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CI.N - Q2 2022 Cigna Corp Earnings Call

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OVERVIEW:

Co. reported 2Q22 total revenues of $45.5b, after-tax adjusted earnings of $2b and adjusted EPS of $6.22. Expects 2022 adjusted EPS to be at least $22.90.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by Cigna's second 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*

Great. Thanks. Good morning, everyone. Thank you 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 are going to cover a number of topics, including Cigna's second quarter 2022 financial results as well as an update on our financial outlook for the year.

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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.

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 and is contained in the cautionary note of 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 second quarter, we recorded after-tax special item charges of $26 million or $0.08 per share for integration and transaction-related costs and $17 million or $0.05 per share related to a strategic plan to further leverage the company's ongoing growth to drive operational efficiency.

We also recorded an after-tax special item benefit of $20 million or $0.06 per share 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. 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 2022 dividends and excludes the impact of any business combinations or divestitures that may occur after today.

As a reminder, we completed the sale of our international life, accident and supplemental businesses to Chubb on July 1, which is contemplated in our prospective statements.

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. In the second quarter, our company continued delivering differentiated value for our clients, customers, patients and partners as we execute on our mission to improve the health, well-being and peace of mind of those we serve. And we posted strong results for the quarter and continue to build on our momentum from the first quarter.

Now today, I'll briefly discuss our quarterly performance and the key strategic drivers of our growth, then Brian will review additional details about our financial results during the quarter, our increased outlook for the rest of [2022] (corrected by company after the call), as well as our strong capital position. And then we'll take your questions. Let's get started.

In the second quarter, we delivered total revenues of $45.5 billion and adjusted EPS of $6.22 per share. Our differentiated capabilities and innovative approaches are resonating in the market, and we achieved another quarter of strong performance across our growth platforms.

In Evernorth, we're pleased with the way our solutions are continuing to gain traction with health plans, large commercial employers, governmental agencies, health care delivery systems and medical professionals. Today, more than 180 million individual customers have access to our Evernorth solutions. We're also encouraged by our progress during the selling season for 2023, and we are on track for another year of high client retention levels.

In Cigna Healthcare, our disciplined execution is driving a balance of sustained customer growth and continued progress with expanding margins. Our medical care ratio during the quarter was 80.7%, which was better than expected and a substantial improvement over the same period last

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year. Similar to last quarter, we continue to see a positive impact from the targeted pricing and affordability actions we put in place last year and in early 2022.

Overall results during the first half of the year, including the strength of our ongoing performance give us confidence in delivering our increased full year 2022 EPS guidance of at least $22.90.

Additionally, we recently completed the divestiture of our life, accident and supplemental benefits businesses in 6 markets across Asia Pacific to Chubb, and we launched a $3.5 billion accelerated share repurchase program. At current levels, we view this as an attractive use of our capital. When combined with our previously completed activity, we remain on track to repurchase at least $7 billion of our shares in 2022.

Overall, we delivered a strong first half of 2022, and we are positioned to deliver on our increased outlook for revenue, customer growth and EPS for this year. Our performance is a direct result of our ability to leverage our expertise, capabilities and ongoing commitment to innovation, all focused on the most pressing needs of those we serve.

Affordability remains first and foremost, a top need for all of our stakeholders. In response to this, we continue to drive target innovations, including, for example, a new solution launched in June that leverages our capabilities at eviCore to support post-acute care for Cigna Medicare Advantage patients.

As the patient prepares for a discharge from a hospital, our team draws upon the extensive evidence-based guidelines as well as analytics we have to work closely with providers and patients. The result is that we're able to determine the most appropriate site of care and services to support a patient's recovery, which improves health outcomes, drives meaningful cost savings and provides better patient experience and satisfaction.

We've also launched a number of programs that address the rising costs of vital medications. Cigna Healthcare and Evernorth's Patient Assurance Program is an industry-first innovation capping out-of-pocket costs for insulin. In 2021 alone, we provided more than $42 million of financial relief to approximately 220,000 patients with diabetes.

We've continued to broaden the impact of this program by expanding it to other chronic conditions drawing on the strength of our expertise as well as our relationships with pharmaceutical manufacturers.

Building on the success of this program, last month, our U.S. Commercial business introduced Cigna Pathwell Specialty, a new approach to specialty care. Pathwell Specialty leverages our specialty capabilities in Cigna and Evernorth and provides enhanced support to patients for better outcomes while also controlling rising specialty costs. We plan to extend this offering to additional groups of clients later this year.

At our Investor Day in June, we talked about how we're able to consistently deliver sustained attractive healthy growth even in challenging economic environments. Our company is built to perform in a variety of market conditions, including economic slowdowns. It starts with our growth framework that positions us to expand our addressable markets and capture value in 3 specific ways.

First, foundational growth through our businesses that are mature, scaled and contribute steady predictable results for our company. These businesses currently contribute about 60% of our annual revenue and include Express Scripts, U.S. Commercial and our International Health business.

Second is accelerated growth through our businesses with differentiated capabilities aided by secular trends creating very attractive addressable markets. These businesses represent about 40% of our company's revenues, and we expect to grow these further with momentum from our Specialty Pharmacy and Care Services businesses within Evernorth and our U.S. Government business in Cigna Healthcare.

And third, cross-enterprise leverage, where businesses work together to create value and capture more value than any one of them could achieve on their own.

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Putting it all together, this growth framework translates into continued strong top and bottom line contributions from Evernorth. Our health services platform continues providing industry-leading pharmacy solutions while also building out our Evernorth Care capabilities to address the growing demand for behavioral services, health coaching and care delivery.

