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CI.N - Q1 2020 Cigna Corp Earnings Call

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OVERVIEW:

Co. reported 1Q20 consolidated adjusted revenue of $38.4b, consolidated after-tax earnings of $1.76b and consolidated EPS of $4.69. Expects 2020 consolidated adjusted revenue to be $154-156b and 2021 EPS to be $20-21.

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PRESENTATION

Operator

Good morning. Ladies and gentlemen, thank you for standing by for Cigna's First Quarter 2020 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. William 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. As we begin our call, I would note that we are practicing appropriate social distancing. And as such, are dialed into today's call from separate locations. I would ask for your patience, should we, as a result, encounter any technical difficulties.

With me on the line 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 first quarter 2020 financial results as well as an update on our financial outlook for 2020.

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 2020 and future performance. These statements are subject to risks and uncertainties that could cause actual results to differ materially from our current expectations.

A description of these risks and uncertainties is contained in the cautionary note to today's earnings release and in our most recent reports filed with the SEC. Before turning the call over to David, I will cover a few items pertaining to our financial results and disclosures.

Regarding our results. In the first quarter, we recorded after tax special items netting to a charge of $191 million or $0.51 per share. As detailed in our financial supplement, special items in the first quarter included expenses associated with the previously disclosed early extinguishment of debt as well as integration and transaction-related costs and other matters. As described in today's earnings release, special items are excluded from adjusted income from operations in our discussion of financial results. Please note that, consistent with best practice, when we make prospective comments regarding financial performance, including our full year 2020 outlook, we will do so on a basis that excludes the impact of any future share repurchases or additional prior year development of medical costs.

Also, we disclosed prior year development on both a gross and net basis in our release this morning. Going forward, we will only report this measure on a gross basis, consistent with industry practice. Additionally, our outlook for 2020 assumes a full year of earnings from Cigna's Group Disability and Life business. We continue to expect our divestiture of that business to be completed in the third quarter of 2020.

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

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Thanks, Will, and good morning, everyone. Thanks for joining our call today. I'd like to begin by acknowledging the unique and unprecedented challenge of COVID-19's global pandemic, and the tireless effort of those on the front line caring for patients in need.

At Cigna, we have worked to ensure the health and safety of our customers, patients and colleagues, and we will continue to partner across the system to lead through this crisis. While the COVID-19 emergency understandably and rightfully dominates much of our focus, we do want to take advantage of our time together today to provide you with an update on our first quarter results and our outlook for the balance of 2020. Following my comments, Eric will share more detail about our first quarter financial results and expectations for the balance of 2020, then we'll take your questions.

Let's begin by discussing the rapid and decisive steps we have taken to respond to the COVID-19 crisis. From the beginning of this health emergency, we established 3 primary goals for response efforts.

First and foremost, to attend to the needs of our stakeholders across the globe. For customers and patients, we have taken steps to remove costs and barriers for testing and treatment, ensure they have access to the medications and expand access to care, including through additional telehealth services for medical, behavioral and recently for dental health.

For our clients, we have leveraged our consultative approach and proactively provided them with support and services they need. This includes serving as trusted advisers for those seeking guidance on how to navigate this dynamic and challenging environment and providing relief for those in financial distress.

For our health care provider partners, we have given them administrative as well as targeted financial support. Additionally, in partnership with New York Life, we have created the Brave of Heart Fund for the true heroes of the COVID-19 crisis. This fund, with contributions from our respective foundations, aims to provide $100 million or more in monetary and other assistance to frontline health care workers, their support teams and their families.

We're proud to have taken this action, which reinforces the service orientation of both Cigna and New York Life, as we work together on an accelerated basis to bring peace of mind to the brave men and women who are so valiantly serving our communities. Additionally, for our 70,000 colleagues around the globe, we've also taken appropriate steps to protect their health and well-being. For example, we are providing premium pay for those essential workers whose jobs continue to be Cigna-site dependent. And we are providing 10 additional days of emergency time off to cover absences related to the virus and allow our coworkers to care for themselves and their loved ones during this challenging time.

Our second goal in responding to the COVID-19 crisis is to ensure that we maintain a healthy organization that is well positioned to deliver significant value for all of our stakeholders today and into the future. We know and appreciate the fact that many are depending on us now more than ever, and we need to be there for them in this time of crisis and beyond. We are focused on balancing all of these needs and ensuring we maintain the strength of our franchise by continuing to invest in growth, our capabilities, ongoing innovation and in our talent.

Finally, another key goal of our response to COVID-19 crisis is to ensure we are a proactive part of the solution, partnering both at national as well as local levels. We have played an active role in driving a high level of collaboration across government, not-for-profit and private sector organizations in response to this pandemic. While we are proud of our response to date, we will continue to drive our entire organization to give voice to and work for the benefit of our key stakeholders.

Now turning briefly to our results. Our first quarter results were strong. Consolidated adjusted revenue grew to $38.4 billion, and after-tax earnings grew to $1.76 billion, including high single-digit earnings growth in our Health Services business, which was somewhat ahead of our expectations. Our team achieved these results through focused execution of our business strategies and by continuing to expand key relationships and partnerships and working to make health care more affordable, predictable and simple.

Now the strength of our first quarter results, driven by the performance of our underlying fundamentals, reinforces our confidence that our well positioned, diverse, health service portfolio will again deliver attractive top line and bottom line growth in 2020, including strong cash flows. As such, we are reaffirming our full year EPS outlook of $18.00 to $18.60. While the impact of COVID-19 is still developing, we clearly see headwinds driven by the recession that it's causing, including, for example, disenrollment within our commercial customers, both in our Integrated Medical business as well as our Health Service business, as well as some pressure in our Group Disability business.

