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CI - Q3 2017 Cigna Corp Earnings Call

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OVERVIEW:

Co. reported 3Q17 consolidated revenues of \$10.4b, consolidated earnings of \$716m and EPS of \$2.83. Expects 2017 consolidated revenues to grow by approx. 4% over 2016.



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PRESENTATION

Operator

Ladies and gentlemen. Thank you for standing by for Cigna's Third Quarter 2017 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. Will McDowell. Please go ahead, Mr. McDowell.

William McDowell - *Cigna Corporation - VP of IR*

Good morning, everyone, and thank you for joining today's call. I am Will McDowell, Vice President of Investor Relations. With me this morning are David Cordani, our President and Chief Executive Officer; and Eric Palmer, Cigna's Chief Financial Officer.

In our remarks today, David and Eric will cover a number of topics, including Cigna's third quarter 2017 financial results as well as an update on our financial outlook for 2017. As noted in our earnings release, when describing our financial results, Cigna uses certain financial measures which are not determined in accordance with accounting principles generally accepted in the United States, otherwise known as GAAP. Specifically, we use the term labeled adjusted income from operations and earnings per share on this same basis as our principal measures of financial performance.

A reconciliation of these measures to the most directly comparable GAAP measure, shareholders net income, is contained in today's earnings release, which is posted in the Investor Relations section of cigna.com. In our remarks today, we will be making some forward-looking statements, including statements regarding our outlook for 2017 and future performance. These statements are subject to risks and uncertainties that could



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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, I note that in the third quarter, we recorded special item charges to shareholders net income totaling \$214 million or \$0.85 per share, predominantly associated with the previously disclosed early extinguishment of debt.

As described in today's earnings release, special items are excluded from adjusted income from operations in our discussion of financial results. Also, consistent with past practices, when we make any prospective comments on earnings or EPS outlook, we will do so on a basis that excludes the impact of any future capital deployment or prior year development of medical costs.

And with that, I will turn the call over to David.

David M. Cordani - Cigna Corporation - President, CEO & Director

Thanks, Will. Good morning, everyone, and thanks for joining our call. I'll begin my comments by highlighting Cigna's third quarter operating results, which reflect continued strength across our portfolio of businesses driven by our ongoing effective execution of our strategy. Then I'll briefly discuss a clear path for value creation grounded in each of our operating businesses followed by a more detailed overview of the significant growth opportunities in our Commercial Employer business. I'll then highlight how Cigna's well-performing businesses and strong free cash flow generation are providing us with ongoing financial strength and capital flexibility. And finally, I'll share some initial thoughts around expectations for 2018 before turning the call over to Eric for a more detailed overview of our third quarter results. Following our Q&A, I'll wrap up the call with a few closing comments.

I'll start with our third quarter operating results. We achieved substantial earnings growth in the quarter, including continued momentum across each of our businesses. Our consolidated revenue increased to \$10.4 billion and we grew earnings to \$716 million or \$2.83 per share with significantly increased bottom-line contributions from each of our businesses compared to the third quarter of 2016.

Turning to our segments. In Global Health Care, we continue to drive strong earnings growth and deepen our relationships with our customers, clients and healthcare delivery partners. Our Global Supplemental Benefits business posted another outstanding quarter of top line and bottom line results, which reflect continued progress in addressing evolving sense of security and health needs for our customers in targeted geographies around the world. And finally, our Group Disability and Life business also delivered solid performance this quarter with strong fundamentals across both our disability and life portfolios. Collectively, these results, combined with our exceptional capital position and ongoing free cash flow generation give us confidence we will achieve our increased 2017 outlook and enter 2018 with considerable momentum.

Looking ahead, we continue to operate in a dynamic environment with an evolving marketplace characterized by aging populations, eroding health status, rapid technology innovation and a highly disruptive regulatory and legislative climate. Taken together, these dynamics will continue to create profound challenges and opportunities relative to the affordability of healthcare services across the globe and the ability to meet individual needs in a highly personalized way. In this disruptive environment, Cigna's strategy of Go Deeper, Go Local and Go Beyond serves as our guide to value creation in each of our targeted growth platforms, including our Commercial Employer segment, which continues to present significant growth opportunities as we innovate solutions to meet market needs, more deeply integrate our medical and specialty offerings and deliver superior management of total medical costs and quality outcomes.

Our U.S. Seniors business, which is positioned for growth in 2018 and over the long term by leveraging our best-in-class physician engagement model and a relentless focus on engaging our customers. Our Global Supplemental Benefits business with sustained growth, as we provide customers in key geographies with highly personalized, affordable health and sense of security solutions. And the Group Disability and Life segment, which drives profitable growth through our industry-leading productivity and absence management model, enabling our customers to avoid disability or to maximize the return to work potential when disabilities do occur.



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Now I'd like to take some time to delve more deeply into our Commercial Employer business. We see outstanding opportunities for continued growth through a consistent focus on achieving the right balance of affordability and personalization. We seek to deliver this balance through 3 strategic imperatives: First, being the undisputed partner of choice; second, accelerating the next generation of integration; and finally, working to make the complex simpler for the benefit of our customers. An example of how we drive our role as an undisputed partner of choice is by leveraging information, incentives and care resources to help healthcare professionals better align around value-based care models and to deliver a differentiated and more coordinated approach to care. We currently have advanced collaborative relationships with nearly 390 physician groups and hospitals spanning 34 states. We have built strategic flexibility into our platforms, and our willingness and ability to meet our providers where they are enable us to deploy a variety of collaborative arrangements and models with physician groups and hospitals. These relationships help us by leveraging data and insights to identify health risks earlier as we provide timely analysis on shared patients and customers who our predictive models identify as being higher risk for decreased health status and emerging health challenges.

