Tenet Healthcare

Focus: Multiple benefits of divestitures

Reiterate Rating: BUY | PO: 110.00 USD | Price: 89.02 USD

09 February 2024

Equity

Raising PO, adj ests for divestitures, rolling out 2026

Tenet Healthcare (THC) reported better than expected Q4 results with Adj EBITDA excluding $52m Medicaid supplemental payments and $2m CARES was $958m, 2% above the higher end of the guide range and 7% above consensus, as preannounced. We remain bullish on hospitals as we see 2024 as a year where we expect volumes to be modestly above average, labor to continue slowly improving and pricing to continue to rise. We are lowering our 2024-25E EBITDA estimates to reflect divestitures (but raising the core outlook) and rolling out our 2026 estimates. We raise our PO to $110 (8.5x 2024E EBITDA-NCI vs 8.4x prior) on a higher multiple given the deleveraging and business mix shift, combined with the strong core results. Reiterate Buy.

USPI continues to outperform

USPI grew cases +3.9% and rev/case +5.4% in the quarter, continuing a period of strong growth. Adjusted EBITDA is expected to be up 9% in 2024 due to strength in demand, continued physician recruitment, great visibility into pricing, continued operational efficiency and additional deals. Expects volumes will build as the year goes on after they comp against a difficult Q1. Acquisitions remain a focus and is willing to go above its $250m acquisition guidance, but will only do good deals - high quality assets, at good multiples where there is a runway for future growth.

Fischbeck Focus: Divestitures unlocking value

This quarter, we focus on the impact of recent transactions on THC's leverage, business mix and multiple. THC completed the sale of 3 assets in South Carolina (multiple of 16x) and expects to close on the sale of 4 hospitals in California (multiple 13.7x EBITDA) on March 31. In this note, we highlight the benefit to PF leverage (down 0.6x), and how we think deleveraging (sub 4x is key) and mix shift of the business towards faster growing, lower capital intensity ASCs can keep moving the multiple higher. We estimate that every 1% increase in percent of EBITDA-NCI that comes from USPI should add nearly 0.1x to the multiple and 3% to the share price. Despite the stock being up 53% since the SC deal was announced, the multiple is still well below the implied 9.8x it should trade at (assuming 14x USPI and 7x hospitals).

Estimates (Dec) (US$)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
EPS	6.89	7.10	5.18	5.90	6.75
GAAP EPS	3.75	5.83	5.18	5.90	6.75
EPS Change (YoY)	-8.7%	3.0%	-27.0%	13.9%	14.4%
Consensus EPS (Bloomberg)			5.89	6.93	8.25
DPS	0	0	0	4.00	4.00
Valuation (Dec)					
P/E	12.9x	12.5x	17.2x	15.1x	13.2x
GAAP P/E	23.7x	15.3x	17.2x	15.1x	13.2x
Dividend Yield	0%	0%	0%	4.5%	4.5%
EV / EBITDA*	2.7x	2.6x	2.8x	2.6x	2.5x
Free Cash Flow Yield*	-2.9%	9.9%	11.4%	16.5%	17.0%

* For full definitions of *iQmethod*SM measures, see page 8.

Key Changes

(US$)	Previous	Current
Price Obj.	95.00	110.00
2024E Rev (m)	21,312.2	20,086.3
2025E Rev (m)	22,402.7	21,034.4
2026E Rev (m)	NA	22,111.6
2024E EBITDA (m)	3,532.4	3,385.2
2025E EBITDA (m)	3,768.0	3,580.5
2026E EBITDA (m)	NA	3,790.8

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Stock Data

Price	89.02 USD
Price Objective	110.00 USD
Date Established	9-Feb-2024
Investment Opinion	C-1-9
52-Week Range	49.76 USD - 91.85 USD
Mrkt Val (mn) / Shares Out (mn)	9,327 USD / 104.8
Free Float	98.0%
Average Daily Value (mn)	90.44 USD
BofA Ticker / Exchange	THC / NYS
Bloomberg / Reuters	THC US / THC.N
ROE (2024E)	29.4%
Net Dbt to Eqty (Dec-2023A)	0%
ESGMeter™	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".

