

Health Care Facilities

Cost/Capital Survey: Q4 shows improved outlook for capex and access to financing

Industry Overview

Capex, financing outlook improving; supply exp a pressure

Since 2010, our quarterly surveys of 50 hospitals across the country have helped us gauge the outlook on costs and capital—data which becomes increasingly useful during periods of volume fluctuation and potential margin pressure. Sentiment on access to capital improved in the latest survey with fewer expecting access to financing to be more difficult in 2024. More respondents (66% vs 46% in Q3) expect capex to be up in 2024 and average expected capex spending growth was up +300bps q/q. Supply expense remains a pressure and was up q/q as 68% of respondents expect supply expense to increase y/y. Finally, labor expense is still a large pressure on margins, but slowly improving as 76% of respondents expect SWB as a percentage of revenues to increase in 2024, slightly below the 78% in our prior survey (3Q23).

68% of hospitals expect supply exp to increase, above Q3

The majority of respondents continue to expect supply costs to grow as a % of revenue y/y and pressure margins. 68% expect supply costs to grow y/y, above 66% in both Q3 and Q2. This figure remains above what we have surveyed pre-COVID. However, there was also some improvement at other end, as 10% of respondents expect supply expense to improve, up from 6% previously.

Outlook improve Q/Q for capex, access to financing

66% of respondents expect capex to grow, above 46% in Q3. Median capex outlook rose to 3.5% growth from 0% in Q3 and avg capex outlook improved +300bps to +4.3% from +1.3%. Meanwhile, 19% expect to delay or cancel some capex projects (below 23% in Q3). The outlook for access to capital has improved as only 32% expect financing to be more difficult in 2024 (well below 56% in Q3) and 62% expect access to remain stable, above 40% in Q3.

Imaging equipment is top capex priority in Q4 survey

After falling as a priority in Q2, general diagnostic imaging equipment is still the #1 capex priority with 27% of respondents reporting it is their top priority (vs 20% in prior survey). This was followed by robotic surgery for 16% of respondents (vs 18% in our prior survey) and hospital beds at 16% (vs 12% in our prior survey). Most notably, cath lab equipment fell the most of the priority leaders, to 4% from 12% in Q3 while patient monitoring devices fell to 0% from 10% in Q3.

18% of capex to be spent on HCIT, -420bps q/q.

On average, the hospitals surveyed expect 18% of their 2024 capital expenditure budget to be spent on health care IT (HCIT), below our prior survey and below the range of 20-25% range we have seen in the past several years. This may imply that IT budgets are largely fixed, and when capex first grows, the increase is in non-IT areas (causing IT to decline as a percentage of total).

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Key Definitions:

Capex = Capital Expenditures

SWB = Salaries, Wages, Benefits

GLP-1 = Glucagon-like peptide 1

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Survey overview

Below we highlight some of the survey's results.

- **Supply expense – net supply expense still a pressure and outlook worse q/q.** 68% of total respondents expect supply expenses as a percent of revenue to increase, above 66% in our last survey. Meanwhile, 10% of respondents expect supply expenses to decrease as a percentage of revenue in 2024. Overall, 58% of net respondents expect supply expenses to increase as a percentage of revenue, below the net 60% in Q3; implying supply costs remain a pressure.
- **Labor expense – still a large pressure, but slowly improving.** 76% of respondents expect SWB as a percentage of revenues to increase in 2024, below the 78% in our prior survey (3Q23).
- **Capex outlook improved.** 19% of respondents are delaying or cancelling some capex projects (below 23% as of 3Q23). 66% of respondents expect their capex to be up in 2024 (above 46% in Q3). On average, respondents expect capex spending to grow +4.3% y/y in 2024 (median 3.5%), above the +1.3% average as of Q3 (median 0%).
- **18% of capex to be spent on HCIT, -420bps q/q.** On average, the hospitals surveyed expect 18% of their 2024 capital expenditure budget to be spent on health care IT (HCIT), below our prior survey and below the range of 20-25% range we have seen in the past several years. This may imply that IT budgets are largely fixed, and when capex first grows, the increase is in non-IT areas (causing IT to decline as a percentage of total).
- **Imaging equipment the #1 capex priority.** General diagnostic imaging equipment was selected as the top capex priority outside of HCIT - selected by 27% of respondents as their highest priority above the 20% in our last survey. This was followed by robotic surgery for 16% of respondents (vs 18% in our prior survey) and hospital beds also for 16% (vs 12% in our prior survey). Meanwhile, cath lab equipment fell as a priority q/q.
- **Access to capital improved q/q.** When the pandemic began, we quickly saw the capital access outlook skew pessimistic. This quarter, the outlook improved as 32% of respondents expect access to financing to be more difficult as of 4Q23, well below 56% prior. 62% expect access to financing to be the same, above 40% in Q3 and 6% of respondents expect access to financing to be easier (second quarter in last six where at least some respondents expected improvement).

