

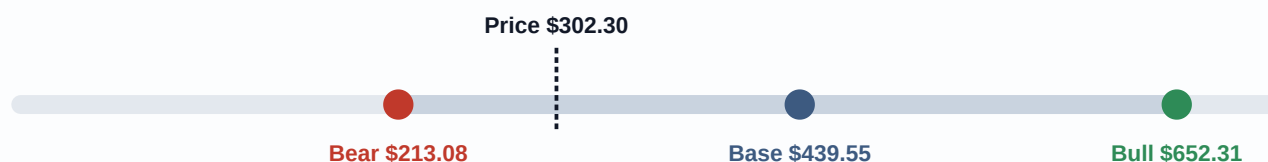
Initiated 2026-10-19 · Price \$302.30 (as of 2026-10-16, stockanalysis.com) · Mkt cap \$79.8bn (263.96mm diluted shares) · Health care / PBM, specialty pharmacy and commercial health benefits (Evernorth, Cigna Healthcare) · Model: verified

Rating: Buy — Conviction: Medium

At ~9.9x the ≥\$30.45 2026 adjusted EPS guide and an ~11% aggregator FCF yield, the market is pricing a lasting reset in pharmacy-benefit earnings. Rebate-free pricing, client repricing and the 2028 PBM reforms are real risks, but fast-growing Specialty and Care and a steady Cigna Healthcare carry value even if the PBM leg shrinks. Even the exit-multiple method, after a ~10% de-rating, shows upside, and the bear case needs margins to fall about a fifth below FY2025 for good.

Conviction tests (3a-v-c): T1 pass (Base +25.0% at +1pp, +73.9% at -1pp; Buy at both) · T2 fail (Gordon alone +78.6% reads Buy; exit-multiple alone +12.2% reads Hold) · T3 pass (one est. input, the NCI market value, worth ~\$30/sh or ~7% of Base) · T4 pass (no pending deal, ruling or single-contract event worth >25%; PBM reform is already law and sits inside the cases)

MODEL VALUE RANGE VS PRICE



Business overview

Cigna is two businesses. Evernorth (\$61.5bn of Q2 2026 adjusted revenue) has two parts. Pharmacy Benefit Services is Express Scripts, which earned \$609mm adjusted pre-tax in Q2. Specialty and Care Services, mainly Accredo specialty pharmacy, earned \$1,054mm, up 22%. Cigna Healthcare (\$11.7bn in Q2, \$1,276mm pre-tax) mostly serves US employers through ASO and insured plans: 18.4mm medical customers at June 2026. Medicare was sold in 2025; Individual and Family Plans exit on 2027-01-01. FY2025 revenue was \$274.9bn, 79% of it pass-through pharmacy revenue, so the model-basis margin is thin: 4.36%, down from 5.93% in FY2023. Three variables drive earnings: PBM economics through client renewals, rebates and reform; specialty drug volume, including biosimilars and GLP-1s; and the medical cost ratio in Cigna Healthcare (83.7–84.7% guided for 2026).

Competition

Three PBMs process ~80% of US claims. Express Scripts led 2025 with ~31%, up from 30%. CVS Caremark fell to 26% after client losses, and Optum Rx held 23% (Drug Channels Institute 2025 analysis, via Becker's). Pressure shows up first in price at large-client renewals: PBS adjusted pre-tax income fell 27% in Q2 on renewals of large client contracts, and pharmacy customers fell on "expected client transitions". Cigna has moved first on rebate-free pricing ("Signature": fully insured in 2027, all clients in 2028), and analysts expect CVS and Optum to follow. CVS, the closest listed comparable, trades at 11.4x forward earnings against Cigna's 9.5x (stockanalysis.com, 2026-10-16).

