given the size and breadth of our corporation. But as we've proven with other relationships, we see it as an opportunity that will have significant and attractive growth over the coming years as we collaborate together and co-innovate together for both topline and bottom line, which will be reinforcing of growing and deepening your relationship. So I'd ask you to put in the category of an orientation and a long track record of successful partnerships, and we could not be more pleased to partner up with Kaiser Permanente and build some shared capabilities and innovation to serve clients and customers with better affordability and reach -- make clinical quality.

Operator

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

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

Just wanted to go into the guidance a little bit. The Q1 beat was a bit stronger than the guidance increase is. I was wondering if you could help us think about how much of the outperformance was just timing versus you using the outperformance to invest in some of the growth initiatives versus any new kind of offsets in the back half of the year that you might be thinking of?

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

Kevin, it's Brian. So obviously, we're really pleased with having such a strong start to the year. One thing I would note is I saw some of the early headlines here in the morning. Our own expectations were a bit higher than consensus for the first quarter. So we had a slightly different quarterly pattern as you think about the magnitude of the first quarter beat. Now we were ahead of our own expectations, as I mentioned earlier as well, but just not to the same tune as -- where I think the Street had come in for the first quarter expectations.

But as you think about the balance of the year, there's really nothing specific I would call out in terms of things that will reverse later or looming issues that might emerge in the second half of the year as you alluded to. We just feel this is a prudent posture to take being just one quarter into the year to raise by $0.20. And keep in mind, that's an at least $22.60 EPS expectation for the year. As always, we'll also evaluate additional strategic investments as the year unfolds and digital capabilities and other technology that we're looking to bring to market. But again, there's nothing in particular I'd flag as you think about the balance of the year.

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

Is the $0.20 guidance range more in line with the beat in the quarter versus your own expectations? Or is there still some conservatism or investment spend delta?

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

Yes. As I said earlier, we think this is just a prudent move at this point in the year, we were pleased in particular with Cigna Healthcare being above our expectations.

Operator

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

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

I'm going to ask a couple more about Evernorth. Brian, you talked about specialty being 35% of revs, less than 1% of Rx. Is any chance you'd give us the adjusted OP contribution? And then David, I would ask you, as it relates to PBM while we're not seeing a lot of movement at the national level, we're tracking a bunch of state regulatory initiatives, which could seem to have a negative impact on the PBM business profitability there. I guess would just love how you're thinking about that and if you're seeing anything that's kind of raising the caution flag internally that we should be thinking about?

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

George, it's Brian. I'll start on the first point, and then David will pick up on the second. As you think about our specialty pharmacy business, again, we continue to be really pleased with the performance over a multiyear period here, we've had really attractive top and bottom line growth, and with biosimilars coming, it will provide some further fuel as we look forward. Directionally, you should think of the margin profile on the specialty pharmacy as being not tremendously different than the overall segment, just if you were to sum up to tapes. But importantly, there's some scrambled eggs, if you will, when you think about -- many of our client relationships are not specific to just specialty or just PBM or just mail order. So we tend to look at overall client profitability and not just necessarily one silo within Evernorth. But you shouldn't think of it as being terribly different than the overall segment margin profile. David, do you want to pick up on the second piece of George's question?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Sure, George. No doubt, the environment has remained active. As you noted, from a state as well as federal standpoint, we do not see any one item. I think underlying your question, do we see any one item or one theme as a derailer relative to our business strategy or capabilities? No. And more macro, we are aligned around initiatives that seek to further improve affordability. All aspects of what we do day-in, day-out within our pharmacy services portfolio are to drive the right level of differentiated affordability, of course, with clinical and service quality, always matched up against that, and we're quite proud of what we've been able to do.

And I would note, just as an example, it seems like it was just yesterday, but it's actually 3 years ago, we launched our Patient Assurance Program for insulin customers and today we have 10 million customers in the Patient Assurance Program just 3 years later. And the Patient Assurance Program was uniquely designed at that time and still differentiated in the marketplace that caps a 30-day outlay for an individual customer at $25.

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So more broadly to your question, it is active. We do not see any one item as a derailer relative to our strategy, rather, the breadth of our services, capabilities, funding mechanisms and our approach relative to integrating services, we see as creating more opportunities than not as we seek to innovate and redefine the way we're able to bring those services to market.

Operator

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

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

So there are 2 quick ones here. First of all, David, as we think about sort of your care delivery strategy of primary care, any -- given where sort of market value anchors are now, any appetite to complement your current assets with M&A? Or do you think that you have the -- what you need in terms of assets and from now on, you're going to build organically? And then just on the biosimilar and specifically Humira dispensed by the specialty pharmacy. When we think about the biosimilar introduction and the bioequivalent in 2023, is this embedded into your long-term target adjusted earnings growth of 4% to 6% for Evernorth? Or does it represent some upside optionality depending on how the market plays out?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Ricky, it's David. I'll take your first question. I'll ask Brian to take your second question. Specifically, the first question comes back toward care delivery, and I think underscoring that is primary care delivery in the marketplace. Our orientation today relative to care delivery more broadly is, we seek to own and differentiate in target areas within care delivery. Those areas include virtual care, specialty pharmacy care and services, aspects of behavior health care and services, aspects of home health care services. We see these as sustainable differentiated services that can be leveraged and coordinated. And in many cases, functioned on a nationalized basis or more seamless basis across multiple geographies.

