

The Cigna Group (NYSE: CI)

Priced for the bear case

Full build 22 October 2026, re-marked 26 October 2026 | Ryan Mahaffy | MSF | Independent Research

Rating	12-mo target	3–5 yr value (FY29)	Current	12-mo upside
BUY	\$384.61	\$602.26	\$304.57	+26.3%

Price / 52-wk range	\$304.57 / \$238.99–\$315.88	Probability-weighted value	\$504.38
Market cap (265.4mm diluted)	\$80.8B	Margin of safety	39.6%
Debt incl. CP / debt-to-cap	\$31.9B / 42.8%	Bear IV / price	0.95x
P / FY26 adj. EPS floor (\$30.45)	10.0x	LTM FCF after SBC / yield	\$8.8B / 10.9%
WACC / terminal g	7.19% / 2.5%	Street target, median (range)	\$345 (\$288–\$400)
Daily 200 EMA / distance	\$281.59 / +8.2%	Q3 results / implied move	5 Nov 2026 / ±6.5%

Investment thesis

At \$304.57, Cigna trades as if the 2028 pharmacy-benefit rules cut Express Scripts' profit by about a third and keep it there. The reverse DCF needs a 2.3% steady-state adjusted EBIT margin against 3.8% today. That is my deep-bear case, and I give it 10%. Weighting four scenarios, I get \$504.38 a share, a 39.6% margin of safety. My bear case is \$290.72, within 5% of the price.

The 2026 reset in pharmacy-benefit profit (down 27–28%) is already in my base numbers. What has to hold from here is cash: \$8–9B a year of free cash flow after SBC against a \$81B market cap, which at 10x earnings retires about 1.2% of the shares per \$1B of buybacks. The first test is the Q3 print on 5 November. The weakest input is the discount rate, and I show what happens when it moves.

Framework. Primary: FCFF DCF on consolidated free cash flow, with SBC and recurring special items treated as cash costs and acquired-intangible amortization excluded. Evernorth is about 85% of revenue, so I value CI as a pharmacy-services business, not as an insurer on residual income, and haircut balance-sheet cash 50% for regulated capital. Cross-checks: APV, and peer EV/EBIT and P/E. The DCF governs.

Author position: Ryan may hold positions in CI. Prices are 26 October 2026 intraday (CI \$304.57, SPY \$765.58). Scenario values carry from the 22 October full build; nothing has been filed since.

1. Recommendation and Scenarios

Scenario	Prob.	IV / share	IV / price	What has to be true
Deep Bear	10%	\$182.76	0.60x	2028 rules impair PBM economics and a top-3 client leaves; margin 2.3%; revenue +1–2%; WACC +100bp; no-moat terminal
Bear	25%	\$290.72	0.95x	Red-team reform reset: 2029 adj. EBIT ~20% below 2026 (PBS -40%, S&C -18%, Cigna Healthcare -14%); margin 2.85%; WACC +50bp
Base	50%	\$588.76	1.93x	Margin held at the FY26E 3.8% through the Signature transition; revenue +6% fading to 2.5%; below management's 10–14% EPS algorithm
Bull	15%	\$793.60	2.61x	Management's algorithm delivered: Signature near 4%, Specialty & Care growth; margin 4.2%; revenue +7%
Weighted	100%	\$504.38	1.66x	Score (E[IV]/P – 1) / Bear/P – 1 = 14.4

Source: RMR_Value_CI_2026-10-22 full build; IV/price re-marked to 26 October.

I rate CI a BUY. The 12-month target of \$384.61 and the FY29 value of \$602.26 are unchanged from the 22 October build. I would build the position in two halves: the first before the 5 November print, the second once second-half cash flow tracks the \$9.0B operating cash flow guide. Above \$353.07 the margin of safety falls below my 30% gate. At \$453.94 (0.90x E[IV]) the thesis is realized and I exit.

