

## Health Care Facilities

## Traffic Signals: Q4 accelerated, UHS grows fastest

## Industry Overview

## Hospital foot traffic growth accelerated Q/Q in Q4

Our “Traffic Signals” report analyzes foot traffic (based on data from Placer.ai) at publicly traded hospital companies to try to get a real-time read on adjusted admissions. While not a perfect read-through, we believe that foot traffic in facilities is the best real-time proxy for hospital volumes available (a 96%+ correlation, according to our analysis, over the past 23 quarters). Generally, October saw the strongest y/y growth, followed by December, with November being relatively weaker (HCA y/y growth was negative in November and December). Overall, growth in Q4 accelerated from Q3 for THC and UHS but decelerated for HCA. We would characterize the data for HCA and THC as mixed (one metric above consensus/one below) but as screening positively for UHS. We remain bullish on hospitals as we expect volume growth to still be above average through 2024 as volumes have not yet returned to the pre-COVID trend line, pointing to upside potential.

## Normal seasonality for UHS; worse for HCA and THC

Placer.ai foot traffic data from 2017 to 2019 shows that hospitals saw sequential increases of 6-7% in Q4 on average. 4Q23 foot traffic per day was up sequentially for UHS but was actually flat to negative for THC and HCA.

## UHS sees acceleration in Q4, up +3.9% y/y

Foot traffic across UHS’s facilities under Placer.ai coverage was up +3.9% y/y in Q4, accelerating +190bps from Q3. Foot traffic at 67% of UHS’ facilities grew y/y.

## THC up +1.9%, +70bps acceleration from Q3

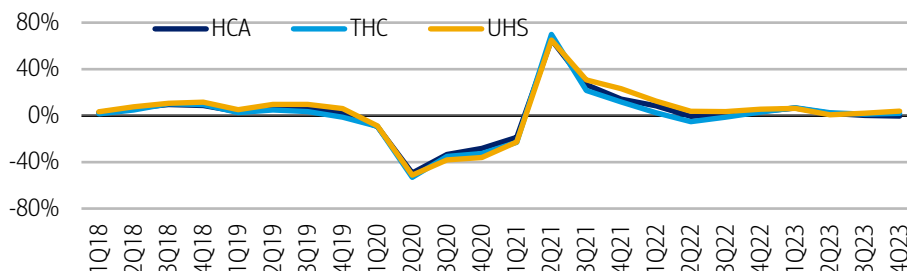
Foot traffic across THC’s US facilities under Placer.ai coverage was up +1.9% y/y in Q4. According to our analysis, foot traffic at 59% of THC’s facilities increased y/y in Q4.

## HCA slightly down, decelerated -50bps q/q

Foot traffic across HCA’s US facilities under Placer.ai coverage was down -0.4% y/y in Q4, versus +0.1% y/y in Q3, driven primarily by facilities in FL, TN, and NV.

## Exhibit 1: The publicly traded hospitals saw foot traffic up modestly y/y in Q4

Foot traffic growth y/y by quarter for the publicly traded hospitals



Source: Placer.ai

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## Abbreviations

Adj adm: Adjusted admissions

HCA: HCA Healthcare

opex: Operating expenses

SS: Same store

SWB: Salaries, wages, and benefits

THC: Tenet Healthcare

UHS: Universal Health Services

vol: Volume

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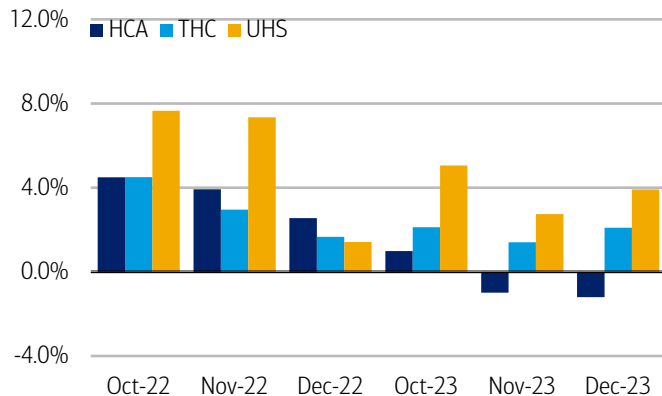
## Q4 foot traffic accelerated, despite comps

We analyzed foot traffic in HCA, THC, and UHS acute care hospitals through December 31, 2023 based on data from Placer.ai to analyze the pace of the adjusted admissions rebound. The data for HCA and THC is mixed (one metric above consensus/one below) but screens positively for UHS.