In fact, recently Cigna was the only national health plan to earn the National Committee for Quality Assurance's Physician and Hospital Quality Certification. This recognition is one of many that reinforces our ongoing commitment to effectively partner, to make sure that Cigna customers receive the right care, the right service and the best value. I would also note that our success here, in part, helps to drive higher levels of client persistency as well as improved quality of care and, as a result, lower total medical costs.

At the same time, we deploy an integration model in our Commercial Employer business that goes well beyond traditional cross selling and solutions bundling. It's based on a consultative approach allowing us to leverage the combined data and insights from across our solutions to improve outcomes for the benefit of our customers and clients. We've demonstrated that customers with integrated Cigna medical and pharmacy solutions are more active in health coaching and case management programs than those engaged in medical-only benefits. And our customized programs have generated significant annual medical cost savings for customers who engage with us in one or more health improvement coaching or counseling services. The health impact and resulting savings from these programs are just one example of how Cigna continues to deliver industry-leading medical cost trend.

Further illustrating the value of our integrated solutions, we have seen that among our commercial clients who benefit from 3 or more Cigna solutions, we are delivering retention rates that are 3% to 5% higher than those with standalone medical services. And while these results are market-differentiated, as we've discussed before, we have additional opportunity to further deepen our client relationships across our buying segments.

We are also accelerating our next generation of integration by delivering services through a variety of means - be it digital, face-to-face or otherwise, to better engage the individual in a highly personalized way. When combined with deep value-based relationships with healthcare professionals, we see our approach to next-generation integration as a further step in continuing to deliver differentiated value and our market-leading medical cost and quality outcomes.

Finally, we strive to simplify the complexity in healthcare for the benefit of our customers, clients and partners through ongoing innovation and differentiated capabilities. To share just a few examples, first, we remained the only health service company to offer live access to call service representatives, 7/24/365, to be there when our customers or partners need us; second, we continue to embed and integrate care extenders, such as nurses and care coordinators into the practices of hundreds of our collaborative partners across the country; and third, we actively work to improve the customer experience through new technologies and digital enablement, such as One Guide, which helps our customers to make more informed choices as they select their benefits, better manage their cost of care through price transparency and reward program participation and make it easy for them to create and connect a personalized team of doctors, coaches and clinicians, how and when they choose. Today, in only our first year since launch, we already have approximately 2 million customers on One Guide and we expect to double this to 4 million customers in 2018. These examples underscore how Cigna is continuing to deliver differentiated value through enhanced personalization and affordability.

Now as we look across the Cigna enterprise, we recognize that the differentiated value we deliver in the marketplace directly contributes to our company's financial strength and flexibility. Our exceptional capital position today and continued strong free cash flow that our operating businesses are generating, enable us to both continue to reinvest back in our business to drive continued growth and expanded solutions for our customers and clients and strategically position Cigna for long-term growth by pursuing attractive, inorganic opportunities to further develop capabilities, aligned to evolving marketplace needs, as well as to effectively return excess capital to shareholders.



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With respect to our initial outlook for 2018, the headline is we expect to deliver attractive financial performance again in 2018. We will continue to organically grow our business in terms of revenue, earnings and customers over our increased 2017 outlook driven by our 4 well-positioned growth platforms, a clear, compelling strategy and outstanding talent deployed across the globe. We expect to continue to generate strong margins and cash flows, which will further fuel our capital deployment opportunities. I would also remind you that when we'll provide guidance for 2018, we will exclude the impact of any prior year development or future capital deployment as we have done in the past.

Now to summarize a few key points before I turn the call over to Eric. We have achieved substantial earnings growth in the third quarter with continued momentum across our portfolio of businesses, giving us confidence we will achieve our increased 2017 outlook. In a disruptive environment, our recently evolved strategy of Go Deeper, Go Local and Go Beyond serves as our guide to achieving the right balance of affordability and personalization, which positions us well in each of our growth platforms, Commercial Employer, U.S. Seniors, Global Supplemental Benefits, and Group Disability and Life. We remain well positioned for growth across our portfolio in 2018 and over the long term, which is even further strengthened by our strong capital position.

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

Eric Palmer - Cigna Corporation - Executive VP & CFO

Thanks, David. Good morning, everyone. In my remarks today, I will review key aspects of Cigna's third quarter 2017 results and provide an update to our full year outlook. Key financial highlights in the quarter are: consolidated revenue growth of 5% to \$10.4 billion; consolidated earnings growth of 42% to \$716 million, including significant earnings growth in each of our business segments; quarterly earnings per share growth of 46% to \$2.83. And continued strong free cash flow and financial flexibility with approximately \$2.3 billion returned to shareholders through share repurchase on a year-to-date basis. Overall, the results in the quarter reflect the effective execution of our focused strategy and demonstrates the strong fundamentals of each of our operating businesses. The strength of these results provide us with continued momentum and confidence reflected in our increased full year 2017 financial outlook.

Regarding our business segments, I will first comment on Global Health Care. Third quarter premiums and fees in Global Health Care grew 6% to \$7.2 billion, driven by strong customer growth and specialty contributions across all commercial market segments and, as expected, this growth was partially offset by lower seniors enrollment versus the prior year. We ended third quarter 2017 with 15.8 million global medical customers, an organic increase of 619,000 lives year-to-date. Third quarter earnings increased 38% to \$575 million, reflecting growth in medical customers and specialty relationships, continued effective medical cost management and operating expense discipline.

Turning to our medical care ratios. Our third quarter 2017 total Commercial medical care ratio, or MCR, of 78.6% reflects the continued effectiveness of the medical cost management capability, as David discussed earlier, partially offset by the impact of the health insurance tax suspension. This MCR also reflects better-than-expected medical costs in our U.S. individual business. Our third quarter 2017 total government MCR of 84% reflects the impact of our innovative physician engagement model within Medicare Advantage and favorable Medicare Part D experience. Third quarter 2017 Global Health Care earnings included favorable prior year reserve development of \$19 million after-tax.