Evernorth strengthens our ability to support customers and clients with the forces facing and reshaping health care today, including the significant societal shift, bringing widespread and growing recognition of the connection between mental and physical health. This has resulted, for example, in a rising demand for services, and we've continued to expand our traditional network.

For example, our Evernorth behavioral network has more than doubled in size over the past 5 years. We're also supporting enhanced services by providing virtual care. Recently, we launched Confide Behavioral Health Navigator to improve the way we guide people to the right behavioral care at the right setting at the right time.

We also have an extensive and growing portfolio of solutions, supporting both virtual and digital first solutions, including our MDLIVE platform.

For Cigna Healthcare, our growth framework translates into strong performance driven by ongoing customer growth in U.S. Commercial as we continue to improve affordability in key geographies, including through advancing our value-based care and site of care service programs. Also accelerating Cigna Healthcare's adoption of Evernorth solutions, which creates even greater value for our customers and clients and as a driver of attractive sustainable revenue growth for Evernorth.

In International Health, following the divestiture of our international life, accident and supplemental benefits portfolio, we are intensifying our focus on health and health service offerings.

And in U.S. Government, both for Medicare Advantage and Individual and Family Plans, we are delivering strong value for those we serve while we're investing in markets where we see sustained path for growth and a clear right to win over the long term.

This balanced and diversified approach to growth, together with our substantial capital generation affords us a significant level of strategic and financial flexibility that positions us for sustained, differentiated growth under a variety of scenarios.

Now to wrap up. We delivered on our customer and client commitments in the first half of the year. Looking ahead, we are well positioned to drive continued attractive healthy growth across our Evernorth and Cigna Healthcare platforms by leveraging our portfolio of foundational assets, accelerated growth businesses and fueled by the power of our cross-enterprise leverage.

We are encouraged by our strong retention outlook for the start of 2023 as well as new business wins for the start of the year. We remain on track for continued delivery of our commitments. And as a result, we are increasing our full year outlook to at least $22.90 per [share] (corrected by company after the call), which represents a growth rate of 12%, which is within our long-term average annual adjusted EPS growth target of 10% to 13%.

We're continuing to deliver significant value for our shareholders, and we expect to deliver at least $7 billion through share repurchase in 2022 as well as continue to pay a meaningful dividend. We also continue to make strategic investments to strengthen our capabilities and broaden our reach in both our foundational and accelerated growth businesses.

With that, I'll turn it over to Brian.

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

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

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We have delivered strong customer revenue and earnings growth in the first half of 2022. Continuing our momentum from the first quarter, with second quarter earnings per share exceeding our expectations. With that, we are again increasing our full year adjusted 2022 earnings outlook to at least $22.90 per share, representing growth of 12% off of our reported full year 2021 adjusted EPS.

This updated outlook reflects the strength of our foundational and accelerated growth businesses, coupled with cross enterprise leverage between Evernorth and Cigna Healthcare.

Looking at the quarter specifically, some key consolidated financial highlights include total revenues of $45.5 billion, after-tax adjusted earnings of $2 billion, representing growth of 10% over second quarter 2021 and adjusted earnings per share of $6.22. These results reflect a better-than-expected medical care ratio in Cigna Healthcare and continued strong performance within our Evernorth portfolio.

Regarding our segments, I'll first comment on Evernorth. Second quarter 2022 adjusted revenues grew 7% over second quarter 2021 to $34.9 billion, and pretax adjusted earnings were $1.5 billion in line with our expectations. Evernorth's results in the quarter were driven by the expansion of our accelerated growth businesses, led by our high-performing Specialty Pharmacy as well as a continued focus on affordability by delivering lowest net cost solutions for our clients and customers.

We also continue to make meaningful strategic investments to both sustain and create new sources of differentiation. These include investments which serve to deepen our client relationships, develop new solutions and enhance digital capabilities to expand our services in the Evernorth Care business. Overall, Evernorth continues to deliver strong results, consistent with our expectations.

Turning to Cigna Healthcare. Second quarter 2022 adjusted revenues were $11.3 billion, pre-tax adjusted earnings were $1.2 billion, and the medical care ratio was 80.7%. The better-than-expected medical care ratio in the quarter, was the primary driver of Cigna Healthcare's earnings results exceeding our expectations. The strength in our MCR was driven by a combination of strong pricing actions taken over the past 12 months, our continued affordability initiatives to lower cost for our clients and lower-than-expected utilization within the quarter.

Non-COVID costs in the quarter were better than expectations across most service categories driven by lower levels in inpatient, emergency room care and surgeries, and direct COVID costs were also lower than projected.

Importantly, leveraging our customer engagement model, we are seeing preventive care utilization in line with pre-pandemic levels, including items such as annual exams, colonoscopies and mammograms.

Turning to medical customers. We ended the quarter with 17.8 million total medical customers, growth of approximately 725,000 customers or 4% year-to-date. Our Select market segment within U.S. Commercial has already grown 6% year-to-date and remains on track for high single-digit growth in customers by the end of the year. Total medical customers for the quarter were above our expectations as we've seen continued growth and strong retention in our U.S. Commercial and International Health businesses.

Overall, Cigna Healthcare results reflect continued execution against our commitment to increasing both customer relationships and profit margins in 2022. The margin improvement reflects our pricing actions and affordability initiatives taken over the course of the past year.

For Corporate and Other Operations, the second quarter 2022 pre-tax adjusted loss was $168 million. Overall, we delivered strong second quarter financial results that exceeded our expectations, continuing our momentum with contributions across our diversified portfolio.