Generally, October saw the strongest y/y growth, followed by December, with November being relatively weaker (foot traffic y/y growth was actually negative for HCA in November and December). Overall, growth in Q4 accelerated from Q3 for THC and UHS, while it decelerated for HCA.

### Exhibit 2: In Q4, October saw the strongest y/y growth

Public hospital company foot traffic y/y growth, by month

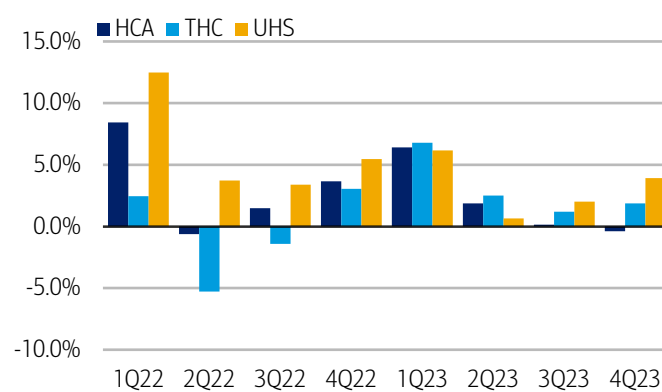


Source: Placer.ai

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### Exhibit 3: 4Q23 foot traffic growth accelerated from 3Q23

Public hospital company foot traffic growth y/y by quarter



Source: Placer.ai

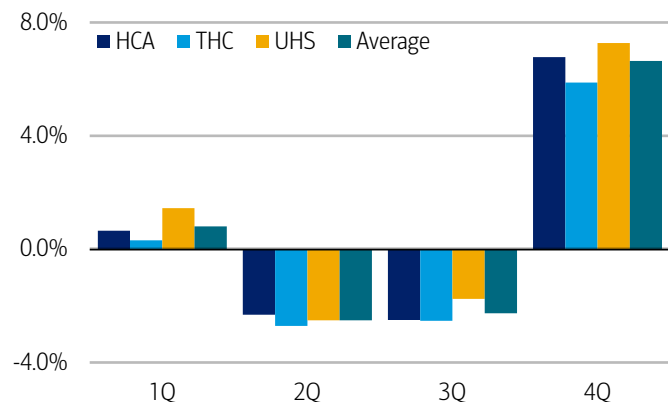
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In order to compare sequential growth, we looked at foot traffic per day, which normalizes for the number of days in a quarter. Typically, we would expect Q4 volumes to see positive sequential growth due to volumes coming back after summer vacations. Indeed, Placer.ai foot traffic data suggests that from 2017 to 2019, the hospitals saw days adjusted sequential increases of 6-7% in Q4 on average. Expectations have been for Q4 to see slower growth given that comps got more difficult as the year went on.

Interestingly, 4Q23 foot traffic per day was actually down sequentially for HCA and THC but up for UHS.

**Exhibit 4: Q4 typically sees positive seasonality**

Days adjusted seasonality, average of 2017-2019

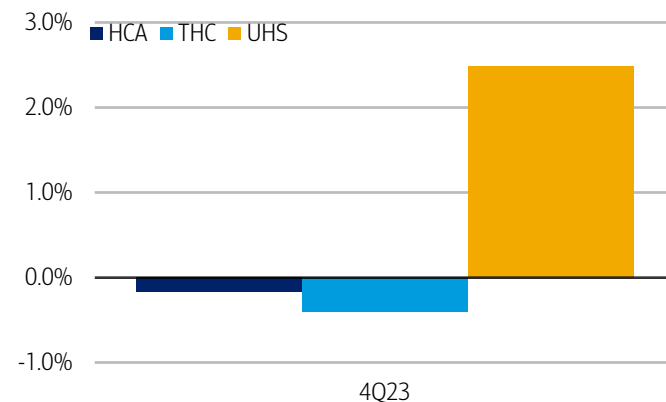


Source: Placer.ai

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**Exhibit 5: UHS saw positive days adjusted seasonality in 4Q23**