Moving to operating expenses. For third quarter 2017, our total global healthcare operating expense ratio was 21.1%, which reflects the impact of the health insurance tax suspension, business mix changes and continued effective expense management. Overall, we've had a very strong quarter in our Global Health Care business.

Turning now to Global Supplemental Benefits. Our third quarter results reflect continued attractive growth and profitability as premiums and fees grew to \$937 million, an increase of 12%, and third quarter 2017 earnings grew 35% to \$109 million, reflecting business growth, favorable claims experience in South Korea and effective operating expense management.

Our Group Disability and Life third quarter premiums and fees were just over \$1 billion. Third quarter earnings in our Group business increased 38% to \$73 million, reflecting favorable claims experience in both our Disability and Life businesses. Overall, as a result of the continued effective execution of our strategy, our third quarter results reflect strong earnings contributions from each of our business segments. We also continue to generate very strong free cash flow from our businesses and maintain significant financial flexibility.



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Now, I will discuss our increased outlook for 2017. For full year 2017, we now expect consolidated revenues to grow by approximately 4% over 2016, driven by strong growth in medical customers and specialty relationships as we continue to more deeply integrate our solutions and generate greater value for customers and clients and continued momentum in Global Supplemental Benefits as we innovate with new solutions across a diverse set of distribution platforms.

Our outlook for full year 2017 consolidated adjusted income from operations is now in the range of approximately \$2.6 billion to \$2.65 billion or \$10.20 to \$10.40 per share. This reflects an increase of \$0.35 to \$0.45 per share over our previous expectation and represents per share growth of 26% to 28% over 2016.

I will now discuss the components of our increased 2017 outlook, starting with Global Health Care. We now expect full year Global Health Care earnings in the range of \$2.14 billion to \$2.17 billion. Key assumptions reflected in our Global Health Care earnings outlook for 2017 include the following: Regarding global medical customers, we now expect an increase of approximately 650,000 lives over year end 2016. This is an increase of approximately 100,000 lives from the midpoint of our previous expectations and reflects targeted growth across all Commercial market segments. Turning to medical costs: For our total U.S. Commercial book of business, we now expect full year medical cost trend to be in the range of 3% to 4%, an improvement of 100 basis points over our previous expectations.

Our industry-leading medical cost trend continues to reflect benefits from increased incentive alignment for our customers and clients, deeper collaborative relationships with providers and our differentiated specialty integration model, all of which contribute to positive health outcomes and better management of total medical costs. And as a reminder, given that 85% of our U.S. Commercial enrollment is in transparent ASO funding arrangements, Cigna's multi-year track record of leadership on medical cost trend results directly benefit to our clients.

Now turning to our medical care ratio outlook. For our total commercial book of business, we now expect the 2017 MCR to be in the range of 80% to 81%, an improvement of 50 basis points versus our prior range. Consistent with past years, our outlook anticipates a sequentially higher fourth quarter MCR due to an increased seasonal impact from the growing share of high deductible plans in our employer group and individual businesses. For our total government book of business, we continue to expect the 2017 MCR to be in the range of 84.5% to 85.5%, with a bias towards the low end of that range. Regarding operating expenses, we now expect our 2017 Global Health Care operating expense ratio to be approximately 21%. I would also note, regarding our U.S. individual business, we now expect full year 2017 results to be slightly profitable. For our Global Supplemental Benefits business, we continue to expect strong top line growth and now expect earnings in the range of \$345 million to \$355 million. This is an increase of \$25 million to \$35 million over previous expectations, reflecting the strength of our third quarter results.

Regarding the Group Disability and Life business, we now expect full year 2017 earnings in the range of \$275 million to \$285 million, an increase of \$5 million to \$15 million over previous expectations, reflecting strong third quarter results. And regarding our remaining operations, that is, Other Operations and Corporate, we now expect a loss of \$160 million for 2017.

All in, for full year 2017, we now expect consolidated adjusted income from operations of \$2.6 billion to \$2.65 billion or \$10.20 to \$10.40 per share. This represents an increase of \$0.35 to \$0.45 per share over our previous expectations. I would also remind you that our outlook continues to exclude the impact of additional prior year reserve development or any future capital deployment.

Now moving to our 2017 capital management position and outlook. Overall, we continue to have excellent financial flexibility. Our subsidiaries remained well capitalized and are generating significant free cash flow to the parent. Each of our business segments has a strong return on capital and we maintain significant free cash and leverage capacities at the parent company. Our capital deployment strategy and priorities remain: First, funding our businesses to support long-term growth; next, pursuing M&A activity with a focus on acquiring capabilities and scale to further grow in our targeted areas of focus; and lastly, after considering these first 2 items, we would return capital to shareholders primarily through share repurchase.

Regarding free cash flow. We ended the third quarter with parent company cash of approximately \$1.7 billion and we have the capacity to generate additional deployable cash by increasing our debt-to-capitalization ratio to the mid-30s, which we would consider a normal range going forward.



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Regarding share repurchase, during the period from August 4th through November 1st, we repurchased 5.5 million shares of stock for approximately \$1 billion, bringing our year-to-date share repurchase to 13.2 million shares of stock for approximately \$2.3 billion. Our balance sheet and free cash flow outlook remain strong, benefiting from industry-leading margins and returns on capital in our businesses and a high level of capital efficiency, particularly from our fee-based businesses.

Now to recap. Our third quarter 2017 consolidated results reflect strength and momentum across our diversified portfolio of global businesses and continued effective execution of our focused strategy. The fundamentals of our business remain strong as evidenced by these results, which reflected strong revenue and earnings contributions from each of our business segments, industry-leading medical cost trend with our clients directly benefiting from increased levels of incentive alignment, physician collaboration and specialty integration and continued strong free cash flow. Based on the strength of these results, we are confident in our ability to achieve our increased full year 2017 earnings outlook and are well positioned for attractive earnings growth in 2018.