As it relates to physical primary care outside of, say, virtual care, which would have primary in it, but physical primary care, our stated strategy remains, we seek to partner with and enable health care professionals with aligned incentive models in our care coordination services and that's continued to perform very -- that strategy has continued to perform very well for us, both in a capital-light service orientation but in the shared collaboration as underscored by our sustained differentiated medical cost trend and clinical quality and NPS, we've been able to deliver.

Lastly, I would say, Ricky, that as we've noted in the past, we are willing to own as we do, in a select MSA in the Southwest, we are willing to own primary care physical assets if we conclude that the only way to get the right balance of affordability, access and quality is through ownership. But our preferred approach is, again, to partner and enable and that has served us well for quite some time while we seek to differentiate ourself in virtual, specialty pharmacy, behavioral and home care. Brian, I'll ask you to pick up on Humira.

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

Ricky, so in terms of biosimilars and how we think about Humira relative to the long-term 4% to 6% expectation, we're at a bit of an inflection point right now because we're getting ready for some acceleration in the biosimilar market, as you know, over the next 2 to 3 years. And David talked about this in response to an earlier question. But even Humira alone and Stelara, those 2 drugs by themselves represent about 20% of total specialty spend.

So the next 2 to 3 years will be very telling in terms of how much interchangeability comes to market, how much we're able to move customers over, et cetera. And we're very excited about the prospect to generate affordability for benefit of our clients and customers and ultimately capture a piece of that value in terms of our economic model.

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It will be just 4 weeks from today actually we have our Investor Day. And in that time period, Eric Palmer is going to spend a little more time talking about biosimilars and how that links into our financial picture. So I don't want to necessarily front-run that conversation, but we'll give you more detail at that time in terms of how to think about that contextually in the sense of our longer-term Evernorth growth expectations.

Operator

Our final question comes from Dave Windley with Jefferies.

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

I have a 2-parter on Commercial membership. I'm wondering if consolidation of slice business is a theme in your target customer base, if you're seeing that and if Cigna is or can be a beneficiary of that? And then I'm also wondering as Medicaid redeterminations turn on, presuming they do, can Cigna be a beneficiary or catch Medicaid members moving into Commercial or is that difficult because you don't have them in the Medicaid book?

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Dave, it's David. I'll take both your questions. First, I would not call out the slice phenomenon, whether it's slicing or consolidating as a major driver specifically as it relates to 2022. The phenomenon transpires as clients look for additional value and as they seek additional value. I'd underscore, though, a little bit of a subset here that may be inferred in your question. As we've all learned throughout the prolonged pandemic where people live and work continues to be more fluid than ever. Hence, having the seamless network access, care coordination and service capabilities that are truly national, and again seamless, remains a differentiator. And like a few -- I'm not going to say Cigna is one of them, like a few, that proposition, I think, is even more important today than ever before in terms of supporting the marketplace. But I would not call that the slice phenomenon is unique.

As it relates to the Medicaid redeterminations, first, in our 2022 outlook or our multiyear strategy as it stands today, we do not have a big uptake that would be planned for relative to redeterminations. We do think we'll be a net beneficiary. There'll be some that plays through and whether it shows up in our IFP or exchange business or in our Commercial portfolio through the mechanisms in which people access care or services, we do believe that we'll see some opportunity in it, but we do not have that factored into our outlook. And we do not believe that you have to be a Medicaid player to benefit from that.

We've seen seamlessness of individuals moving over a prolonged period of time, even pre-pandemic between programs. So that phenomenon as it relates to the redetermination and the way in which people seamlessly move between either Medicaid and exchange, or whether they move between Medicaid through redetermination now to a broader Commercial population, we do not see Medicaid as a gate. So that presents some potential upside for us going forward.

Operator

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

David Michael Cordani - *Cigna Corporation - President, CEO & Chair of the Board*

Again, thank you for joining us on our call today. Just to reinforce a few points, we achieved strong results in the first quarter, and we're stepping into the rest of 2022 with momentum. We're confident that we will deliver our increased EPS outlook of at least $22.60 for 2022. Our performance is a direct result of the hard work, dedication and passion of our more than 70,000 coworkers across our company who work every day to change people's life for the better.

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Our actions are also guided by our drive to make health care more affordable, predictable and simple for our clients and our customers as well as our patients. We look forward to talk to you more next month at our Investor Day about our vision for the future and the progress we're making in driving a meaningful impact for those we serve, as well as our long-term sustained growth outlook. Hope you have a great rest of your day.

Operator

Ladies and gentlemen, this concludes Cigna's first quarter 2022 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) 357-1405 or (203) 369-0111. There is no passcode required for this replay. Thank you for participating. We will now disconnect.

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