The Cigna Group

Quick Takes from the call – comments on asset sale, MA

Maintain Rating: BUY | PO: 370.00 USD | Price: 307.32 USD

02 February 2024

Equity

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Additional color on 2024 guidance

Seasonality to be similar to 2023 (implies Q1 EPS of $6.09, 4% below $6.36 consensus). Adj earnings in Evernorth to be slightly below 20% of total in Q1. Client onboarding expenses ramp down through the year. CI Healthcare: Q1 MLR below the low end of the full year guidance range. SG&A to be lower in 2024 due to the faster growth in Evernorth (which has a lower SG&A load). $1.5B on capex, $1.6B on dividends. Majority of discretionary cashflow on share repo with at least $5B of repo in 1H. Maintain Buy as we see potential upside on commercial and PBM earnings in the near term.

Comments on MA asset sale

Sees MA as an “attractive growth market”, given its ability to provide good benefits to seniors over time. However, keeping the business would require sustained focus, capital and resources that were disproportionate to the size of the business within the portfolio to keep it growing, leading to the decision to sell. The sale included the VBC assets tied to MA (will keep the broader VBC assets such as VillageMD investment) as well as the Part D. Evernorth will continue to serve the membership for the next few years, so it doesn’t see negative deleveraging from that. Still sees growth in government services within Evernorth. Capital deployment priorities 1) Investing in business, 2) evaluate M&A – criteria has to be A) strategic, B) financially attractive, C) path to clarity – and 3) return capital to shareholders.

MLR up 90bps on normalization in stop loss

Guidance assume MLR will be up 90bps in 2024 at the midpoint. The biggest driver is a normalization in the stop loss profitability as CI noted that 2023 MLR was 70bps better than initial guidance. In addition, there is some mix shift within membership that puts pressure on MLR (lower exchange membership). That said, guidance assumes that profit margin percentage will be higher y/y and be at the low end of 9-10% margin on lower G&A. Finally, the company noted that guidance includes some MLR conservatism.

Exchanges, MA, National Accounts down; Select to grow

Exchanges are the primary driver of the -480k y/y decline in enrollment in 2024. US commercial employer to be up modestly with a decline in National Accounts, but more than offset by growth in Select Segment (sees continued above average growth in Select over time). MA membership is going to be down slightly as CI generally kept benefits stable but saw more aggressive competitor behavior than expected.

Bullish on continued growth in Evernorth

Specialty – continue to grow as new therapies (GLP1s, gene therapy, etc) come on-line and biosimilars continue to come to market. CNC contract implementation off to a strong start. Sees accelerated growth in the care platform (behavioral, home and virtual care), given under-penetration in existing membership and external opportunity.

Stock Data

Price	307.32 USD
Price Objective	370.00 USD
Date Established	2-Nov-2023
Investment Opinion	B-1-7
52-Week Range	240.50 USD - 319.92 USD
Mrkt Val (mn) / Shares Out (mn)	91,314 USD / 297.1
Free Float	99.7%
Average Daily Value (mn)	471.84 USD
BofA Ticker / Exchange	CI / NYS
Bloomberg / Reuters	CI US / CI.N
ROE (2023E)	15.6%
Net Dbt to Eqty (Dec-2022A)	56.0%
ESGMeter™	High

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CI = Cigna

CNC = Centene

GLP-1 = Glucagon like peptide 1

MA = Medicare Advantage

MLR = Medical loss ratio

PBM = Pharmacy benefits manager

VBC = Value based care

Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2. **12654770**

Price objective basis & risk

The Cigna Group (CI)

Our $370 PO is based on 13.1x our 2024 EPS estimate, a slight premium to the average NTM PE ratio since the Express Scripts (ESRX) deal closed (10x). We see this as justified as over the next few years we expect an acceleration in commercial enrollment, PBM earnings (from biosimilars and CNC contract win), and rotation from growth stocks to value. All of these factors should lead to modest multiple expansion in the near term.

Upside risks to our PO are a faster-than-expected recovery from COVID, commercial/PBM market share gains, and stronger-than-expected growth in government or high margin service oriented businesses. Additionally, there is potential upside from capital deployment.

Downside risks are recessionary risks, market share losses, commercial MLR pressure, low visibility into growth.

Analyst Certification

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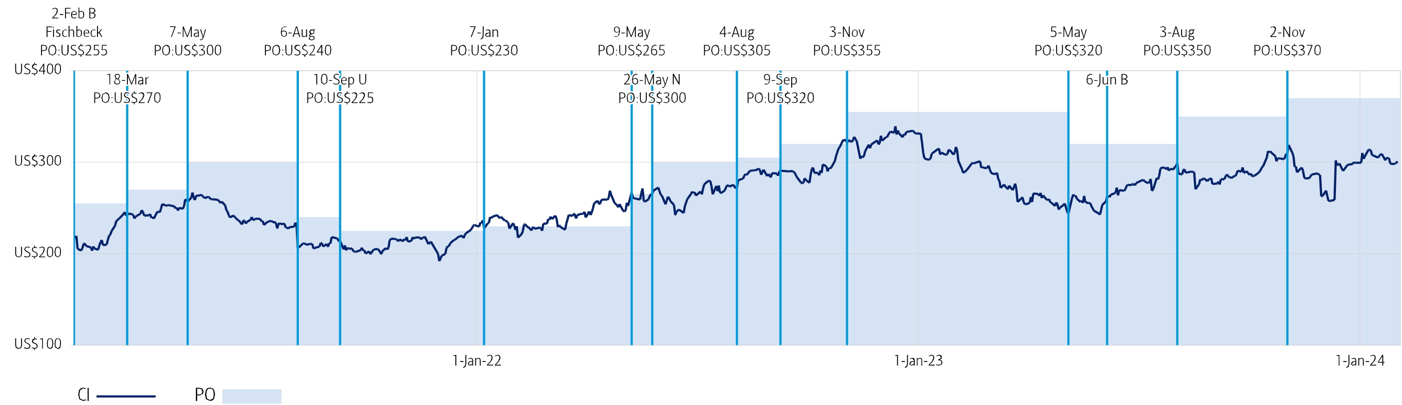
The Cigna Group (CI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
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