

Health Care Facilities

Proposed 2024 ASC rate in-line, publics above average

Government Regulations

Proposed rate update of 2.8%, publics +110-190bps above

CMS (Centers for Medicare and Medicaid Services) released their proposed CY24 Ambulatory Surgery Center (ASC) rule, which calls for a net rate update of +2.8%, below the +3.8% rate finalized for FY23 but above the +2.0% for FY22. Based on case mix, we estimate THC would see a rate 190bps above the industry, followed by 180bps above for SGRY, and 110bps above for UNH. See Exhibit 1.

CMS proposes +26 dental procedures to CPL

CMS proposed the addition of 26 dental surgical procedures to the ASC covered procedure list (CPL), a positive for the shift to ASCs. CMS did not propose to remove any services from the inpatient only list (IPO).

Industry update of +2.8%, below 2023

ASCs will see a market basket increase of +3.0%, which is then reduced by a -0.2% productivity adjustment (better than -0.3% in 2023). The net rate update of +2.8% is below the +3.8% CMS finalized for FY23.

THC's USPI rate +4.7%, above other public players

THC's USPI case mix is diversified, with Ortho representing 36% of case mix, Digestive 34% and Eye 11%. USPI will see an average +4.7% update, above the industry update (due to higher exposure to GI vols), but below the +5.3% we estimate it saw in 2023.

SGRY rate update +4.6%, 40bps below its 2023 update

Ophthalmology (24% of cases), gastrointestinal (23%), and pain management and Ortho (36%) represent the majority of SGRY's surgical volume. Based on this mix, we estimate SGRY will see an average +4.6% rate, 180bps above the industry. This proposed rate is 40bps below the +5.1% final rate we estimate SGRY saw in 2023.

UNH's Surgical Care rate +3.9%, 100bps below FY23

Surgical Care Affiliates or SCAI (owned by UNH) case mix is diversified, with Ortho representing 31% of case mix, General Surgery 42%, Eye 14%, and GI 13%. Ortho will see a rate increase of 3%, Eye 6%, and GI 7%. On average, SCAI will see a +3.9% update, below the +4.9% we estimate it saw in FY23, but 110bps above the industry rate.

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Key terms:

ASC = Ambulatory Surgery Center
CMS = Centers for Medicare & Medicaid Services
CPL = Covered Procedure List
GI = Gastrointestinal
IPO List = Inpatient Only List
SCAI = Surgical Care Affiliates (UNH)
SGRY = Surgery Partners
THC = Tenet Healthcare
UNH = UnitedHealth Group
USPI = United Surgical Partners Intl (THC)

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Exhibit 1: Proposed FY 2024 Ambulatory Surgery Center Payment Update

USPI is positioned to see the best rate update from this final reg, while we estimate SCAI would see the lowest rate

Surgical specialty	Estimated CY2023 ASC payments (in millions)	Estimated CY2024 percent change (proposed)	Estimated CY2023 percent change (final)	SCAI exposure (% ASC revenue)	SGRY exposure (% ASC cases)	USPI exposure (% ASC cases)
Total	\$6,309	3%	4%	--	--	--
Eye and ocular adnexa	\$1,880	6%	3%	14%	24%	11%
Nervous system	\$1,274	-6%	4%	--	--	--
Digestive system	\$937	7%	5%	13%	23%	34%
Musculoskeletal system	\$1,188	3%	7%	31%	36%	36%
Genitourinary system	\$225	6%	4%	--	--	--
Other*				42%	16%	19%
Weighted average				3.9%	4.6%	4.7%
Final CY2023				4.9%	5.1%	5.3%
Difference CY2024 proposed vs CY2023 final				-1.0%	-0.4%	-0.6%

Source: CMS, BofA Global Research

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Exhibit 2: Stocks mentioned

Rating and price summary

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
SGRY	SGRY US	Surgery Partners	US\$ 44.54	C-1-9
THC	THC US	Tenet Healthcare	US\$ 82.73	C-1-9
UNH	UNH US	UnitedHealth Grp	US\$ 447.75	B-1-7

Source: BofA Global Research

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Price objective basis & risk**Surgery Partners, Inc (SGRY)**

Our \$50 PO is based on a multiple of 18.8x our 2024E EBITDA-NCI estimate, a premium to the company's historical avg multiple of 13.1x since 2015 and above the 3-year average of 17x. We think the premium to the historical average is justified by the acceleration in the shift to the outpatient settings driving above-average long-term organic growth. In addition to the strong organic growth, we expect a robust M&A. The multiple is adjusted for the dilution of convertible preferred equity shares.