Now with respect to our outlook for full year 2022, we are increasing our outlook for full year adjusted revenue and adjusted earnings per share. In Evernorth, we expect continued strong execution driving attractive top and bottom line growth, all while investing in innovation for the future. We are now raising our Evernorth full year adjusted earnings to approximately $6.125 billion.

In Cigna Healthcare, we are pleased with our performance in the first half of 2022, and we are now updating our 2022 medical care ratio outlook to 81.5% to 82.5%, an improvement from our prior range. We are also raising our expected full year 2022 adjusted earnings outlook to approximately

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$4.025 billion. And we are raising our medical customer outlook to growth of at least 800,000 customers, which includes strong new business growth and attractive retention levels in our foundational U.S. Commercial and International Health businesses.

Turning to enterprise revenue. We now expect full year 2022 consolidated adjusted revenues of at least $178 billion, enabled by continued growth and deepening of customer and client relationships in both Evernorth and Cigna Healthcare.

Our full year 2022 SG&A ratio is now expected to be in the range of 7.1% to 7.3%, an increase compared to our prior guidance as we continue to make strategic investments in our business.

Taken as a whole, we are raising our adjusted earnings per share guidance to be at least $22.90 per share, representing growth of 12% over reported full year 2021 adjusted EPS.

Now moving to our 2022 capital management position and outlook. Our businesses continue to generate strong cash flows and attractive returns on capital. Year-to-date, as of June 30, 2022, we have repurchased 9.7 million shares for approximately $2.3 billion. Additionally, in July, we received an initial delivery of 10.4 million shares of our common stock in accordance with the accelerated share repurchase we announced in June. We also continue to expect to deploy at least $7 billion to share repurchases for the full year 2022.

We have also increased our outlook for full year cash flow from operations to at least $8.5 billion, generating a very attractive cash flow yield. And we now expect full year weighted average shares of 312 million to 314 million shares, representing an increase of 1 million shares at the midpoint from our prior guidance, primarily due to the sale of our international life, accident and supplemental benefits businesses being completed slightly later than we originally had anticipated.

Our balance sheet and cash flow outlook remains strong, benefiting from our efficient asset-light framework that drives strategic flexibility, strong margins and attractive returns on capital.

Now we would be remiss if we didn't acknowledge the macroeconomic environment, which carries potential risks, but also opportunities. We have a strong and resilient enterprise with a diverse service-based framework, spanning broad addressable markets. And our first half [of 2022] (added by company after the call) results demonstrate the resiliency of our portfolio and strength of our execution in a dynamic environment.

We continue to proactively prepare with a variety of actions and tools to respond to evolving economic conditions and we remain confident in our ability to continue to grow and deliver strong value to our customers, clients and shareholders.

Now to recap; results in the second quarter were above our expectations, reflecting strong fundamentals across our diversified portfolio, with particularly strong performance in Cigna Healthcare. Evernorth continues to deliver attractive results, while Cigna Healthcare continues to grow and expand both customer relationships and margins, giving us the confidence to deliver on our increased 2022 adjusted EPS guidance of at least $22.90.

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.

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

Yes. So I was wondering if you could just maybe elaborate a bit on the strong selling season or new sales that you alluded to along with high retention. Is that covering both the U.S. medical large employer group and also the PBM outlook?

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

It's David. So yes, is the simple answer. So relative to my comments on the selling season, more specifically focused on the -- both in the Evernorth side of the house, the large employer, the large health plan side of the business. In the Commercial side, the National Account side of the business.

So headline there is on the Evernorth piece of the equation. Another year of strong client retention overall for the portfolio as well as attractive new business wins. I think importantly to underscore as well, we continue to see traction of what we call enterprise leverage.

So opportunities to deepen and expand relationships. First, within the traditional Evernorth portfolio, the successful renewal of the DoD also presented the opportunity to win and secure the exclusive specialty services.

And then beyond that, we're broadening and deepening relationships with key health plan clients by leveraging the best of Evernorth and Cigna Healthcare.

On the Commercial National Account side, we see 2023, looking up to be a very strong retention year and some really attractive new business adds. So good, good performance on both sides of the equation. As Brian noted in his prepared remarks, also just continued strong performance in the Commercial side in the Select segment.

Operator

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

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

I want to understand how you guys are thinking about the outperformance on the medical cost side as it relates to kind of getting back to target margins. Are you guys viewing the outperformance so far this year is kind of a new sustainable base? Or is this just kind of fluctuations of COVID hasn't really changed how you thought about moving from 2021 to 2023 pricing and margin expectations?

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

Kevin, it's Brian. So thanks for the question on the Cigna Healthcare margin trajectory. Just to maybe rewind the clock a little bit. If you look back at 2021, that part of our business generated a margin of 8.1% which was below our long-term margin goal of 9% to 10%. And when we stepped back and thought about where we stood in '21, we decided to intensify a series of pricing actions as well as affordability actions in the middle part of the year and the last 12 months have resulted in the strong performance that we saw here in the second quarter of 2022.

With our increased 2022 outlook, we're now projecting for the profit margin in Cigna Healthcare to run in the high 8%, just south of 9% relative to our long-term margin goal of 9% to 10%. You should view that as a sustainable place to jump off of. And we would expect, as we step into '23 that we'll be able to deliver within our targeted margin range of 9% to 10% for Cigna Healthcare, but likely at the lower end of that range, given the continued long-term margin opportunities we have in the accelerated growth platforms such as Medicare Advantage.

But the stronger-than-expected 2022 performance we've seen increases our overall confidence in executing against our margin goals while also reducing a little bit of the year-over-year opportunity for further margin expansion opportunity in comparison to where we stood a quarter ago.