As for medical cost, we expect somewhat offsetting impacts from elevated COVID-19 claims cost and lower medical costs from deferred procedures. We fully recognize this is a dynamic environment. However, we expect the strength of our first quarter to drive us to another strong year for revenue, earnings and free cash flow, all while we continue to invest in and support the needs of our key stakeholders.

As we look forward, there is no doubt that COVID-19 pandemic has highlighted opportunities for improvement in the health care system, which we believe will accelerate change in our industry. This evolution is likely to usher in a new call for and embrace of innovative and disruptive solutions, a new wave of broadened partnerships, and a need for even greater levels of differentiated value in the marketplace.

At Cigna, we have both the capabilities and orientation to further differentiate ourselves in this rapidly evolving industry. The work we have done to harness the full capabilities following our combination with Express Scripts, has positioned us to deliver exceptional value for the benefit of our customers, patients and clients in an environment that is demanding solutions to health care's most pressing problems. To achieve this, we have deep and broad clinical strength from our medical, behavioral and pharmacy services and broad data and insight capabilities. In addition, we have substantial financial strength and capital health, aided by our capital-light framework, as we have positioned our company not to be tied to capital-intensive investments in bricks-and-mortar assets or care delivery ownership. This gives us tremendous strategic flexibility and positions us to drive forward with solutions that make health care more affordable, predictable and simple for those we serve.

Our approach is further fueled by our partnership orientation. Recent examples include MDLive and Buoy Health, each of which make it more simple for individuals to access care. With MDLive, for example, earlier this year, Cigna became the first partner to offer virtual care for annual checkups. And as the COVID-19 crisis evolved, we temporarily transferred hundreds of our nurses and physicians to MDLive to further expand their capacity.

With Buoy Health, in January, we harnessed Buoy's capabilities to quickly launch an early intervention tool, which is now available to assess COVID-19 risk for individuals in the U.S. With this innovative technology, customers can assess their symptoms and make informed decisions about their next steps for care, all within the comfort and safety of their homes. MDLive and Buoy Health are just two recent examples of our broad portfolio of partnerships around the world.

Now to summarize. Cigna's strategic framework provides us with the foundation to respond quickly and effectively to the COVID-19 health emergency, all while we delivered strong first quarter results. We have expanded our services and support for our customers, patients, clients, health care partners, colleagues and communities, all while continuing to ensure that our company remains well positioned to deliver value whenever and however it is needed, both today and into the future. This fuels our expectations of delivering sustained attractive top line and bottom line growth in 2020 and continuing in 2021.

Now none of this will be possible without the hard work and dedication of our colleagues around the globe. Every day, their commitment and passion embodies our mission to improve the health well-being and peace of mind of those we serve. This has never been more clear and defining than over the last several months, as they have stepped up in countless ways to support the needs of our key stakeholders around the globe at a time when they most need us.

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

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

Thanks, David, and good morning, everyone. In my remarks today, I'll briefly review key aspects of Cigna's first quarter results, discuss our outlook for the full year, inclusive of the impacts and our response to the COVID-19 pandemic. And although my remarks today will be primarily financially focused, I'd like to acknowledge that in full alignment with Cigna's mission and strategy during these uniquely challenging times, our company is focused on serving the needs of our customers, our clients and our providers as well as ensuring the safety of our employees.

Now regarding our first quarter consolidated results, a few key financial highlights include adjusted revenue of $38.4 billion, adjusted earnings of $1.76 billion after tax, adjusted earnings per share of $4.69 and continued strong operating cash flow of $1.9 billion. Cigna's first quarter results reflect the underlying strength of our businesses and the value we deliver to our customers and clients.

Within our business segments, Health Services, Integrated Medical and International, all performed at or somewhat ahead of our expectations. But also note that given the timing of the pandemic's onset and progression in the United States, its impact to first quarter results was limited. Overall, Cigna's first quarter results demonstrate the strength of our diverse portfolio of businesses, each of which remains intensely focused on improving the health, well-being and peace of mind for those we serve.

Now as we look to the balance of 2020, I'd start by observing that at Cigna, we fully recognize that we are in unprecedented times as we navigate the ongoing COVID-19 pandemic, and I'm proud of the many ways that Cigna is responding with an acceleration of our efforts in the marketplace to make health care more affordable, predictable and simple. We're partnering across the ecosystem, and we are leading in providing resources and services as well as in adapting plan designs to ensure we're meeting those needs. Aided by our strong and diverse portfolio of businesses, we are reaffirming our full year 2020 outlook for consolidated adjusted revenues in the range of $154 billion to $156 billion.

And to put some additional context around our full year expectations for adjusted earnings per share, I'd remind you that Cigna ended 2019 with considerable strength and momentum across our businesses, and that carried through to the first quarter, with strong underlying fundamentals, evident in both results above our previous expectations and in the meaningful amounts of capital we deployed, including ongoing reinvestment for growth, debt repayment and returns to shareholders through share repurchase. And we recognize the COVID-19 pandemic presents challenges for all businesses and Cigna is no exception. In the first quarter, we saw the onset and incidence of virus begin to ramp globally, but its pace and the diversification of our businesses resulted in a limited impact. Over the balance of this year, we expect headwinds to our performance from the pandemic to include declines in customers across our commercial employer and Health Services businesses relative to our prior expectations and some unfavorability in our Group Disability business.

Regarding medical costs, we expect higher costs associated with COVID-19 treatment, offset by lower levels of utilization related to the deferral of procedures. Now it's important to note that we serve 85% of Cigna's U.S. Commercial customers through self-funding arrangements. And as such, our medical cost performance is highly aligned with our clients. The quarterly progression of earnings within Integrated Medical will vary somewhat from historical patterns, with lower utilization expected in the second quarter and an expectation of elevated services in the back half of 2020.