And with that, we will turn it over to the operator for the Q&A portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Justin Lake with Wolfe Research.

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

I wanted to first touch on your 2018 comments, David. You talked to being able to grow revenue and net income year-over-year versus your 2017 revised guidance. Just want to first make sure that is the way to think about this, right? Versus let's just say the \$2,625 midpoint of net income. Do you expect to being able to grow off of that? And then you talked about attractive growth. Is it, in your mind, a typical growth year off that number or is there a reset we should be thinking about in terms of the upside this year?

David M. Cordani - Cigna Corporation - President, CEO & Director

It's David. Let me provide some color and framing for 2018, then I'll ask Eric to embellish a little bit with some of the specifics of the numbers. First, by way of a backdrop, first, we're really pleased with the 2017 outlook and the momentum we've built and our ability to yet again increase our full year outlook. And as Eric noted, it has an embedded growth rate in it of 26% to 28% from an EPS standpoint. Second, specifically to the headline for '18, as you articulated, we will again grow our top line and bottom line. That's correlated to the 4 well-positioned growth platforms we have. At a macro level, think about the drivers as being further revenue and customer growth, further deepening our customer and client relationships by leveraging our both diverse and growing specialty portfolio as well as further expense leverage. Now, while we won't go through the detail of our 2018 guidance until the fourth quarter call, we want to give you a little bit more color. So when you consider the '18 -- '17 jump off and the macro drivers I identified, we expect to grow our organic earnings in a range of 7% to 9% when you adjust 2017 for prior year reserve development as we always do. Now that 7% to 9% is in line with our strategic goal and objective. I would also note that, that outlook from our point of view is competitively attractive and it contemplates as well as offsets the headwind that is created from the return of the industry fee. So said otherwise, even with the return of the industry fee, we expect to grow organic earnings consistent with our strategic range of 7% to 9% when you exclude prior year reserve development. Lastly, I would remind you, as you know, we have both an exceptional capital position and we don't project future capital deployment. That presents additional opportunity for shareholder value creation for us. I'll ask Eric to just reinforce a few of the numbers behind that.



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Eric Palmer - Cigna Corporation - Executive VP & CFO

Yes, Justin. It's Eric. So as David said, I think we are really pleased with the momentum that we've carried through 2017 and our 2017 guidance for income of \$2.6 billion to \$2.65 billion represented really strong growth over 2016. As David noted, when we provide guidance and have for some time, we always exclude -- we do so on a basis that excludes prior year reserve development and excludes any potential future capital deployment. So if you take the 2017 number and remove the impact of prior year development, our 2017 guidance on a similar basis would be \$2.485 million to \$2.535 million in income and off of that base, we'd expect to generate income growth consistent with our long-term averages. The range that David talked about and we've talked about even at our Investor Day would be a long-term average of 7% to 9%. And so again, we'd expect to grow consistent with that range. There's a number of headwinds and tailwinds. We're not going to enumerate all of those in the course of the call today. We'll do so at our fourth quarter call when we'll provide more detailed guidance. But as David said, notably, we'd expect to deliver results in that range and that's inclusive of the industry fee return which is definitely a headwind. We think of the timing dynamics associated with the commercial portion of the industry fee as being worth something like \$50 million year-on-year and that is a headwind that we would work through in the course of achieving the results of that long-term growth range of 7% to 9% off of the base, excluding prior year development. Hope that helps provide a little bit of color of how we're thinking about 2018 at this point.

Operator

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

Kevin Mark Fischbeck - BofA Merrill Lynch, Research Division - MD in Equity Research

Wanted to follow up on a comment that you made that you're going expect to grow MA in 2018...

David M. Cordani - Cigna Corporation - President, CEO & Director

You have a bad connection. We're having trouble hearing you.

Operator

Our next question will be from Matt Borsch with BMN (sic) [BMO] Capital Markets.

Matthew Richard Borsch - BMO Capital Markets Equity Research - Managed Care and Providers Analyst

It's actually BMO. So just wanted to ask a question about -- you touched on enrollment growth expected for 2018. Can you give us any thoughts on how you think the employer renewals and account wins and losses are shaping up for January 1?

David M. Cordani - Cigna Corporation - President, CEO & Director

Matthew, it's David. Let me give you a little bit of color. As we -- first, big picture as we look to 2018, we expect again to grow our customer lives, therefore, our revenue. And quite importantly, we expect to again further deepen our relationships by leveraging our growing and well-positioned specialty portfolio. As we look to 2018, we would expect the bulk of our growth to continue to be driven by our Select and Regional segments. Specifically, this time of the year, we typically talk with you about the National segment. So a little bit more color there. To remind you, we define the National Commercial segment a bit differently than the industry. So it's commercial employers with 5,000 or more employees that span multiple states. Relative to that marketplace for 2018, we would expect to have another year of strong client retention, underscoring our medical cost delivery, our service delivery, et cetera. We would expect to have some targeted wins in terms of new business growth and net-net, we're expecting to step into the year for the national segment with stable membership for National, growing membership for Select as we have in the past, growing membership for Regional, net-net overall for our commercial business growing membership is we step into 2018.



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Matthew Richard Borsch - *BMO Capital Markets Equity Research - Managed Care and Providers Analyst*

And if I could just add a follow on to that, which is, what are you seeing in terms of the employer preferences for products if you can make a generalization across the broad landscape there? I mean, for example, is there cost, high deductible conversions and cost sharing? Has that decelerated because of the strong economy and tighter labor market or not?