Foot traffic per day, q/q growth in 4Q23



Source: Placer.ai

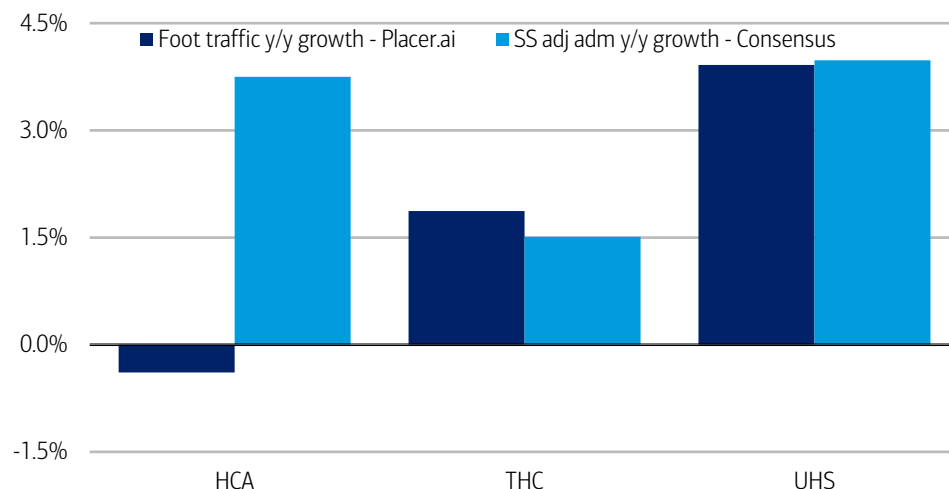
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## Implications for the group

Consensus estimates for the companies are calling for low- to mid-single-digit SS adj adm growth in Q4, while foot traffic growth was flat to up modestly in Q4, according to Placer.ai. Interestingly, UHS screens strongest based on foot traffic growth but also has the highest consensus estimate of the group.

**Exhibit 6: Consensus is estimating modest adj adm growth y/y for all of the publicly traded hospitals**

4Q23 foot traffic growth, according to Placer.ai, versus consensus estimate for 4Q23 SS adj adm



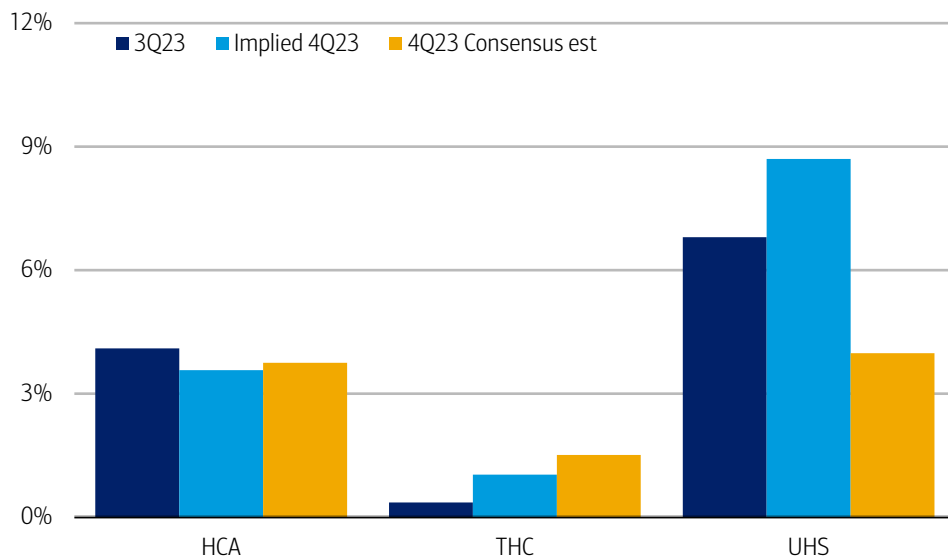
Source: Placer.ai, Visible Alpha

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We note that Placer data under-predicted Q3 volume growth as well. Another way to use the data is to look at the sequential change in the foot traffic growth rate that the Placer.ai data suggests. On this basis, the acceleration in foot traffic growth for THC points to volume growth slightly below the consensus estimate. Meanwhile, the acceleration in UHS foot traffic growth points to high-single-digit volume growth, well above the consensus estimate. HCA's deceleration in foot traffic growth points to volume growth about in line with consensus.

