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EDITED TRANSCRIPT
CI - Q1 2018 Cigna Corp Earnings Call

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OVERVIEW:

Co. reported 1Q18 consolidated revenues of \$11.4b, consolidated earnings of \$1b and EPS of \$4.11. Expects 2018 consolidated revenues to grow 7-8%, consolidated adjusted income from operations of \$3.17-3.27b or \$12.85-13.25 per share.



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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for Cigna's First Quarter 2018 Results Review. (Operator Instructions) As a reminder, ladies and gentlemen, this conference including the question-and-answer 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 first quarter 2018 financial results as well as an update on our financial outlook for 2018.

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 the same basis as our principal measures of financial performance. A reconciliation of these



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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 2018 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, I note that in the first quarter, we recorded an after-tax special item

charge of \$50 million or \$0.21 per share for transaction-related costs.

As described in today's earnings release, special items are excluded from adjusted income from operations in our discussion of financial results. Also as previously disclosed, effective January 1, 2018, Cigna adopted the new accounting standard titled Revenue from Contracts with Customers or ASU 2014-09, which addresses recognition of revenues under GAAP. Cigna has adopted this accounting change on a retrospective basis for the first quarter of 2018 and has recast prior periods.

Additionally, as we discussed at our Investor Day in 2017, we see significant opportunity for growth in the lower end of our Middle Market segment, employers with 250 to 500 lives. Employers of this size share many of the characteristics and needs of our Select segment clients. As a result, beginning with the first quarter of 2018, for Global Health Care, Cigna is classifying employer clients with 250 to 500 lives in the Select segment, where they were previously classified in the Middle Market segment. Prior year lives have also been reclassified to reflect this definition.

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.

Finally, our outlook for 2018 does not reflect the impact of Cigna's combination with Express Scripts, which we continue to expect to close by the end of 2018.

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

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

Thanks, Will. Good morning, everyone, and thank you for joining today's call. I'll begin by highlighting Cigna's very strong quarterly financial results, which continue our consistent track record of growth and value creation across our portfolio of businesses. I'll then discuss how our combination with Express Scripts advances our proven "go" strategy by accelerating our ability to provide greater affordability, along with expanded choice and broader distribution reach, all with greater predictability. Eric will then address our first quarter results in more detail as well as our outlook for meaningful growth in customers' revenue and earnings in 2018. We'll then move to the Q&A portion of the call and following Q&A, I'll conclude the call with a few closing comments.

I'll start with some highlights of our results. For the first quarter of 2018, consolidated revenue increased 9% to \$11.4 billion. First quarter earnings increased to \$1 billion with earnings per share of \$4.11.

Turning to our business segments. Global Health Care revenue increased by 10% with very strong earnings growth. This outstanding result was led by our Commercial Employer business, which, once again, delivered differentiated organic growth in both risk and ASO medical customers, particularly in our Select and Middle Market segments.

Our Commercial Employer business also delivered attractive margins and sustained industry-leading medical cost trend.



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And in our Global Supplemental Benefits business, we grew revenue by more than 20% over the first quarter of 2017, with earnings increasing to \$112 million.

Collectively, our first quarter results reflect strong momentum across our portfolio of businesses and give us confidence we will achieve our improved outlook for 2018 earnings and EPS.

Our first quarter performance also highlights the significant value we create through our integrated offerings. Cigna's continued and long track record of value-creation is especially evident in the Commercial Employer space, where our focus on deep integration of medical, pharmacy, behavioral health and other specialty solutions, enables us to more comprehensively support the health needs of our customers and as a result, deliver differentiated value.

Integrating these solutions, coupled with aligning incentives and leveraging our leading engagement and transparency tools, has been at the foundation of Cigna's ability to deliver better clinical outcomes, industry-leading affordability through our differentiated medical cost trend, continued organic customer growth in each of the past 8 years and strong margins and free cash flows.

As we look ahead, health care costs continue to grow at an unsustainable rate, with poor or eroding individual health status contributing to this unsustainability. This is caused by consumer behaviors and lifestyles, an aging population and a rising chronic disease burden, all in an environment that has historically been a volume-based sick care intervention system with misaligned incentives.

Today, pharmacy is the most widely used health care benefit. At the same time, pharmacy also presents a leading opportunity to close gaps in care and follow evidence-based care. All too often individuals fail to adhere to the treatment plans or are given treatment plans from multiple physicians without coordination.

Over time, the combination of increasing utilization and high manufacturer prices for prescription drugs has resulted in pharmacy trend growing at multiples of up to 3x or more CPI rate, which is simply not sustainable.

Specialty Pharmacy, in particular, is the fastest-growing medical cost category. Over the next decade, specialty drug costs are expected to more than triple, from approximately \$300 billion today to more than \$1 trillion. As a result, rising specialty pharmaceutical costs are a top concern for employer clients, and with the right capabilities in place, represent a tremendous opportunity for value creation.

Against this backdrop, it has become more critical than ever to holistically manage and coordinate medical, pharmacy and behavioral care, in order to reduce costs to a sustainable level, preserve health or improve health status and improve outcomes. These critical needs are at the center of our proactive decision to combine with Express Scripts. Our combination will accelerate our "go" strategy by creating deeper alignment across critical elements of the health care system, including health plans, service providers, physicians, hospitals, pharmacists and pharmaceutical manufacturers, all to drive improvements in affordability and clinical quality.

Together with Express Scripts, Cigna will be even better equipped to continue delivering differentiated value for our customers and clients, our health care partners and our communities. We will deliver solutions through a strengthened and expanded portfolio of integrated medical offerings and a new health services operating unit. This new operating unit will offer an array of solutions, including pharmacy services, Specialty Pharmacy care, behavioral health services and population health and decision support. All with the appropriate data management and security firewalls in place between the services and medical platforms, to ensure the protection of competitively sensitive data.