Bull case

1. **Specialty and Care compounds** — Accredo, biosimilars and care services grew pre-tax income 22% in Q2 and become a larger share of earnings, holding the model-basis margin at 4.4–4.6%. Plays out if Specialty and Care keeps growing double digits after the Q2 biosimilar benefit fades. *Model: rev_growth, ebitda_margin*
2. **Signature wins share** — management called 2027 one of its strongest selling seasons in recent years. If the rebate-free model brings net client wins and replaces rebate spread with fees, revenue grows ~6% and PBM earnings stabilize. Plays out if Express Scripts reports net client additions for 2027 and PBS earnings stop falling in 2027. *Model: rev_growth, ebitda_margin*
3. **The reform overhang clears** — once the 2028 rules are known and priced, the multiple moves toward CVS (10x exit) and terminal growth to 2.5%. *Model: exit_ev_ebitda, terminal_growth*

Bear case

1. **PBM economics reset** — repricing on renewals, the cost of building Signature, and the Consolidated Appropriations Act reforms (effective 2028) strip a large share of PBS's ~\$2.4bn annualized pre-tax income without fee replacement, and margin falls to 3.5% by 2030. Plays out if PBS earnings keep falling through 2027 guidance. *Model: ebitda_margin*
2. **Volume loss** — client transitions, the IFP exit and lower gross drug pricing under rebate-free contracts hold 2027 revenue flat and growth at 2–3% after. Plays out if pharmacy customers keep declining into 2027. *Model: rev_growth*
3. **Permanent discount** — the market keeps treating PBM earnings as a shrinking fee stream: 8.4% WACC, 1% terminal growth and a 7.0x exit. *Model: wacc, terminal_growth, exit_ev_ebitda*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, model basis (EV \$113.4bn = mkt cap \$79.8bn – cash \$6.3bn + debt \$31.9bn + NCI est. \$8.0bn; EBITDA incl. investment income)	9.47x FY2025; ~9.0x 2026E	9.30x / 9.80x on FY2024 / FY2023 EBITDA at today's EV	CVS 10.8x · ELV 13.7x · UNH 14.1x (aggregator TTM, all cash netted; CI 8.2x on that basis)	model-inputs.json ; stockanalysis.com 2026-10-16
P/E	9.5x forward (consensus); ~9.9x on the ≥\$30.45 2026 adjusted guide	17.4x / 24.9x / 13.6x at today's price on GAAP EPS of \$17.39 / \$12.12 / \$22.18 (FY2023–25)	CVS 11.4x · ELV 15.8x · UNH 17.7x (forward)	stockanalysis.com 2026-10-16; Q2 release; FY2025 10-K
FCF yield (aggregator TTM)	11.4%	n/a (unverified)	CVS 10.0% · ELV 6.8% · UNH 6.3%	stockanalysis.com 2026-10-16
P/B	1.87x	n/a (unverified)	CVS 1.48x · ELV 2.07x · UNH 3.48x	stockanalysis.com 2026-10-16

Model-implied value range (from model-summary.json ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$213.08 · Base \$439.55 · Bull \$652.31 per share, i.e. implied returns of ~29.5% / +45.4% / +115.8% vs \$302.30. *These ranges show how the bull and bear drivers translate into value; they are not price targets.*

- **What's priced in.** The price sits ~39% of the way from Bear to Base: closer to a lasting PBM reset than to the base path.
- **Re-rating.** The Base exit of 8.5x is a ~10% de-rating from today's 9.47x FY2025 multiple. The two methods differ by 59% (Gordon \$539.84, exit \$339.26). Gordon embeds a terminal value of ~13.0x Y5 EBITDA, a large re-rating, so most of the base upside sits in that method.
- **Why Buy despite T2.** The exit method alone still shows +12% after the de-rating, and the payoff is asymmetric: about ~30% to Bear against +45% to Base.

- Tail.** Revenue -3% to +1% over 2027–30, margin to 3.0%, NWC -0.8%, 9% WACC, a 6.0x exit and 0% terminal growth give \$101.96 (-66.3%).

Balance sheet: net leverage 2.1x model-basis FY2025 EBITDA (gross 2.7x). Coverage 8.4x. Liquidity: \$6.3bn of cash and equivalents at June 2026. Debt-to-capital ~43%. Nearest material maturity: \$2.8bn of short-term debt at 2026-06-30. Ratings: n/a (unverified).