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Refer to important disclosures on page 9 to 11. Analyst Certification on page 7. Price Objective Basis/Risk on page 7. **12657713**

Timestamp: 09 February 2024 06:54AM EST

SS = Same store
ASC = Ambulatory surgery centers

*iQprofile*SM Tenet Healthcare

*iQ*method SM – **Bus Performance***

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	11.0%	13.7%	10.2%	10.4%	11.0%
Return on Equity	69.4%	54.1%	29.4%	25.8%	23.2%
Operating Margin	11.6%	11.8%	10.6%	12.1%	12.4%
Free Cash Flow	(269)	923	1,064	1,539	1,584

*iQ*method SM – **Quality of Earnings***

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	2.2x	3.5x	3.8x	3.4x
Asset Replacement Ratio	0.9x	0.9x	1.0x	0.9x	1.0x
Tax Rate	45.7%	33.8%	47.7%	51.3%	49.2%
Net Debt-to-Equity Ratio	308.6%	250.1%	227.6%	197.8%	171.7%
Interest Cover	3.0x	3.0x	3.0x	3.8x	4.1x

Income Statement Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	19,174	20,548	20,086	21,034	22,112
% Change	-1.6%	7.2%	-2.2%	4.7%	5.1%
Gross Profit	3,464	3,703	3,404	3,816	4,017
% Change	-0.4%	6.9%	-8.1%	12.1%	5.3%
EBITDA	3,469	3,541	3,385	3,581	3,791
% Change	-0.3%	2.1%	-4.4%	5.8%	5.9%
Net Interest & Other Income	(4,093)	(4,193)	(3,623)	(3,987)	(4,264)
Net Income (Adjusted)	**753**	**744**	**544**	**621**	**711**
% Change	**-8.2%**	**-1.1%**	**-27.0%**	**14.1%**	**14.6%**

Free Cash Flow Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	411	611	544	620	711
Depreciation & Amortization	841	870	860	860	860
Change in Working Capital	(1,143)	71	200	345	345
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	384	122	285	502	535
Capital Expenditure	(762)	(751)	(825)	(789)	(866)
Free Cash Flow	**-269**	**923**	**1,064**	**1,539**	**1,584**
% Change	**NM**	**NM**	**15.3%**	**44.6%**	**3.0%**
Share / Issue Repurchase	(250)	(200)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(828)	(172)	(139)	(557)	(517)

Balance Sheet Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	858	1,228	1,228	1,228	1,228
Trade Receivables	2,943	2,914	2,713	2,739	2,773
Other Current Assets	2,180	3,025	3,023	3,081	3,137
Property, Plant & Equipment	6,462	6,236	6,451	6,630	6,886
Other Non-Current Assets	14,713	14,909	14,909	14,909	14,909
Total Assets	**27,156**	**28,312**	**28,324**	**28,586**	**28,933**
Short-Term Debt	145	120	120	120	120
Other Current Liabilities	4,331	4,640	4,960	4,644	4,820
Long-Term Debt	14,934	14,882	14,743	14,187	13,670
Other Non-Current Liabilities	3,138	3,162	2,511	3,022	3,007
Total Liabilities	**22,548**	**22,804**	**22,334**	**21,973**	**21,616**
Total Equity	**4,608**	**5,508**	**5,990**	**6,613**	**7,317**
Total Equity & Liabilities	**27,156**	**28,312**	**28,324**	**28,586**	**28,933**

* For full definitions of *iQmethod*SM measures, see page 8.

Company Sector

Hospital Management

Company Description

Tenet (THC) provides healthcare services primarily through the operation of general hospitals and related health care facilities. Its hospitals offer acute care services, operating and recovery rooms, radiology services, etc. Through its subsidiaries, partnerships and joint ventures, including USPI, THC operates 61 acute care hospitals, 24 short-stay surgical hospitals, about 440 ambulatory surgery centers and over 100 other outpatient facilities.

Investment Rationale

THC's shift towards faster growth, lower capital intensity Ambulatory Surgery Centers (ASCs) is a positive for return on capital, while strong cost control is improving performance in the core hospital business, aided by the industry tailwind of accelerating pricing. Both businesses stand to benefit from the normalization of volumes and labor. The company's strong underlying FCF generation will be on full display in 2023 ($0.7bn or 11% FCF yield).