By bringing together our complementary capabilities, our combined company will operate from an improved medical and pharmacy cost position that will directly benefit our customers and clients. And it will leverage an open architected or choice-based model that expands offerings for the people we serve while strengthening and expanding our partnerships with health care providers.

Our combination will also strengthen our ability to contribute to better cost predictability, which we recognize is a priority for employers, individuals, health plans and government agencies.



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Leveraging Cigna's capabilities and a long track record of innovation, we have the ability to offer customers and clients a broad portfolio, ranging from full guarantees to shared risk models and service-based offerings. All built to address the financial predictability, service and clinical outcomes our customers and clients are seeking.

With Express Scripts, we will be better equipped to understand, support and inform physicians based on the breadth of data the combined company will be able to generate from the billions of customer touch points we'll have.

While we have existing tools in place today, this wider and deeper data set will meaningfully accelerate our progress and provide us with more actionable insights into both customer and physician behavior. And as a result, we'll be even better positioned to provide best-in-class cost performance, clinical quality, customer and physician service and predictability.

As we look toward this next phase, it's also important to highlight the fact that each company brings a highly complementary clinical capability to support this goal. More specifically, Cigna employs more than 4,000 clinicians, Express Scripts employs more than 3,000 clinicians and each organization has a proven ability to partner with clinical professionals and pharmaceutical manufacturers to deliver strong and differentiated results.

Together, our collective experience, expertise and capabilities will result in a broader portfolio of aligned and integrated offerings, offerings that deliver differentiated affordability, along with predictability for customers, clients and providers and deeper outcome based relationships with health care professionals and pharmaceutical manufacturers.

A direct result of creating differentiated value in the marketplace is creating differentiated shareholder value. The combined Cigna and Express Scripts will be well positioned to deliver attractive growth and strong financial results, coupled with exceptional strategic financial flexibility. The combination will drive growth for our expanded and strengthened integrated medical offerings in our Go Deep geographies, and a new health services offering will meaningfully expand the distribution reach of our services across the United States.

Additionally, both companies operate highly capital-efficient businesses, which facilitate the company's ability to continue driving strong margins and ongoing free cash flows. This, in turn, will position us to continue making investments in the business to further drive expansion and innovation. It also provides us with ongoing strategic flexibility with respect to additional M&A opportunities as well as for share repurchase activity. We see this optionality and financial flexibility as a significant strategic advantage in this highly dynamic and changing environment.

Now to summarize a few key points before I turn the call over to Eric. Cigna began 2018 with a very strong momentum across our portfolio. With each of our businesses well positioned for growth over the balance of the year. Providing us with confidence, we will achieve our increased outlook for EPS growth this year in a range of 23% to 27%. Looking ahead, we're excited about our combination with Express Scripts, which we expect to close by the end of this year. This acquisition positions us to continue building on and accelerating our results by driving deeper alignment across critical elements of the health care system. All to further improve affordability, expand our addressable markets and deliver outstanding financial results with strong financial flexibility.

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 will briefly review key aspects of Cigna's first quarter 2018 results and discuss our updated outlook for the full year. I will also discuss our capital position and outlook for 2018 as well as following the close of our acquisition of Express Scripts.

Key financial highlights in the quarter are consolidated revenue growth of 9% to \$11.4 billion; consolidated earnings of \$1 billion, led by exceptional growth and strong margins in our Global Health Care and Global Supplemental Benefits segment; quarterly earnings per share of \$4.11; and continued strong free cash flow and financial flexibility. Overall, our results demonstrate continued strong performance across the enterprise.



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Regarding our business segments, I will first comment on Global Health Care. First quarter operating revenues in Global Health Care grew 10% to \$9.1 billion, driven by commercial customer growth, premium increases consistent with underlying cost trends and inclusive of the return of the health insurance tax and specialty contributions.

We ended first quarter 2018 with 16.2 million global medical customers, an organic increase of 327,000 lives year-to-date, driven by growth in our Select, Individual and Middle Market segments. We grew customers in both risk and ASO funding arrangements as our industry-leading trend results continue to resonate with the market.

First quarter earnings in Global Health Care were \$871 million, reflecting growth in medical customers and specialty relationships, continued effective medical cost management and a lower tax rate compared to 2017.

Turning to our medical care ratios. Our first quarter 2018 total commercial medical care ratio or MCR of 73.7%, reflects ongoing strong performance of our Commercial business, particularly from our integrated medical platform, the pricing effect of the resumption of the health insurance tax and favorable prior year reserve development. Our first quarter 2018 total Government MCR of 84.5% reflects strong performance in Medicare Advantage through our advanced physician engagement model and normal Part D seasonality. First quarter 2018 Global Health Care earnings included favorable prior year reserve development of \$43 million after tax compared to \$61 million after tax in first quarter 2017.

Moving to operating expenses for first quarter 2018. Our total Global Health Care operating expense ratio was 22.7%, which reflects ongoing investments in growth and innovation, continued effective expense management and the impact of the return of the industry tax, which added 110 basis points to the expense ratio in the quarter. Overall, we've had a very strong start to 2018 in our Global Health Care business.

Turning to our Global Supplemental Benefits business. Operating revenues grew 21% to \$1.1 billion or 15% on a currency-adjusted basis. First quarter 2018 earnings grew to \$112 million, reflecting business growth and strong operating expense management. This business has, once again, delivered outstanding top and bottom line growth as we continued to deliver affordable and personalized solutions that meet the needs of our customers.

For Group Disability and Life, first quarter operating revenues were just over \$1.1 billion. First quarter earnings in our group business were \$67 million, reflecting solid disability performance and modestly elevated life insurance claims.

Overall, Cigna's first quarter results reflect strong customer, revenue and earnings growth, led by our Global Health Care and Global Supplemental Benefits segments.

Now I will discuss our outlook for 2018. In 2018, we expect to continue to deliver strong financial performance for our shareholders by continuing to provide industry-leading medical cost trend management, leveraging our differentiated capabilities to deliver more affordable and personalized solutions and continuing to invest in capabilities to better serve our customers and clients.