Results from the Survey

68% of hospitals surveyed expect supply pressure

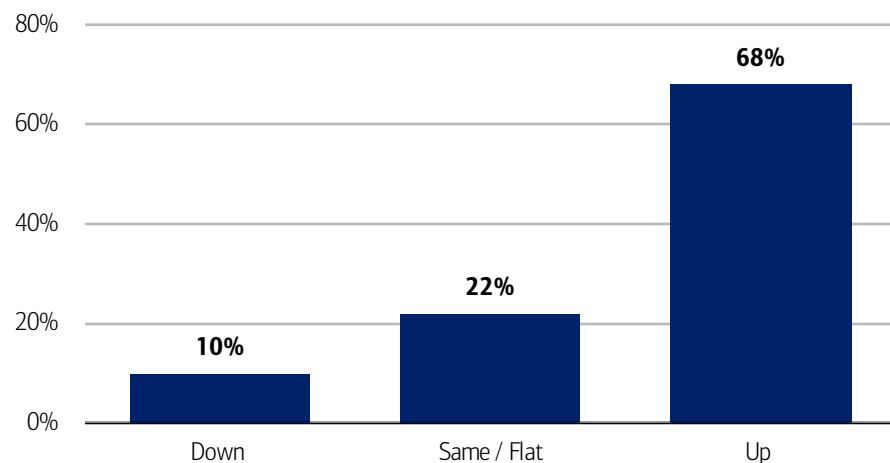
How would you describe supply expense as a percent of revenue in 2024?

68% of hospitals expect supply expense as a percent of revenue to increase, above the 66% seen in the previous two surveys. Meanwhile, 22% of respondents said they expect supply expenses to remain the same (vs 28% in our prior survey) and only 10% of respondents expect supply expenses to decrease, above the 6% from our prior survey.

Overall, 58% of net respondents expect supply expense to increase as a percentage of revenue, below 60% seen in our previous survey. Net respondents is calculated by subtracting responses that supply expense will decline as a percent of revenue from responses that supply expense will rise.

Exhibit 1: Supply expenses as % of revenue in 2024

The majority of respondents expect supply costs to increase in 2024



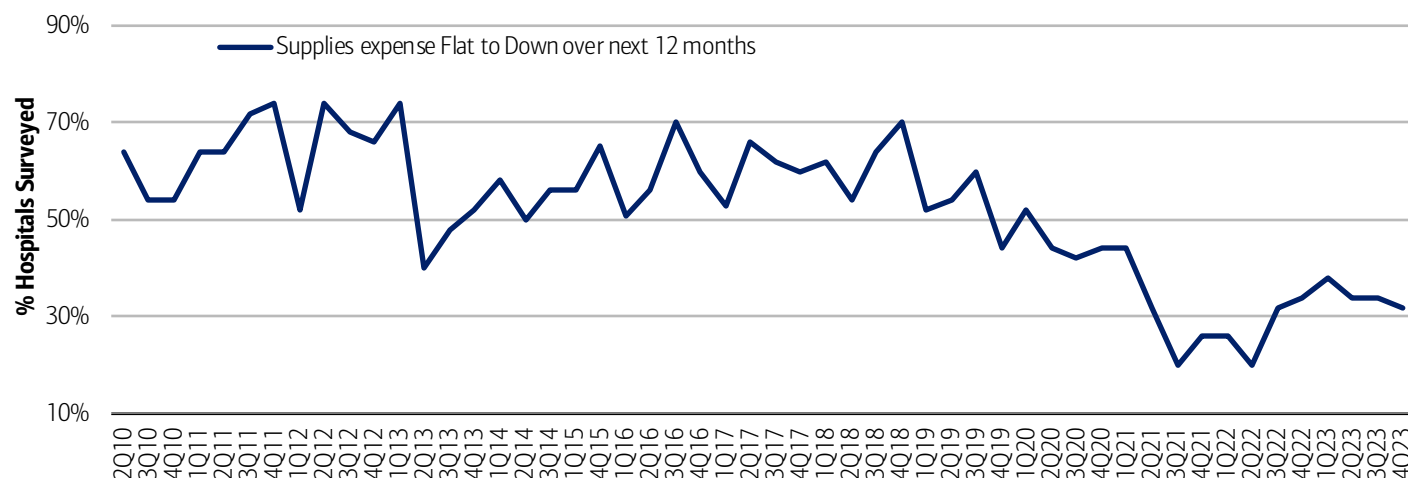
Source: BofA Global Research

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From 2011-2020, the majority of hospitals expected supply expense as a % of revenue to remain flat or decline, but that changed starting in 2020. In the most recent survey, 32% of respondents expected flat to down supply expense, below 34% in the prior survey. This is well below the low end of the +50-70% range where we have generally seen this value from 2010-2019.

Exhibit 2: % of respondents who see Supplies expense flat to down over next 12 months

32% of respondents expect supply costs to fall, below 34% seen in the 3Q23 survey, and well below the range prior to 2020



Source: BofA Global Research

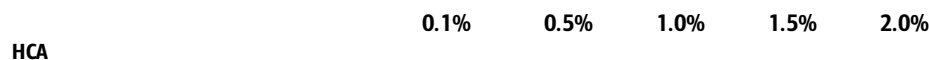
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Implications for the group**Supply expense (~15% of revenues)**

At approximately 15% of revenues, supply expense represents an important line item on a hospital's P&L. We estimate that if supply expense comes in 0.5% higher than our estimate, it would be a 0.4% hit to EBITDA at the median for a hospital company. A 50 basis point impact affects THC (-0.5%) the most given the company's higher supply expense exposure and HCA/UHS the least (-0.4%).