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Operator

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

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

I just wanted to focus on Medicare Advantage, seeing a little bit of attrition continued this year. And so now with bids submitted, what are some of the action steps directly for 2023 to reverse those losses? Do you think you can grow more in line with the market next year? And specifically, any changes in your network development or thoughts on value-based care and capitation?

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

Josh, it's David. So our Medicare Advantage business remains a key point of focus for us. And as you recall from our Investor Day conversation, we view it as one of our accelerated platforms. So a platform where we have the opportunity for outsized growth over the long term. We continue to make investments in that business, both in the core aspects of the business as well as in the geographic expansion.

Our 2022 results are not indicative of what we would expect to see over the long term. And importantly, in your question, which I think you touched upon insightfully one of the pieces, we did a bit of network reconfiguration to put us in some key markets in a position for longer-term growth, where we had attractive network positions, but not growth outlook from that standpoint.

Shifting to '23, we would expect a year of growth to reaccelerate for ourselves in the Medicare Advantage business. As we discussed, that's aided by in geography growth today, existing geographies beginning to leverage the hard work that was done in 2021 and in '22 in terms of geographic expansion. Targeted and further investments in distribution and marketing as well as beginning to harness more yield out of what we think about in terms of our inside or more captive opportunities.

Those are Commercial age-ins that we talked about before, where we've had a low conversion rate, our PDP conversions or our Med Supp conversions.

So headline, yes, some network reconfiguration, a lot of that was addressed in this current year, harnessing the benefit of the geographic expansion work that was done and then harnessing some benefits that we would expect to see out of the channels I made reference to. Therefore, we expect 2023 to be a year of growth for us.

Operator

Our next question comes from Mr. Dave Windley with Jefferies.

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

A follow-up to Josh there. Wondered if, David, with those expectations for growth in MA you expect to do that while maintaining margin? Or would you -- to stimulate growth, expect margin to back up in MA at all? And then if you could remind us how your Star scores in MA will progress over the next couple of years and if the disaster relief benefits to the calculation were impactful for Cigna or not?

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

So as Brian made reference to in the prior answer, I think it was to Kevin's point relative to Cigna Healthcare margins. He referred to the Medicare Advantage margins as being below our target margin. So as we grow the margin in the overall portfolio of business. That business is running at

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below target margins. We would expect to see margin improvement in 2023, to be very specific off of 2022's results and be able to grow although that portfolio will run below our target margins for a variety of reasons, including our investments in growth initiatives looking forward.

But specifically, we expect growth and some margin expansion in that business, yet it will run below our target as we continue to invest in growing that portfolio.

As it relates to the second part of your question, and Stars, I think you're identifying the phenomenon for 2024. First off of the present, we feel really good about our present Star configuration and the strong value that, that reinforces that we provide. The look for 2024 seems to indicate that the industry as a whole will have some Stars dislocation for the reasons you articulated. The disaster relief configuration, the prolonged impact of COVID, the data transfer that comes across with that and the changes within the disaster relief program.

So we would expect to have some adjustment to our Stars consistent with what transpires for the industry at large. And obviously, that will become clearer towards the latter part of this year for the industry as a whole as well as for ourselves.

Operator

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

Michael Ha - *Morgan Stanley - Vice President, Equity Research*

This is Michael Ha on for Ricky. I just wanted to get some more comments on your Commercial repricing efforts. Clearly, you're seeing improved MLR performance year-to-date. Membership growth appears healthy, which suggests stickiness, positive receptivity here from pricing. I'm just curious on your thoughts about where is Cigna in your overall targeted repricing efforts?

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

Michael, it's David. Let me just briefly start and hand it over to Brian. First, to underscore, we're quite pleased with the results. Our teams are executing quite well. And Brian will come across the pricing, but he underscored in his prepared remarks as well, the affordability. It's two dimensions working together. So -- it's getting first and foremost, consultatively the right solutions in place, employer by employer within all of our segments, whether they're Select segment employers, what the market knows as Middle Market employers or National Account employers and then it's executing the right affordability initiatives to be able to give -- deliver the right value and then executing from a pricing standpoint.

So I want to underscore, it's both of those pieces coming together to create the sustainability and our attractive underlying both retention and new business growth, coupled with the margins we're quite pleased with.

Brian, I'll ask you to speak a little bit more towards the pricing dimension.

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

Sure, David. As it relates to pricing in the Commercial book of business, this year's 2022 medical care ratio performance has resulted in a higher margin profile for Cigna Healthcare, and that's driven largely by our Commercial employer book of business.

So we've recaptured a bit more margin in 2022 than we originally anticipated. The good news is that means there's less correction that's needed on a prospective basis. So we'll certainly be pricing to our forward look at cost trend as we head into 2023, but we don't need a meaningful step change as it relates to the Commercial employer margin profile. The one nuance in that is our stop loss portfolio, as we talked about in our fourth quarter results, did have some pressure in 2021. That pressure has continued at the level we expected in 2022.

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So as we step into '23, there will be a little bit of a reprice on some of those clients but we were able to get, again, more margin recapture here in '22 than we had anticipated in the Commercial employer book of business.

Operator

And this question comes from Mr. A.J. Rice with Credit Suisse.

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

Maybe just following up on talking about the selling season and what you're seeing out there. I guess employers are faced with a lot of cross currents macroeconomic questions. Obviously, their own labor issues, questions about providers wanting relief on their labor challenges and other inflationary costs.