David M. Cordani - *Cigna Corporation - President, CEO & Director*

Matthew, appreciate the prompt for the additional color. So I would say, the push for value is as intensive as it's ever been. Employers are seeking to get more value or higher return from their overall benefits portfolio and investment. As such, we see employers at all sizes more open to and more aggressively evaluating not just transparent funding mechanisms, but as we described, incentive and engagement-based programs that are quite targeted to get more engagement of their individual employees and family members into the active health management, into the active engagement, into the predictive indicators, et cetera. And if there's a trend that I would identify that's emerging on a more accelerated basis, which we think is positive, it's the push for more localized variants. So you recall our strategy, topic 2 is Go Local. As the market evolves for more value-based arrangements it's happening unevenly around the country and employers are more open to buying or configuring the local variations, they get the best of the value-based collaboratives, we're well positioned for that. We think that's a very positive direction for employers. So less on the CDHP side and more directed towards more value-based programs, higher engagement-based programs, more leverage of incentives and increasingly more local variations.

Operator

Our next question will come from Kevin Fischbeck with Bank of America Merrill Lynch.

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

Sorry about that. So, I guess, can you talk a little bit about, you mentioned that you expect MA membership growth next year -- ambition for the long-term growth. Can you give a little bit of color on how are feeling your bids are positioned for 2018?

David M. Cordani - *Cigna Corporation - President, CEO & Director*

Kevin, we hear you a lot clearer. Thank you. So specific to MA, broadly, we continue to see the U.S. Seniors market as an attractive growth platform, that's driven by a variety of forces. First, at a macro-level, the demographics, as well as importantly the really strong value proposition MA provides the Seniors relative to fee per service in many markets. Specific to Cigna, we overlay, in addition to that, our proven value-based collaboratives and then our innovative customer-engagement programs. Not lost on us that we have been in a pause state relative to the marketplace for a couple of years. As we step into 2018, we will grow. We'll grow revenues and we'll grow customers, despite the disruption and noting that strategically, we're exiting some targeted counties in 2018 and not entering new geographies. So taken as a whole, our read of 2018, we will grow, albeit our underlying expectations for 2018's customer growth is lower than our historical run rate in this business and we're projecting for lower than market average growth because in part, we're reentering the market, we're exiting some counties and we didn't enter any new counties or new markets for 2018.

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

Okay, then I guess maybe, if you give some color on longer term, I guess maybe not specifically 2019, but longer term, when you think about entering new markets. I mean, what kind of opportunity for growth is that? We've heard other companies talk about significantly expanding their geographic coverage over the next several years, I mean, how do you think about that opportunity?



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David M. Cordani - Cigna Corporation - President, CEO & Director

Kevin, we see that as a very attractive opportunity. We have had a disciplined process of organically opening up 1 to 2 markets per year prior to our structured pause that we were involved in. And we would expect to reengage in that as we look at 2019 and beyond. Importantly, we have many markets where we have highly aligned, well-performing, collaborative and value-based relationships that are performing at a high level for our Commercial population, who -- those physician collaboratives and delivery system collaboratives desire us to be in the Medicare Advantage marketplace with them. So we have a lot of supply, if you will, or demand in the market depending on the orientation. And as we look to 2019 and beyond, we see some really attractive growth opportunities, both in existing markets, but to your specific point, opening new markets for '19 and beyond.

Operator

Our next question comes from Chris Rigg with Deutsche Bank.

Christian Douglas Rigg - Deutsche Bank AG, Research Division - Research Analyst

I was just hoping to get some more color on the new medical cost trend outlook being down 100 basis points. Obviously, that's a fairly sizable decline relative to the prior outlook. What's the primary reason for the reduction there?

Eric Palmer - Cigna Corporation - Executive VP & CFO

This is Eric. A couple of things that I'd share with respect to the medical cost trend. First of all, just stepping back we would remind you, within our book of business, 85% of the clients are in self-funded arrangements, where the medical trend directly benefits the clients and even the other 15% of the book of business that's in insured arrangements, much of that is in arrangements where the trend also directly impacts how we rate and things along those lines. So I mentioned that, because I think the context of having the alignment of incentives provides a really important impact and effect in helping work to impact medical cost trend overall. Now, with respect to our lowered expectation of moving the trend to 3% to 4% for the full year, I would note a couple of dynamics. First of all, if you think about the specific categories, inpatient, outpatient, pharmacy and physician, each one of those different dimensions, we would continue to expect to be in that low to mid-single-digits range that I've referenced even in prior calls. Within the quarter specifically, the areas that improved -- that drove the improvement in result overall, I'll point to pharmacy and inpatient in particular now being lower in the range than they were previously, but in aggregate continue to expect each one of those categories to be in that low to mid-single-digits range and overall, we're really pleased with the overall impact that we're able to drive here.

Christian Douglas Rigg - Deutsche Bank AG, Research Division - Research Analyst

Great. And then a follow-up, not a follow-up, just changes the Medicare Advantage. Can you give us a sense for how you think you're positioned for next year for growth? And whether you think you'll be able to grow in line with the market or potentially even better given you've been out of the annual enrollment period for a while?

David M. Cordani - Cigna Corporation - President, CEO & Director

Chris, it's David. As I briefly referenced in a prior question, our view is we are positioned to grow in 2018. We were back in the selling process in July, August, September, albeit small months and we were able to test the market from that standpoint. We had a high alignment and demand with our physician collaborative partners in existing markets. Specific to 2018, we will grow revenue and we will grow customers. Our expectation is we will grow at a rate lower than the market average in 2018 for 3 reasons: One, we are reentering the market and we want to be honest relative to that process; two, we've strategically exited some counties in 2018; and 3, we are not entering new markets in 2018. Even when you take all that



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together, we'll grow revenue and lives and position ourselves really positively to build off that momentum as we step into 2019 and revert growing at least in line with the market average off of our strong core and entering new markets in '19 and beyond.

Operator

Our next question is from David Windley with Jefferies.