Exhibit 3: Sensitivity to Supply expense changes

We estimate that if Supply costs come in 50bps lower, it could yield a median 0.4% EBITDA hit



HCA



Exhibit 3: Sensitivity to Supply expense changes

We estimate that if Supply costs come in 50bps lower, it could yield a median 0.4% EBITDA hit

	0.1%	0.5%	1.0%	1.5%	2.0%
EBITDA impact	-\$10.3	-\$51.6	-\$103.1	-\$154.7	-\$206.2
% of 2024E EBITDA	-0.1%	-0.4%	-0.8%	-1.2%	-1.6%
THC					
EBITDA impact	-\$3.8	-\$18.9	-\$37.8	-\$56.7	-\$75.6
% of 2024E EBITDA	-0.1%	-0.5%	-1.1%	-1.6%	-2.1%
UHS					
EBITDA impact	-\$1.6	-\$8.1	-\$16.2	-\$24.3	-\$32.4
% of 2024E EBITDA	-0.1%	-0.4%	-0.8%	-1.2%	-1.6%
Average	-0.1%	-0.4%	-0.9%	-1.3%	-1.8%
Median	-0.1%	-0.4%	-0.8%	-1.2%	-1.6%

Source: BofA Global Research

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76% of hospitals expect SWB to increase as a % of revenues in 2024

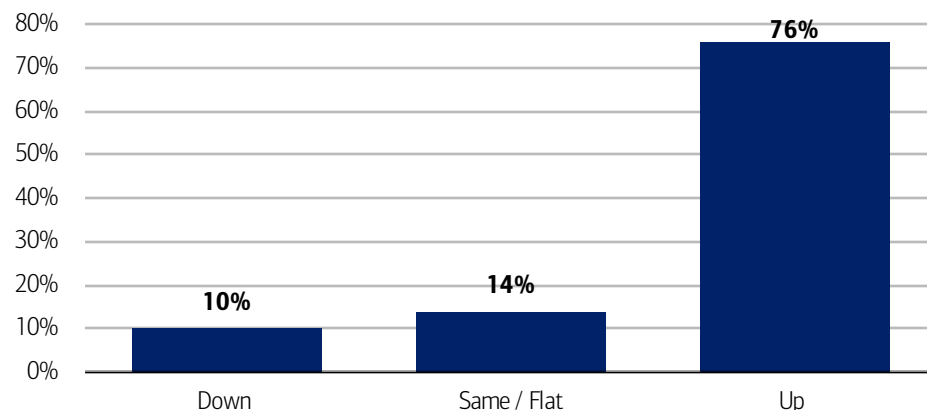
How would you describe salary/wages/benefits expenses as a percent of revenue you are expecting in 2024?

76% of respondents expect SWB as a percentage of revenues to increase in 2024, slightly below the 78% in our prior survey (3Q23). Meanwhile, 14% expect SWB to be flat, and 10% of respondents expect costs to be down in 2024.

At approximately 47% of revenue, labor costs are the biggest cost item, and the accelerating pressure on this line item would make it more difficult for hospitals to keep/improve margins.

Exhibit 4: Salary/wages/benefits expenses as % of revenue in 2024

76% of hospitals expect SWB costs to grow as a share of revenue in 2024 (vs 78% in prior survey)



Source: BofA Global Research

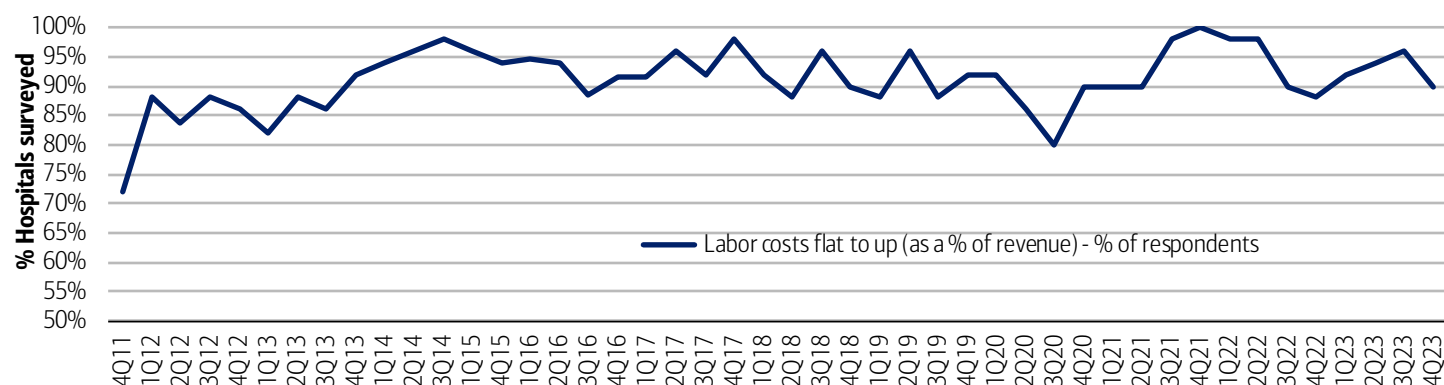
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In our latest survey, 90% of respondents indicated that they expect SWB as a percentage of revenues to increase or remain flat in the next 12 months (below 96% in our prior survey). We note that this is above the 87% long term survey average.