Stock Data

Average Daily Volume	1,015,948

Quarterly Earnings Estimates

	2023	2024
Q1	1.45A	1.40E
Q2	1.47A	1.19E
Q3	1.47A	1.31E
Q4	2.72A	1.29E

Focus: Multiple benefits of recent deals

In the Fischbeck Focus section, we choose a theme to explore in more detail, either in response to recent investor questions or because of an unexpected development in the quarter. This quarter, we focus on THC's recent divestitures of assets in South Carolina and California that should reduce leverage while at the same time, repositioning the company more towards the faster growing, higher multiple ASC business. Both the deleveraging and business mix shift should result in a higher multiple over time.

Backdrop – deleveraging a key capital deployment priority

High leverage has a number of negatives to it: 1) In a regulated business like health care, where payments can change overnight, it heightens liquidity risk, 2) high interest payments leave little FCF for deployment, 3) creates more volatility in earnings for small changes in EBITDA, 4) In high interest rate environments, refinancings can be difficult/dilutive, 5) when leverage is too high, there are limits to the tax deductibility of interest expense, making it a more expensive form of capital. For these reasons (and more) the market has historically put a lower multiple on names with high leverage. For a long time, THC witnessed a low multiple (while levered 5-6x EBITDA-NCI) and preferred to use its remaining cash to buy back its inexpensive stock, but doing so led to its stock continuing to trade at a low multiple.

In recent years, the company has started to take a more disciplined view on its capital structure, with a focus on deleveraging. On its Q4 earning call, it laid out its current capital deployment priorities: 1) $250m in USPI deals. 2) Invest in hospital growth (higher acuity). 3) retire/refinance debt, 4) balanced approach to share repo. We believe that THC sticking to these priorities will result in continued multiple improvement going forward.

Recent deals generated $3.4B in proceeds

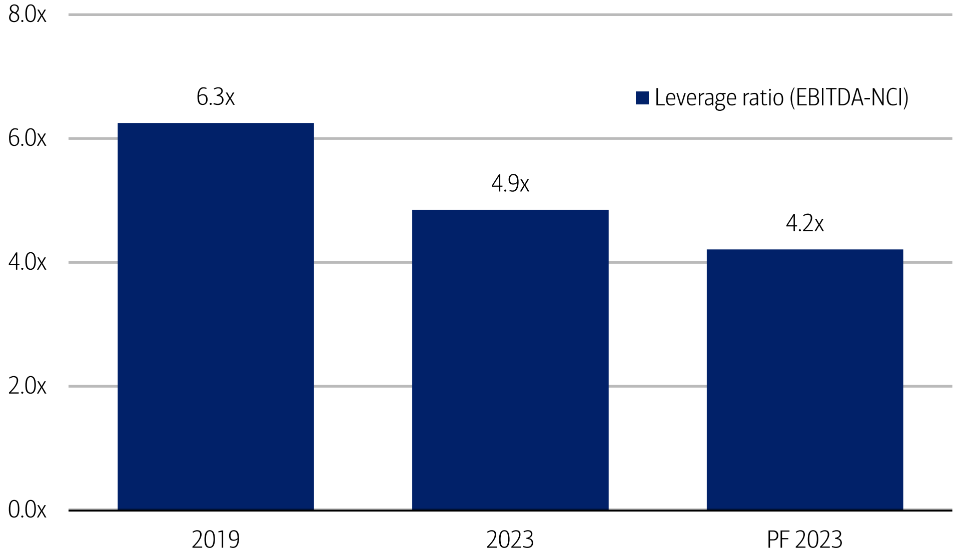
Selling assets at 16x and 13.7x EBITDA

THC completed the previously announced $2.4bn sale of 3 hospitals in South Carolina at a multiple of 16x EBITDA. It also announced a definitive agreement to sell 4 hospitals and related assets in California to UCI Health for $975m or 13.7x EBITDA. Combined these sales will generate $3.4B of proceeds (17% of the company's EV when it announced the SC deal) or $2.55B after tax (13% of the company's EV when it announced the SC deal) even though the assets only represented 7% of EBITDA-NCI.