How are those playing into the discussions? I wondered what innovative products that are -- what products are particularly resonating. And also, one of your peers said that they were seeing some people postpone full-blown RFPs just given everything that's going on and maybe delaying it for a year. Would you characterize the selling activity as pretty normal? Or are you seeing any of that?

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

It's David. So I think two dimensions to your questions. First on the second piece, we see a very active pipeline. We've seen an active pipeline. As I noted previously, our retention results have been strong and importantly, underscoring even in 2022, commented relative to '23 start. But in '22, our retention results are strong even with the rate execution that Brian made reference to. So good retention within our portfolio, quite an active pipeline across various aspects of our business.

On the first part of your question, it's a really long conversation. Let me boil it down. There's no doubt that the environment remains dynamic, disrupted, challenging from an employer standpoint to be able to attract, retain, have the engagement levels for their coworkers. A couple of phenomena I would underscore to your point.

One, in the prolonged pandemic environment, employers are dealing with, call it, the nomadic lifestyle of more of their employees. So first and foremost, on the Commercial side, truly having a seamless Commercial network for their employees because the higher percentage of the coworkers are consuming care in various locations as opposed to more traditional or centralized locations geographically.

Secondly, seeking to advance as aggressively as possible, behavioral health services and the connection of behavioral health services with physical health services. And I highlighted several of those in my prepared remarks. That remains front and center.

Third, on the cost and the affordability side of the equation, open-mindedness even push to more aggressively adopt whether they're site of care optimization programs. So how do you get better affordability with existing or even improved quality by optimizing site of care for an individual patient or bringing more services closer to the individual, both dealing with the nomadic lifestyle as well as site of care, virtual digital-first, closer intimacy. And those are areas that have been high on strategy for us.

So you're correct. There's a lot of dynamism in the marketplace today. Being consultative in terms of putting the right solution suite together, mission-critical, having the services between our Evernorth and Cigna Healthcare portfolio is mission-critical right now and then being able to optimize that national network, the site of care optimization kind of the multimodal virtual coordinated care is mission-critical right now. A.J., I hope that helps.

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Operator

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

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

I wanted to talk about the $22.90 this year. You've answered some of the questions in terms of the Commercial business specifically. But just in terms of the jump-off point for 2023 earnings, anything we should think about in terms of whether this may or may not be a reasonable starting point versus that 10% to 13% target growth? And then any headwind tailwinds you want us to consider when thinking about that 10% to 13% kind of target digging into next year?

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

Justin, it's Brian. I'll start and then, David, I think maybe will chime in on the headwinds, tailwinds component.

At a macro level, you should not think of there being massive amounts of nonrecurring items favorable or unfavorable in the 2022 performance. So you should view the $22.90 as a reasonable jump-off point. As we look back at prior year development, which has been largely in line with prior calendar years, the amount of activity we're seeing in the second quarter, Cigna Healthcare book of business as it relates to fundamental strength is quite high.

So meaning there's not any meaningful things we'd call out that are substantial, and that would be 2022 specific for purposes of doing those adjustments at this point in time. That could change as the year unfolds. But broadly speaking, I'd jump off of $22.90.

David, do you think about headwinds and tailwinds, do you want to jump in on that piece?

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

Sure, Brian. Thanks. And Brian, maybe underscore your point. Therefore, we seldom talk through about a rebasing framework, Justin. As it relates to headwinds and tailwinds, we would typically go through that in more detail on the third quarter call and then detailed guidance in the fourth quarter call, but maybe a step back to, as you may recall from Investor Day, we talked about a few of the more macro opportunities for 2023.

So first and foremost, think about foundational and fundamental growth across our businesses. As we commented today, we would expect another year of growth for the organization, both on the Cigna Healthcare side of the equation as well as Evernorth side of the equation.

Secondly, a topic we have not discussed here, but we discussed previously at Investor Day we would expect to see further contributions from the biosimilar trend, which will begin to accelerate 2023, accelerate further in 2024, but some contribution of the biosimilar trend, of which we are well positioned and configured to deliver value for our clients, customers and patients on as well as benefit for our shareholders.

On the headwind side, just to give illustrations, we've highlighted setup -- what we call setup costs for very large clients, whether they're very large client renewals or expansions. There's a setup cost in a gestation cycle relative to that.

And then lastly, the rate and pace of our strategic investments that we choose to make given the rapid changes in the environment may create a little bit more headwind year-over-year, which we would highlight. But net-net, we would expect another positive year for 2023, off of what is shaping up to be a very strong year for 2022.

Operator

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

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

Just want to ask a little more about medical loss ratio, which was so favorable. So congrats on that. But just a few different questions, if I could. One, the sequential decline in 2Q is pretty unusual for your book's seasonality. I know we have International Health care in there now, and I'm just wondering if that contributes to any different view of seasonality sequentially from 1Q, 2Q?

Also a year ago, you had highlighted behavioral and substance abuse as putting a lot of pressure on 2Q. I just wondered if that's changed at all?

And then also just on stop loss, you had talked about still believing that would be a pressure all the way through '22 with pricing initiatives having more effect in '23. So just wondering, are you producing this strong MLR on the lower-than-expected utilization still with stop loss being a bit of a headwind inside of it?

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

Gary, it's Brian. I'll do my best to take each of those components of your question. And I appreciated the lead-in that you started with there. We are really pleased with the strength in the medical care ratio in the second quarter. So and it really was a fundamental strength across the portfolio with our U.S. Commercial employer book really being the primary driver of the strength.

And as I mentioned earlier in my comments, we saw favorability both in non-COVID and in COVID-related costs in the quarter. So strength in both parts of that portfolio, again, which reflects our affordability initiatives as well as a lesser utilization than we had been forecasting.