From an enterprise perspective, I'd highlight that we continue to expect strong volume growth this year in pharmacy services, Specialty Pharmacy care and in Medicare Advantage, all while we continue to drive overall expense efficiencies. These considerations underscore the strength and diversity of our portfolio of businesses, which continue to deliver solutions directly aligned with marketplace needs. Throughout the year, we will continue to invest in innovation and in capabilities to serve our customers and clients and have the ability to flex to meet their needs.

Impacts from COVID-19 to our financial outlook will be influenced by the duration and the extent of the pandemic and the related economic and employment challenges. We will continue to monitor developments related to the pandemic as we progress through the year, and are committed to supporting our customers, clients, health care partners and communities as they confront the many challenges this environment presents.

To enable our customers and clients to better afford and access care, we are working to customize our solutions and arrangements as well as leveraging our partnerships with the health care delivery system. Taken as a whole, we continue to expect full year consolidated adjusted earnings per share in the range of $18.00 to $18.60.

I would also remind you that our financial outlook excludes the impact of future share repurchases and any additional prior year reserve development and also assumes a full year of contributions from our Group Disability and Life business, although we continue to expect our divestiture of that business to close in the third quarter. Overall, these expected results are driven by strong underlying fundamentals, disciplined expense management and deployment of capital, partially offset by pressures associated with the COVID-19 pandemic.

Now moving to our 2020 capital and liquidity position and outlook. Our capital-efficient businesses generate a substantial amount of cash flow, which provides us with financial flexibility, particularly in times of stress. In the first quarter, we generated $1.9 billion of cash flows from operations. We also deployed $1.1 billion to debt repayment in the first quarter. And on a year-to-date basis, we have repurchased 5.9 million shares of stock for $1.1 billion. For 2020, we continue to expect greater than $7.5 billion of cash flow from operations, reflecting the strong capital efficiency of our well-performing businesses.

Looking to our liquidity and flexibility, as of March 31, 2020, we had $1.6 billion of cash available to the parent. In April, we entered into a term loan for $1.4 billion to further enhance our current liquidity position in light of disruptions in the commercial paper market. We feel very good about the cash flows that our businesses generate and our overall liquidity. And I would also note that we have access to an additional $4.25 billion in committed and untapped revolving lines of credit.

Finally, we're on track to close the sale of our Group Disability and Life business in the third quarter, generating $5.3 billion in net proceeds, which we expect to deploy to share repurchase and debt repayment in 2020. Our debt to capitalization ratio was 44.7% as of March 31, down from 45.2% as of December 31, 2019, and we remain on track to return our debt to capitalization ratio to the upper 30%s by the end of 2020. Our balance sheet and cash flow outlook remains strong, benefiting from a highly efficient, service-based orientation that drives strategic flexibility, strong margins and returns on capital.

Now to recap, against the challenging backdrop of the COVID-19 pandemic, Cigna has intensified our focus on delivering exceptional value for the benefit of our customers, patients and all of our stakeholders. We're fully committed to ensuring the safety of our employees, providing continuity of services for our customers and clients, and working collaboratively with physician partners. We're also doing so while seeking to deliver differentiated, sustainable value back to our communities.

We ended 2019 with strength across our diversified portfolio of global businesses, which we carried through to a strong first quarter performance. The fundamentals of our business are strong and durable, which positions us very well to support our customers, clients, health care partners and communities in this challenged and dynamic environment.

While the mix of these contributions is somewhat different, we expect these strong fundamentals across our diverse portfolio of businesses to enable us to manage through the various impacts of the current environment. And as such, we're reaffirming our full year adjusted EPS outlook for 2020 and remain committed to our objective of achieving $20.00 to $21.00 of earnings per share in 2021.

With that, I'll 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 A.J. Rice with Credit Suisse.

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

Just wanted to ask, you're reiterating your outlook for 2021. Clearly, there's a more uncertain economic backdrop today than there was when you originally gave it or even 6 months ago. What -- as you think for your business lines, should we assume that, that reiteration reflects the fact that you had so much momentum that you've got some cushion in the numbers? So even if the economic environment turns out a little tougher, you're okay? Or should we assume that maybe you don't think the business will be impacted that much by the economic environment. Can you just flesh out why you're confident in reiterating the 2021 outlook?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

A.J., it's David. So for 2021, for context, first and foremost, you know that we established that target when we announced our combination with Express Scripts over 2 years ago, and since then we have remained on track to achieve it. We recognize, no doubt, that the current environment is highly disrupted. However, we believe the goal is both achievable and remains an appropriate target. You're correct. I wouldn't use the word cushion, I would use the word momentum and strength. So we've been able to effectively execute our integration, and that remains on track and performing quite strong. The core businesses within our portfolio, our service-oriented portfolio with diverse solutions and diverse funding mechanisms to be able to flex in a very dynamic marketplace and environment from that standpoint.

And when we look at our performance stepping in through 2020, when we consider our first quarter results through and then carry through the month of April as we look at our results, we believe that target is still appropriate and achievable from that standpoint.

I would note, clearly inferred in your comment, the biggest wildcard for every industry is the -- would be the depth, breadth and duration of a global recession. So that crystal ball no one has perfectly, but the balance of our business portfolio and high-performing diverse business portfolio gives us confidence that that's the appropriate target.

Operator

Our next question is from Gary Taylor with JPMorgan.