In the past few years, we have seen a survey result in which more respondents expect SWB as a % of revenue to increase than the percentage who expect it to decrease. After seeing this spread narrow from 68% to 46% between the 2Q19 and 3Q19 surveys, we note that it had widened to 64% in our 1Q20 survey. The survey result has fluctuated since then, but in 4Q23 the delta was 66% (below 74% in 3Q23).

Exhibit 5: % of respondents who see SWB expense flat to up over next 12 months

90% of respondents see labor costs flat to up in this survey, below 3Q23



Source: BofA Global Research

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Implications for the group**SWB expense (~47% of revenues)**

Our survey implies that labor costs remain a net source of pressure. At approximately 47% of revenues, SWB expense represents the largest cost item on a hospital P&L. We estimate that if SWB comes in 0.5% above our estimate, it could yield a median hit of about -1.4% to EBITDA for a hospital. A 50 basis point impact affects UHS the most (-1.9%), while it affects HCA the least (-1.2%).

Exhibit 6: Sensitivity to SWB changes

We estimate that if SWB comes in 50bps higher, it could yield a median cut of -1.4% to EBITDA

	0.1%	0.5%	1.0%	1.5%	2.0%
HCA					
EBITDA impact	-\$30.8	-\$154.0	-\$308.1	-\$462.1	-\$616.1
% of 2024E EBITDA	-0.2%	-1.2%	-2.4%	-3.5%	-4.7%
THC					
EBITDA impact	-\$9.6	-\$48.0	-\$96.1	-\$144.1	-\$192.1
% of 2024E EBITDA	-0.3%	-1.4%	-2.7%	-4.1%	-5.4%
UHS					
EBITDA impact	-\$7.5	-\$37.5	-\$75.0	-\$112.6	-\$150.1
% of 2024E EBITDA	-0.4%	-1.9%	-3.8%	-5.7%	-7.6%
Average	-0.3%	-1.5%	-3.0%	-4.4%	-5.9%
Median	-0.3%	-1.4%	-2.7%	-4.1%	-5.4%

Source: BofA Global Research estimates

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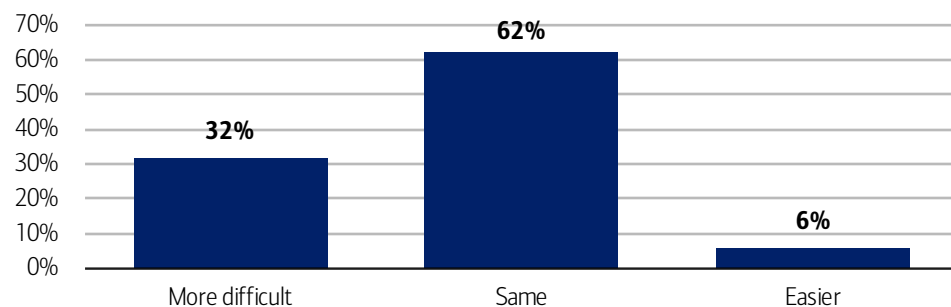
Access to financing outlook improved in 2024

What are your expectations for access to financing in 2024? Easier, the same, or more difficult than last year?

In general, the results point to an improving financing environment. 32% of respondents expect access to financing to be more difficult in 2024 than in 2023, well below 56% in our prior survey when respondents were asked about 2023 outlook relative to 2022. This is above pre-COVID levels of 14% in our 4Q19 survey. Meanwhile, 62% of respondents expect it to be the same, above 40% in our last survey. 6% of respondents expect it to improve (above our prior survey).