**Exhibit 7: Foot traffic data implies +60bps acceleration in volume growth in 4Q23, on average**

Hospital reported same-store adjusted admissions growth in 3Q23 versus implied 4Q23 based on foot traffic data



Source: Placer.ai, company filings, Visible Alpha consensus estimates

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Hospitals benefit from fixed cost leverage. We estimate that if volumes come in 1% better than expected, that could translate to 2% higher EBITDA on average, assuming that 10% of SWB expense and 50% of opex is fixed (long term, companies need to hire more staff to match volume growth).

**Exhibit 8: We estimate that 1% higher volumes could translate to 2% higher EBITDA**

Potential EBITDA upside from higher volumes on mostly fixed costs

	HCA	THC	UHS
SWB % of revenue	45.8%	45.1%	50.0%
% of SWB fixed	10.0%	10.0%	10.0%
Incremental margin leverage	4.6%	4.5%	5.0%
Opex % of revenue	19.5%	19.5%	26.1%
% of opex fixed	50.0%	50.0%	50.0%
Incremental margin leverage	9.7%	9.8%	13.0%
2023E EBITDA margin	19.4%	16.9%	12.2%
<b>Incremental margin</b>	<b>33.7%</b>	<b>31.1%</b>	<b>30.2%</b>
Volume upside	1.0%	1.0%	1.0%
EBITDA lift (\$)	\$215.7	\$63.4	\$43.0
<b>EBITDA lift (%)</b>	<b>1.7%</b>	<b>1.8%</b>	<b>2.5%</b>

Source: BofA Global Research estimates

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## Company takeaways

### HCA Healthcare (HCA): -0.4% decline

From 1Q18 to 3Q23, we found a strong correlation (97%) between HCA SS adj adm growth and HCA foot traffic growth, according to Placer.ai data. In the last 23 quarters, HCA foot traffic growth has been directionally consistent with HCA reported SS adj adm growth 96% of the time. In Q4, HCA foot traffic growth was down slightly at -0.4% y/y, a -50bps deceleration from +0.1% y/y in 3Q23.