For full year 2018, we continue to expect consolidated revenues to grow in the range of 7% to 8% over 2017. Our outlook for full year 2018 consolidated adjusted income from operations is now in the range of approximately \$3.17 billion to \$3.27 billion or \$12.85 to \$13.25 per share. This represents an increase of \$0.35 to \$0.45 per share over our previous expectations and represents earnings per share growth of 23% to 27% over 2017.

I will now discuss the components of our 2018 outlook, starting with Global Health Care. We now expect full year Global Health Care earnings in the range of \$2.67 billion to \$2.73 billion, an increase of \$50 million to \$70 million over previous expectations, reflecting continued strength in both our Commercial and Government businesses. Key assumptions reflected in our Global Health Care earnings outlook for 2018 include the following: Regarding global medical care customers, we now expect growth in the range of 400,000 to 500,000 lives over year-end 2017, an increase over previous expectations, reflecting the strong growth we've seen across our commercial market segments to date.



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Turning to medical costs. For our total U.S. Commercial book of business, we continue to expect full year medical cost trend to be in the range of 4% to 5%. Through our integrated medical platform, we continue to align incentives for our customers, clients and physician partners, driving positive health outcomes and better management of total medical costs.

Now turning to our medical care ratio outlook. For our total commercial book of business, we continue to expect the 2018 MCR to be in the range of 77.5% to 78.5%. For our total Government book of business, we now expect the 2018 MCR to be in the range of 83.5% to 84.5%, reflecting a decrease of 50 basis points over previous expectations and driven by strong performance in Medicare Advantage. Regarding operating expenses, we continue to expect our 2018 Global Health Care operating expense ratio to be in the range of 22.5% to 23.5%.

Now turning to our other segments. For our Global Supplemental Benefits business, we continue to expect strong top line growth and now expect earnings in the range of \$390 million to \$410 million, an increase of \$10 million over previous expectations. Reflecting continued strong results in this business.

Regarding the Group Disability and Life business, we continue to expect full year earnings in the range of \$330 million to \$350 million.

Regarding our remaining operations, that is Other Operations and Corporate, we now expect a loss of \$220 million for 2018, which is an improvement over previous expectations.

So all in, for full year 2018, we now expect consolidated adjusted income from operations of \$3.17 billion to \$3.27 billion, or \$12.85 to \$13.25 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.

I will now discuss our 2018 capital position and outlook. Our subsidiaries remained well-capitalized and are generating significant free cash flow to the parent, with a strong return on capital in each of our business segments.

Regarding free cash flow, we ended the first quarter of 2018 with parent company cash of \$1 billion. After considering all sources and uses of parent company cash, we continue to expect capital available for deployment to be \$2.8 billion in 2018. Thus far in 2018, we have deployed \$130 million of parent company cash to repay current maturities of long-term debt, and we have repurchased 1.3 million shares of stock for approximately \$275 million.

As previously discussed, we do not expect to conduct additional share repurchases prior to the closing of the Express Scripts transaction.

Looking ahead to our combination with Express Scripts. As David indicated earlier, the status quo in health care spending is not sustainable and our combination with Express Scripts will position us to accelerate our strategy by driving deeper alignment across the health care system.

As a combined company, we'll drive greater affordability through an improved medical and pharmacy cost position, deliver better health outcomes and more predictability for our customers and clients. And have an expanded reach through our existing integrated health business and newly created services operating unit.

Driven by the value creation from these capabilities, we expect to deliver attractive margins through a highly capital-efficient operating model. The combination will be immediately accretive, delivering mid-teens accretion in the first full year, post close, excluding any contribution from Express Scripts' transitioning clients and excluding revenue synergies. As a result, we also raised our 2021 earnings per share target to a range of \$20 to \$21, an increase of \$2 to \$3 per share from our prior guidance. The combined organization will generate strong free cash flow, which will enable our debt to capitalization ratio to return to the 30s within 18 to 24 months following closing.

Importantly, while we will prioritize debt repayment in the 2-year period following the close, the strength of our capital-efficient businesses will also allow for additional capital deployment in both 2019 and 2020.



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For additional capital deployment during this time period, our strategy and priorities remain, providing the capital necessary to support the growth of our ongoing operations, pursuing targeted M&A activity as well as returning capital to shareholders through share repurchase.

Now looking forward, we project the combined company will generate free cash flow of at least \$6 billion in 2021.

As David noted, the strong free cash flow and capital deployment optionality, positions Cigna to be nimble to continue to innovate in the dynamic environment in which we operate.

Now to recap, our first quarter 2018 results reflect strength in our diversified portfolio of global businesses and the continuation of our track record of effective execution of our focused strategy.

Overall, we are pleased with our strong start to the year, driven by the fundamentals of our business and are confident in our ability to achieve our increased full year 2018 earnings outlook.

From this position of strength, we are excited about our combination with Express Scripts, which positions us to accelerate our growth strategy and which will generate strong free cash flow to deliver significant financial flexibility for ongoing investments and capital deployment to drive further innovation.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Matthew Borsch with BMO Capital Markets.

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

Yes, I was just hoping you could talk about the growth in commercial risk that you see in this quarter and we're framing it in the context of attrition that we've seen at several of your large peers. So it's a little bit surprising, and like, if you could just address how you achieved that in this environment?

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

Matt, it's Eric. I'll start. With respect to the growth that we delivered in the quarter, David noted in his prepared remarks, again, this is our eighth year of consistent growth in terms of organic commercial enrollment. We approach the market with growth in both self-funded and commercial risk products and really, work to ensure that we've got the best funding arrangement for the needs of our clients and customers. Overall, I would point to the increasing recognition of the trend and the cost performance that we've been able to generate for our clients across all the funding arrangements, as the primary driver of our success in the growth cycle coming into this year, and that we've had good growth in both self-funded and risk products to show for it.