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

A few questions. I guess I'll just -- the one I would stick with, can we go to health care services segment, the 12% growth in the EBITDA there was very strong. Can you give us some sense on how much of that was improvement in synergies, core operations versus some pull forward perhaps from the 2Q because of prefills and others?

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

Gary, it's Eric. I'll give you a couple of perspectives on that. So overall, we're really pleased with the performance of the services -- Health Services business in the first quarter. As David noted a minute ago, we've made really good progress in terms of the transition of the Cigna lives in and continue to work on integration and the like.

You referenced kind of the impact of any amounts that were pulled forward and things along those lines. I would note that we had approximately 5 million scripts or 1%, 1.5% of the volume that we ended up having in the first quarter that was -- we view as being pulled forward from later periods, so would point to that as a relatively modest impact in terms of the impact of the results in the first quarter. And more generally, would just come back to strong results and continued traction in terms of the integration program. At last, I would not call out any additional synergies or differences there versus our prior expectations.

Operator

Our next question is from Ralph Giacobbe with Citi.

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

David, I was hoping you could expand your thoughts on sort of the lingering or long-term consequences of COVID and just the potential impact on how you see to your business, both in terms of employer appetite or not for risk-bearing ASO versus fully insured, that holistic approach that you kind of bring to the market with your suite of products. And then just your positioning and interest in segments of the market, like individual or Medicaid, where you've historically been a smaller player.

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Ralph, so if we step back, I think one of the perspectives that the current environment reinforces is the power of and importance of the role of the employer. So stepping back, we need to understand the fact that for an employer to have a vibrant business, they need healthy, productive, present, highly engaged coworkers. And in some ways, the crisis actually reinforces the role of the employer in terms of creating a safe environment, but an environment that actually creates a healthy environment, an environment that has a level of productivity and engagement. And I for one am just pleased to see how corporations have stepped up relative to coworker safety, coworker engagement protocols, even the number of employers that have stepped forward where they had employment dislocation by maintaining continuity of benefits. So point one is we see that as quite important.

As it relates to the funding mechanism, I don't see a broad swing. We don't project forward a broad swing. Having said that, we maintain a diverse portfolio of funding mechanisms, and we offer choice for our employer clients on a regular basis. That has been and that will continue to be a strength. So our ability to have the flexibility, we think, is quite important. But we don't see this broadly swinging one way or the other from ASO to guaranteed cost or vice versa.

As it relates to segment expansion, we've positioned our business portfolio to be able to continue to expand. So our health service portfolio is in really critical, strategic expansion. We're offering a broad array of services, both to corporate clients, health plans, governmental entities, and, increasingly over time, health care delivery infrastructures on all sorts of products and programs and services we see as mission-critical. So cutting across funding mechanisms up through Medicaid from that standpoint.

And then, finally, we've systematically expanded our individual business and our bias is to do so. And as you'll note, my final comment is, from the past, we see over time the state-based risk-bearing program or performance-based program as an additional growth opportunity for us, if there is high level of clinical engagement and clinical coordination. So we like our positioning. We appreciate the role of the employer. Employers are stepping up big in the marketplace today, taking care of their employees as best they can and dynamically doing so. And we see further growth opportunities in our core chassis, in our expanded Health Services as well as individual programs.

Operator

Our next question is from Justin Lake with Wolfe Research.

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

I just wanted to -- I have a question and also a follow up. So first, a follow up on A.J.'s question around 2021. Can you talk specifically about the building blocks that are going better that will offset the potential headwinds to employer growth? And then my question was around share repurchase.

You bought a bunch of stock in the first quarter. Can you talk about the -- potentially into April, can you talk about the timing of that, first of all? And then given that it looks like the repurchase is a little bit bigger than I would have expected, can you talk about, one, is that a repurchase that tied to the -- are you buying back with proceeds that you expect to get from the disability sale in the third quarter? And anything about a potential pause in repurchase relative to what you were seeing kind of others do out there would be helpful as well.

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Justin, you packed a lot in there. So let me take the first and make a qualitative comment on the second, but ask Eric to take the second question.

Broadly speaking, we're not going to walk through the detailed building blocks in 2021. We'll do that when we get into providing detailed guidance for 2021. I would ask you to consider going back and looking at the Investor Day walk through that Eric provided. He put forth the building blocks that exist in terms of cross-walking us from '19 to '20 to '21 from that standpoint.

I'll remind you of a few, just as illustrations for the broader audience, right? The impact of deleveraging, we know it. We understand it. It's more within our control versus not. The impact of synergies, we know it, we understand it. Our integration program is well, well on track and well in hand. Our impact of capital deployment before we get into the foundation and fundamental pieces of the equation, from that standpoint.

And then, finally, inferred in your comment was the effect of disenrollment, two comments. One is, what we're seeing thus far, and it's just that thus far is, both in our Integrated Medical business as well as in our Health Services business, for those corporate employers who had coworker dislocation, fully half of those employers are maintaining continuity of benefits, either through the word furlough or by having layoffs but with benefit continuity, which reinforces an expectation of a more short-lived effect as well as the role that the employers are playing.

And then finally, related to that, our health service portfolio gives us a much broader level of services to offer to the marketplace as opposed to being held to just Integrated Medical sale versus not. The qualitative comment I'd give you on stock repurchases as I hand it over to Eric for more specifics is, we recognize the dynamics of the environment. Just two points. One, our stock repurchase that was done in the first quarter was largely done before the COVID-19 epidemic spiked up intensely in the United States. And secondly, given the unique nature of having a large, strategic divestiture, which is what we have for later this year, that is a more unique event where the responsible thing to do is to put that capital back in our shareholders' hands largely because it is a unique one-time event from that. But I'll ask Eric to expand a little further on the repo.