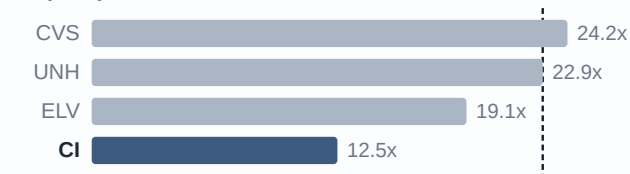
Model note: tier `full` , status `built` , verification `verified` (3,207 formula cells matched in LibreOffice). One unverified input: `market.other_claims` . Book NCI is only \$290mm, but NCI took \$422mm of H1 2026 net income, so it is valued at annualized H1 NCI income × 9.52x ≈ \$8.0bn (est.). No assumptions without a basis. Scenario consistency is `OK` on all 14 rows.

- Sourcing.** 10-Ks (EDGAR) for historicals; Q2 10-Q and release for debt, cash, shares and guidance.
- Debt.** Long-term debt is one aggregated \$29.1bn tranche at the FY2025 average cost (4.45%) with a placeholder 2036 maturity; the ladder is not tranche-accurate.
- EBITDA basis.** Income from operations plus D&A, incl. investment income; only cash and equivalents netted.
- EPS vs guidance.** Base Y1 EPS of \$26.53 is GAAP-like, after ~\$1.56bn of intangible amortization (~\$4.70/sh after tax). Adding it back gives ~\$31.2, ~2–3% above the ≥\$30.45 adjusted guide. No GAAP EPS guide was disclosed.
- WACC.** 7.4% = cost of equity 8.6% (raw CAPM 6.59% on 10Y 5.09%, beta 0.30, 5% ERP, **plus a stated 2.0pp premium** because the 0.30 beta reflects policy-driven moves, not low risk; it matches ELV's same-day CAPM) and 4.35% after-tax debt (est.) at a 28.5% weight; computes to 7.39%.

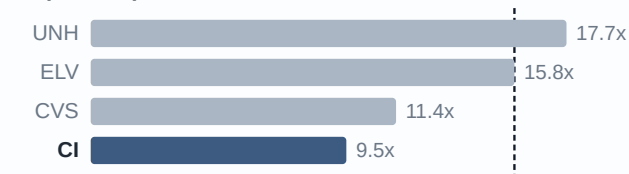
RELATIVE VALUE VS PEERS

Metric	CI	CVS	UNH	ELV	Peer median	vs median
P/E (TTM)	12.5x	24.2x	22.9x	19.1x	22.9x	-46%
P/E (forward)	9.5x	11.4x	17.7x	15.8x	15.8x	-40%
PEG	0.9x	1.0x	1.2x	4.3x	1.2x	-28%
EV/EBITDA (TTM)	8.2x	10.8x	14.1x	13.7x	13.7x	-40%
EV/Sales (TTM)	0.4x	0.4x	0.9x	0.6x	0.6x	-35%
P/B	1.9x	1.5x	3.5x	2.1x	2.1x	-10%
FCF yield	11.4%	9.9%	6.3%	6.8%	6.8%	+4.6pp
Dividend yield	2.1%	2.9%	2.3%	1.6%	2.3%	-0.2pp

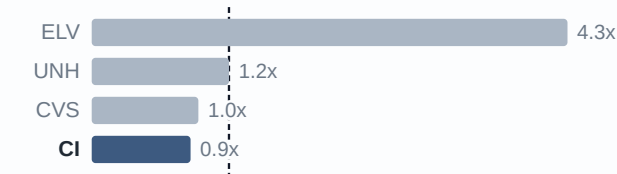
P/E (TTM)



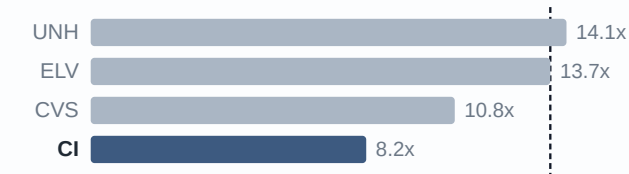
P/E (forward)

