

The Cigna Group

Clean quarter, mostly strong start to 2024 guidance

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

Solid quarter with MLR much better than consensus

CI beat Q4 Adj. EPS by 26c (4%) versus consensus, primarily driven by 170bps better MLR, partially offset by worse SG&A. 2024 EPS guidance is roughly in line with consensus, with EPS expected to grow 12.6% y/y, near the high end of the 10-13% long-term target. MLR is expected to be up 90bps y/y in 2024, with guidance worse than consensus. Medical membership is expected to shrink 2% y/y in 2024, due to exchange repricing. In a positive, SG&A is expected to be down 120bps y/y in 2024, in part due to the new Centene contract. We maintain our Buy rating. See page 2 for variance table.

EPS guide better than prior commentary but MLR worse

CI introduced initial 2024 guidance, with Adj. EPS of \$28.25 roughly in line with consensus but slightly better than previous commentary (at least \$28). Adj EPS is expected to grow 12.6% y/y, near the high end of the 10-13% long-term growth target. Revenues are expected to grow 20% y/y, 3% better than consensus. Meanwhile, MLR guidance is 60bps worse than consensus, with MLR expected to be up 90bps y/y, which is surprising to us given that CI is in the middle of a commercial repricing. CI expects to shrink medical membership by 2% y/y, worse than the consensus estimate of +2% y/y. In a positive, SG&A guidance is 80bps below consensus, with SG&A expected to decrease 120bps y/y, aided by the Centene contract implementation. Guidance for Cigna Healthcare segment earnings is 1.6% better than consensus and for Evernorth earnings 1.4% better.

Strong MLR beat, while SG&A missed on 1x item

Consolidated revenues were 4.1% above consensus/6.3% above our estimate. MLR was 82.2%, 170bps better than consensus and down 160bps y/y due to strong commercial performance, with the company noting favorable stop loss results. DCPs decreased 4.3 days q/q. However, DCPs increased 3.1 days y/y. Meanwhile, CI's SG&A ratio was 60bps above consensus and 80bps higher than our estimate due to a "one-time cost of an organizational efficiency plan."

Cigna Healthcare membership ahead of consensus

Cigna Healthcare revenues were 2.8% above consensus. Medical membership was 0.9% above consensus and our estimate. Both Commercial risk and ASO membership were in line with consensus. Other Government (exchanges) was 3.1% above consensus and 4.8% above our estimate. Meanwhile, Medicare Advantage was 0.5% above consensus and 4.2% above our estimate. International membership was 1.3% above consensus. Segment operating income came in 4.4% above consensus on 2.8% better revenues and 10bps better margins.

Evernorth beat on revenues, margins below

Segment operating income was 1.4% above consensus on 5.4% better revenues as margins were 20bps below.

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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
Mkt 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

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

ASO = Administrative services only

CI = Cigna

DCP = Days claims payable

MCO = Managed care organization

MLR = Medical loss ratio

PBM = Pharmacy benefit manager

Earnings Analyzer

Below we show key quarterly results versus our estimates, consensus, and prior historical results.

Exhibit 1: Cigna Results versus Estimates

\$ values in millions, except for per-share data, membership in thousands; Δ, y/y and q/q growth metrics are differences for ratios and DCPs