Expression

Instrument	Strike	Bid / ask	Mid	IV	Delta	Breakeven	At E[IV] / yield
Call Jan-2028	\$270	64.80 / 68.40	\$66.60	34.1%	0.71	\$336.60	+252%
Call Jan-2028	\$280	59.00 / 62.50	\$60.75	33.7%	0.68	\$340.75	+269%
Call Jan-2029	\$280	75.50 / 79.50	\$77.50	34.3%	0.68	\$357.50	+190%
Put Jan-2028 (cash-secured)	\$250	14.80 / 16.00	\$15.40	33.2%	-0.20	\$234.60	6.6% on cash
Put Jan-2028 (cash-secured)	\$230	10.00 / 11.00	\$10.50	33.8%	-0.15	\$219.50	4.8% on cash

Chain 26 October 2026 intraday. IV and delta solved from mids (Black-Scholes, r 4.98%, dividend yield 2.0%). Calls: return at expiry if the stock reaches E[IV]. Puts: premium over cash secured.

Spot is the better expression. At E[IV] spot returns +66% and loses about 40% in the deep bear. The Jan-2028 \$280 call returns +269% at E[IV] but goes to zero in both bear states, and implied vol has risen to about 34% from 30% on 22 October ahead of the print. The \$250 put is a reasonable way to get filled below \$235.

2. Variant Perception

At \$304.57 the market is pricing a permanent margin reset. Hold today's 3.8% adjusted EBIT margin and the reverse DCF needs revenue to shrink 3.6% a year for a decade. Hold my base growth path and it needs a 2.3% steady-state margin. That margin is my deep-bear case. The stock trades at 10.0x the FY26 adjusted EPS floor, and the five-year average FCF yield after SBC is about 10% against a peer median of 6%.

I read the 2028 rules as changing how Express Scripts gets paid more than how much. Delinking, 100% ERISA pass-through and point-of-sale rebates move spread income into fees. Management has priced Signature to about a 4% margin. Pharmacy-benefit pretax has already been cut 27–28% in 2026, and that cut is in my FY26 base. Specialty & Care pretax is growing 22% on biosimilar and Accredo mix. The three largest clients (about \$90B of revenue) are renewed through the decade at repriced terms. Retention is above 97%, and 2027 new business exceeds the prior two selling seasons combined. My base case needs none of the 10–14% EPS algorithm: it holds margin flat and grows revenue with drug trend.

The re-rating runs through cash. CI generates \$8–9B of FCFF a year against a \$81B market cap. The dated tests are Q3 on 5 November (second-half cash flow against the back-weighted \$9.0B CFO guide), Q4 in February with 2027 segment guidance (Evernorth at or above \$6.9B), and the January 2027 fully insured Signature launch, which shows reform economics a year before the 2028 default.

3. Business and Moat

Segment (FY26 guide / Q2-26)	Revenue	Pretax adj. income	Trend	Economics
Evernorth: Pharmacy Benefit Services	\$34.5B (Q2)	\$609mm (Q2)	-27% YoY	Spread and rebate share today; fee-for-service under Signature
Evernorth: Specialty & Care Services	\$27.0B (Q2)	\$1,054mm (Q2)	+22% YoY	Accredo dispensing, private-label biosimilars (Qualient), care delivery
Evernorth total (FY26 floor)	~\$245B	≥ \$6.9B	-4% vs FY25	Express Scripts ~25% of US claims
Cigna Healthcare (FY26 floor)	~\$47B	≥ \$4.55B	MCR 83.7–84.7%	Commercial self-funded ASO and stop-loss; IFP exit 1/1/27
Consolidated FY26E	~\$280B	Adj. EPS ≥ \$30.45	CFO ~\$9.0B	Capex ~\$1.3B; dividends ~\$1.6B; debt/cap 42.8%, 40% target

Source: CI Q2 2026 8-K Ex. 99.1, Investor Day 8-K (30 Sep 2026).

\$mm	FY21	FY22	FY23	FY24	FY25	LTM Q2-26
Revenue	174,069	180,518	195,265	247,121	274,900	282,382
GAAP income from operations	7,941	8,450	8,536	9,417	9,200	9,957
Operating cash flow	7,191	8,656	11,813	10,363	9,601	10,277
Capex	1,154	1,295	1,573	1,406	1,212	1,212
FCF after SBC	5,769	7,097	9,954	8,649	8,098	8,774
Shareholders' net income	5,370	6,704	5,164	3,434	5,957	6,416
FCF / net income	1.12x	1.10x	1.98x	2.61x	1.41x	1.41x
Buybacks	7,742	7,607	2,284	7,034	3,621	1,281
Diluted shares (mm)	341.0	313.1	296.9	283.2	268.6	264.0

Source: SEC XBRL companyfacts; capex from 10-K cash flow statements. LTM capex and SBC use FY25 values; LTM CFO includes the weak H1-26 (\$710mm).