Downside risks are: 1) worse than expected organic growth, 2) failure of physician recruitment investments to come online on time, 3) potential rate pressure from Medicare or commercial payors, and 4) deal integration risks. SGRY also has above-average leverage, although improving.

Tenet Healthcare (THC)

Our \$96 PO is based on 9.2x our 2023E 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.

UnitedHealth Group (UNH)

Our \$650 price objective is based on a 2024E EPS multiple of 22.9x, a premium to UNH's five year historical average of 19.6x. This is justified, in our opinion, by the growing share of earnings coming from Optum as well as the significant growth potential of Optum, UNH's Health Care Services platform, which has higher margins and unregulated cash flow. Our PO is also supported by our sum-of-the-parts (SOTP) valuation.

Downside risks to our PO are that healthcare utilization rebounds faster than expected, that growth targets for Optum are not achieved, or that political/regulatory risk intensifies.

Analyst Certification

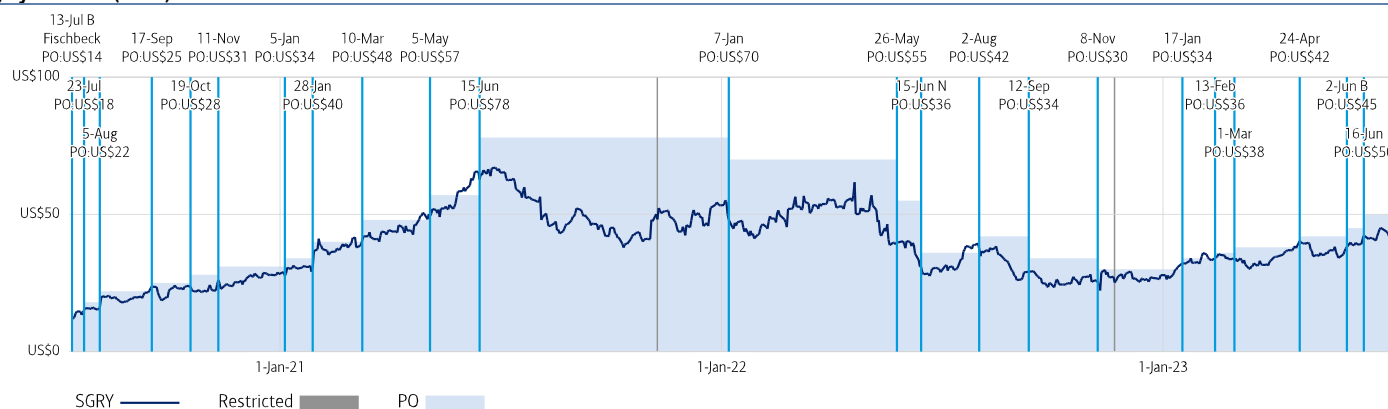
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US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

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
	Alignment Healthcare	ALHC	ALHC US	Kevin Fischbeck, CFA
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	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
	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				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agility Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Community Health Systems	CYH	CYH US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Oscar Health	OSCR	OSCR US	Kevin Fischbeck, CFA
UNDERPERFORM				
	Aveanna Healthcare	AVAH	AVAH US	Joanna Gajuk
	Bright Health Group	BHG	BHG US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Cano Health	CANO	CANO US	Adam Ron
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Clover Health	CLOV	CLOV US	Kevin Fischbeck, CFA
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
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	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatric Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