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

If you could comment, are you expecting growth will continue over the balance of the year?

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

Our growth continues to come primarily from the Select and Middle Market segments, and those segments do tend to be spread more throughout the year. So we're optimistic about our trajectory for additional growth across all of our funding arrangements in those segments over the balance of the year.

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

And maybe I could just ask one last question, which is just an early view on your set up for the Medicare Advantage products going into the 2019 open enrollment. Not looking for guidance, but just to understand, do you see this upcoming season as being a normal one after you've had a period of recovery?

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

Hey, Matthew, good morning. It's David. So first and foremost, we're excited to be back in the growth mode in our Seniors business. For 2018, we expected to turn the business back from a growth orientation, and we expect to build some of that growth momentum throughout the rest of this year. We started with very strong retention results and starting to add some new sales. Specific to 2019, the team is excited. We're well positioned for 2019. We're also oriented around further geographic expansion in '19, '20 and '21 as we look forward. So the team is on their toes right now and we're excited to restart that growth engine with some increasing momentum.

Operator

Our next question comes from Gary Taylor with JPMorgan.

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

This question is for David. I think you and Eric both have spent a lot of time since the Express deal was announced, meeting with shareholders, talking to them. I guess, I'd invite you to share, what do you think is the biggest concern and push back shareholders have about the transaction, and what is the response that you've been sharing to that concern?

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

Gary, good morning. You're correct, we continued open dialogue consistent with our culture. I think first off, big picture stepping back. Shareholders recognize the fact that Cigna has had, and continues to have, as evidenced by this quarter, a consistent, strong track record of success, momentum, growth and earnings growth. So understanding the strategic accelerant that is either perceived to be necessary or being pursued. Second piece of the conversation is just a rapidly evolving environment and better understanding how the additional capabilities position us, not just from today's business, but the evolution of tomorrow's business. And in those conversations, understanding that, that further improvement of medical cost or affordability is mission-critical. We put forth the strategic objective of further stepping down medical cost trend from our industry-leading levels, as a strategic objective for the future at a CPI level because we think that's what the market demands and that's what is possible with a well-run organization. And then helping the market to understand the fact that we're going to deliver outstanding financial results, even without the revenue synergies we've talked about. So putting that whole picture together, I think the appreciation for the strategic value, the financial value and the forward-looking strategic flexibility and optionality is being better understood today.

Operator

Our next question comes A.J. Rice with Crédit Suisse.

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

Just conceptually, you beat, I think, the consensus by almost \$0.70 plus and you raised the guidance for the rest of the year by \$0.35 to -- or for the full year by \$0.35 to \$0.45. I know there's a number of reasons why that might happen. The internal -- maybe internally, your forecast was higher than what the street had, maybe just being conservative earlier in the year, maybe there was a pull forward or something else. I guess, first question will just be to get your perspective on that dichotomy, the really strong beat and a strong raise, but not quite as much as you beat by.

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

A.J., it's Eric. I would just note, we're really pleased with the strong start that we've had to the year. I wouldn't call out anything, in particular, in terms of a dynamic there, other than its just early in the year. We are pleased with the momentum that we've got and excited about the opportunity to be raising our guidance over the balance at this point. But nothing else I'd call out, in particular.

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

Okay. And then, obviously, one of the areas of outperformance was on the medical cost trend, MCR. One of the things we've been hearing from people about hospitals and from -- at least one of your peers was potentially an increase in acuity on the inpatient side. Again, there are several reasons for that. One, is you may have pushed all -- pushed the industry may be very effective and pushing the low intensity stuff into the outpatient side or there may be an increase in these higher acuity patients. I wonder if you could indicate maybe where you're seeing -- where, in particular, you saw positive trends on the medical loss ratio and specifically on that acuity question, are you seeing anything unusual there?

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

A.J., I wouldn't call out anything unusual in terms of acuity or anything along those lines. Our medical cost trends are performing consistent with our expectations and the guidance that we set, back when we provided 2018 guidance in February. We continue to be in the range of 4% to 5%, which we think is a great result for the year.

Operator

Our next question comes from Josh Raskin with Nephron Research.

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

I want to stay on the Commercial segment and sort of a 2-parter here. Commercial MLR was a lot lower than we were looking for. I know there's some seasonality around some of the products, et cetera, but I'm just curious, how sustainable you think that quarterly result is? And then I kind of want to juxtapose that with this mid-market sort of Stop Loss product. We heard from Humana yesterday for the first time on one of their calls, speaking specifically around that product. So where you're seeing more competition, do you think margins are sustainable there? Is that just a growing market that feeds everybody or do you think you're starting to see new entry there?

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

Josh, good morning. It's David. Let me start talking about the market and the -- call it the acceptance in the trends relative to the product and then ask Eric to expand a little bit relative to just outstanding results for the quarter and how it unfolds. First more broadly, as you know, 85% of all of our commercial lives are ASO, and we like the transparent funding mechanism to drive alignment. So it comes all back to the philosophy of driving alignment with the employer, greater transparency and the dynamism that happens throughout the course of the year, to be able to work with the employer to try to optimize results for their employees, our customers. Stop Loss is an important part of that portfolio. As you come down



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market to provide piece of mind and predictability relative to the cost outcomes, and we've been doing this for a long, long time. Secondly, as we've discussed before, we've talked about the fact that the evolution of the transparent funding mechanisms continue to be broader accepted in the marketplace, beyond the legacy of middle market, but the broader market continued adoption, and we see that trend moving forward. And lastly, we have expected over time to see additional competition coming through this marketplace. That's a good thing because it's reinforcing the tremendous demand for this product and service. We like the fact that we have a dedicated unit, dedicated technology, dedicated resources and very importantly, continued investment in innovation and services around the expansion necessary to drive this on a go-forward basis. So we see an optimistic future for this portfolio as we look into the future. I'll ask Eric to give you some color relative to a very strong MLR and how it shapes over the rest of the year?