Reinvestment needs are small at a 4% margin on pass-through drug revenue. Sales-to-capital including M&A ran about 22x over FY17–FY25, and five-year FCF conversion of net income is 1.54x, because goodwill amortization and the VillageMD write-downs depress GAAP earnings. I haircut sales-to-capital to 15x in the base to fund statutory capital growth and Shields-type tuck-ins. Reported ROIC of about 12% is diluted by \$45.5B of goodwill from the 2018 Express Scripts deal. Incremental returns on organic capital are far higher, and I still cap terminal RONIC at WACC + 3pp.

The moat is purchasing scale and network. Express Scripts negotiates for about a quarter of US claims, and the integrated specialty pharmacy captures the highest-value scripts. It is not a regulatory moat, which is why both bear states set RONIC equal to WACC. Capital allocation favors shareholders but is constrained by leverage: buybacks halved to \$3.6B in 2025 while debt-to-cap sat above target. Brian Evanko succeeded David Cordani as CEO in 2026.

4. Valuation

Input	Value	Source / method
Risk-free (10y UST)	5.09%	FRED DGS10, 16 Oct 2026 (4.98% on 26 Oct, not re-run)
ERP	4.20%	Damodaran implied, 1 Oct 2026
Unlevered beta (peer median, Blume)	0.533	UNH, ELV, CVS, HUM, CNC, 2y weekly vs SPY; MOH excluded (raw -0.15)
Relevered beta (D/E 0.40)	0.70	Hamada at 21%; CI's own OLS beta is 0.17
Cost of equity	8.07%	No regulatory premium: reform risk sits in scenario cash flows and WACC deltas
Pre-tax cost of debt	6.33%	Rf + 121bp (A- floor)
WACC	7.19%	Market weights, debt 28.7%

The discount rate is the weakest input. Managed-care betas against the S&P 500 collapsed because 2025–26 returns were driven by MCR and policy shocks, not the market. If all peer insurer float is treated as excess cash in the beta adjustment, WACC rises to 8.2% and the margin of safety drops to 26.3%, below the gate. I apply the same 50% regulated-cash haircut to peers that I apply to CI's balance sheet, which keeps the treatment consistent. The variant table in Section 5 shows the range.

Base FCFF build (\$mm)

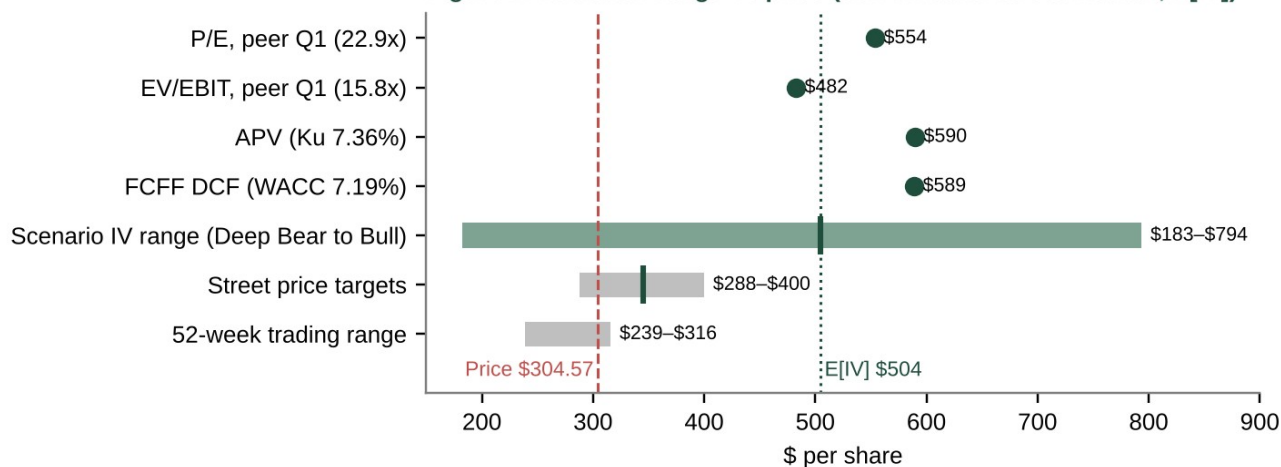
Line	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Revenue	280,000	296,800	314,608	331,911	348,507	365,932
Growth	1.9%	6.0%	6.0%	5.5%	5.0%	5.0%
Adj. EBIT margin	3.83%	3.82%	3.81%	3.80%	3.80%	3.80%
Adj. EBIT	10,738	11,348	11,992	12,613	13,243	13,905
NOPAT (20% tax)	8,613	9,101	9,616	10,113	10,617	11,147
Reinvestment ($\Delta\text{Rev} / 15x$)	n/a	1,120	1,187	1,154	1,106	1,162
FCFF	6,741 (H2 stub)	7,981	8,429	8,959	9,511	9,985