4QFY-2023	Actual	Consensus	BofA	Δ vs Consensus	Δ vs Consensus	Δ vs BofA	Δ vs BofA	Growth Y/y	Growth Q/q	4QFY-2022	3QFY-2023
Revenue	\$50,824	\$48,844	\$47,825	4.1%	BEAT	6.3%	BEAT	11.1%	3.6%	\$45,743	\$49,078
Adj. EPS	\$6.79	\$6.53	\$6.45	4.0%	BEAT	5.3%	BEAT	37.0%	0.3%	\$4.96	\$6.77
Integrated Medical MLR	82.2%	83.9%	84.8%	-1.7%	BEAT	-2.6%	BEAT	-1.8%	1.7%	84.0%	80.5%
SG&A Ratio	7.9%	7.3%	7.1%	0.6%	MISS	0.8%	MISS	0.3%	0.5%	7.6%	7.4%
Investment Income	\$290	\$285	\$331	1.9%	BEAT	-12.4%	MISS	36.8%	-9.7%	\$212	\$321
Pre-tax Earnings	\$2,459	\$2,024	\$2,024	21.5%	BEAT	21.5%	BEAT	85.2%	33.6%	\$1,328	\$1,840
Taxes	\$460	\$431	\$466	6.7%	BEAT	-1.2%	MISS	253.8%	17.6%	\$130	\$391
Tax Rate	18.7%	21.3%	23.0%	-2.6%	BEAT	-4.3%	BEAT	8.9%	-2.5%	9.8%	21.3%
Share Count	294.6	295.6	294.5	-0.4%	IN-LINE	0.0%	IN-LINE	-3.6%	-0.9%	305.4	297.1
DCPs	49.0	NA	NA					3.1	-4.3	45.9	53.3
Membership:											
Commercial ASO Members	13,890,000	13,774,082	13,730,282	0.8%	IN-LINE	1.2%	BEAT	10.1%	0.7%	12,619,000	13,790,000
Commercial Risk Members	2,233,000	2,231,685	2,282,760	0.1%	IN-LINE	-2.2%	MISS	-0.2%	0.4%	2,238,000	2,224,000
Medicare Advantage	601,000	597,808	576,610	0.5%	IN-LINE	4.2%	BEAT	13.6%	0.3%	529,000	599,000
Other Government	1,446,000	1,402,355	1,379,980	3.1%	BEAT	4.8%	BEAT	76.3%	5.9%	820,000	1,366,000
International	1,610,000	1,588,616	1,632,680	1.3%	BEAT	-1.4%	MISS	-10.5%	-1.1%	1,798,000	1,628,000
Total Medical Membership	0	6	2	0.9%	IN-LINE	0.9%	IN-LINE	9.9%	0.9%	18,004,000	19,607,000
Medicare Part D	2,550,000	2,573,047	2,529,120	-0.9%	IN-LINE	0.8%	IN-LINE	-11.3%	0.2%	2,874,000	2,544,000
Adj. Revenues:											
Cigna Healthcare (MCO)	\$13,005	\$12,648	\$11,784	2.8%	BEAT	10.4%	BEAT	16.8%	1.9%	\$11,131	\$12,768
Evernorth Health Services (PBM)	\$40,519	\$38,443	\$38,328	5.4%	BEAT	5.7%	BEAT	12.0%	5.0%	\$36,188	\$38,596
Corporate (Eliminations)	-\$2,375	-\$2,142	-\$2,287	10.9%	BEAT	3.8%	BEAT	50.7%	3.9%	-\$1,576	-\$2,286
Adj. Pre-tax Income:											
Cigna Healthcare (MCO)	\$969	\$928	\$914	4.4%	BEAT	6.0%	BEAT	94.6%	-20.5%	\$498	\$1,219
Evernorth Health Services (PBM)	\$1,890	\$1,863	\$1,839	1.4%	BEAT	2.8%	BEAT	9.6%	10.1%	\$1,725	\$1,716
Corporate (Eliminations)	-\$400	-\$352	-\$315	13.7%	BEAT	26.9%	BEAT	4.7%	-2.2%	-\$382	-\$409
Margins:											
Cigna Healthcare (MCO)	7.5%	7.3%	7.8%	0.1%	IN-LINE	-0.3%	MISS	3.0%	-2.1%	4.5%	9.5%
Evernorth Health Services (PBM)	4.7%	4.8%	4.8%	-0.2%	IN-LINE	-0.1%	IN-LINE	-0.1%	0.2%	4.8%	4.4%
Corporate (Eliminations)	16.8%	16.4%	13.8%	0.4%	BEAT	3.1%	BEAT	-7.4%	-1.0%	24.2%	17.9%

Source: Visible Alpha, BofA Global Research estimates

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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)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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