Eric Paul Palmer - Cigna Corporation - Executive VP & CFO

Josh, it's Eric. Just on the MLR, as David noted, we're really pleased with the performance that we delivered in the first quarter here. We'd expect that, that would follow with a normal seasonal pattern as we move throughout the course of the year. Ultimately, the Commercial loss ratio for the full year landing in the 77.5% to 78.5% range that I've talked about in my prepared remarks. Where that's a great result, and we're on track to deliver it.

Joshua Richard Raskin - Nephron Research LLC - Research Analyst

Great. And if I can just throw one more out there. The life insurance claims you talked about, sort of, slightly higher-than-expected life insurance. Is that -- maybe just talk a little bit about the product and the funding. Just want to make sure this is just the traditional life. Maybe mortality rates increased a little bit, nothing more than sort of industry factors there.

Eric Paul Palmer - Cigna Corporation - Executive VP & CFO

Yes, Josh. On the life business, this is just a pretty plain vanilla group employer-sponsored and voluntary life set of products, where employees may elect additional coverage, things along those lines. There's some variability in this from period to period. And we saw higher claims in the month of March, specifically, but have seen the month of April, for example, has been right back to where we are expecting. So again, we do see variability from time to time in this business, and I would note that is the driver for the results in the first quarter here.

Operator

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

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

I guess, I want to go back to maybe follow up on an earlier question about the investor feedback around the Express deal. So I guess, from what I've heard, either I think -- the things you've outlined around, the opportunities here I think are pretty clear. But the concerns tend to be more around the core underlying performance of PBMs, I guess, Express, in particular, but maybe the PBM market broadly. Just wondering, as you spent some time talking to investors that have had more time to talk to Express about the issues, is there anything that you can kind of provide to us, to give us comfort around the work that you've done to kind of say that the earnings profile of Express going forward is, in fact, kind of more or less what the market believes, that there is sustainability or is there is any leverage that you think that as a combined company, Express might not have on its own. That gives you that confidence that the pro forma numbers into 2021 will play out?



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

Kevin, it's David. So a couple of different dimensions to your question. First and foremost, let me start with the basic chassis, and that is the fact that Express continues to deliver strong performance to their clients, that they serve each and every day, as evidenced by their very strong retention rates. So you come back in a dynamic market of servicing commercial employers, sophisticated health plans, governmental agencies, strong retention rates are reinforcing of high value creation. The second piece to the core of your question, the whole notion relative to the earnings profile, the sustainability of the earnings, just to spend a moment on that. It's clear that Express has a strong margin profile relative to its traditional competitors. Unlike their traditional competitors that they are benchmarked against, Express is focused in the pharmacy space exclusively, and as such, doesn't have other lines of business to kind of cross margin against or otherwise. Additionally, the market better understands through some of the disclosures that have taken place in the ongoing dialogue that Express' portfolio of business is a little different. So a broad commercial portfolio, but that commercial portfolio has both large national accounts and smaller national accounts and therefore, the margin profile is a little different from that standpoint. Secondly, that they have a broad services portfolio, they offer to the marketplace. That doesn't correlate to the facilitation of prescriptions being fulfilled, yet they have the revenue and earnings from that, hence, it makes the margin profile per script look a bit higher. So a little better visibility into that from the filings that have taken place. But at the end of the day, on a go-forward basis, whether it's legacy Cigna, legacy Express or anybody else, the ability to capture value for the shareholders is totally predicated on the ability to deliver value for clients and customers. And the visibility relative to just the sheer size and the impact of pharmacy, specialty pharmacy, medical, behavioral being better coordinated to deliver an outstanding cost and quality outcome, we believe is being better understood because that's the fundamental market need and the combined company is going to have the ability to take market-leading trend already and step into another level, which is going to be key to being able to deliver value to clients and customers, and as a result, capture value for the benefit of shareholders. And to me, that's the core of the dialogue.

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

Okay, great. And then just -- when you talk about the MLR for the 2 businesses, you threw prior period development in the commercial explanation but not the government explanation, so I assumed that those with the PPD within commercial and yet, you lowered your MLR in Government and kept it in Commercial. So just want to understand that dynamic. If there's anything going on there, in the Government or the Commercial business.

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

Kevin, it's Eric. We reported favorable prior year development in both the Commercial and the Government businesses. This skewed more to -- on the Commercial side, end of the book, but the Commercial book is quite a bit bigger than the Government book as well. And so again nothing I would call out is particularly notable or anything along those lines. I'm again, pleased with the performance in both so far year-to-date, and the visibility that we had to the outlook for the full year on the Government basis led us to lower the loss ratio there, but again, overall good momentum in both.

Operator

Your next question comes from Justin Lake with Wolfe Research.

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

I wanted to follow up on the membership growth. I mean, I'm sure you guys realize this, but you're significantly differentiated from your peers here, in the first quarter at least. It looks like just in the first quarter versus 4Q, you guys added about 150,000 commercial group members, while your peers shrunk by about 750,000. So can you give us more color in terms of products, geographies, markets where you feel like you're seeing momentum? Or anything you're doing differently here?



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

Justin, good morning. It's David. First, appreciate the call-out relative to significantly differentiated and just come back as Eric and I noted. We have 8 years of growth in the Commercial space and it's been disciplined growth. Coming back to the geographies, anchor back to our Go Deep or Go Deeper orientation first and foremost. We seek to be highly focused geographically. Second, it's really imperative to anchor this back as Eric articulated before, off of the multiple years of differentiated medical trend delivery. Third, as we've discussed in the past, we have continued to pour significant resources into innovation of products, programs and services. For example, the Cigna One Guide offering that was rolled out in 2017 to 2 million customers in 2018, about 4 million customers being serviced by that. So an evolving chassis through that dimension. And lastly, as you may recall, we profiled in our Investor Day, and as Will noted in his opening comments, we profiled that our view was that, we had significant headroom, for example, in the 251 to 500 life employer space, and we reoriented and aligned the team relative to that and expanded our density of orientation, and we saw meaningful progress in the 250 to 500 space as well. Broadly speaking, by the way of funding mechanism lastly, our team uses our broad portfolio from ASO, ASO stop-loss, shared returns and guaranteed cost, and we're really pleased with what the team is able to deliver with outstanding retention and good new business ads.