FY26E adj. EBIT = $\$30.45 \times 263\text{mm} / (1 - 19\%) + \text{interest} - \$565\text{mm}$ recurring special items. FY32–36 fade to 2.5% terminal growth at a flat margin.

EV to equity bridge	\$mm
PV of explicit FCFF incl. H2-26 stub	77,679
PV of terminal value (58% of EV)	107,541
Enterprise value	185,220
+ Excess cash (50% of \$7.26B)	3,628
– Debt (incl. ~\$1.0B CP)	31,878
– Operating leases (2023 tag, unverified)	445
– Non-controlling interests	290
Equity value	156,235
÷ Diluted shares (mm)	265.4
Base IV per share	\$588.76

Method	IV / share	Weight	Note
FCFF DCF (WACC 7.19%)	\$588.76	60%	TV 58% of EV; implied exit 12.9x adj. EBIT vs 10.1x today
APV (Ku 7.36%)	\$589.54	15%	Reconciles to DCF EV within 0.1%
EV/EBIT, peer Q1 (15.8x)	\$482.37	15%	n = 4; peer EBIT at an MCR trough flatters CI
P/E, peer Q1 (22.9x)	\$553.57	10%	Same caveat; regression not usable at n = 4
Blended base	\$569.40	100%	CV 9.1%. The methods share inputs, so a low CV is not independent confirmation

Figure 1. Valuation range vs price (tick on bars: street median, E[IV])



Grey bars are market reference ranges, not valuation methods. Street targets from yfinance, 26 October.

Reverse DCF read	Value	Compare
Implied 10y revenue CAGR at 3.8% margin	-3.6%	Base 4.5%; realized 5y 11.4% (M&A-inflated)
Implied steady-state adj. EBIT margin at base growth	2.29%	FY26E 3.83%; bear 2.85%; deep bear 2.30%
E[IV] / price	1.66x	MoS 39.6% against the 30% gate
Highest entry that still clears a 30% MoS	\$353.07	$0.70 \times E[IV]$

Reverse-DCF solves are from the 22 October build at \$304.37; the price has moved 0.1% since.

5. Scenarios and Sensitivities

Driver	Deep Bear	Bear	Base	Bull
Revenue growth FY27	2.0%	4.0%	6.0%	7.0%
Revenue growth FY28	1.0%	3.0%	6.0%	7.0%
Revenue growth FY29 / FY30 / FY31	1.0 / 1.0 / 1.0%	3.0 / 3.0 / 3.0%	5.5 / 5.0 / 5.0%	6.5 / 6.0 / 6.0%
Terminal growth	0.5%	1.5%	2.5%	3.0%
Target adj. EBIT margin	2.30%	2.85%	3.80%	4.20%
Years to target margin	4	3	3	4
Sales-to-capital	8x	10x	15x	20x
WACC	8.19%	7.69%	7.19%	6.99%
Terminal RONIC above WACC	0pp	0pp	3pp	4pp

The bear margin path reproduces the red-team 2029 segment pretax (PBS -40%, S&C -18%, Cigna Healthcare -14%).

