Tenet Healthcare

Quick takes from the call

Reiterate Rating: BUY | PO: 95.00 USD | Price: 89.05 USD

Additional color on 2024 guidance

SS surgical case growth 1-3%, (slightly below 2-3% normally, given tough Q1 comp). The company noted that after a year of strong growth such as 2023, there is often slower growth the next year, but it doesn't see any reason why it can't keep these level going, and would raise guidance if it continues to outperform. Additional nurse labor cost saves, partially offset by additional professional fees. Expects Q1 EBITDA of $800-$850, USPI EBITDA to be 20.5-22% of its annual EBITDA. Overall, the guidance looks conservative. Reiterate Buy.

USPI continues to outperform

Q3 +3.9% cases, +5.4% rev/case. GI, Ophthalmology, ENT and ortho procedures were strong in the quarter and added 30 sites to the portfolio in 2023. 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 comp. THC noted that physicians did 15% more procedures y/y in 2023 and sees that as sustainable as THC has worked to help doctors become more efficient. 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.

Hospitals performed well, volume a lever for 2024

Q4 was strong with strong acuity (Rev/Adj adm up 6.5%) and 2.6% growth in non-COVID vols. THC is guiding to 3.6% normalized same store EBITDA growth in 2024, in part due to a tough comp (beat expectations every quarter in 2023). Labor improvement was significant in 2023, and will annualize that as a tailwind in 2024. However, professional fees will continue to be a pressure, albeit slowing to 8-10% growth vs 15% growth in 2023. THC generally expects to see a continuation in the recovery in acute care demand, and if it can open up capacity (add nurses now that labor is more normalized) to take advantage of that, will hit the higher end of that guidance.

Optimizing the hospital assets

Proceeds from recent divestitures to lower leverage to 3.3x or 4.2x EBITDA-NCI. Guide assumes pays off the $2.1B 2026 notes in Q1. Believes that it has gotten good multiples on these asset sales because the quality of the assets are good (as THC positioned them for high acuity growth) and there is a scarcity value of clusters of assets. Doesn't believe that the divestitures would impact the company's pricing power with payers because of the high quality/low cost positioning of its ASCs and hospitals. Capital priorities: 1) $250m in USPI deals. 2) Invest in hospital growth (higher acuity). 3) retire/refinance debt, 4) balanced approach to share repo.

Labor continues to normalize

2023 above the historical 2-3% wage growth, 2024 closer to, but still above 2-3%. Expects contract labor improvement in 1H 2024, as it annualizes the 2023 savings.

08 February 2024

Equity

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Stock Data

Price	89.05 USD
Price Objective	95.00 USD
Date Established	15-Dec-2023
Investment Opinion	C-1-9
52-Week Range	49.76 USD - 90.44 USD
Mrkt Val (mn) / Shares Out (mn)	9,330 USD / 104.8
Free Float	98.0%
Average Daily Value (mn)	84.91 USD
BofA Ticker / Exchange	THC / NYS
Bloomberg / Reuters	THC US / THC.N
ROE (2023E)	42.2%
Net Dbt to Eqty (Dec-2022A)	0%
ESGMeter™	Medium

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GI: gastrointestinal

ENT: ear, nose, throat

ASC: ambulatory surgery center

Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.
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Timestamp: 08 February 2024 12:09PM EST

Price objective basis & risk

Tenet Healthcare (THC)

Our $95 PO is based on 8.4x 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

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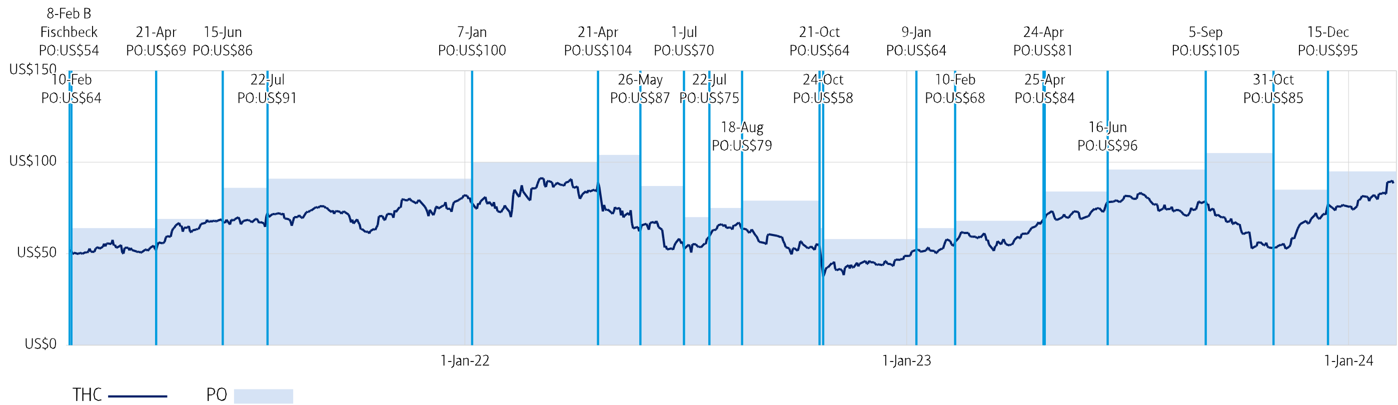
Tenet Healthcare (THC) Price Chart



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

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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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