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

Yes. David. Justin, with respect to the share repurchase, as you noted, we did deploy just over $1 billion over the course of the first quarter. And really think of that as back in the framework that I've talked about in terms of our use of capital and such overall for the year, right? So between the cash flow from operations that we expected to generate as well as the proceeds from the group divestiture that we expect to close in the third quarter, we talked about having both of those as sources of capital available for deployment and that we would navigate toward a year-end debt to capitalization ratio of below 40% and reduce the share count to effectively offset the portion of the year where we don't have the group business so that the impact would be neutral on EPS for the year. And we've got flexibility in navigating through that, and that's the framework in which we deployed the capital in the first quarter.

Operator

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

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

Just wondering, I guess, we can all kind of do the math on how the recession will impact the health benefits side of the business. But I guess if you could talk about the Health Services side a little bit more. It's not a 100% clear to me how that business would be expected to perform in a recession. So any color you can give on kind of typical declines in utilization per person during that -- during a recession as well as kind of your overall membership mix within that, how much of that business is related to commercial members versus serving Medicare or Medicaid numbers through your customers.

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Kevin, it's David. I appreciate your question. Broadly speaking, we would see it just in terms of painting a macro picture. Relative to traditional integrated corporate-facing, medical and integrated benefits, a little less disrupted versus not. Why? Point two is, think about that business as serving corporate clients. Typically, larger corporate clients.

Secondly, health plans with diverse portfolios of services, from commercial through Medicare, Medicaid and other governmental programs and then a large government contract. Second in the services that it provides, those services are somewhat foundational in nature. So the pharmaceutical utilization, broadly speaking, that individuals need do not change dramatically as a result of a recession. It's not a deferrable event typically from that standpoint. So it has a bit more balance in terms of both the diversity of the client base that exists within it and then the core foundational aspect that comes along with it. As I noted to a prior question as well, we're seeing in the Health Services space that for those corporate clients, and I'll ask Eric to give you a little bit more color in terms of broader split in a second, but those corporate clients, those that actually have had a reduction in workforce, fully 50% of them are maintaining benefits on behalf of those individuals. So headline, we see it as a bit less disrupted from a recession versus the traditional business you would think of in terms of measuring it against for the reasons I mentioned. I'll ask Eric to just give you a little bit more color in terms of splits.

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

Yes. Kevin, it's Eric. Maybe a couple of things I would add here to David's answer. So first of all, we did provide some statistics in terms of a little bit of a makeup of kind of the distribution of scripts across the different channels and such back at the Investor Day last year. Order of magnitude, about 400 million of the scripts associated with the commercial business. So a meaningful block of business, to be sure, but one of several different components of the book of business that we have within Express Scripts, so pretty well diversified.

I think David covered the dynamics in terms of the consistency of the volumes and such for the benefit of our patients and such. I think maybe the last thing I would note is just the positive impacts of mail order that we experienced in the first quarter, and we think will be durable here, right? So as we've talked about for some time, mail order carries with it a number of benefits, right? Better dispensing accuracy, once you get on mail order, you're more likely to stay with your prescription, keep -- that helps to keep gaps in care from being remaining open or being open and such. And obviously, we've got quite a leading operation in terms of the home delivery pharmacy. So we feel really good about the ability to use that to help serve our customers as well.

Operator

Our next question is from George Hill with Deutsche Bank.

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

David, I'm really intrigued by your comments on the disenrollment thing that half are maintaining continuity of benefits. I guess are you able to put any more color around the dynamic of the falling enrollment versus falling medical costs? I guess I'm just trying to think about -- obviously, the medical cost seem to keep falling faster. I'm wondering, is that the same in the PBM versus the medical business? And then I guess, do you have any sense of the permanence of the expectations? I'm trying to figure out if this is the difference of getting laid off and getting 6 weeks or 3 months of health care after getting laid off or whether or not employers are looking at this as some type of more permanent set up expecting to bring employees back in the balance of the year?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Yes. No. George, I appreciate it. And it's a bit of a different dynamic that we're confronting on a whole variety of bases. So let's maybe unpack that a little bit. First, on the cost side of the equation, headline answer is no. So what I mean by that is, your inference of a falloff in medical costs, is that similar to the falloff in pharmacy costs? No. Because inferred in your comment is, the falloff in medical cost is correlated to the deferrable experiences in medical. There's not a similar one-for-one correlation in pharmacy as it relates to a falloff.

Now there may be a small amount if there's a deferrable procedure and there would have been a follow-on script of that individual would be taking on the back end of that procedure. But by and large, I would separate those two as having a different effect and a different impact.

Specific to the disenrollment dynamic, point one is, what we see is, corporations -- and it's an important pause moment in the United States, corporations, we see are really striving to, where at all possible, take care of their coworkers, and see this as ideally a more temporary dislocation of their business and hence want to maintain continuity or tethering, meaning ties, positive ties with their coworkers. As such, fully 50%, both in our Integrated Medical and our Health Services business are maintaining benefits with their employees from that standpoint, not with a 30-day time line currently. Obviously, there'll be revisitations of that from that standpoint. But it's a full-on expectation of those individual corporations expecting -- fully expecting to bring business back.

You'll also note -- bring employees back when the business comes back. You'll also note that part of the federal narrative right now is around stimulus evolution and regulatory evolution is providing further evaluation of providing further incentives and subsidies to employers, beyond the small employer subsidy, around the benefit continuity because the data would show that the benefit continuity is better for society at large by keeping people healthy in the first place from the transition standpoint. So point is, it's a unique time. Corporations are reaching, I think, constructively, where at all possible, both large, medium and small, where possible, to maintain that level of continuity in evolving governmental posture around providing additional incentives or support to be able to do so. Hope that's helpful.