**Exhibit 9: HCA foot traffic growth was down slightly in Q4, below +0.1% in Q3**

HCA SS adj adm growth y/y versus HCA foot traffic visits growth y/y



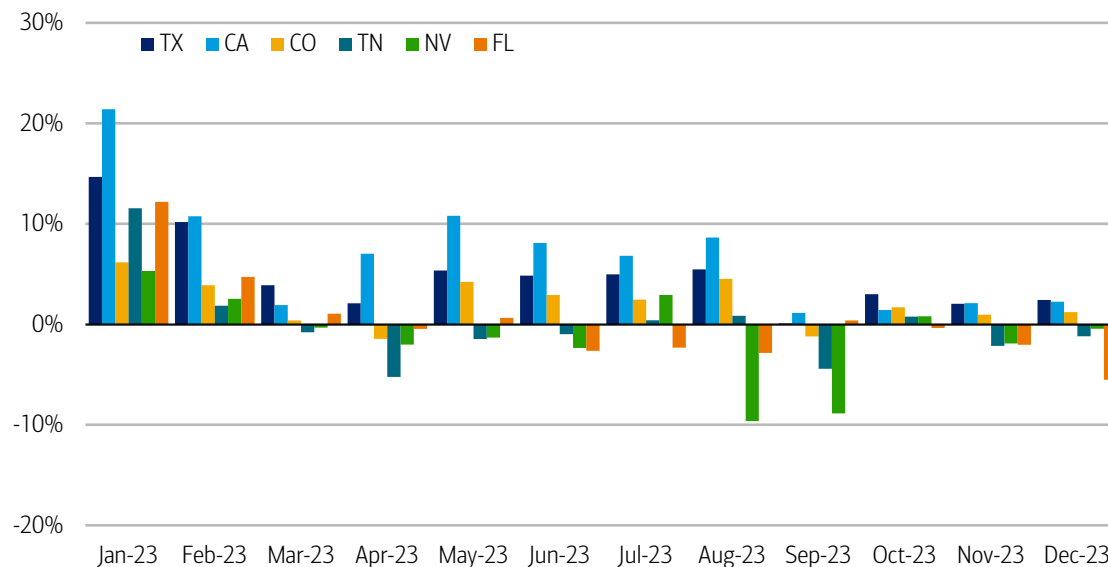
Source: Placer.ai, company filings

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The decline was driven by decreases in foot traffic at facilities in Florida, Tennessee, and Nevada, partially offset by increases in foot traffic at facilities in Texas, California, and Colorado.

**Exhibit 10: Facilities in Florida, Tennessee, and Nevada contributed most to overall foot traffic decline**

y/y growth for the top 3 HCA states contributing to overall decline and top 3 contributing to overall growth in Q4



Source: Placer.ai

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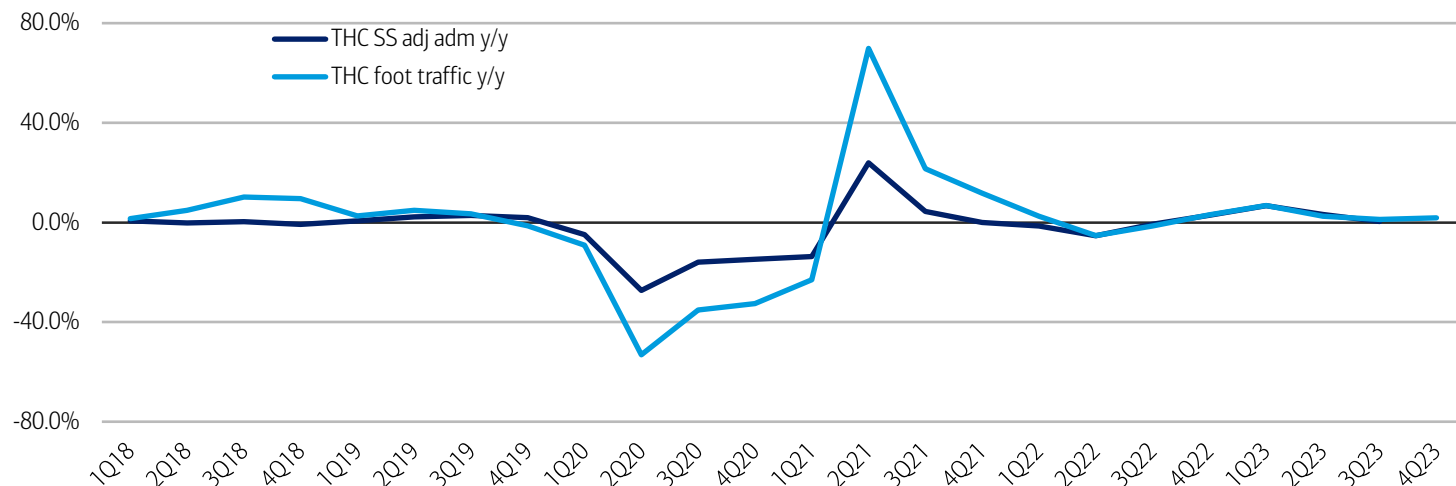
**Tenet Healthcare (THC): +1.9% y/y in Q4**

From 1Q18 to 3Q23, we found a strong correlation (96%) between THC SS adj adm growth and THC foot traffic growth, according to Placer.ai data. In the last 23 quarters, THC foot traffic growth has been directionally consistent with THC reported SS adj adm growth 78% of the time. In Q4, THC foot traffic growth was +1.9% y/y, an acceleration from +1.2% y/y in 3Q23.