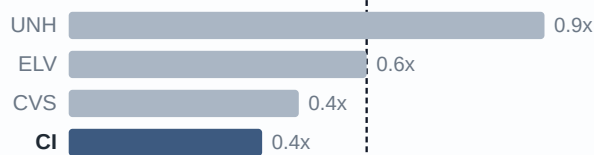
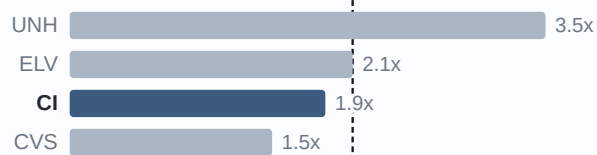
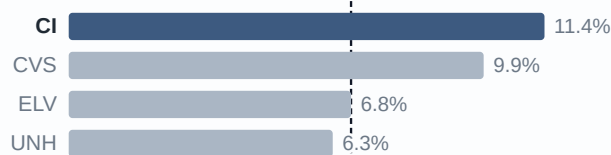
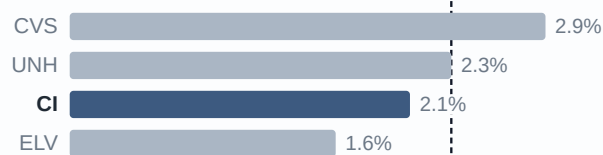


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EV/EBITDA (TTM)



EV/Sales (TTM)**P/B****FCF yield****Dividend yield**

As of 2026-10-19. One source and one definition for every company: aggregator TTM and consensus-forward multiples, EV netting all reported cash. Not the model's own EV basis (see the report's valuation table). All figures at the 2026-10-16 close, fetched 2026-10-19 before the open. Dashed line = peer median. Source: [stockanalysis.com /stocks/<ticker>/statistics/](https://stockanalysis.com/stocks/<ticker>/statistics/), fetched 2026-10-19.

Notes. PEG as given by the source, resting on its consensus growth estimates. Cigna's 8.19x nets all \$7.26bn of reported cash and uses the source's EBITDA (\$12.76bn TTM); on the model's basis (cash and equivalents only, NCI at an estimated market value, investment income in EBITDA) it is 9.47x FY2025 and ~9.0x 2026E.

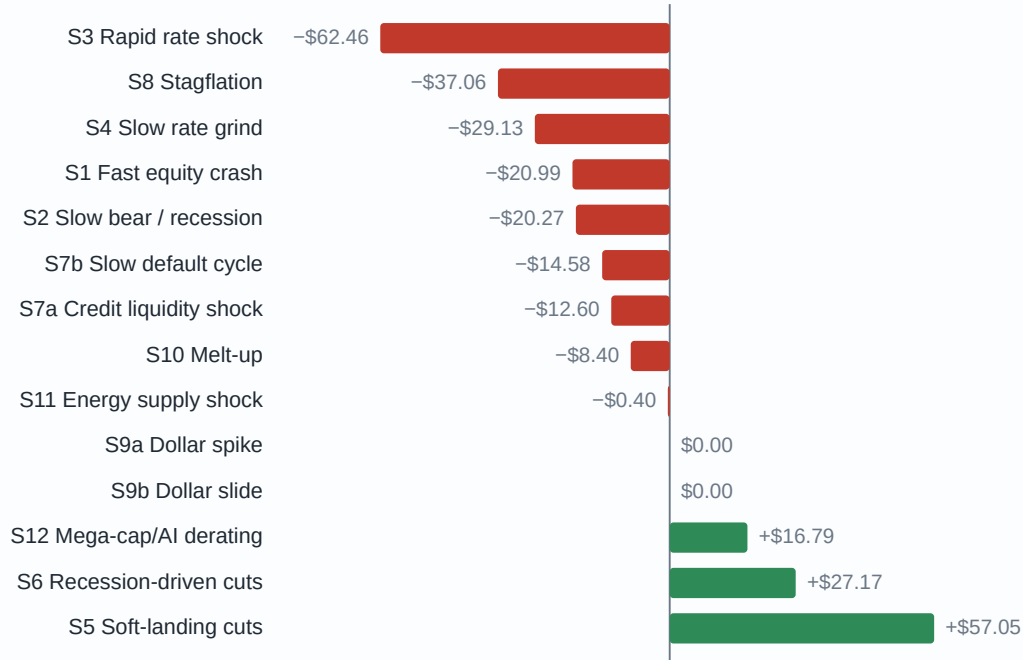
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	Liquidity de-rating; prescription and claims volumes unaffected	Med	–\$20.99
S2 Slow bear / recession	–	Employer job losses shrink ASO and PBM lives; drug use is resilient. Far milder than the bear case, which is a permanent PBM reset, not a cycle	Med	–\$20.27
S3 Rapid rate shock	–	Higher discount rate, slightly offset by reinvestment yield on ~\$20bn of investments	High	–\$62.46
S4 Slow rate grind	–	Grinding discount-rate drag; investment yield rises slowly	Med	–\$29.13
S5 Soft-landing cuts	+	Lower discount rate re-rates the equity; investment income dips	High	+\$57.05
S6 Recession-driven cuts	±	Rate relief vs employer membership losses and lower investment yield	Med	+\$27.17
S7a Credit liquidity shock	–	Spreads gap; ~43% debt-to-capital issuer sold modestly	Med	–\$12.60
S7b Slow default cycle	–	Investment-portfolio credit losses and pricier refinancing	Med	–\$14.58
S8 Stagflation	–	Medical trend outruns annually reset premiums; operating wage inflation; higher rates	High	–\$37.06
S9a Dollar spike	0	no material effect, not modeled	Low	\$0.00
S9b Dollar slide	0	no material effect, not modeled	Low	\$0.00
S10 Melt-up	–	Momentum leadership leaves low-multiple health care behind	Low	–\$8.40
S11 Energy supply shock	–	Second-round wage and logistics inflation in pharmacy and medical costs	Low	–\$0.40
S12 Mega-cap/AI derating	+	Rotation into domestic, non-AI defensives	Med	+\$16.79