Operator

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

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

So when we think about the progression, to your point, that there's a lot of uncertainty regarding the timing. But if we think about a scenario of a second surge, and you think about the balance of continued falling medical costs versus more severe unemployment, do you still feel comfortable under that type of more bearish scenario in the 2020 -- in the 2021 numbers that you provided?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Ricky, I appreciate your framing. Clearly, there's a lot of scenarios, and clearly there's uncertainty. So we agree on both. We -- I don't think it's constructive to take multiple different hypotheticals and then try to pinpoint how an individual lever would move within that scenario at any given point in time. But we recognize, and I appreciate your framing, there are multiple scenarios that exist. Our view is that as we've played through a variety of scenarios and a variety of sensitivity tests in understanding what we have within our control in terms of running our business that the reaffirmation of our EPS as well as our revenue outlook is appropriate for 2020.

And as I noted to the prior questions, the leverage we have within our control, as we best understand the environment right now, for 2021 that target is also appropriate and achievable for our corporation from that standpoint. The last thing I would say is, the whole notion relative to a second surge or otherwise, we've seen elevated experiences now that society is adjusting to, and we would expect to see further adjustments in both clinical protocols, community protocols, the way in which businesses operate from a more flexible standpoint, and we would expect to see further evolution, accelerated evolution of treatments, ideally beginning to be introduced to the market in the second half of this year as well. But having said that, we continue to believe that our outlook for 2020 is an appropriate outlook and an achievable outlook for us.

Operator

Our next question is from Robert Jones with Goldman Sachs.

Robert Patrick Jones - *Goldman Sachs Group Inc., Research Division - VP*

I guess just following up on the Health Services segment, the retention rate you guys laid out, obviously, looks pretty solid as you think about 2021. I'm just curious, how this selling season, it's early, has progressed, just given -- I can only imagine payers are doing benefit managers that payers are dealing with a lot of other distractions right now. So wondering if that's adding to maybe a reluctance to explore switching? And then conversely, do you think because of those dynamics that there might be less opportunity this year for net new wins just given that the retention rates across the board might in fact be higher?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Robert, it's David. So let me frame that in two dimensions: Health Services and then a little bit of walk over to Integrated Medical. But specific to Health Services, we're delighted. We're pleased with the strength, and we would view the 96% to 98% expectation for retention rate yet again for 2021 to be really, really strong.

Now that's delivered with -- as a result of sustained, strong service delivery, the sustained strong pharmacy cost delivery and ongoing innovation. And wrapping around that, the team continue to be consultative in working with our clients.

Specific to that retention rate, I would remind you that, first, you should expect that the health plan portfolio of business, those renewals largely complete and largely completed before the spike of COVID-19. So I would not correlate that result to passivity or reluctance of people to evaluate the marketplace. Secondly, the large corporates within that portfolio also more meaningfully renew on the earlier side of the time line versus not.

Now bridging to your comment, this disrupted environment, I think, creates a higher hurdle rate, all other things remain equal, for a corporation or a benefits manager to introduce even more disruption to their world. I think that's a basic solid tenet to take place because of so much disruption. However, we still see business moving. And that comment carries from Health Services across to Integrated Medical. Because at its core, employers, in the case of this comment now, are still looking for differentiated value and being able to bring them, whether it's an integrated innovative offering, or a coordinated Health Services offering that can deliver innovative step function value. That affordability, predictability and simplification is even more important today. But all things remaining equal, I think your basic tenet is right from this point going forward. In terms of the selling season, there's a bit of a higher hurdle to get across. I just wouldn't draw that conclusion up against the Health Services renewal of 96% to 98% because so much of that would have been completed before the spike of the epidemic.

Operator

Our next question is from Josh Raskin with Nephron.

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

Question around the 2020 guidance confirmation here. There were a bunch of positives, including some favorable development, the tax benefit, something in the international around the accounting change, share buybacks, et cetera. And yet I haven't heard anything on the call that talks about pressures from COVID outweighing the benefits from delayed services and things like that and maybe less impact. So I'm just curious, is it just more appropriate to confirm guidance or am I sort of missing something and maybe the economic impact and lost membership we should be considering more seriously?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Josh, it's David. I appreciate the way you framed the question. So point one is really strong start to the year. Fundamentals are strong across multiple of our business portfolios. And as in the case in most quarters, there were some items that you could call out as potentially being non-run-rateable. Point two, within our international business, there was a large favorable item that came through that aided further the strong fundamentals within the business.

Having said that, we believe the outlook is both appropriate, achievable and prudent, given that we're a bit ahead of our own expectations and the Street's expectations in the first quarter, given the uncertainty that exists in the latter part of the year. So strong fundamentals, top line, bottom line, aided by some items that are non-run-rateable and take the international item as an example. But that added to a strong quarter within international. And as we take it all into consideration, we think it's prudent to maintain our EPS outlook at this point in time, given the uncertainty and potential puts and takes in the second half of the year.

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

Okay. So nothing specific you would point to as a major headwind.

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

That is correct, Josh.

Operator

And our next question is from Scott Fidel with Stephens.

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

You guys have some unique insights into the impact of COVID on the business for a bit of a more extended period due to your exposures to Asia and some of the key markets that have been impacted there. So interested if you can talk a bit about what you're seeing more recently in some of the Asian businesses as those economies have started to open back up at different levels? And specifically just around consumer behaviors, both as they relate to some of the sales trends of your products? And then on how you're seeing health care utilization sort of track a bit later into in some of these markets that have already been experiencing COVID for longer than we have.