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

Okay. And just as a follow-up there, I mean, it was interesting just because I thought your ASO -- this would be a year where you would take share in self-insured that -- just given the HIF coming back. Anybody with guaranteed risk is going to be taking a big price increase. So the fact that, that didn't happen, is there -- and you're seeing what seems like more competition on that ASO and Stop Loss business chassis, whatever you want to call it. Is it possible that you've now kind of evolved that to say, instead of just shared risk or instead of where you'll get some upside if things are better, are you kind of -- are you stepping out even further in guaranteeing that upside? Have you changed any of your pricing methodology around that ASO and Stop Loss to just take the next step to guarantee cost?

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

Justin, it's David. First, consistent with our past dialogue, we have not viewed nor have we seen that the implementation of the HIF, pausing the HIF, reimplementation of the HIF, et cetera, we've had the posture that, that doesn't change the purchasing patterns broadly. It doesn't change what in philosophically, how an employer is going to buy. Being they are going to orient around transparency or not, you may get a little movement on the margin, so point one. Point two is, we've invested meaningfully into evolving our portfolio of services with dedicated platforms, dedicated distribution resources, dedicated client management resources and evolving the products, programs and capabilities. And we like our portfolio of services. To the point you made, we have not had a pricing philosophy change. Our pricing philosophy is very consistent as evidenced by our really strong client retention levels that come back to delivery on our promises and delivering an outstanding medical cost trend.

Operator

Our next question comes from Ralph Giacobbe with Citi.

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

I know it's early, and we're sort of in the midst of the 2019 selling season, but any general views of kind of what you're seeing or hearing whether we're likely to see less movement in commercial next year just given some of the pending deals? Or if it's a big RFP calendar growth in terms of your renewal and new business?

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

Ralph, good morning, it's David. So relative to '19, your question points towards mostly -- essentially the national accounts marketplace, so a little color there. Before I give you a color, just to remind everybody, we define national accounts a bit differently than our competition. So for us, the



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national account is a Commercial Employer with 5,000 or more employees that are multistate. So our focus is very clear there. Specifically, relative to a point in time today versus point in time last year, the amount of RFPs we have to look at are about equal year-over-year, and the portion of our portfolio that's out to bid is about equal year-over-year. So we see consistency through the volume. The only double-click that I would give you there is still the intensity and momentum of the market looking for just proven incentive engagement based programs, further evolution of proven points of integration to deliver step functions of affordability, health improvement, productivity improvement. That intensity just continues to mount over time, and we're well positioned to step up to those opportunities.

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

All right, that's helpful. And then just a follow up on that, I guess I do want to drill down a little bit on the national account book and just want to get your views and sort of looking ahead, how much of a focus will that be? Why is it that sort of the select and smaller end of the market has been more receptive, I guess, to your strategy in terms of the growth you've seen than the national account book? And then I'm hoping you can give us the overlap of your national accounts that carve out to Express Scripts.

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

So Ralph, 2 dimensions there. Dimension number one, to be clear, we continue to perform well in national. We pick our spots because what we're looking for is the philosophical alignment with what the employers are seeking to do. And we try to go really deep in those relationships. And you may recall from our prior conversation, we value the depth of the relationships and the cross-selling and the integration of services, and we've seen continued further deepening of those relationships. And that enables us to deliver outstanding medical costs that enables us to deliver strong retention and further expand those relationships going forward. We grew our national accounts relationships in 2017, and we see the opportunity to continue to grow, both in the traditional marketplace as well as importantly, on a targeted basis, on the private exchanges. Specific to the second part of your question, think about 10% to 15% overlap, hence, flip it around the other way, massive opportunity. And we've talked about those opportunities in the past between the Cigna and the Express portfolio of relationships. So we see tremendous upside and opportunity there.

Operator

Your next question comes from Steve Tanal with Goldman Sachs.

Stephen Vartan Tanal - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Sort of to triangulate some of the comments around the commercial enrollment and frankly, the MLR with the return of the HIF and I guess, strong enrollment gains. Some of the comments we've heard from your competitors, I guess, I'd be interested in just understanding if high deductibles or just higher deductibles in general, gained more traction this year than in years past. In a way that might drive in current seasonality in the business and whether that may have been a part of the thought process as you considered how much of the upside in Q1 to flow through the guidance.

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

Yes, Steve, it's Eric. Couple of dimensions to that. So first of all, with respect to deductibles and the like, I wouldn't call out a particular change in terms of the overall book of business and such. Our customers in 2018 have about the same cost sharing as they had in 2017 and there hasn't been a pronounced shift there. In any given year, there's different dynamics in terms of the seasonality of the quarterly pattern of the loss ratio evolves as we think about the impact of the amount of Stop Loss in the portfolio, the amount of the Commercial business, the timing of the sales and the makeup of the individual book of business. But again, overall, putting those pieces together, we think we are well on track for the strong results that we've communicated previously.



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Stephen Vartan Tanal - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Got it. It's great to hear. Just one follow up on trend. I think it was on a 4Q call, where you, sort of, outlined your expectation of around -- of acceleration in utilization. Are you actually seeing that? And if you could talk to maybe inpatient versus outpatient, both utilization and pricing that you're seeing, that would be helpful.

