

## HCA

## Quick takes from the call

Reiterate Rating: BUY | PO: 330.00 USD | Price: 299.06 USD

**2024 guide: strong vols, sup payments not a tailwind**

HCA is guiding to 3-4% adj adm growth and 2-3% rev/adj admission growth. The strong volumes are based on the strength in volumes that it has seen in recent quarters combined with the capacity expansions and investments in network development (noting investments in surgery centers outpatient surgical suites). Meanwhile, demand in the markets remains strong given strong employment growth in the markets as well as the exchange membership growth. HCA is seeing stronger Medicare Advantage growth vs 2019 but could be due to share gains. Although the company will benefit from the new NV supplemental program in 2024, due to the timing of payments, for the year, HCA actually expects to see modest headwinds of \$100-\$200m for the full year across the 17 state supplemental payments it participates in (it appears that HCA got \$250m of supplemental payments in Q4 from NC, TX, FL which is creating a tough comp). Reiterate Buy on strong fundamentals with pricing, vols and labor continuing to improve.

**Volume strength was broad based**

Strong demand for services across markets (growth in every division) and service lines. Cardiac (mid-single digit growth) and rehab grew well. Overall, HCA saw normal seasonality across most of its service lines including outpatient and surgical from Q3 to Q4. HCA doesn't believe that changes in policy (2 Midnight Rule) had an impact on volumes in the quarter. Acuity also increased. HCA believes that surgical volumes in December were slightly reduced due to the calendar timing of surgical days. HCA noted that lack of labor is still a headwind to volumes, but is making progress on that.

**Labor improving, more progress in 2024**

HCA is seeing stable turnover trends and is seeing a reduction in contract labor utilization. Contract labor down 20% for the year. Contract labor was 5.3% of SWB in Q4 (vs about 5.8% in Q3). Believes that wages growth will slow to 2.5-3% and expects to continue to make progress on contract labor through 2024.

**Professional fee growth moderating q/q**

HCA saw the sequential rate of growth in professional fees decelerate q/q in both Q3 and Q4. Results at the Valesco JV stabilized and was as expected (\$50m loss in Q4).

**Investing for LT growth**

HCA expects \$9.5-\$10B of CF, implying about \$4.5B of FCF. Will invest significantly in long-term growth, highlighting 3 main areas of investments: 1) Continued network expansion in services, facilities and workforce to increase market share. \$2B of new capital projects to increase capacity in 2024. Add new hospitals and outpatient assets, noting that in general the \$5.2B in capex in 2024 will be split between inpatient and outpatient similar to prior years with returns in the upper teens). 2) Advance digital capabilities in the company to unlock embedded value (enhance quality, create efficiencies, improve management benchmarking capabilities). 3) Use balance sheet to invest in business, people and return money to shareholders. \$5B capex and \$5B repo.

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## Equity

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## Stock Data

Price	299.06 USD
Price Objective	330.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-1-7
52-Week Range	215.96 USD - 304.86 USD
Mkt Val (mn) / Shares Out (mn)	83,198 USD / 278.2
Free Float	73.2%
Average Daily Value (mn)	335.39 USD
BofA Ticker / Exchange	HCA / NYS
Bloomberg / Reuters	HCA US / HCA.N
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter™	Medium

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HCA = HCA Healthcare

## Price objective basis & risk

### HCA (HCA)

Our \$330 price objective is based on 10.1x our 2024E EBITDA, above the high end of its historical 6-9x multiple range, given what we see as a favorable backdrop for hospitals broadly and a strong balance sheet.

Risks to the downside are that labor costs continue to rise, volumes recover slower than expected, or margins are pressured if payor mix deteriorates as volumes normalize.

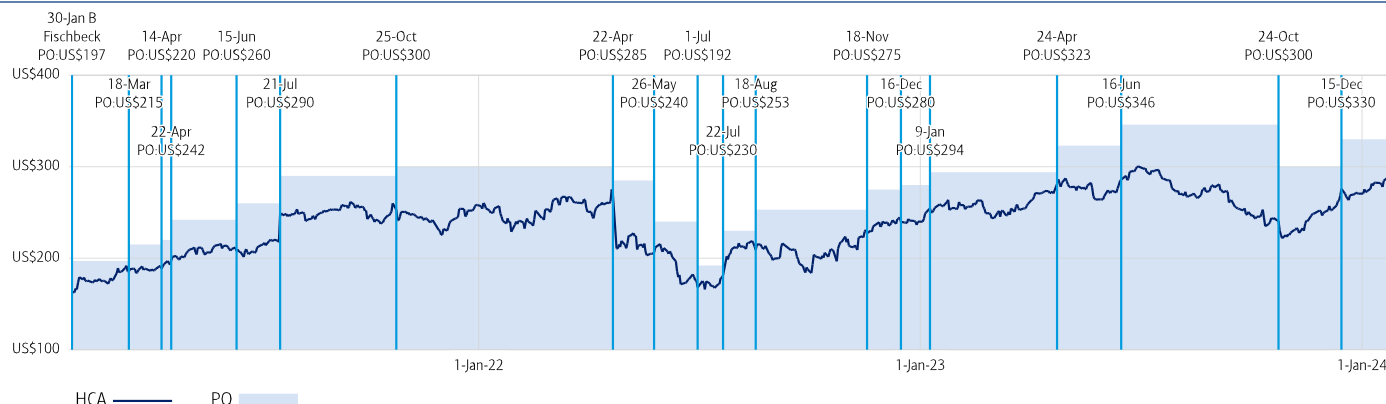
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### HCA Healthcare (HCA) Price Chart



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

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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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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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