Exhibit 7: Access to financing in 2024

The majority of respondents expect access to financing to be the same in 2024



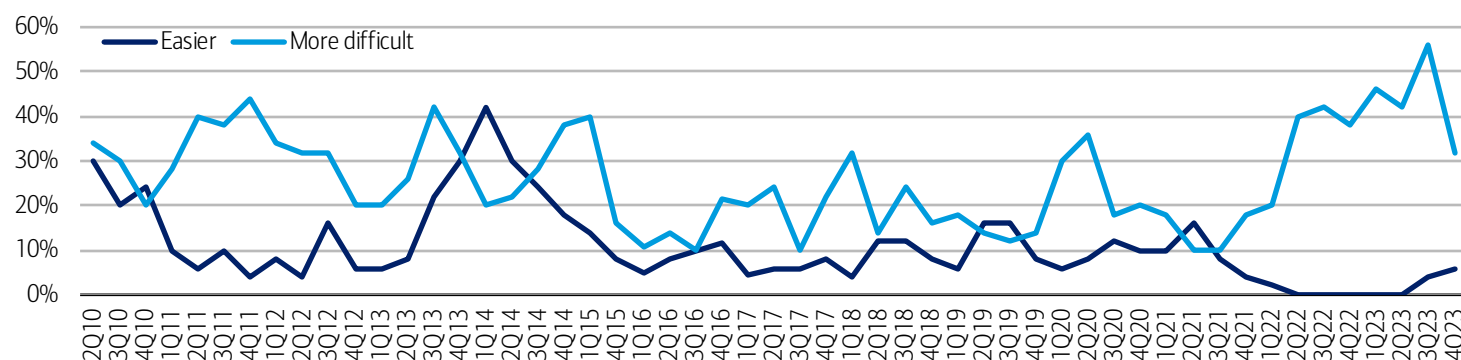
Source: BofA Global Research

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In the 4Q23 survey, the variance between those expecting more difficult financing conditions (32%) and those expecting better conditions (6%) was 26%, as more respondents expect the financing environment to be more difficult than easier. However, the gap narrowed q/q and we note that 4Q23 marks the second quarter in the last six in which some respondents did expect improvement in access to financing.

Exhibit 8: Access to Financing over time

After a blip in 2Q21, survey results indicate more respondents think access to financing in 2024 will be more difficult than the % who think it will be easier



Source: BofA Global Research

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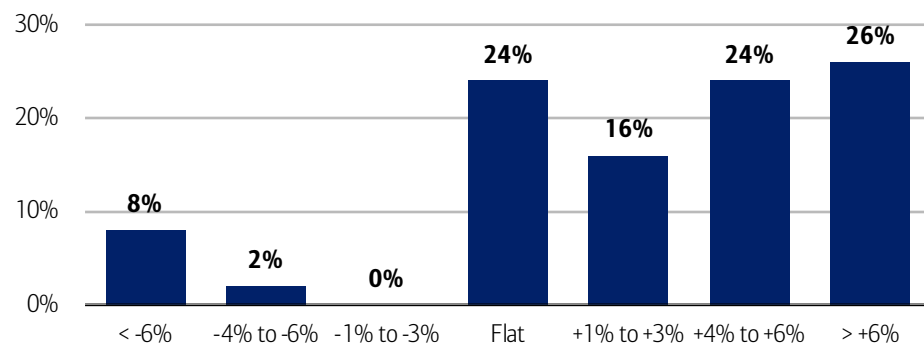
66% of hospitals expect capital spending to increase in 2024, above 46% in Q3

How would you describe your plans for capital spending in 2024?

Overall, 66% of respondents expect to increase capex in 2024, well above our prior survey, with 50% expecting to increase spending by more than 3%. Meanwhile, 10% of respondents expect to reduce capital spending this year, below the 16% in our 3Q23 survey. Our surveys since 4Q20 have shown a larger share of respondents expecting capex spending to increase than those who expect it to decrease. That trend continued in this survey. On average, respondents expect a spending increase of +4.3% y/y (median 3.5%), above the average +1.3% y/y as of Q3 (median 0.0%).

Exhibit 9: Capital spending plans for 2024

66% of respondents expect capex increases in 2024, above 10% who expect decreases



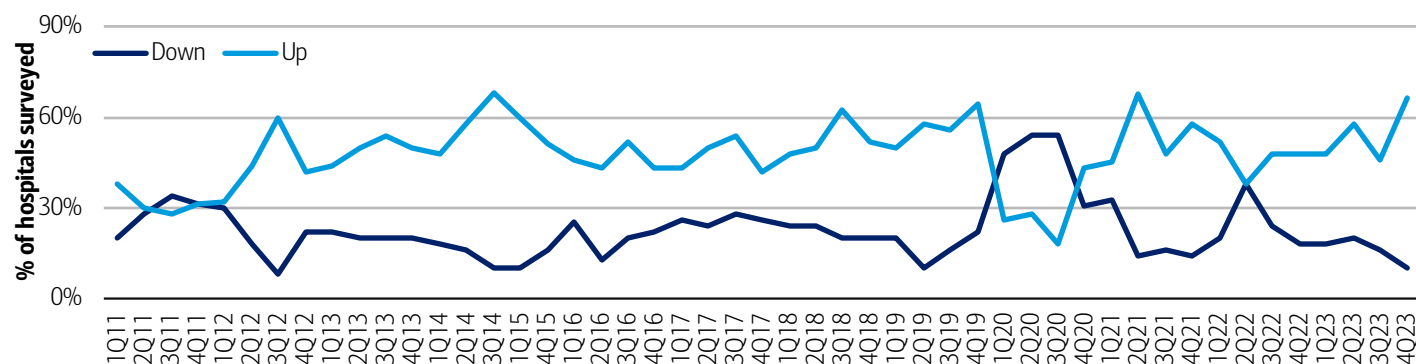
Source: BofA Global Research

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In this survey, the percentage of respondents expecting capex spend to decrease was 10%, below the 16% we saw in 3Q23, and well below the 54% print that we saw in our 3Q20 and 2Q20 surveys.