Currently active/on watch per the playbook: S3 partially active (price-level leg only); S8, S10 and S11 on watch.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: the 2027 outlook (~early 2027) shows PBS earnings stabilizing with net Express Scripts client wins under Signature, and Specialty and Care keeps double-digit growth. **Downgrades if:** 2027 guidance shows PBS earnings falling again with net client losses, the 2028 reform rules or Signature pricing visibly cut spread income without fee replacement, or Specialty and Care growth drops below mid-single digits.

Watch items

- **W1:** Q3 2026 results — $\geq \$30.45$ adjusted EPS reaffirmed or raised; Evernorth $\geq \$6.9$ bn and Cigna Healthcare $\geq \$4.55$ bn held — Q3 2026 release — late October 2026 (date n/a, unverified) — *Model: ebitda_margin*
- **W2:** 2027 outlook — adjusted EPS growth versus the $\geq \$30.45$ base, PBS earnings trend, net client wins/losses — Q4 2026 release — ~early 2027 — *Model: ebitda_margin, rev_growth*
- **W3:** Pharmacy customers and Signature uptake — total pharmacy customers stop declining from 118.2mm; Signature conversion of fully insured books on schedule — Q4 2026 / Q1 2027 releases — *Model: rev_growth*
- **W4:** NCI income — confirm what drives the jump to \$422mm in H1 2026 and replace the estimated NCI value with a sourced one — Q3 10-Q / FY2026 10-K — *Model: none (balance-sheet fact other_claims)*

Sources

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- Cigna FY2025 10-K statements of income, balance sheet and cash flows (acc. 0001739940-26-000006) — <https://www.sec.gov/Archives/edgar/data/1739940/000173994026000006/R3.htm> (R5, R9) — accessed 2026-10-19
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- Q2 2026 call and Signature rollout (via search summaries) — <https://www.fiercehealthcare.com/payers/cigna-boosts-outlook-it-posts-q2-beat-earnings-revenue> ; <https://www.fiercehealthcare.com/payers/cignas-express-scripts-set-shift-away-pbm-rebates> ; <https://www.marketbeat.com/instant-alerts/cigna-group-q2-earnings-call-highlights-2026-07-31/> — accessed 2026-10-19
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- 10Y Treasury 5.09% (2026-10-16) — logs/macro-2026-10.md (Treasury.gov par curve)

Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.