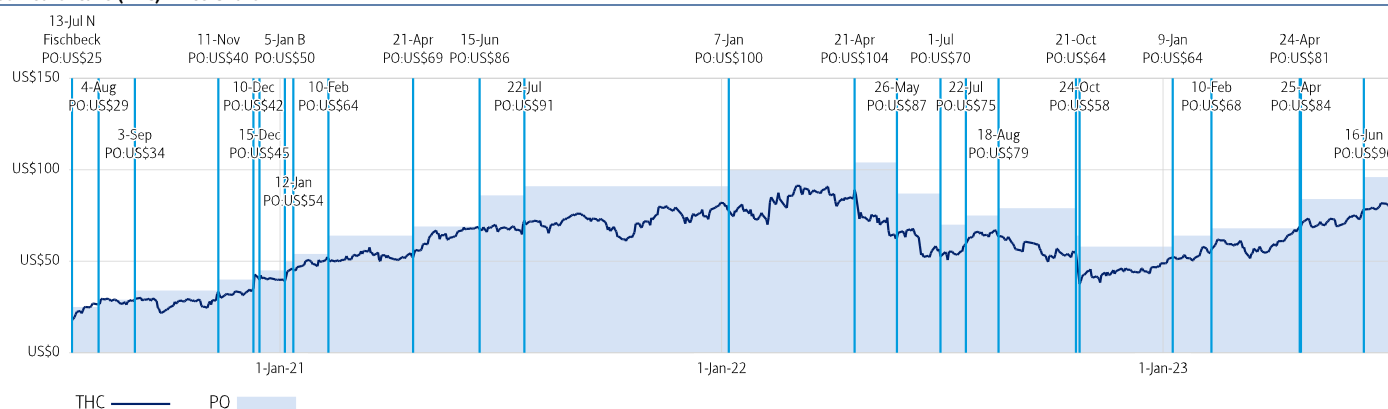
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Important Disclosures

Surgery Partners (SGRY) Price Chart

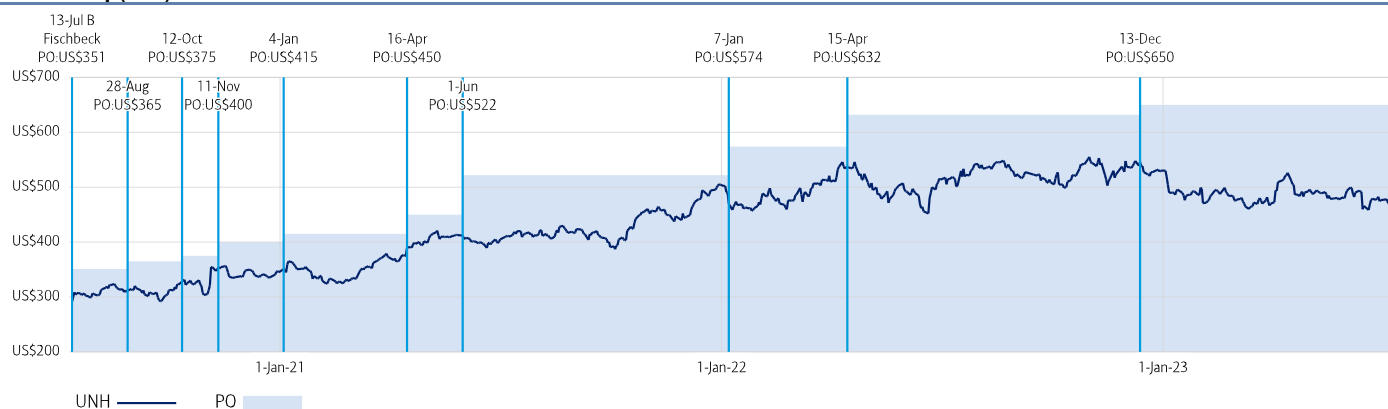
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Tenet Healthcare (THC) Price Chart

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UnitedHealth Grp (UNH) Price Chart

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Equity Investment Rating Distribution: Health Care Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	236	57.84%	Buy	105	44.49%
Hold	87	21.32%	Hold	38	43.68%
Sell	85	20.83%	Sell	22	25.88%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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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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