Exhibit 10: Expected Capex spending over time

66% of respondents expect capex spending to increase, above our prior survey



Source: BofA Global Research

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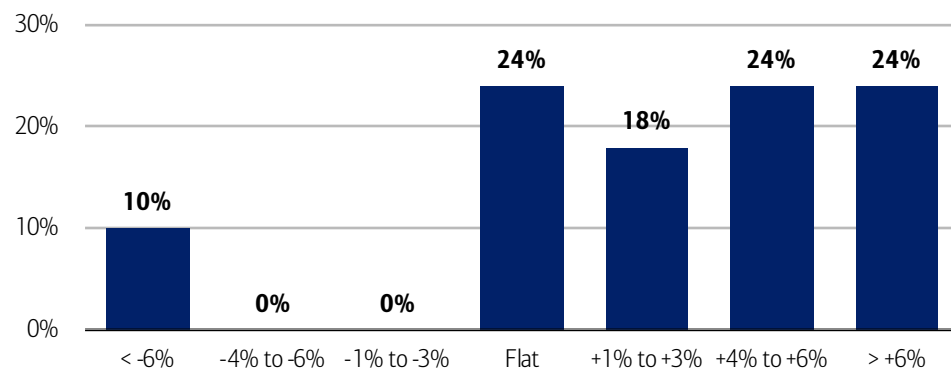
66% of hospitals expect competitors to increase capex

66% of respondents expect competitors to increase capex in 4Q23, above the 56% we surveyed in 3Q23, and above the 55% we surveyed pre-COVID in our 4Q19 survey. Meanwhile, 10% of respondents expect competitor capex spending to decrease, below 14% in our last survey.

We note that hospitals views on their own capex is similarly when compared to competitors' as 66% of respondents expect to increase their capex. Although, interestingly, respondents expect capital spending for peers to increase +3.2% y/y on average (below the +4.3% respondents expect for their own capital spending).

Exhibit 11: Capital spending plans for competitors in 2024

Respondents are as optimistic about their capex spending plans as their expectations for peers' in 2024



Source: BofA Global Research

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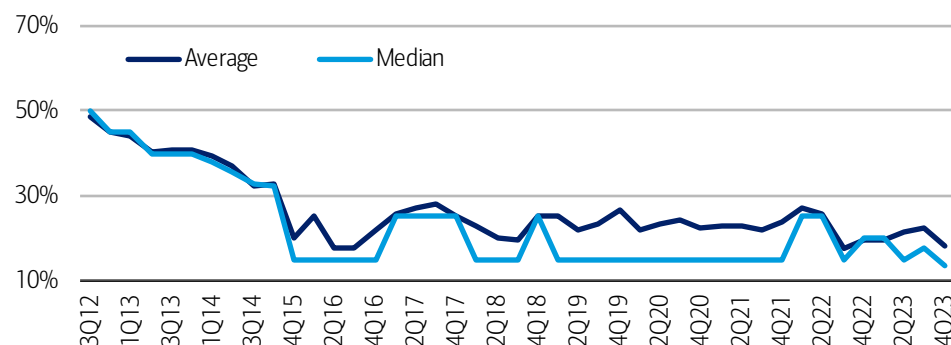
18% of capex to be spent on HCIT on average in 2024

On average, the hospitals surveyed expect 18% of their 2024 capital expenditure budget to be spent on health care IT (HCIT). This 18% is below the 22.2% of our prior survey.

Spending on HCIT has generally been in the 20-25% range for the past 5+ years (down meaningfully from 2012/13 when meaningful use requirements were implemented), while the median has been in the 15-25% range.

Exhibit 12: % of respondents on Capital Budget % HCIT Expense

Avg spending on HCIT as a % of Capex is usually in the range of 20-25%, 4Q23 below the range



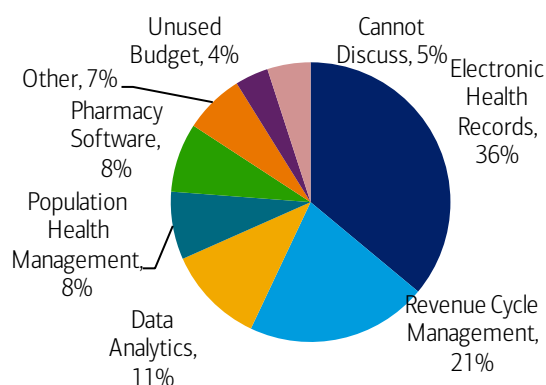
Source: BofA Global Research

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35% of the HCIT budget for respondents in this survey is expected to be spent on electronic health records (EHR) in 2024, followed by revenue cycle management (21%), data analytics (12%), pharmacy software (9%), and population health management (7%). This is largely similar to what respondents believe they spent in 2023, with a smaller allocation for EHR and a larger allocation going towards data analytics in 2024.