David Howard Windley - Jefferies LLC, Research Division - Equity Analyst

So David, as you think about, kind of, the evolving landscape on the pharmacy side, pharmacy benefit management and delivery channel chain, how do you characterize Cigna's cost position in pharmacy? I'm thinking about kind of beginning with OptumRx' developments and continuing on the potential competitor of yours combining with the pharmacy. How do you consider Cigna's pharmacy cost position?

David M. Cordani - Cigna Corporation - President, CEO & Director

David, we have, for quite some time, viewed that the pharmacy business, the integration of pharmacy, the coordination of pharmacy services as quite an important part of our offering in our strategy. Today, we operate a high-performing, innovative and, importantly, integrated pharmacy business. We have a proven approach with the ability on a targeted basis to partner with others to create step functions of value for the benefit of our customers, and we continue to invest in capabilities in our pharmacy business, technology, services, programs as well as talent. As a result, our pharmacy business units continue to grow. As Eric previously referenced, we're delivering, yet again, another year of industry-leading medical cost trend. The pharmacy component is a contributor to that. And we feel quite good about it. And as we look forward, we'll continue to invest both in technology capabilities and service expansions for our business. So net-net, we feel quite good about our positioning, the integrated approach and we see further opportunities to both grow the business and drive further integration with our healthcare delivery partners.

David Howard Windley - Jefferies LLC, Research Division - Equity Analyst

And then, a quick follow-up on Medicare Advantage. You've commented on 2018. How do you think about investments that you might make in 2018 to help or bolster that business' position to grow in 2019, thinking particularly around mitigation around Stars?

David M. Cordani - Cigna Corporation - President, CEO & Director

So relative to the business portfolio and the platform, we feel good about the platform we carry into 2018. There's always an ongoing, we'll call it, investment portfolio in every one of our businesses, ongoing innovation and capabilities, be they service, program, in the case of MA, beyond that, there are geographic expansions that we talked about as well. But we feel like we have the right portfolio of talent, technology, tools and a disciplined approach to continue to invest. And we like our positioning for '18 we like our positioning if you look into '19 and beyond and it will continue to be a growth platform for us. So I wouldn't say any massive inflection point change, nor an investment that is necessary in 2018 that would change our earnings trajectory for that business either.

Operator

Our next question will be from Josh Raskin with Nephron Research.

Joshua Raskin - Nephron Research - Analyst

Wanted to focus on the healthcare segment, specifically the international operations within there. And just looking back historically, I think you guys are -- run rate, sort of, \$2 billion International healthcare specific business. And so as I look back at the growth rates, it really hasn't grown as

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fast or certainly not faster than the overall company. So I guess, my question is really around strategic fit. And does this help with the domestic clients? Are there advantages that you see for running that business and then has there been any thought around divesting it in light of some of the volatility that's been seen around currencies and really just revenues out of the last several years?

David M. Cordani - Cigna Corporation - President, CEO & Director

It's David. A few questions embedded there, so stepping back first and foremost, we operate a diverse global platform of businesses, as you know. Businesses that include highly innovative direct to consumer solutions, not the business you're making reference to. Secondly, a business portfolio that has comprehensive global and coordinated health care solutions for the globally mobile population, and we sell that to Commercial Employers, IGOs, NGOs, et cetera. And then increasingly on a targeted basis, in-country healthcare coordination for the benefit of multinational employer clients. Specific to your question, the Global Employer business has confronted a couple of years plus of a meaningful customer and revenue headwind that has been on a sub-slice of the business that has dampened the revenue growth in that business. And it's specifically tied to the wind-down of the 2 wars that the U.S. has been involved in, obviously in Iraq and Afghanistan and the Defense Base Act. We were and continue to be a major supplier of services, service coordination and service delivery for those suppliers of resources that wrap around the war effort in terms of the contractors who wrap around that. As those wars have wound down, which is a net societal good, that business has dissipated massively. We've been able to offset that with fundamental growth but it has meaningfully dampened the net revenue growth of the business, and we see that chapter is having largely come to a completion in terms of the dissipation of revenue. Lastly, we see this part of our business is leverageable for our Global Employers and the vast majority of our employer clients are multinational and the vast majority of those employers are looking for additional solutions to either fill or supplement what different countries are affording on a go-forward basis and we're well positioned relative to that business. So we're excited about that growth opportunities looking forward.

Joshua Raskin - Nephron Research - Analyst

All right. That makes a ton of sense. Is there a way to quantify the global employer portion of that sort of \$2 billion of annual revenues?

David M. Cordani - Cigna Corporation - President, CEO & Director

You know Josh, what we'll do is, we'll take that away and as we provide guidance for '18 and beyond, we'll take away the challenge to embellish a bit further. But as you note, our Global business in aggregate continues grow. You've mentioned FX as well. Within the Global Employer business, the FX, kind of, nets itself in a different way because we're matched globally relative to that business. But we'll take away the opportunity to provide you some more insights as we talk about our Commercial business on a go-forward basis.

Operator

Our next question will come from Ralph Giacobbe with Citi.

Ralph Giacobbe - Citigroup Inc, Research Division - Director

David, you've talked about the \$7 billion to \$14 billion of deployable capital in the past and how you, sort of, won't sit on it. So if you can just update us on sort of timing or approach to M&A, obviously, a lot of different headlines out there, how does or doesn't that impact your approach and timing?

