

# Universal Health Services

## Quick takes from the call

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

### Additional color on guidance

On today's 4Q earnings call, management indicated vols in acute care will moderate but acuity and pricing will normalize with a return to pre-pandemic growth (5-6% revenue growth 50/50 vols/pricing). Commercial pricing is in the 5-6% rate. Expects continued improvement in premium pay and subsidies. Subsidies are expected to grow with inflation. In behavioral, also will see a return to pre-pandemic growth 6-8% revenue growth (half vols/half pricing), noting that same store adj patient day growth will accelerate vs the 2.1% volume growth in 2023. Specialty workforce shortages continue to be a headwind to growth, but making progress which should be a tailwind. UHS believes that looking at the guidance by excluding supplemental payments (which implies 4% core growth) is incorrect because these payments reflect the recent wage pressures the same way commercial pricing increases do. Overall, we see the guidance as somewhat conservative, and we maintain our Buy rating on the generally strong pricing and volume backdrop with upside from capital deployment.

### Continued progress on labor, physician subsidies slowing

Wage growth is now 4-5% across both businesses. Premium nurse pay peaked at \$153m in Q1 22, and has declined since, down to \$67m in Q4 2023 (similar to Q3). Ultimately, UHS is targeting a \$50m/quarter run rate (still above the \$35m/quarter pre-pandemic) but this progress has been slower because volume growth has been faster. Meanwhile, UHS believes that physician subsidies (which it cited as a main reason there wasn't margin improvement in the quarter) have peaked and 2024 will see growth more in line with inflation after being rebased over the last 18 months. That said, the company is watching this expense for signs of pressure.

### Psych rates strong, aided by acuity/mix shift

Acute psych hospitals (higher rate) had stronger volume growth than RTC (lower rate), helping the reported rate/day (+6.1% in Q4). Seeing a negative impact on Medicaid revenue in some states from redeterminations in the RTC child and adolescent business, but believes that is stabilizing, which should help volumes reaccelerate in 2024.

28 February 2024

#### Equity

**Kevin Fischbeck, CFA**  
Research Analyst  
BofAS  
+1 646 855 5948  
[kevin.fischbeck@bofa.com](mailto:kevin.fischbeck@bofa.com)

**Joanna Gajuk**  
Research Analyst  
BofAS  
+1 646 855 3961  
[joanna.gajuk@bofa.com](mailto:joanna.gajuk@bofa.com)

**Mia Munoz**  
Research Analyst  
BofAS  
+1 646 855 0735  
[mia.munoz2@bofa.com](mailto:mia.munoz2@bofa.com)

#### 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
Mrkt 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™	Medium

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UHS = Universal Health Services

NV = Nevada

ER = Emergency room

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Timestamp: 28 February 2024 10:27AM EST

## 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.

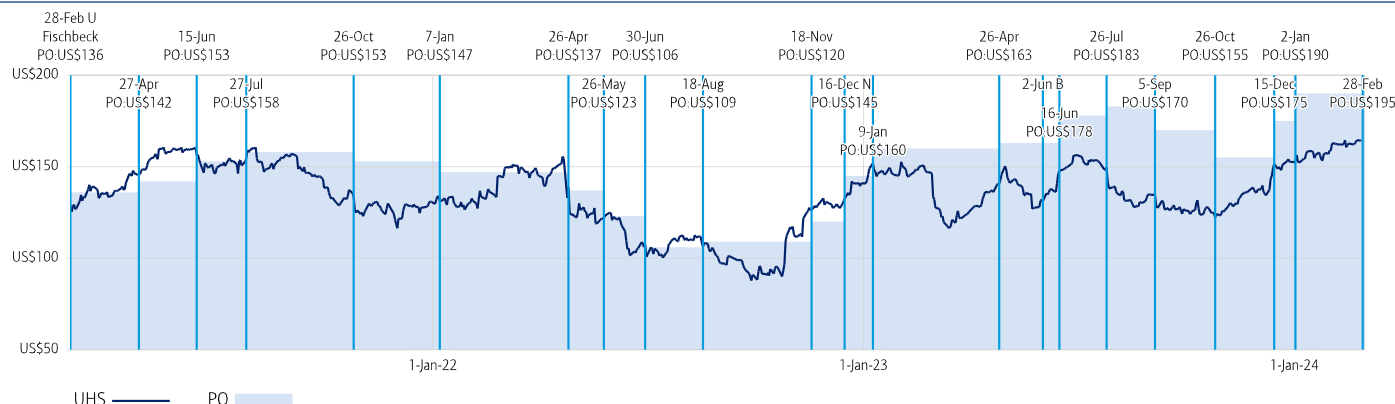
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### Universal Health (UHS) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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