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Scott, it's David. I'll grab that. And if I miss anything, I'll ask Eric to add to. Great question. So stepping back, as you articulated, we're a global health service company. So we did have an early look into the COVID-19 dynamic, including our own coworkers in Wuhan. It's a city where we had a meaningful number of coworkers. I'd highlight 2 specific learnings that we're able to take, starting from that, but not limited to that and carrying it forward. And then I'll give you a little bit on the specific part of your question relative to the medical cost, it's a little bit more difficult.

Point one is, we were able to learn, and everybody's learning, how to dynamically flex a global workforce pretty darn rapidly into a work-at-home environment, but not just a simple work-at-home environment, a work-at-home environment with the technology, infrastructure, connectivity and then workflows to keep the execution transpiring, not just in terms of the base of the business, but ongoing innovation, some of the creative work that needs to transpire from that standpoint.

Second, indisputably, we were able to learn and retest the imperative around public-private partnership. In every country we operate in, you see the public-private partnership as being integral to being able to respond to this. From work-site management to worker safety, to testing access, testing protocols, to treatment, to community support, et cetera, et cetera, et cetera. So we saw that in country after country after country, which we would like to believe that helped us be in position in the United States to be able to expect that, proactively reach out for that and engage.

As it relates to the medical cost dynamic, we see more of that through our global employer business. And as you know, covering the globally mobile population, it's a large business, but it's not the same across the globe. So you see really small snippets and bites of that everywhere as opposed to a density of that, broadly speaking, from that standpoint. And my final comment would be, even in the markets that had the earliest onset, we see consumer behavior coming back pretty rapidly, quite rapidly as it relates to the activation of the consumer from a social interaction standpoint to the consuming services to the sale process, including our individual sale process. Eric, anything to add?

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

David, I think you hit the headlines pretty effectively there. So nothing else I'd add at this point.

Operator

Our next question is from Steven Valiquette with Barclays.

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

So similar to many of your managed care peers, you mentioned in your prepared remarks your expectation of lower health care utilization in the second quarter, then elevated in the back half of 2020. By using the word elevated, I guess, just to clarify, are you expecting and budgeting for now that overall health care utilization would be above historical averages at some point in the back half of this year as there's a catch up of deferred care or just elevated versus lower 2Q trends and then basically returning back to normal trends from before any COVID-19. I think there's still some mixed views among investors just on the magnitude of health care utilization bounce back in the back half of 2020.

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

Yes. Steve, it's Eric. I'll start here. Overall, I think just have to recognize, this is a bit unprecedented, right? So stepping into this, I think the things we've been looking at here are, one, it's a pretty different set of dynamics across different geographies. So I think understanding the path and approach across different geographies and how this plays out across different geographies. I would just note, I think there'll be variations there as the COVID impact has certainly been more impactful in some geographies than others. I think that will lead to more disruption in some geographies than in others. So I'd start with that one.

Two, I think we would view that there will be some things that are deferred out of the second quarter, as I noted in my prepared remarks, that will come into the back half of the year. Now I don't think it will necessarily be one-for-one in terms of all of those things that were deferred from the second quarter occurring in the third and fourth quarters, but it's appropriate to think of at least some of those coming back in the back half of the year. And as we continue to progress through this, we'll be working to refine our estimates and keep you posted as we think about it.

David, I don't know what else you'd add there?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Yes. I agree with Eric's comments for sure. I would remind you, Steven, specifically for our business, I ask you to remember, 85% of our commercial business is ASO. So our employer clients are seeing and aligned with what we're experiencing from that standpoint. And even when you carry that forward to our MA portfolio, today, approximately 85% of our MA customers are in a value-based relationship with the health care system from that standpoint. And then a final thought is, we need to think about the capacity, right? The health care systems capacity to either get back to its prior level of utilization service fulfillment versus a massive uptick in that over a short period of time. And I don't mean that in a coded way, we need to recognize the fact that our health care delivery system is taxed right now, different dimensions of it are taxed. But some facilities are redeploying surgeons and otherwise who are not doing deferrable procedures and doing triage procedures or virtual care from that standpoint. So as Eric noted, a lot of uncertainty here, important for us, we're aligned with our employer clients, and they'll see the -- they'll see the benefits of that aggregate cost experience in the first half of the year and a bit more reversion in the second half of the year based upon the scenarios we're operating with right now.

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

Just a very quick follow up on that. I mean some of your peers have provided ranges on what percent of total medical spend that they deem as either non-emergent or elective. Some have also discussed how much that elective care is declining on a percent basis, either in late March or in April. Are you able to share your views on these metrics and trends based on what you're seeing right now?

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

Yes. It's Eric, Steve. Some of our -- some of the most affected markets, you could see care deferrals or reduction in cost of as much as 30% for the first few weeks in April.

Operator

Our next question comes from David Windley with Jefferies.

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

You've commented about certainly kind of COVID/recession impacting membership and that being one of the variables that you are looking at certainly. I'm wondering if, to what extent, you are already feeling that. And if that is a reason for the relatively slow growth in Select and Middle Market membership in the -- here at the end of the first quarter, if that is true? Or is there another reason? And what would that be?

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

David, it's Eric. I'll start and then ask David if he wants to add anything else on here. So overall, broadly, I wouldn't point to the current COVID pandemic as a driver in terms of the membership results we reported from a first quarter perspective overall. And again, just stepping back a little bit, would note we're really pleased with the continued customer growth in the Select segment. So on a year-on-year basis, up about 10% in terms of now versus where we were a year ago. We've talked about it in a lot of different settings, this is a business that grows continuously throughout the year, right? So we've got pretty consistent growth quarter in, quarter out, so again good momentum there. And on a year-on-year basis as well, up a bit in Middle Market.