David M. Cordani - Cigna Corporation - President, CEO & Director

Sure. Ralph, so big picture, our capital deployment strategy and priorities have not changed. It's important to process that with our current capital health and our projected capital health as a direct result of having well-performing businesses that are high margin and we have a successful track



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record of converting earnings to free cash flow as well as the disciplined capital management priority within the corporation. As you know, our priorities remain: ensure our businesses are well capitalized and supported for ongoing growth, pursue strategic and financially attractive M&A and then return excess capital to shareholders largely through share repurchase. As Eric noted in his prepared remarks, year-to-date we repurchased about \$2.3 billion of our stock. We entered the year and indicated that we expected to purchase at least \$2 billion. And then would note, we have about \$1.4 billion share repurchase authority currently approved based on our board of directors. And as we go forward, we'll continue to look at a whole variety of deployment opportunities consistent with those 3 set of objectives, strategic M&A to share repurchases, item #3, our businesses are well capitalized for growth, and we continue to invest appropriately in CapEx investments for our business. So stay tuned for more as we step into 2018.

Ralph Giacobbe - *Citigroup Inc, Research Division - Director*

Okay. And then just second question. There's been some debate on whether Commercial risk involvement more broadly popped a bit this year just due to HIF holiday and the idea that maybe, we sort, of reverse course and see a bigger pop in ASO next year with HIF just coming back in. Do you agree -- are you seeing that in terms of pipeline next year and is that what sort of given some of the confidence around what seems to be maybe outsized growth, particularly within the Select segment?

Eric Palmer - *Cigna Corporation - Executive VP & CFO*

Yes, Ralph. It's Eric. Maybe just a couple of comments on that front. So overall, within our guaranteed cost book of business, we have a nice growth there this year and I'd break it into a couple of categories. First of all, a meaningful portion of that's been just growth in our individual business. The remainder of it was really split between national accounts and the Select segment and within the national accounts, more oriented towards continued growth in our participation in different private exchanges and the other piece of it was within the Select segment. Now, within Select, by the time you split it into those buckets, think of that as you have less than 100,000 lives of guaranteed cost growth in the Select segment. We've had good growth and momentum in Select for a number of years now across both guaranteed cost and the ASO funding arrangements. So again, it wouldn't point to a sea change in terms of the buying characterizations or criteria for 2017 and I continue to feel like we've got good momentum, as David noted in a prior comment as we think about Select going into 2018. So overall, a good traction in both but wouldn't point to a sea change in terms of the differences in buying behavior or anything along those lines.

Operator

Our next question is from Gary Taylor with JPMorgan.

Gary Paul Taylor - *JP Morgan Chase & Co, Research Division - Analyst*

I just wanted to clarify something and then ask my real question. I think it's pretty clear, but worth clarification. So when you talk about the 7% to 9% organic earnings growth on top of the adjusted net income numbers, you also have a long-term stated goal of 10% to 13%, including capital deployment. So I had a couple of questions about it already, so I just want to make sure that both of those long-term targets are still in place.

David M. Cordani - *Cigna Corporation - President, CEO & Director*

Good question, Gary, it's David. Absolutely. In addition, just to amplify that, you recall from our dialogue at our Investor Day, we put forth an EPS goal for 2021 of \$16, and we remain on track to achieve that goal and objective, which reinforces your question relative to our long-term average growth objectives of 10% to 13% EPS, as well as the -- as Eric and I referenced, the 7% to 9% range organic earnings growth and residual being capital deployment.

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James Sung - *S&P Global Ratings Inc. - Credit Analyst*

I knew that was the answer, but I just wanted you to say the rest of it so people didn't feel like there was any change. My real question was going to the Global Supplemental business, which has performed really well. But even within that, we're just noticing U.S. revenue up 39% year-over-year has really accelerated. Maybe could you just, obviously, your second largest market in that business, could maybe just touch a little bit on what products are selling so much better in the U.S. and why?

Eric Palmer - *Cigna Corporation - Executive VP & CFO*

Gary, it's Eric. The primary business in that segment is Medicare Supplement business. That's the largest piece, but it's not the only piece. And we continue to have good growth in both the Medicare Supplement business, as well as other individual supplemental types of benefit programs and such. But in terms of the biggest driver of the growth, it's Medicare Supplement, it's a business that's performed well for us.

Gary Paul Taylor - *JP Morgan Chase & Co, Research Division - Analyst*

And any obvious reason why it's done so well this year or why it's picked up? I mean, more targeted efforts selling the product or new states? Or any obvious comment?

Eric Palmer - *Cigna Corporation - Executive VP & CFO*

Gary, this is a business that we acquired, a platform a few years back now and have continued to invest into new capabilities. In terms of the percentage growth, it's off a pretty small base. So as we focused on growing this business with new charters and new product features and such, we've been able to achieve a competitive product, but the percent growth is off of a relatively small base and I continue to see opportunity in front of us there.

Operator

Our next question comes from Christine Arnold with Cowen.

Christine Mary Arnold - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

You've talked repeatedly on this call about the penetration of specialty and other solutions. Can you delve a little bit more into that? What products are you seeing really driving that commercial growth? And going into '18, where do you see that momentum? And was there anything in Life and Disability, which improved really remarkably that was not in-period or nonrecurring or is this a good run rate?

David M. Cordani - *Cigna Corporation - President, CEO & Director*

It's David. First importantly, when we think about, as I noted before, the specialty portfolio, we don't think about it simply as a cross-selling opportunity. That chapter has long since passed. We think about it as how do you get the right dimension of integrated solutions for the benefit of employers and, ultimately, their employees, our customers. You can think about, as a cornerstone for us, we've been able to provide an outstanding result for the benefit of clients and customers when you have at a minimum an intersection of medical, pharmacy, behavioral, that takes you to, kind of, life management as well as targeted population health solutions, operative term, targeted. So you mine the data, you understand the health burden and health challenges of an employer client and then you have targeted population-based health programs. Beyond that, then there's additional services. Our dental portfolio continues to perform extraordinarily well. There's additional service that's built up above and beyond that. Lastly, as an example, while the market may not think about it as a specialty offering nor do we, in a classic sense, we reference One Guide with 2 million lives on it this year, going to 4 million lives next year, it's a tremendous customer engagement, customer navigation support set of capabilities that both individual customers benefit from as do our clinical and service coworkers in terms of driving that on a go-forward



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basis. So the key is there's a foundational body between the medical, pharmacy, behavioral and life management and then we augment that and then bring additional services and tools beyond that. As it relates to Life and Disability, no. Not any one unique item, especially from a one-timer standpoint. We're quite pleased to see the trajectory and the momentum that we've been able to build in 2017, and we remain fully on track with our goal, which is to step into 2018 with our underlying run rate health for that business.