Base IV per share: WACC (rows) vs terminal growth (columns)

WACC \ g	1.0%	1.5%	2.0%	2.5%	3.0%
7.0%	\$565.82	\$579.74	\$596.21	\$616.07	\$640.59
7.5%	\$514.05	\$523.90	\$535.33	\$548.82	\$565.04
8.0%	\$469.76	\$476.69	\$484.58	\$493.70	\$504.42
9.0%	\$398.01	\$401.23	\$404.76	\$408.68	\$413.08
10.0%	\$342.44	\$343.62	\$344.83	\$346.08	\$347.38
11.0%	\$299.43	\$300.21	\$300.99	\$301.77	\$302.56

IV per share at base WACC: adj. EBIT margin (rows) vs 10-year revenue CAGR (columns)

Margin \ CAGR	-2%	0%	2%	4%	6%
2.2%	\$168.33	\$199.01	\$235.01	\$277.19	\$326.52
2.6%	\$212.53	\$250.47	\$294.98	\$347.13	\$408.11
3.0%	\$256.72	\$301.93	\$354.95	\$417.07	\$489.71
3.4%	\$300.92	\$353.38	\$414.92	\$487.01	\$571.31
3.8%	\$345.11	\$404.84	\$474.89	\$556.95	\$652.90

Red: below the \$304.57 price. Amber: above price but short of a 30% margin of safety. Green: clears the gate. The base case falls below price only near an 11% WACC; the price sits on the 2.6–3.0% margin row, a 20–30% permanent margin cut.

Judgment-input variants (full re-calculation, 22 October)

Variant	E[IV]	MoS at \$304.57	Gate
This model	\$504.38	39.6%	Pass
Peer cash fully treated as excess in beta (WACC 8.20%)	\$413.53	26.3%	Fail
+1.0pp regulatory premium on top of scenario deltas (WACC 7.90%)	\$437.24	30.3%	Pass (narrow)
10pp weight Base to Bear	\$474.57	35.8%	Pass
FY26 CFO at 80% of guide (\$7.2B)	\$501.01	39.2%	Pass
Full peer-cash adjustment and 10pp Base to Bear	\$389.72	21.8%	Fail

E[IV] spans roughly \$390–\$505 across defensible discount-rate and weighting choices, and the 30% gate holds in 4 of 6 at today's price. In every variant the bear case stays near the price, which is the sturdier half of the thesis. An independent review of the model rated the pass as marginal. I agree, which is why I build the position around the 5 November print and not before it.

6. Red Team

A red-team case, built independently of this model from filings and reporting, puts fair value at \$195 (-36%): 10x a 2029 adjusted EPS of about \$23.40, discounted at a 9.5% cost of equity. Each point and where it sits in my model:

Bear point	Response	Where it lives
PBM reform puts about a third of segment pretax at risk (FTC settlement, delinking, ERISA pass-through, Signature default in 2028)	Accepted as the central risk. The 2026 PBS reset (-27%) is in the FY26 base. The bear case takes 2029 adj. EBIT about 20% lower, the deep bear about 40%.	Bear 25% (margin 2.85%); Deep Bear 10% (2.3%)
Specialty margins compress as biosimilars spread; GLP-1 price cuts	Partly rebutted: S&C pretax +22% in Q2 on mix. Management flagged that the Q2 benefit will not repeat at that level. The bear case cuts S&C 18%.	Bear margin path
One client is 19% of external revenue; the top three (~\$90B) were repriced lower	Renewed through the decade; the repricing is in 2026 numbers. Losing the 19% client is a deep-bear trigger, not a base input.	Deep Bear; invalidation trigger
Cigna Healthcare MCR drift (84.5% vs 83.2%) and stop-loss severity	Accepted. FY26 MCR above 84.7% or a 2027 guide midpoint above 85.0% invalidates.	Invalidation trigger
EPS quality: \$1.33B amortization and \$822mm special items added back; H1 CFO only \$710mm	Amortization is excluded as non-cash, which is correct for FCFF. The recurring \$565mm of special items is deducted as cash. CFO guide haircut 10% to \$8.1B; at 80% of guide, MoS barely moves.	Adj. EBIT definition; CFO realization input
Leverage: debt/cap 42.6%, tangible equity -\$30B	Net debt/EBITDA about 2.2x and interest coverage 7.0x pass the gates. Bear WACC +50bp, deep bear +100bp.	Gates; scenario WACC
10x on 2029 bear EPS is fair for an ex-growth PBM (CVS de-rated to 7–9x)	That multiple is my bear and deep-bear outcome. The red-team value sits between my two bear states, which together carry 35% of the probability.	Scenario weights

Unrebutted points moved into the model: the CFO-realization haircut, recurring special items as cash, the regulated-cash haircut, and the red team's kill signals, now the invalidation triggers in Section 7.