As it relates to the sequential decline, you should not think of the International Health business as a material driver of that. This was really a quarter we had favorable cost experience relative to our prior expectations, as opposed to anything unique or nuanced by adding the International book in there.

As it relates to behavioral health, you're right, last year, we saw higher than typical cost trends in our behavioral health book of business, which we actually viewed as a good thing from the standpoint of people getting the care that they needed. That's moderated a bit here in 2022, meaning the cost trends we're seeing on behavioral are lower than they were in 2021. And as a result of that, that's provided a little bit of quarter-over-quarter, year-over-year favorability.

And then finally, on your point about stop loss, as I mentioned on the earlier question that Michael asked, the 2022 stop loss MCR performance is largely in line with our expectations. So when we reset the 2021 MCR pick at the end of the year, given the pressure we saw, we had said we would not be able to reprice most of the '22 book just given the timing of when that emerged. And so that's our expectation. That's what we're seeing in the actuals.

So the MCR outlook for '22 in stop loss is very similar to the MCR outlook for '21, which gives us a repricing opportunity in 2023. So you kind of step back from all of this and the favorability we're seeing in Commercial is largely not stop loss related. It's largely related to the non-COVID and the COVID-related cost on first dollar coverages and our fully insured and other risk businesses.

Operator

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

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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 follow up with a couple of questions around the PBM. So, one. When we think about the selling season, David, you talked about very strong retention. Should I assume that, that's in the very high 90% range? Would be first.

Second, as we think about -- you talked about biosimilars, as we think about plan design for 2023, are you starting to put biosimilars on the formulary in 2023? Where we'll see that impact in '23? Or will this really be more of a '24 opportunity?

And then just lastly, there's been some changes on the manufacturing side for 340B. I didn't hear you call that out as a headwind. I'm just curious if you had any headwinds as it pertains to 340B and the Express Scripts book of business?

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

Lisa, it's David. You packed a lot in there. So let me try to run through them. First, from a retention standpoint, think about 95-plus. We believe anything in the mid-90s plus is a quite strong result given the diversity of our business for that portfolio. And as I noted on the prior comment, in addition to that, think about us continuing to deepen the relationships we have with broadening of services.

As I noted, whether it's adding specialty exclusive or otherwise as well as the enterprise leverages, we have some relationships that are becoming deeper with leveraging Cigna Healthcare capabilities for legacy Evernorth relationships or vice versa. But think retention, 95-plus is something that we view as quite attractive.

As it relates to the biosimilars, your specific question on formulary that finalization typically takes place as we approach the fourth quarter. So there's dynamism being managed through. And as you know, with your background relative to the space, there's a lot of dynamism relative to that as it relates to choice client by client as well. We think about our national preferred formulary finalization more approaching the fourth quarter versus in the current dynamic and time frame.

And specific to the timing of the opportunity, as we discussed previously, I would think about the biosimilar acceleration. While there's some movement, obviously, in 2022, '23 is a very active year with fixation and focus on Humira and the transition. That will begin to ramp in 2000 -- and contributions will begin to ramp in 2023, but accelerate much further in '24 and obviously going to '25.

Lastly, relative to 340B. As folks know, 340B is a really important program that a lot of health care delivery systems benefit from as they serve disadvantaged and underserved populations to help them get the right level of affordability. There's been some dislocation in that program and some pharmaceutical manufacturers have unilaterally decided to stop or decrease or create tension for health care delivery systems participation in that.

As it relates to Cigna specifically through our Evernorth portfolio, it's not a material driver of 2022 results, hence, we didn't call it out. Any change or disruption of that is not a material driver to 2022 results from that standpoint, although there's been some activity, and we've seen some deceleration in volume as some of the data transfer tension has grown.

We've seen that a little bit trough in the second quarter, and we see emergence of some improvement or acceleration in those activities in the beginning of the third quarter here as we work with health care delivery systems to try to help them get the data across that pharmaceutical manufacturers are challenging them to deliver. But again, not a material driver for us thus far, Lisa.

Operator

Our next question comes from Mr. Kevin Caliendo with UBS.

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

I guess I'd like to ask about sort of potential drug price legislation. That looks like it may actually pass this time in Congress. So I was wondering if you've taken a look at it and what the potential impact could be on Evernorth, either positively or negatively from what's being proposed?

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

Kevin, it's David. You're correct, there's -- once again, some proposed legislation that's manifesting. And in the bill, there's orientation relative to pharmaceutical pricing. Stepping back, big picture, if you look at the breadth and the shape of our Evernorth portfolio as well as the diversification of services we have, both on the core pharmacy services, the Specialty Pharmacy services, the innovation we've been able to bring to the market, the clinical programs we have, the significant amount of transparency we have with clients of a variety of choices. There is no item that we see currently in any of the proposed legislation that we view as a unique or a significant dislocation to our business. That doesn't mean there's not an environment of change.

But back to managing the portfolio, the breadth of our services, the continued commitment to innovation, the evolution of our clinical programs, the evolution of our financing and funding mechanisms, affording choice to our Commercial clients, health plan clients, et cetera, from that standpoint, positions us as we best see well even with the proposed legislation, and we continue to track the emergence of that day to day.

Operator

Our next question comes from Nathan Rich with Goldman Sachs.

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

I just wanted to ask a follow-up on some of the MLR commentary from earlier in the call. And I guess, specifically with regards to the outlook for the back half of the year, I guess, does the raise to the MLR outlook kind of embed any favorability in the back half?

And I guess, have you seen any indications of any sort of pent-up demand? Or does sort of the macro environment that we're seemingly in, does that influence your view of how utilization might trend over the balance of the year?