So again, pretty consistent performance there. So again, I wouldn't point to any disruption in the first quarter actuals as we think about the pandemic dynamic at any broad scale. David, what else would you add?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

The only thing I'd add is to just reaffirm the point, which I think is sometimes maybe lost, is the Select segment ramps throughout the course of the year. And we continue to see the value proposition and the consultative offering we have in that space is resonating quite well.

Operator

Our last question will come from Charles Rhyee with Cowen.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Yes. I guess most of my questions have been asked. David, at the beginning, you talked about some of the efforts you're doing, particularly in virtual care with MDLive. And you guys were one of the first to launch a digital formulary for employers to look at. And obviously, particularly, virtual care has really come to the forefront here as obviously the nation practices social distancing and et cetera. Can you maybe talk about sort of what the interest and uptake of the formulary has been coming, I guess, into this year? And then what kind of response have you been able to provide for clients using this in the middle of the pandemic? And then lastly, I guess, related to that, when I looked at it, it's really kind of about diabetes care, mental health, telehealth itself wasn't on it, maybe is that a distinction that you kind of make when you're constructing the formulary? Any thought there would also be helpful.

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Charles, let me try to kind of compartmentalize your question here. So I think you're building a little bit of an off the digital formulary and then you referenced the telehealth services, et cetera. So maybe stepping back, the digital formulary was an innovative offering, is an example of one of many innovative offerings, I should say, where we're trying to seek to help our clients, meaning corporate customers and health plans, as they seek to utilize that as well as our customers in terms of making more informed decisions. So it -- the digital formulary - has a specific purpose to take the -- curate the digital applications that are out there, the 300,000-plus and growing and try to evaluate them against specific criteria.

More broadly inferred in your statement, which I agree with, is society at large has an aggressively ramping appetite for more personalized, simplified, convenient ways of accessing services, information and, increasingly, care. So with telehealth, it wasn't that long ago that I think we as a society would be viewing telehealth as a small slice of triage intervention. And the COVID-19 epidemic is reinforcing to us, it could be a larger portion of an overall integrated or coordinated health care offering. And we see that as a big part of both today and the future.

We like our positioning, both partnering as well as having proprietary capabilities. And as I noted, we were the first to offer annual checkups. We've brought to market a dental capability, et cetera, around that. And then, lastly, just wrapping the example around it, the Buoy Health capability that we're able to bring to market very rapidly is another way of harnessing both through partnership by putting the customer or patient front and center and providing an actionable, virtual tool with which to assess oneself and make informed decisions going forward from that standpoint.

So big picture is, we see a re-envisioning of what we call the front end of care, the way in which individuals access both information as well as the care system as having a tremendous opportunity to harness new technologies, tools and capabilities which start with virtualization and carrying that through a part of the coordinated care delivery system, and we like our positioning by not being tethered to or beholden to, whether it's bricks-and-mortar or care fulfillment resources that will be in conflict with that. And the appetite right now is high and the satisfaction level from consumers who are experiencing that is quite high, and we think that will grow going forward.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

David, if I could quickly follow up, can you maybe give us a sense on sort of the decision tree in your mind in which of these capabilities that you want to own such as like Buoy Health versus ones that you want to partner with like MDLive? And I guess, particularly, in telehealth, my assumption has been, utilization relatively has been, until now, fairly low. So the decision is easier to say we'd rather partner with somebody doing it. But is there a point where you would even look at telehealth and say this is a capability we want to have in-house?

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

So -- a fair question. I'd say, stay tuned for more, but to give you a little bit of framing relative to it, we do some telehealth today, so on our own platform. So the Cigna Medical Group out in Arizona today is fulfilling approximately 80% of all our patient experiences today through either telephony or video interaction, and less than 20% of their fulfillment is taking place through physical interaction during the COVID environment. So we can see that firsthand.

Secondly, we've co-developed telehealth capability with some of our more advanced value-based health care partners in certain markets. Having said that, we have successfully partnered on scale.

Bigger picture, expect to see us be oriented around, at a minimum, the IP or intellectual property. The data, the data management, the data algorithms, the predictive capability to deliver the personalization and the clinical quality, we're going to be more oriented around that and then open architect it to own some and then partner with some in very different ways to be able to bring it to marketplace to offer the respective choice. Hope that helps.

Operator

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

David Michael Cordani - *Cigna Corporation - President, CEO & Director*

Thank you. And thanks, everyone, for joining our call today. I want to start by acknowledging, again, the tireless efforts of all the frontline workers of the COVID-19 crisis for their selfless and caring nature for the patients that they're servicing.

From Cigna's perspective, as we lead through this crisis, we will continue to attend to the needs of our stakeholders across the globe, work to maintain a healthy organization that is well positioned to deliver significant value to all of our stakeholders, both today as well as into the future, and ensure that we work to be a proactive part of the solution, partnering at both national and local levels.

Relative to our performance, our team achieved strong results in the first quarter through focused execution of our business strategies and by continuing to expand our key relationships and partnerships and working to make health care more affordable, predictable and simple. This fuels our expectations of delivering sustained, attractive top line and bottom line growth in 2020 and continuing this growth in 2021.

With that, we thank you for joining the call. We wish you safety and health during these challenging times for both you and your family members, and we look forward to future discussions.

Operator

Ladies and gentlemen, this concludes Cigna's First Quarter 2020 Results Review. Cigna Investor Relations will be available to respond to additional questions shortly. A recording of this conference will be available for 10 business days following this call. You may access the recorded conference by dialing (866) 358-4539. No pass code is required. Thank you for participating. We will now disconnect.