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

Sure. So as we noted coming out of 2017, we delivered a particularly strong trend result in 2017, finishing the year at 3%. We did note that we had assumed and expected a bit of utilization uptick coming into the year. Overall, I wouldn't call out anything particular in terms of areas of increase and such, but more that we were just making sure that we had an outlook that was allowed for a bit of an uptick relative to 2017. As you think about the different service categories and such, overall, we'd continue to note inpatient and outpatient both in kind of that mid-single-digit sort of a range, but all consistent with the outlook that we've provided 3 months ago.

Operator

Next question comes from Steven Valiquette with Barclays.

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

So I hate to beat the medical cost trend questions to death here, but I had a sort of a similar question as some other folks, just on the dynamics around favorably reducing the Government MLR guidance, but leaving the Commercial guidance -- Commercial MLR guidance unchanged, even though there seems to be a bigger delta, favorable results on the Commercial side. So is there just anything noteworthy or magical about changing one and not the other?

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

Yes, David, it's Eric. Overall, I would just say, it's early in the year, and I think we're off to a good start, but we know that it's early in the year, since again nothing along those lines. As I noted in one of the other answers, just the impact and the size of the Government business, we had visibility given the PYD that we've delivered and the track record, the results in the first quarter led us to lowering that ratio. But again, nothing else there would call out underneath the numbers, just early in the year and again, off to a good start.

Operator

Our next question comes from Ana Gupte with Leerink Partners.

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

Following up again on the mid-market and Select growth and what you're expecting to see post the deal close. In mid-market, you've grown your year-over-year single-digit, Select well into the teens, it looks like. What type of feedback are you getting from the mid-market and Select brokers and the employers on the cross-selling value proposition, Express to Cigna and vice versa?

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

Ana, it's David. Our dialogue with clients as well as brokers and we've had significant interaction post the announcement, macro favorable reaction. Why favorable reaction? Expansion of capabilities to further improve affordability, expansion of services and flexibility of offering, so very positive. You may recall, as we've talked about the additional uptick from a revenue standpoint, that the new franchise will be able to deliver beyond the



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base case of both organizations. We did identify the ability for further uptick within the legacy of Express as it relates to additional growth opportunities. Additionally, in a prior question, I indicated, the modest amount of overlap in the relationships that exist today. So big picture, I'd say energy and optimism, two fold. One, the ability to further step up and further deliver differentiated affordability, which is job number one. And secondly, the broadening of services that will be available through either set of the channels, whether it's the integrated medical or the services based offering, both being received very favorably in the market.

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

Great. And then following up on the affordability point. You've guided to \$600 million in synergies on admin, I mean, we're taking that to the bottom line. So I'm assuming given the price sensitivity in those markets that you are looking to pass through some of your medical cost synergies into the employer customers. And what is, kind of, the driver of that? And what is the timing? And as you even look into the '19 selling season, might you be thinking about what you might do together?

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

Ana, it sounds like you're trying to negotiate a rate renewal with us right now. But specific to your question, you're correct, and to be very clear, it's important, we've committed the expense and administrative-oriented synergies back from a shareholder standpoint, and we're clear on the day of the announcement. We expect to flow the preponderance of all the medical and pharmacy savings back to customers and clients because we seek to drive further step function of affordability. As you might imagine, that intent and that strategic direction is being received favorably in the marketplace. And we'll look forward to being able to carry that forward as quickly as possible after closing the combination. So we couldn't be more excited about it to further build on the affordability momentum we have today, yet another step function of good value for the benefit of clients and customers.

Operator

Our next question comes from Peter Costa with Wells Fargo Securities.

Peter Heinz Costa - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Can you tell us about one of the opportunities as you see some of your competitors exploring that you guys have not explored, it was Medicare Advantage group business. How many of your commercial retirees at this point, commercial members are retirees? And that could be an opportunity for you to convert into Medicare Advantage group lives.

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

It's David. First macro, we don't have that data point disclosed. Stepping back, you identified a future growth opportunity that is not lost on us in any way, shape or form. So we continue to be excited and optimistic around our Medicare Advantage growth chassis, both in the individual market as well as the opportunity over time relative to the group space. We have not pursued that, as you noted. We have stayed focused and in the incredibly Go Deep orientation to drive the individual chassis. But over time, we see a significant opportunity there. We are clearly aware of what that number is. We just don't have that number disclosed and we see that as a future growth opportunity for us.

Peter Heinz Costa - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Has that risen or declined over the last year or two as your competitors start rolling these products out more and more aggressively? Are they coming into your customer base? Or are you still retaining most of those retirees within your customer base? And what they're actually having is mostly just conversions of their own Commercial group in to Medicare Advantage?



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

It has been pretty stable, and we don't see disruption relative to our customer base at this point in time.

Operator

Our next question comes from Dave Windley with Jefferies.

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

Your enrollment guidance increase suggest that you are expecting enrollment growth over the balance of the year. Your revenue guidance maintenance, I can kind of get beyond that by just annualizing the first quarter. I wondered if there is a miss -- a mix disconnect that I am not thinking about or what might be the reason that we wouldn't see revenue grow at more like double digits, just analyzing the first quarter?

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

David, it's Eric. Nothing I would note, in particular. I think, over the balance of the year, we would expect to have growth in the Select and Middle Market segments across a range of funding arrangements. We'd also expect the individual book will retreat consistent with normal pattern over the balance of the year until you pull those pieces together, and you get to the range that we've talked about. Again, we're pleased with the early momentum that we've got from a customer base perspective and from a growth perspective. But just that kind of evolution of the mix of funding arrangements over the back half of the year, that lands you still at the 7% to 8% growth.

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

Appreciate that. I don't think I've read or heard any call out with regard to flu. Was there a quantification of flu impact? And was that -- did that end up being lower than you expected or in line?

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

Yes, the flu season overall, we had pretty good visibility into, and we provided our guidance back at the beginning of February. It played out pretty consistent. So I wouldn't note it as a variance, kind of one way or the other in terms of our performance so far this year or in our outlook.

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

If I could sneak in one more. David, competitively, are you seeing competitors creating networks that favor owned delivery assets? And is that a competitive challenge or opportunity for you?