Asset sales to lower leverage, should help the multiple

THC noted that its PF net leverage ratio on an EBITDA-NCI basis would drop from 4.8x to 4.2x PF these deals. The company hasn't specifically said how much debt it would pay down other than it will pay off the $2.1B 2026 bonds on March 31, leaving another $600m of cash on the balance sheet (since it is a net leverage calculation, it doesn't matter to the leverage number whether the cash is on the balance sheet or pays down debt).

Exhibit 1: THC PF net leverage ratio on an EBITDA-NCI basis
THC noted PF leverage ratio would drop from 4.8x to 4.2x on deals



Source: BofA Global Research

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It is difficult to find empirical evidence to tie multiples to specific leverage ratios, but we have certainly seen that over time, higher leverage, all else equal, results in lower multiples. As a result, as leverage drops, we would expect THC's multiple to improve. Hospitals have stable cashflows, and can support leverage, with LBOs routinely allowing for leverage in the 6-7x range. However, generally investors may not consider investing in a name leveraged over 5x, in our view. As a result, THC has already passed one important milestone for sentiment by getting its EBITDA-NCI leverage level below 5x. That said, the typical leverage range for a hospital has historically been in the 3-4x range, with the market preferring the lower half of that range. The proforma move to 4.2x is a nice step, and we would expect the multiple to continue to inch up as THC grows and leverage finally falls below 4x.

Multiple should further improve as business mix shifts

We note that THC's ASCs have historically grown 1-3% faster than its hospitals, have higher margins and require less capex. As a result, multiples for ASCs tend to be higher than for hospitals. SGRY, the best comp for USPI, currently trades at 14x EBITDA-NCI. Meanwhile, acute care hospitals historically traded at a 6-8x EBITDA multiple (although the higher quality/lower levered names more recently have traded in the 8-10x range). As a result, the market has always viewed THC as a mix and applied a discount to the combined business, viewing THC as a hospital company with some ASCs, rather than digging into an appropriate sum of the parts. As the business mix shifts more and more to ASCs, it will become increasingly difficult to ignore the sum of the parts valuation.

If we simplistically ascribe a 14x multiple to USPI and 7x multiple to its hospital business (even though recent hospital divestitures have been done at 14x+), based on the 2023 EBITDA-NCI business mix, it would imply a PF multiple of 9.4x. Due to the hospital divestitures as well as faster growth in the ASCs, in 2024, the guidance implies that the ASCs will move from 34% of EBITDA-NCI to 39%. Using the same multiples, it would imply a PF multiple of 9.8x. That 0.4x increase in multiple applied to 2024 EBITDA-NCI equates to a $10.58/share increase in equity value.

Exhibit 2: Change in multiple from business mix shift
Business mix shift could lead to 0.4x turn improvement in multiple

2023	ASC	Hospital	Total
% of EBITDA-NCI	34%	66%	100%
Multiple	14.0x	7.0x	9.4x
2024	ASC	Hospital	Total
% of EBITDA-NCI	39%	61%	100%
Multiple	14.0x	7.0x	9.8x
Improved Multiple			0.4x
Per Share Impact			$10.58

Source: BofA Global Research

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The recent deals are somewhat unique in their size and the resulting shift in the business, but given the faster growth in ASCs overall, combined with the fact that THC is investing $250m per year in ASC deals, means that ASCs should slowly continue to grow as a percentage of EBITDA-NCI. Using the multiples above, every 1% shift in business mix to ASCs would increase the EBITDA-NCI multiple by nearly 0.1x or $2.76/sh.

More deals could accelerate the shift

The success of these deals begs the question of whether there could be other sales in the future, and management has certainly left the door open for additional deals (we note that the company tried to sell its 2 hospitals in Memphis and its San Ramon facility but those deals were blocked by the FTC, so clearly it is open to selling additional assets). Given the high multiples of the recent deals (16x and 14x), future deals are unlikely to replicate the sheer proceeds/deleveraging of recent transactions, but they still will help while at the same time furthering the business mix shift that the company is pursuing (it doesn't take a big shift to impact the stock).