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

It's Brian. So as it relates to the MLR outlook for the back half of the year, so stepping back again in the second quarter, we saw a very favorable result relative to our prior expectations. And if you recall from our first quarter earnings release, we felt that it was prudent to assume that 2022 medical cost performance would look a lot like 2021 when you look at the all-in combined effect of COVID and non-COVID cost. So the terminology, if you recall, we would use at the time would be above baseline.

For purposes of the back half of the year, we have assumed that the medical cost performance will be largely consistent with our previous planning assumptions, meaning we have not assumed the second quarter favorability will run rate or extend through the back half of the year.

So obviously, if the remaining two quarters were to run more in line with what we saw in the second quarter, there will be favorability in the second half of the year results from the standpoint of the MCR and as such, the income outlook.

We're not yet seeing on the second part of your question, any meaningful signs of pent-up demand or acuity building in the book of business. So as I mentioned earlier, when we look at blood screenings, preventive exams, mammograms, colonoscopies, all of those on a per capita basis are very much in line with where they were in 2019, and we continue to see things like when cancers present the percentage that are metastatic is very consistent with where it was in 2019.

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And so the favorability we're seeing in the results, we don't attribute to a meaningful amount of care not being consumed that needs to be.

Operator

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

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

Just wanted to follow up quickly on the MLR commentary you provided there. When we think about the upside in the quarter, I guess, any sense you can provide on how much of that was driven by favorable intra-year development versus your current period accruals?

And then as we think about the MLR progression through the balance of the year, I appreciate the commentary that you're expecting consistent with your prior planning cycle for above baseline utilization. Should we also be thinking about potentially a tailwind from midyear renewals that you wouldn't necessarily see in a typical year? And just remind us how much of your employer book reprices midyear?

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

Stephen, it's Brian again. So relative to what we saw in the second quarter MCR, as I mentioned earlier, U.S. Commercial was the primary driver of the favorability. Our Government products largely ran in line with our expectations. And within the Commercial employer book of business, we did have some favorability from first quarter reserve development, but that was the minority of the favorability in the experience.

The primary drivers were second quarter dates of service running favorable to our projections, which, again, is a function of both lower utilization than we expected, but also the affordability initiatives really holding -- or taking hold in the quarter. So we saw a strong site of care optimization in the quarter and other things such as that, helping to contribute to the favorable results in the quarter.

As it relates to repricing for the balance of the year, the smaller part of our business, Select segment tends to have a more even renewal date schedule as compared to our National Accounts business, which tends to be very heavy 1/1. So you should think of on the Select segment, about 2/3 of the clients have 1/1 effective dates and the other 1/3 have effective dates later in the year.

So there is some opportunity for us to reprice that business that's been factored into our outlook in terms of the rate actions we have either already secured or intend to secure for the balance of the year. So that's been factored into the outlook and we've been really pleased with the strong execution of our U.S. Commercial team. We're delivering both improved margins and net customer growth in a challenging year.

Operator

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

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

So within Evernorth, you mentioned the 2Q results were in line with our expectations. And I guess, and with both the top line, the bottom line growth year-over-year in Evernorth slowing a little bit -- really showing some slight deceleration year-over-year versus the growth in 1Q. Just wanted to give a little more color around that as far as what was baked in the expectations.

I know last quarter, you talked about how you were continuing to make some meaningful strategic investments in Evernorth the expansion of client relationships. So I guess I'm just curious how those investments may have progressed and impacted the results in the quarter for Evernorth.

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

Steven, it's David. Just to the macro level, two points. One, we remain quite pleased with the overall performance of Evernorth and the sustained performance within Evernorth. Two, to your point, I give you caution in terms of triangulating any one quarterly pattern. You're correct, the rate and pace of the investments we're making. You made a reference relative to the Q-over-Q revenue growth, a little bit of the lumpiness in terms of the way the revenue manifests itself, for example, in Q1 and Q2 of last year. But the overall revenue trajectory and the overall earnings trajectory is quite helpful.

Lastly, kind of pivoting down into your investment piece, we continue to make accelerated and growing investments within our accelerated platforms, two of those are within Evernorth, specifically the Specialty Pharmaceutical business through both Accredo and CuraScripts, but heavily targeted towards the Evernorth Care piece.

We showcased some of the direction of that at our Investor Day and you should continue to expect to see us continue to ramp relative to that. So if there's any pattern or outside spending or investments that manifest itself beyond the large client setup costs, it's really the strategic investments we're making within our Evernorth Care part of the equation today.

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

Just one add for you, Steven, in terms of the modeling on the revenue side. In 2021, we had relatively steep sequential growth as it relates to the quarterly pattern of Evernorth revenue. A lot of that was driven by the onboarding of specific clients for our specialty programs associated with the Prime Therapeutics relationship. The 2022 pattern is less steep, which is driving a little bit of the top line deceleration you made reference to.

However, we'll see sequential growth in each quarter this year and we're on track for a strong year from a top and bottom line standpoint being in the range of our long-term goals for Evernorth.

Operator

Our next question comes from Mr. Lance Wilkes with Bernstein.

Lance Arthur Wilkes - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I wanted to ask about strategic capital allocation. And in particular, as you're looking at care delivery and value-based care, interested in just updates on the priority of that sort of initiative? And then you look at that as more of an enablement and something that could be cross-sold through Evernorth. Or is that also something that could be a driver for your Medicare Advantage, Cigna Healthcare sorts of businesses?

