

Universal Health Services

Q4 beat, vols slowed but still strong; strong psych pricing driving growth

Reiterate Rating: BUY | PO: 195.00 USD | Price: 165.79 USD

Small beat in Q4, SS vols slowed but still strong

Adj EBITDA less NCI came in \$7m or 1% above consensus on better revs (1% better) and slightly better margins. Acute volumes decelerated from a strong Q3, but +5.6% SS adj adm growth is still a strong print. Psych same store (SS) revs growth of +7.2% decelerated slightly. The company issued 2024 guidance with revs 4% above consensus at the midpoint and EBITDA less NCI 6% above consensus. We are raising ests and PO for better than expected guide. Our PO of \$195 (vs \$190 prior) represents 9.2x 2024E EBITDA (unchanged). Reiterate Buy on strong fundamentals in the Acute biz while we expect improvement in Psych over time.

Revs and margins better

Revs were 1.2% better than consensus estimates. Adj EBITDA-NCI was 1.4% better, while margins were roughly in line with consensus. Salaries, wages, and benefits (SWB) as a % of revs was 90bps below our model while other op exp was 80bps above. Meanwhile, supply exp was in-line.

Acute vols decelerated but print of +5.6% still strong

Acute revs were in line with consensus and 3% above our est. SS adjusted admissions were +5.6% and implies volumes were +3.7% above 2019 levels, the 3rd straight quarter vols were above 2019. Segment SS margin of 11.8% was up +30bps y/y. SS SWB as a % of revs decreased -110bps y/y, but SS other op ex as a % of revs increased +150bps y/y.

Psych revs up +5% q/q, margins down y/y

Psych revs were 2% above consensus. SS adj patient days growth of +1.1% y/y was in line with Q3 and implies vols still -2.5% below 2019. SS revs of +7.2% were below +7.6% as of 3Q23 but is +21.5% above 2019 levels vs +20.4% as of Q3. SS pricing growth of +6.1% y/y decelerated from +6.5% in Q3. Segment SS EBITDA margin was 22.0%, -90bps y/y.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	9.92	10.45	13.23	14.90	17.06
GAAP EPS	9.14	10.23	13.21	14.88	17.04
EPS Change (YoY)	-16.2%	5.3%	26.6%	12.6%	14.5%
Consensus EPS (Bloomberg)			11.81	12.95	14.43
DPS	0.80	0.80	0.84	0.88	0.93
Valuation (Dec)					
P/E	16.7x	15.9x	12.5x	11.1x	9.7x
GAAP P/E	18.1x	16.2x	12.6x	11.1x	9.7x
Dividend Yield	0.5%	0.5%	0.5%	0.5%	0.6%
EV / EBITDA*	7.4x	6.7x	5.9x	5.6x	5.3x
Free Cash Flow Yield*	2.2%	4.5%	4.5%	4.8%	5.4%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 28 February 2024 12:05AM EST

28 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	190.00	195.00
2024E Rev (m)	15,156.2	15,559.0
2025E Rev (m)	15,900.2	16,303.0
2026E Rev (m)	NA	17,118.1
2024E EPS	13.39	13.23
2025E EPS	15.39	14.90
2026E EPS	NA	17.06
2024E EBITDA (m)	1,971.0	1,978.2
2025E EBITDA (m)	2,082.3	2,090.7
2026E EBITDA (m)	NA	2,212.3

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Stock Data

Price	165.79 USD
Price Objective	195.00 USD
Date Established	28-Feb-2024
Investment Opinion	B-1-7
52-Week Range	113.69 USD - 166.35 USD
Mkt Val (mn) / Shares Out (mn)	11,744 USD / 70.8
Free Float	95.2%
Average Daily Value (mn)	76.11 USD
BofA Ticker / Exchange	UHS / NYS
Bloomberg / Reuters	UHS US / UHS.N
ROE (2024E)	-3.4%
Net Dbt to Eqty (Dec-2023A)	0%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

UHS = Universal Health Services

NCI = Non-controlling interests

Op ex = Operating expense

iQprofileSM Universal Health Services

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.2%	11.4%	12.5%	12.5%	25.7%
Return on Equity	-2.8%	-4.4%	-3.4%	-3.1%	-5.5%
Operating Margin	7.5%	8.2%	8.8%	9.0%	9.1%
Free Cash Flow	262	525	527	568	630

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	1.3x	1.3x	1.3x	1.3x	1.3x
Tax Rate	23.9%	22.8%	23.6%	23.4%	23.4%
Net Debt-to-Equity Ratio	78.9%	77.3%	73.4%	69.8%	NM
Interest Cover	7.9x	5.7x	6.6x	6.9x	7.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	13,399	14,282	15,559	16,303	17,118
% Change	6.0%	6.6%	8.9%	4.8%	5.0%
Gross Profit	8,479	8,992	9,847	10,329	10,851
% Change	3.7%	6.0%	9.5%	4.9%	5.1%
EBITDA	1,585	1,743	1,978	2,091	2,212
% Change	-16.4%	10.0%	13.5%	5.7%	5.8%
Net Interest & Other Income	(127)	(207)	(209)	(211)	(219)
Net Income (Adjusted)	(169)	(266)	(218)	(208)	(188)
% Change	NM	-57.3%	17.9%	4.6%	9.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	686	746	885	954	1,025
Depreciation & Amortization	582	568	605	628	648
Change in Working Capital	(433)	(257)	(229)	(239)	(249)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	161	211	35	20	25
Capital Expenditure	(734)	(743)	(770)	(795)	(820)
Free Cash Flow	262	525	527	568	630
% Change	834.6%	100.3%	0.4%	7.8%	10.9%
Share / Issue Repurchase	833	547	500	600	600
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	616	100	29	87	24