**Exhibit 11: THC foot traffic was up +1.9% y/y in Q4, according to Placer**

THC SS adj adm growth y/y versus THC foot traffic visits growth y/y



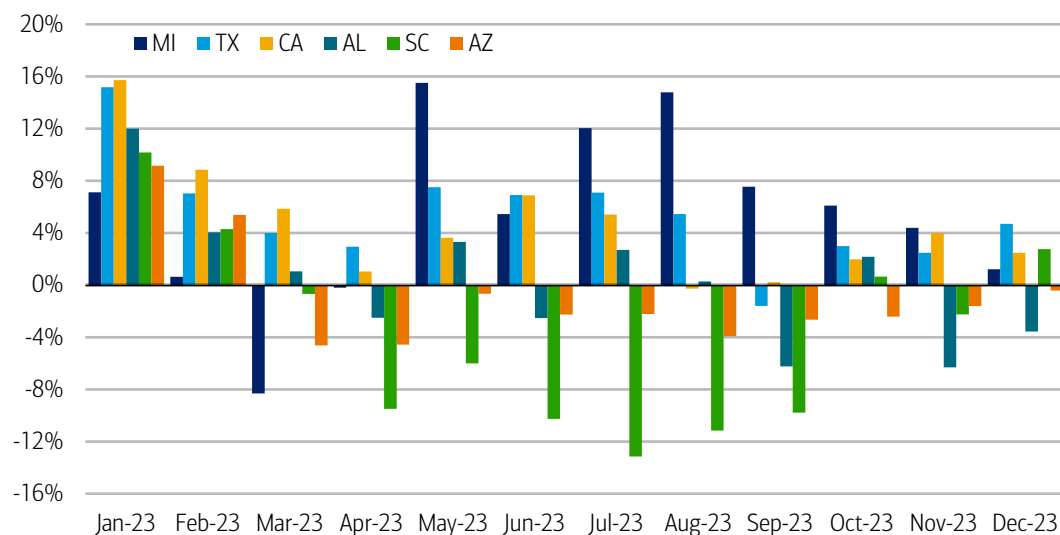
Source: Placer.ai, company filings

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The growth was driven by increases in foot traffic at facilities in Michigan, Texas, California, and South Carolina, partially offset by decreases in foot traffic at facilities in Alabama and Arizona.

**Exhibit 12: Facilities in Michigan, Texas, California, and South Carolina contributed most to overall foot traffic growth**

y/y growth for the top 4 THC states contributing to overall growth and top 2 contributing to overall decline in Q4



Source: Placer.ai

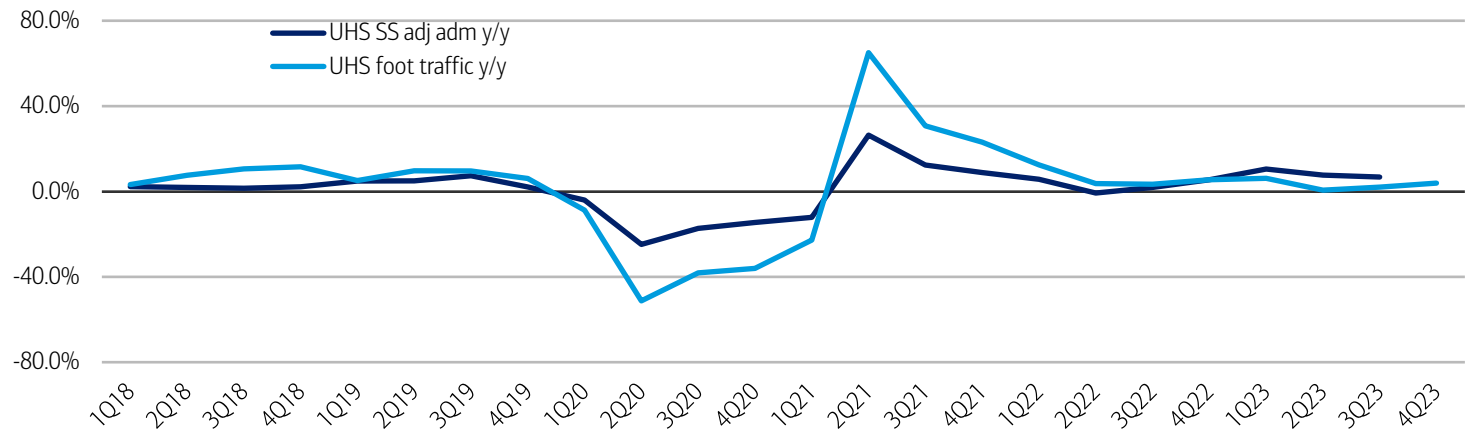
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**Universal Health Services (UHS): +3.9% y/y**