7. Invalidation

1. **FY26 operating cash flow below \$8.0B** (reported with Q4 in February 2027; the Q3 second-half run-rate is the first read).
2. **2027 Evernorth pretax guide below \$6.9B**, or PBS pretax below \$550mm for two consecutive quarters.
3. **Cigna Healthcare MCR above 84.7% for FY26**, or a 2027 MCR guide midpoint above 85.0%.
4. **Debt-to-cap above 45%** while buybacks exceed FCF less dividends.
5. **An RFP loss or adverse repricing** of the client that was 19% of 2025 external revenue.
6. **Price at or above \$453.94 ($0.90 \times E[IV]$)** realizes the thesis: exit and replace.

8. Catalysts and Technical Set-up

Date	Event	What I watch
5 Nov 2026	Q3 results (pre-market)	H2 CFO pace vs \$9.0B; PBS pretax $\geq$ \$550mm; MCR; buyback restart. Options imply $\pm 6.5\%$ (6-Nov \$305 straddle)
1 Jan 2027	IFP exit; Signature for fully insured plans	First live read on rebate-free economics
Feb 2027	Q4 results and 2027 segment guidance	Evernorth $\geq$ \$6.9B; 2027 EPS vs the 10–14% algorithm
Jan 2028	Part D delinking; FTC point-of-sale terms; Signature default	Margin held near 4% through the switch
Aug 2028	ERISA 100% pass-through	Self-funded client retention

Daily 200 EMA	Value	Read
Set-up	RECLAIM (confirmed)	First close above on 8 Oct after 16 sessions below; held since
EMA / distance	\$281.59 / +8.2%	10% distance cap binds at \$309.75
20-day EMA slope	+0.60%	Turned up from flat; 12-month base intact
RSI(14) / off 52-week high	62.4 / -3.6%	52-week closing high \$315.88 on 22 Oct
Entry zone	\$281.59–\$295.67	Price is above the zone

The stock has run since the 2 October archetype date and sits near the top of the technical gate. I would work the first half with limits inside the entry zone and not chase into the print. Filling above the zone costs return without breaking the thesis, because the margin-of-safety gate clears up to \$353.07.

9. What Changed Since 22 October

Item	22 Oct build	26 Oct	Effect
Price	\$304.37 (21 Oct close)	\$304.57	MoS 39.7% to 39.6%; score 14.7 to 14.4
Return since entry	n/a	+0.1% vs SPY -1.0%	+1.0% excess
10y UST	5.09% (16 Oct)	4.98%	Supports IV; not re-run
Filings / guidance	Q2-26 10-Q, Investor Day	None new	No input change
Technical set-up	RECLAIM_EARLY	RECLAIM (confirmed)	Gate confirmed
Judgment variants passing	4 of 6	4 of 6	Regulatory-premium variant back above 30% (3 of 6 at \$306.95 on 23 Oct)
Jan-2028 option IV	~30%	~34%	Pre-print vol bid; favors spot or put-writing over calls

Track record: 19 Oct CASH (superseded); 22 Oct CI new at \$304.37; 24 Oct reaffirmed. No closed picks, so no hit rate yet.

Sources and Disclaimer

- SEC EDGAR XBRL companyfacts, CI (CIK 1739940): historicals, LTM, balance sheet, shares, SBC, maturities (22 Oct 2026). CI 10-K FY25 and FY22 cash flow statements (capex).

- CI 8-K Ex. 99.1 Q2 2026 (30 Jul 2026): FY26 guidance and segments. CI Investor Day 8-K (30 Sep 2026): 2026–30 algorithm. Q2 2026 10-Q and call transcript.
- FTC/Express Scripts settlement (Goodwin, Feb 2026); Consolidated Appropriations Act 2026 (AJMC, 3 Feb 2026).
- FRED DGS10 (16 Oct 2026); Damodaran implied ERP (1 Oct 2026) and rating spreads (Jan-2025 vintage).
- yfinance: prices, betas (2y weekly), option chains and analyst targets (26 Oct 2026). Full source table: Sources tab of RMR_Value_CI_2026-10-22.xlsx.

Disclaimer. Independent research by Ryan Mahaffy for institutional and professional readers. Not investment advice, an offer, or a solicitation. Valuations are estimates on public information and stated assumptions. Author position: Ryan may hold positions in CI and may trade before or after publication.