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	103	119	119	119	0
Trade Receivables	2,018	2,238	2,490	2,609	0
Other Current Assets	417	454	482	493	0
Property, Plant & Equipment	5,918	6,125	6,298	6,479	0
Other Non-Current Assets	5,038	5,032	5,100	5,168	0
Total Assets	13,494	13,968	14,490	14,869	0
Short-Term Debt	81	127	127	127	0
Other Current Liabilities	1,833	1,887	1,894	1,604	0
Long-Term Debt	4,727	4,786	4,815	4,807	0
Other Non-Current Liabilities	888	972	1,083	1,431	0
Total Liabilities	7,529	7,771	7,919	7,969	0
Total Equity	5,965	6,197	6,571	6,900	0
Total Equity & Liabilities	13,494	13,968	14,490	14,869	0

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Hospital Management

Company Description

Universal Health Services, Inc., owns and operates acute care hospitals, behavioral health centers, and ambulatory surgery and radiation oncology centers. Its hospitals provide general surgery, internal medicine, obstetrics, ER care, radiology, etc. UHS operates 26 acute care hospitals and 348 behavioral health facilities in the US, Puerto Rico, and the UK.

Investment Rationale

We rate UHS Buy based on our view that acute care hospitals should see accelerated growth in 2024+ due to multi-year repricing and volume tailwinds and the Behavioral business should see margin improvement as labor pressure eases.

Stock Data

Average Daily Volume 459,052

Quarterly Earnings Estimates

	2023	2024
Q1	2.34A	2.96E
Q2	2.42A	3.13E
Q3	2.55A	3.16E
Q4	3.13A	3.99E

Price objective basis & risk

Universal Health Services (UHS)

Our \$195 price objective (PO) is based on 9.2x our 2024E EBITDA estimate. This represents a multiple near the high end of the company's historical range of 6-10x EBITDA. We see this as justified given the favorable backdrop broadly for hospitals.

Upside risks to our PO are a quicker-than-expected recovery in labor, Acute vols returning faster, larger-than-expected demand tailwinds in the behavioral business. Downside risks to our PO are a slower-than-expected labor recovery, worse-than-expected Psych business performance, a slower volume recovery, slowing economies in UHS' other markets, and government reimbursement cuts.

Analyst Certification

I, Kevin Fischbeck, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Astrana Health Inc	ASTH	ASTH US	Adam Ron
	BrightSpring Health Services	BTSG	BTSG US	Joanna Gajuk
	Chemed Corporation	CHE	CHE US	Joanna Gajuk
	Elevance Health Inc	ELV	ELV US	Kevin Fischbeck, CFA
	Encompass Health	EHC	EHC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Option Care Health	OPCH	OPCH US	Joanna Gajuk
	Oscar Health	OSCR	OSCR US	Adam Ron
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Service Corp.	SCI	SCI US	Joanna Gajuk
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
NEUTRAL				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Privia Health	PRVA	PRVA US	Adam Ron
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatrix Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA



US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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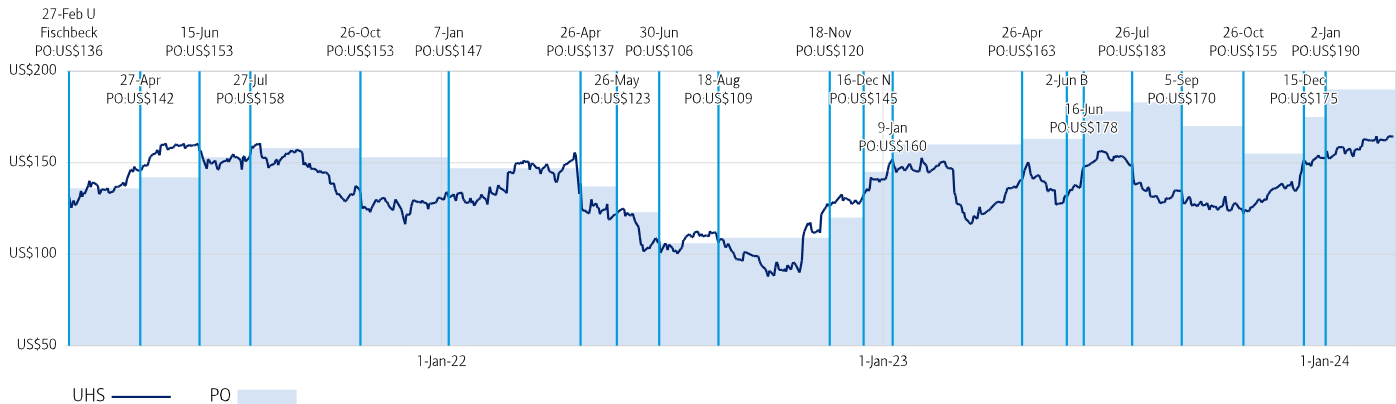
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Universal Health (UHS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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