Exhibit 13: % of HCIT budget - 2023

EHR spend was the largest item in HCIT budgets in 2023

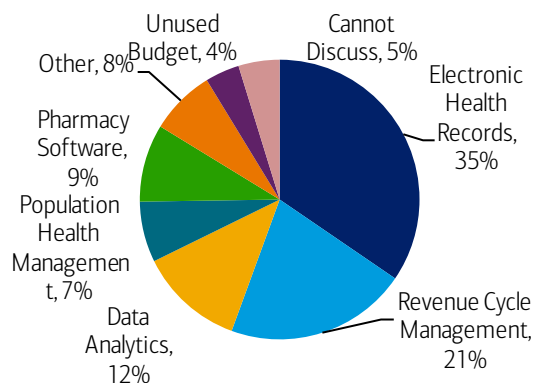


Source: BofA Global Research

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Exhibit 14: % of HCIT budget - 2024

Respondents expect to spend less on EHR in 2024



Source: BofA Global Research

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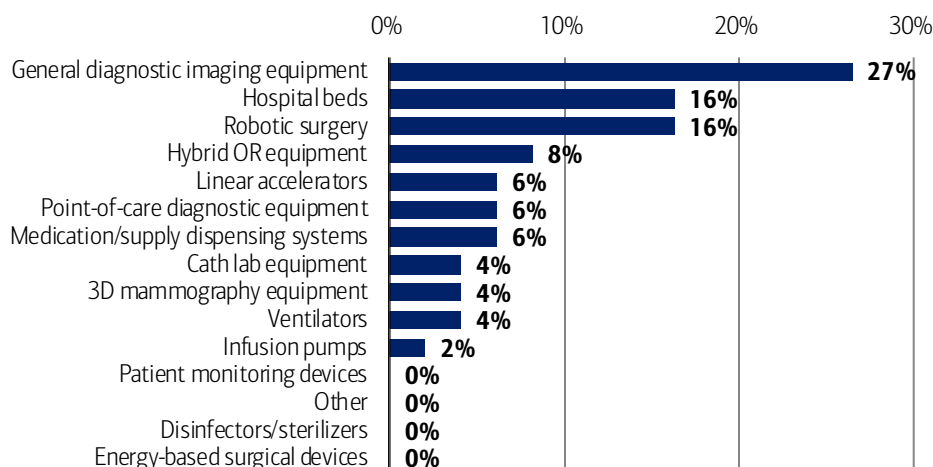
Capital spending priorities – Imaging equipment

What are your top 3 priorities for capital spending in 2024 (excluding health care IT)?

Among the top priorities (excluding HCIT) for 2024 capex spending, general diagnostic imaging equipment is at front of mind for 27% of respondents (above the 20% in the prior survey). This is followed by robotic surgery and hospital beds for 16% of respondents, hybrid OR equipment for 8%, linear accelerators, point-of-care diagnostic equipment and medication/supply dispensing systems for 6% and cath lab equipment, 3D mammography equipment and ventilators for 4% of respondents. Compared to our last survey, general diagnostic imaging equipment remained the top priority.

Exhibit 15: Capital spending priorities

General diagnostic imaging equipment is the top capex priority



Source: BofA Global Research

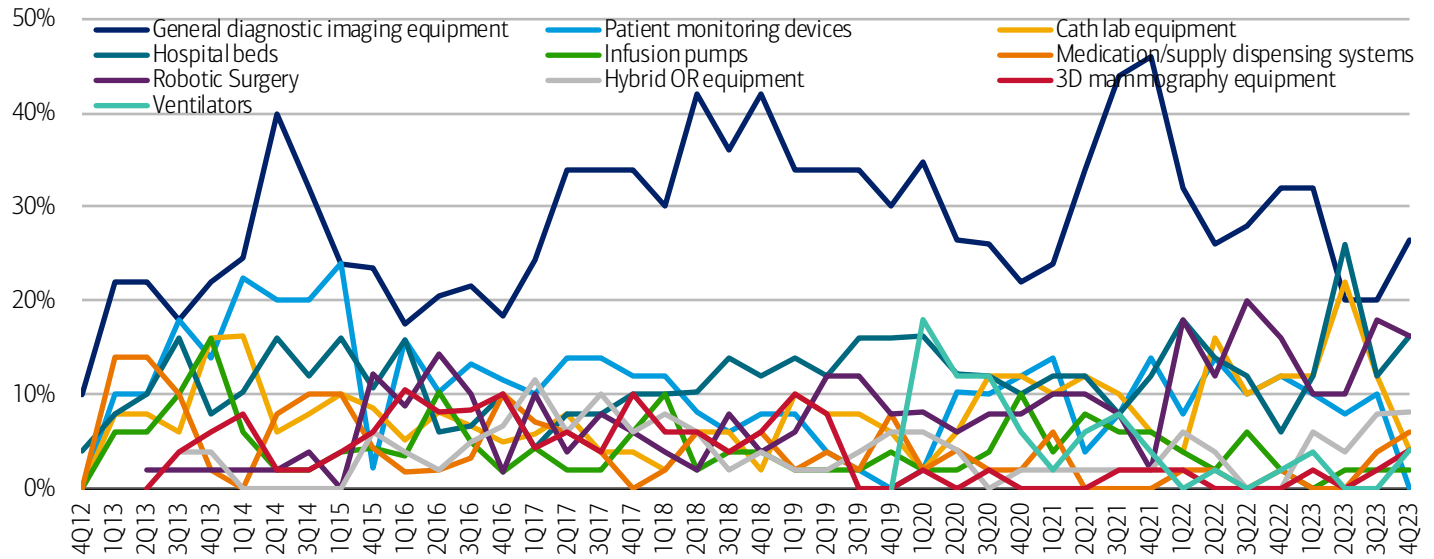
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Diagnostic imaging equipment top priority, demand for cath lab equipment falls