From 1Q18 to 3Q23, we found a strong correlation (96%) between UHS SS adj adm growth and UHS foot traffic growth, according to Placer.ai data. In the last 23 quarters, UHS foot traffic growth has been directionally consistent with UHS reported SS adj adm growth 96% of the time. In Q4, UHS foot traffic growth was +3.9% y/y, an acceleration from +2.0% y/y in 3Q23.

**Exhibit 13: UHS foot traffic rose +3.9% y/y in Q4, according to Placer**

UHS SS adj adm growth y/y versus UHS foot traffic visits growth y/y



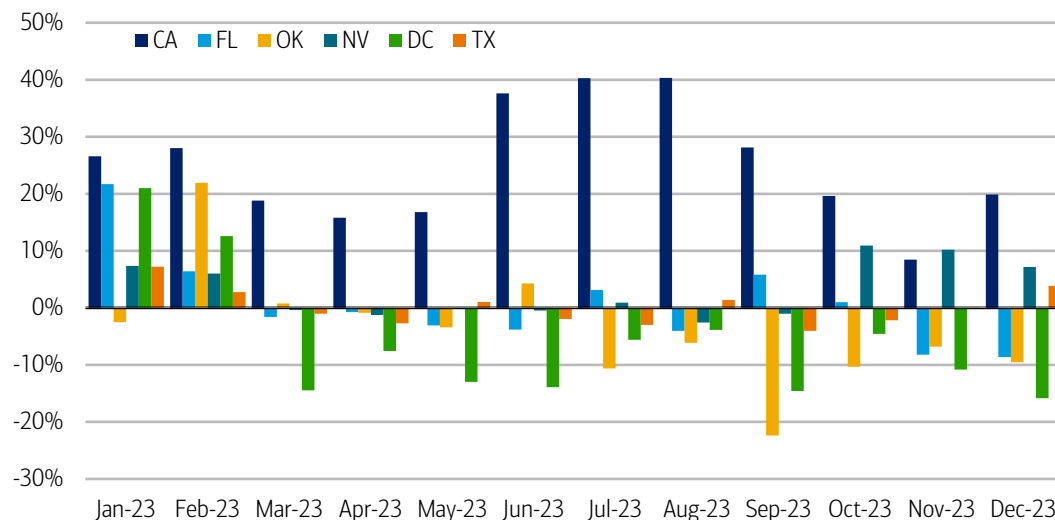
Source: Placer.ai, company filings

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California, Nevada, and Texas contributed the most to UHS' growth in the quarter, partially offset by decreases in Oklahoma, Florida, and DC.

**Exhibit 14: Facilities in California, Nevada, and Texas contributed most to the overall foot traffic growth**

y/y growth by state for UHS



Source: Placer.ai

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## Placer.ai methodology and data limitations

Placer.ai foot traffic data is based on aggregated and anonymized mobile phone location data for people who visit a facility for at least 7-15 minutes but adjusts for visits from employees (based on visit patterns). In acute care hospitals, a visitor who was at a facility for 15 minutes is not necessarily a patient (e.g., could be a supplier making a delivery or a person visiting a patient in the hospital) but still would be captured in the data and could skew y/y growth rates. Of note, y/y growth could also be skewed by COVID given that during COVID spikes temporary employees and limitations on visitors were probably more prevalent than today. Furthermore, the data does not create a distinction between inpatient and outpatient data, so does not capture acuity or relative revenue per visit. As a result, it might be a closer proxy for outpatient hospital visits than adjusted admissions. Finally, Placer.ai reports foot traffic data for approximately 91% of

HCA US hospitals, 89% of THC hospitals, and 78% of UHS hospitals, so it does not have perfect coverage of any company.



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