Future divestitures unlikely to be at the same multiples

In our market by market analysis of hospital assets, we found that THC generally operates in urban markets and the portfolio's overall score was 7.1, putting it at #3 among peers. When divesting, however, THC has picked hospitals in markets with scores above its portfolio average. For example, THC was previously set to sell San Ramon Regional Medical Center (before it was blocked by the FTC) in the MSA of San Francisco-Oakland-Hayward, CA which has a score of 8.7 with above average population, income, and employment growth. Meanwhile, THC's recent transactions involved assets in the MSA of Los Angeles-Long Beach-Anaheim, CA with a market score of 7.4 and assets in the South Carolina MSAs of Charleston-North Charleston, SC (overall score of 9.7) and Hilton Head Island-Bluffton-Beaufort, SC (overall score of 9.2).

Exhibit 3: Generally, THC population and income demographics are worse than U.S. while employment were above average
THC markets' demographic growth summary chart, 2015-2020 CAGR (except 2014-2019 CAGR for employment), sorted by % of beds, above average in green and below in red

2015-2020 CAGRs, except 2014-2019 for Employment				Population			Employed	Median income
THC	% of beds	Score	Total (000s)	Overall	Seniors (65+)	Non-seniors	16 years and over	
San Antonio-New Braunfels, TX	12.8%	8.0	2,510	1.9%	4.0%	1.6%	2.5%	3.0%
Miami-Fort Lauderdale-West Palm Beach, FL	11.2%	8.0	6,130	0.9%	2.7%	0.5%	2.3%	3.9%
Detroit-Warren-Dearborn, MI	11.0%	6.5	4,317	0.1%	2.9%	-0.4%	1.7%	3.6%
Birmingham-Hoover, AL	7.7%	3.6	1,088	-0.9%	1.6%	-1.3%	0.0%	3.7%
El Paso, TX	7.4%	5.9	842	0.2%	2.3%	-0.1%	1.9%	3.0%
Tucson, AZ	5.9%	7.1	1,038	0.8%	3.8%	0.1%	1.3%	3.6%
Los Angeles-Long Beach-Anaheim, CA	5.7%	7.4	13,211	0.1%	2.9%	-0.3%	1.6%	4.7%
Brownsville-Harlingen, TX	5.5%	7.3	422	0.2%	2.6%	-0.1%	2.1%	4.4%
Phoenix-Mesa-Scottsdale, AZ	5.4%	9.5	4,860	2.0%	4.8%	1.5%	3.2%	4.5%
Memphis, TN-MS-AR	4.5%	5.5	1,343	0.0%	3.6%	-0.5%	0.8%	2.5%

Exhibit 3: Generally, THC population and income demographics are worse than U.S. while employment were above average
THC markets' demographic growth summary chart, 2015-2020 CAGR (except 2014-2019 CAGR for employment), sorted by % of beds, above average in green and below in red

2015-2020 CAGRs, except 2014-2019 for Employment				Population			Employed	Median income
Modesto, CA	4.5%	8.0	546	0.7%	2.7%	0.4%	2.1%	4.6%
Riverside-San Bernardino-Ontario, CA	3.5%	8.8	4,600	0.9%	3.6%	0.6%	2.6%	4.4%
Charlotte-Concord-Gastonia, NC-SC	2.6%	9.5	2,595	2.1%	4.8%	1.7%	3.4%	4.4%
Worcester, MA-CT	1.9%	6.2	943	0.3%	3.0%	-0.1%	1.0%	3.3%
San Luis Obispo-Paso Robles-Arroyo Grande, CA	1.9%	7.9	283	0.4%	3.9%	-0.3%	1.6%	5.1%
Huntsville, TX	1.8%	2.0	72	-2.9%	-3.8%	-2.8%	-0.6%	2.5%
Boston-Cambridge-Newton, MA-NH	1.5%	8.0	4,855	0.7%	3.0%	0.3%	1.7%	4.4%
Nacogdoches, TX	1.1%	4.8	65	-0.1%	3.4%	-0.7%	0.2%	2.4%
Charleston-North Charleston, SC	0.9%	9.7	791	2.1%	5.7%	1.6%	3.3%	4.3%
Hilton Head Island-Bluffton-Beaufort, SC	0.9%	9.2	219	2.1%	5.6%	1.0%	2.0%	4.8%
San Francisco-Oakland-Hayward, CA	0.8%	8.7	4,709	0.8%	3.5%	0.3%	2.3%	6.3%
Talladega-Sylacauga, AL	0.8%	3.2	80	-2.8%	-0.5%	-3.2%	-1.9%	4.9%
Stockton-Lodi, CA	0.5%	9.0	752	1.2%	3.5%	0.9%	2.6%	5.2%
Lake Havasu City-Kingman, AZ	0.2%	7.6	211	0.7%	4.0%	-0.5%	1.6%	4.4%
THC Overall	100.0%	7.1	3,198	0.6%	3.0%	0.2%	1.8%	3.8%
U.S. 5-Year CAGR				0.6%	3.2%	0.2%	1.6%	3.8%
THC vs. U.S.				*0.0%*	*-0.2%*	*0.0%*	*0.3%*	*0.0%*