Operator

Our next question is from Ana Gupte with Leerink Partners.

Anagha A. Gupte - *Leerink Partners LLC, Research Division - MD, Healthcare Services and Senior Research Analyst*

On the employer book, you continue to show a great growth on all of the segments, Select, Stop Loss, middle market, and you almost doubled your individual book. Would the executive order moving to short-term policies, bare-bones, association health plans and you used to have Star HRG and much more off-exchange presence? How do you see all of that playing out in terms of your membership growth and margins for '18?

David M. Cordani - *Cigna Corporation - President, CEO & Director*

Ana, it's David. Relative to 2018, as we've discussed previously, big picture, we see another year of attractive growth. Top line revenue growth, customer growth and earnings growth. Specific relative to the executive order. It's clear that the individual market and the overall ACA components continue to evolve. We'll stay rather close to it as the executive order is internalized by all the respective agencies and the specific regs, rules and otherwise are promulgated throughout 2018. We've been able to position ourselves well with the diverse portfolio, as you very well made reference to products, programs and services, both in medical as well as specialty, various funding opportunities. And I appreciate your recollection, we have a past track record relative to supplemental alternative benefits and all those remain vibrant. I don't believe and we don't project for that being a step function in 2018. There's too many forces moving. If it did present itself as the final EOs are converted, the EOs converted down to rules and regs, we would clarify that in a quarterly call in 2018 if we see a step function. But right now, the very attractive growth we have projected is in more of an as is state off of our current portfolio.

Anagha A. Gupte - *Leerink Partners LLC, Research Division - MD, Healthcare Services and Senior Research Analyst*

Okay. On the Global Supplemental, if I could pivot, your margins have been really good, you've had about 150 basis points this quarter or maybe even more. Do you see that as a sustainable margin expansion trend and you have about 1 million policy growth in Korea and in China JV mainly and how does that look to you for '18?

Eric Palmer - *Cigna Corporation - Executive VP & CFO*

Yes, Ana. It's Eric. In terms of the margin and such, again, as we noted in the prepared remarks, we overall continue to have really a favorable experience, and continue to be really pleased with the momentum we've got in this business. I would think of the margin going forward, plus or minus within the range of where we've been since would not be thinking about the performance as strictly a one-time item or anything along those lines. There's normal ebbs and flows in terms of things around seasonality as well as just the variability in this business. But again, order of magnitude, feel good about the margin profile that we've delivered in this business over some time and that we've delivered this year. With respect to growth, again, not providing the detailed guidance and such here today but we continue to have a good momentum in terms of distribution in GSB overall, and would see that continuing.

Operator

Our last question is from Zack Sopcak with Morgan Stanley.



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Zachary William Sopcak - *Morgan Stanley, Research Division - VP on the Healthcare Services and Distribution Team*

I just wanted to go back to medical trend for a second, and I appreciate all the color that was given and the specific dynamics that helped out with the quarter. I was wondering when you think about going to 2018 and then especially with your book where you mentioned they're incentivized to help impact trend, do you see continuing to move towards decelerating trend? Or do you think it's safe to think about just going back to more normalized levels as we look to next year?

Eric Palmer - *Cigna Corporation - Executive VP & CFO*

Zack, it's Eric. Just a couple of comments on the medical trend going into next year. We are not providing the detailed guidance as we go into 2018 at this point in time, but I would note that the underlying forces that have served us well in delivering this trend for a number of years fundamentally continue to work well and would expect them to continue to be in play as we look ahead to 2018. We always approach our future guidance and our future trend expectations based off of a number of factors, based on what we know about emerging technologies and changes in pharmaceutical, et cetera, et cetera, and we'll factor that all in to play when we'll provide our guidance for 2018, but the fundamental underlying effectiveness of our trends and such, we would expect to continue as we go into next year.

Operator

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

David M. Cordani - *Cigna Corporation - President, CEO & Director*

Thank you. To wrap up our call, I'd like to highlight just a few key points from today's discussion. We achieved substantial earnings growth in the third quarter driven by continued momentum across each of our businesses. Collectively, these results, combined with our exceptional capital position and ongoing free cash flow generation give us confidence that we will achieve our increased 2017 outlook and enter 2018 with considerable momentum. In a disruptive environment, Cigna's strategy of Go Deeper, Go Local and Go Beyond, serves as our guide to value creation in each of our targeted growth platforms, including our Commercial Employer segment, our U.S. Seniors business, our Global Supplemental Benefits business and our Group Disability and Life segment.

Further, our exceptional capital position today and continued strong free cash flow that our operating businesses are generating enable us to both continue to invest back in our business to drive growth and expanded solutions for the benefit of our customers and clients and strategically position us for long-term growth by pursuing attractive inorganic opportunities to further develop capabilities aligned to an evolving marketplace as well as effectively return excess capital to our shareholders.

Finally, with respect to our initial outlook for 2018 expectations. We will continue to organically grow our businesses in terms of revenue, earnings and customers over our increased 2017 outlook, driven by 4 well-positioned growth platforms, a clear compelling strategy and a team of outstanding talented deployed around the globe. We thank you for joining our call today and look forward to our future conversations.

Operator

Ladies and gentlemen, this concludes Cigna's third quarter 2017 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) 945-7247 or (203) 369-3951. Thank you for participating. We will now disconnect.



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