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

It's David. Relative to the capital allocation and specifically coming to value-based care. And I want to, for a moment, just parse value-based care and care delivery ownership. As it relates to value-based care, we have a very longstanding commitment to and proven track record relative to value-based care. And for us, for starters, that means aligning incentives, leveraging clinical capabilities and working hand in glove with medical professionals to be able to deliver higher, more sustainable outcomes and value than otherwise can be done through a fee-for-service relationship.

So today, we have a variety of programs underway with a little less than 50% of the overall equation in Commercial being in a value-based care or reward-based configuration, conversely approaching 75% in Medicare Advantage.

As it relates to the contribution of that, we see that as contributing to the great medical cost performance that Brian made reference to several times during the call.

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Now to your capital allocation and ownership configuration, our orientation continues to be, our preferred approach is to partner with and enable health care delivery systems for the way I just made reference to.

However, in addition to that, if in key geographies, we believe the way in which to deliver the sustained outcome and approach is to own physical delivery of care, we will own, but that will be a geographic configuration for physical ownership.

Added to that, and consistent, we seek to own care delivery assets that we believe are highly differentiated over the long term in terms of clinical capabilities as well as leverageable multi-geographic or nationally. What do I mean by that? Specialty Pharmaceutical, behavioral health care, virtual care delivery are great examples of that.

And Lance, going to the last part of your question, those services are more likely than not to be Evernorth Care capabilities that are offered to Cigna Healthcare Commercial or Medicare Advantage, but also offered to the open broad marketplace from that same point and customized to the needs of large stand-alone employers, integrated delivery systems and health plan clients.

So you should expect as those programs continue to grow, they will be Evernorth Care programs offered to Cigna Healthcare, but also offered broadly speaking, to the broad addressable market we have outside of Cigna Healthcare through Evernorth.

Lance Arthur Wilkes - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

And could you just comment on your CareAllies and Cigna Medical Group capabilities? Are those in Evernorth? And would those be kind of integrated in with these sorts of efforts? Or are those focused on something else?

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

Yes. It's great and credit to sneak a follow-on there. So take the second part of your piece, Cigna Medical Group is now Evernorth Care. It's an Evernorth Medical Group, it's rebranded as Evernorth, so it's the actions and the words line up from that standpoint.

CareAllies remains currently focused intensely on the Cigna Healthcare portion in the Medicare Advantage portion and the value-based care relationships within our Medicare Advantage are currently in support of the MA only. So two different postures given the gestation of those programs, but the Cigna Medical Group is fully functioning as part of the Evernorth Care platform today.

Operator

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

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

Yes. David, most of my questions have kind of been answered. I guess I would come back to the Evernorth segment and focus on the pharmacy network relationships. I guess I would ask, is there anything worth noting or any pressure points there as your pharmacy partners always seem to be under pressure and are looking for us to generate value? As it relates to pharmacy services or clinical value? So I guess just -- it seems like we've had stability in pharmacy network relationships for a while. Just wondering if there's anything there to talk about.

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

George, it's David. There's nothing unique I would call out. That doesn't mean it's -- nothing is happening. As you referenced, it's a dynamic environment. But there's nothing unique I would call out, and our team continues to work with our pharmacy partners to make sure we get the

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right balance of access, accessibility, obviously, servicing clinical quality and affordability for our clients and our patients and customers. But no unique pattern or tension point or formation I would call out.

Operator

Our last question comes from Mr. Ben Hendrix with RBC Capital Markets.

Benjamin Hendrix - *RBC Capital Markets, Research Division - Assistant VP*

I was wondering to what degree the MLR favorability ex-prior year development is unique within your Commercial insured book? I guess I'm wondering if the drivers of that favorability that you noted are also being realized by your ASO customers to the same degree? And to what extent that's helping retention?

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

It's Brian. So as I think I mentioned in a prior question, the prior year development was not material to our results in the quarter. So you should kind of take that off of the list here in terms of considerations -- and the majority of the strength in the quarter in the medical care ratio was in the Commercial employer book of business, which, by definition, would be the risk-oriented products.

To your point, there is extensibility to our self-funded clients of course, because the same programs that are in place for our risk book are also utilized by many of our ASO and self-funded clients and the affordability initiatives span the entire Cigna Healthcare segment in many instances.

David, do you want to pick up on the traction with the marketplace?

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

Just to reinforce the linkage you created, the favorability, yields, lower medical cost trend and therefore, better affordability for our clients and that is a positive contributor to both retention as well as our ability to get responsible rate increases. It's also importantly not only a contributor to retention, when we're able to validate the value we were able to deliver it puts us in a position to deepen relationships, so to broaden services from that standpoint. But the linkage you created was absolutely correct.

Operator

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

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

First, thanks for everybody for joining our call today. And just to reiterate a few pieces, we built good momentum through the first quarter and we carried into the second quarter, and therefore, we're confident in our ability to deliver our increased EPS outlook of at least $22.90 for 2022 as well as our increased revenue and customer growth outlook.

Additionally, before I close, I want to just pause and recognize and express my personal appreciation to our more than 70,000 coworkers who demonstrate through their continued focus and dedication and support our ability to deliver for all those we have the privilege to serve for our customers, our clients, our patients, our partners and ultimately, to convert that for you, our shareholders. We look forward to talking to you again soon about how we continue to advance our mission of improving health, well-being and peace of mind of those we serve and our continued approach to make health care services and solutions more affordable, predictable and simple.

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Thanks, and have a great day.

Operator

Ladies and gentlemen, this concludes Cigna's second 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 (800) 934-9697 or (203) 369-3395. There is no pass code required for the replay. Thank you for participating. You will now disconnect.

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