Source: BofA Global Research

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Conclusion

The recent assets sales have been a positive in a number of ways: 1) it lowers leverage, 2) it accelerates the business mix shift to ASCs, and 3) it highlights that the market is probably undervaluing the hospital assets that THC operates. THC's stock is up 53% since November 16 (the day before it announced the sale of its SC assets), as the market has already applauded the progress that THC has made. In our view, the stock has been up in large part due not only to the multiples it received on these sales, but to the commitment to use those proceeds on deleveraging. Over that time, the multiple has moved from 7.1x EBITDA-NCI to 8.2x, but it is still well below the (somewhat simplistic) sum of the parts multiple of 9.8x that the current business mix implies. As THC continues to make progress on deleveraging and business mix, these changes will be harder and harder for the market to discount.

Price objective basis & risk

Tenet Healthcare (THC)

Our $110 PO is based on 8.5x our 2024 EBITDA less non-controlling interests estimate, above the high end of the company's historical 5.5x-8.5x range. While growth in the Acute care business will likely continue to be impacted by labor headwinds, the company's strong cost control should drive earnings and position the company well heading into the expected ramp in volumes as COVID normalizes. Meanwhile, continued repositioning into Ambulatory Surgery Centers (ASCs) will help both the organic growth and FCF profile.

Downside risks to our PO are: 1) Volume trends rebound slower than expected following COVID-19, 2) Government reimbursement reductions, 3) Margin pressure/integration issues at recently acquired assets, 4) Above average leverage, 5) labor costs pressures.

Upside risks to our PO are: 1) Volumes are better than expected, 2) Continued acuity strength and pricing growth, 3) Better than expected cost controls.

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
	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
	Privia Health	PRVA	PRVA 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
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agiliti Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	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

US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Pediatrix Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

*iQ*method℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod℠ is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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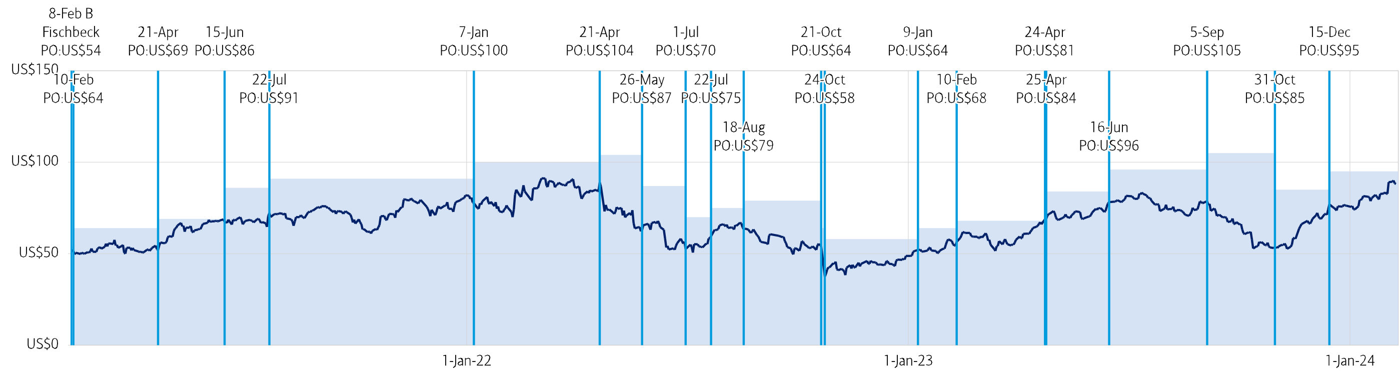
Tenet Healthcare (THC) Price Chart



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%

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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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