General Diagnostic imaging equipment is the top priority for 27% of hospitals in this survey, in line with the prior survey. Meanwhile, cath lab equipment fell as a priority to 4% from 12% in 3Q23.

Exhibit 16: Hospital capital spending priorities over time

General Diagnostic imaging equipment the top spending priority for hospitals. Cath lab equipment, robotic surgery fell as a priority

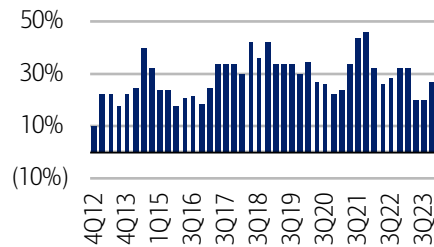


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Exhibit 17: General diagnostic imaging equipment

Imaging equip. had been growing as a priority since 4Q20 and peaked as a priority in 4Q21

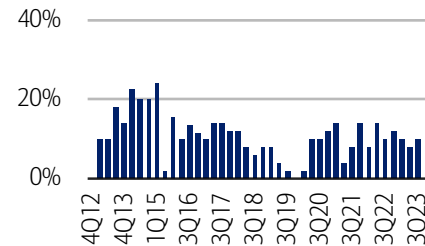


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Exhibit 18: Patient monitoring devices

Monitoring devices were growing as a priority in 2020, now settling at a lower level

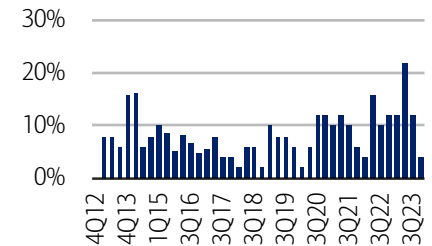


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Exhibit 19: Cath lab equipment

Cath lab equipment fell as a priority in this quarter's survey

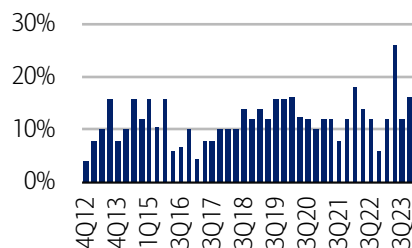


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Exhibit 20: Hospital beds

Beds peaked as a priority in 2Q23 but have fallen back to more normal levels since

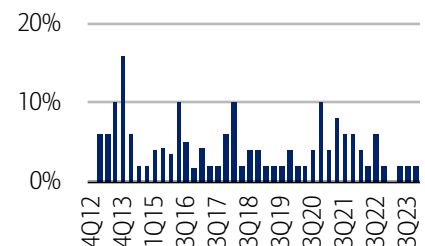


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Exhibit 21: Infusion pumps

Infusion pumps have generally fallen as a priority since 4Q20 and were stable this quarter

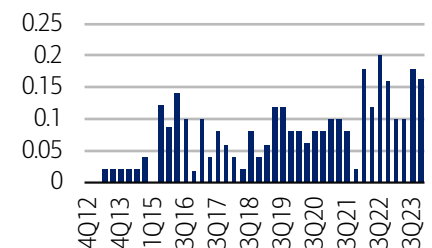


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Exhibit 22: Robotic Surgery

Robotic surgery fell as a priority in this quarter's survey



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19% of hospitals expect to cancel/delay projects, below our prior survey

Have you recently decided to cancel or delay any capital equipment purchases?

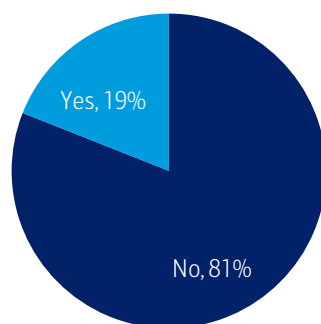
19% of respondents said they expect to cancel or delay capital equipment purchases, while 81% have not planned any delays/cancellations. This result is better than our last survey, in which 23% of respondents expected to delay or cancel a capital equipment project.

Below we highlight some of the reasons cited for canceling or delaying capex:

- Limited finances to acquire capital
- Financial conditions of the health system changed capital deployment plan
- Waiting until post 1Q24 to see where things are holding
- Availability specific equipment impacted delivery

Exhibit 23: Expect to cancel or delay any capital equipment projects?

19% of survey respondents delayed capex plans, better than the 23% we previously surveyed



Source: BofA Global Research

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