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

Dave, macro, generally speaking, no. Over time, we expect to see that as a potential. We see it more as an opportunity than not. We believe the more choice, partnered, open-access framework and the alignment around that. It's superior based upon needs and buying behaviors. So long as the cost-quality equation is there, and we've been able to prove an outstanding cost-quality equation. So big picture to-date, no. See this as a potential change in the future, and we think that change creates more opportunity for us than not.



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Operator

Our next question comes from Lance Wilkes with Sanford Bernstein.

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

Just had a question strategically. Following the Express Scripts merger and ultimate integration of that, what are the additional strategic capabilities that you feel you need to add? And how would you prioritize things like local market scale, government program growth and vertical integration with risk bearing providers?

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

So you recall we have a very clear set of priorities relative to M&A. Your question was premised on what we have to add. We will be extremely well positioned post the combination and we're excited for that. We remain focused in terms of 5 categories of M&A so long as they are strategic as well as financially attractive. And a reminder, they are further our global footprint that continues to perform quite well. Further, our U.S. Seniors capabilities, further our physician engagement and pharmacy capabilities, further our retail base capabilities and over time, expand our state-based risk programs capabilities. So our orientation, if you look back, has been very consistent with the 5 priorities we put forward. We don't prioritize one over the other. We dynamically seek to identify the best opportunity in any of those categories as the marketplace evolves, and we continue to be opportunistic around that.

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

Okay. And just a quick question on pharmacy membership for the quarter. Looks like the pharmacy cross-sell rate may have declined a little bit in the quarter. Just wondering what drove that? Kind of who won that business and if there are any changes in how you're going about cross-selling that?

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

The decline in the PBM lives for the first quarter was primarily driven by the loss of a large national account relationship. Looking over the balance of the year, I'd expect pharmacy lives to grow as a key element of the integrated offering that we have in our Select to Middle Market segments and obviously, the combination with Express Scripts will position us to even more effectively serve these clients on an integrated or in a stand-alone basis.

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

Got you. And I just note that in your prepared remarks, David, you mentioned your clients and the expansive view clients including health plans, you mentioned pharma manufacturers a number of times. I was wondering just kind of your perspective on how you look at pharma manufacturers and kind of the orientation of them as clients and how you might service them going forward.

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

Yes. Lance, thanks. I was referring to the pharma manufacturers in terms of opportunities for alignment, opportunities for value creation, et cetera. So coming back to orientation around partner of choice, coming back to orientation around driving value-based outcomes, we believe it's imperative in the next chapter of health care in the United States, to find the -- some of the success that the marketplace has seen, and we have seen in aligning incentives around collaboratives or otherwise with physicians or hospitals carrying that same philosophy, much more deeply and much more comprehensively in terms of into the pharmaceutical manufacturing environment because the -- again the cost curve connected is viewed to be



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borne by society, and we see a tremendous opportunity to step function the value creation for clients and customers working with forward-looking pharmaceutical manufacturers. That was the intent of that comment.

Operator

Our last question comes from Frank Morgan with RBC Capital Markets.

Frank George Morgan - *RBC Capital Markets, LLC, Research Division - MD of Healthcare Services Equity Research*

Most of my mine are answered, but I did want to go back to the guidance, just one last time, and maybe this is an Eric question. When you look at the strong results in the quarter relative to the amount of guidance raised, and you look at just the EPS contribution in the first quarter, it's, obviously, a lot higher than what you historically run. So I'm just curious, is there any final thoughts as the last question, in terms of just the cadence over the course of the year, that we should be mindful when we work the quarterly progression out to get to your guidance?

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

Appreciate the question. The dynamics here, I would call, would be all kind of normal things, but I would note the following in terms of things that will shape the seasonal pattern over the balance of the year. First is just the normal seasonal impact of deductibles and the normal impact of things like Part D and the like. And with deductibles, in particular, as you know, as you move throughout the year, those have upward increase on the cost end of things, one. Two, is the rate and pace of spending on our capabilities including the impact of some of the investments that we've talked about in terms of tax reform, those sorts of things. We expect that those will come in over the back part of the year as well as spending on our readiness for January 2019 selling cycle. And then third, would just be the impact of the 2019 industry fee suspension that will come back out of rates, as we get closer to the 2019 time frame and such. So again, we've seen this dynamic in the past when the industry fee comes and goes in terms of the impact that it has on the seasonal pattern and the like Those would be the things that encourage you to think about, as you look at the overall pattern. But again, I'd reiterate, off to a great start this year and really confident in our ability to deliver the results and the guidance that we put forward.

Operator

At this time, I will turn the call back over to David Cordani for closing remarks.

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

Thank you. So to wrap up our call, I just want to reiterate a few key points from our discussion. Cigna delivered very strong first quarter financial results, which continue our consistent track record of growth and value creation across our well positioned portfolio of businesses. Our results reflect strong momentum across our portfolio, led by our Commercial Employer business, which, once again, delivered strong organic medical customer growth, particularly in the Select and Middle Market segment, attractive margins and continued industry-leading medical cost trend. Collectively, our first quarter results reflect strong momentum and give us confidence we will achieve our improved 2018 outlook for earnings, EPS growth and customer growth.

Our first quarter performance also continues Cigna's long track record of value creation in our employer customer base through deep integration of medical, pharmacy, behavioral and other specialty solutions, that enables us to more comprehensively support the health needs of our customers.

Looking ahead, our combination with Express Scripts will position us to continue to build on this track record and will accelerate our growth strategy by creating deeper alignment across critical elements in the health care system, to drive improve the affordability and clinical quality and will result in attractive financial results, exceptional free cash flow and capital flexibility.



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We thank you for joining our call today, and look forward to our future discussions.

Operator

Ladies and gentlemen, this concludes Cigna's First Quarter 2018 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) 484-6429 or (203) 369-1603. Thank you for participating. We will now disconnect.

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