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HCA Healthcare, Inc. (HCA) CEO Sam Hazen on Q3 2019 - Earnings Call Transcript

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Q3: 10-29-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $2.23 beats by $0.10 | Revenue of $12.69B (10.85% Y/Y) beats by $213.39M

Earning Call Audio

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HCA Healthcare, Inc. (NYSE:HCA) Q3 2019 Earnings Conference Call October 29, 2019 10:00 AM ET

Corporate Participants

Mark Kimbrough - Senior Vice President of Investor Relations

Sam Hazen - Chief Executive Officer

Bill Rutherford - Chief Financial Officer

Conference Call Participants

A.J. Rice - Credit Suisse

Whit Mayo - UBS

Josh Raskin - Nephron Research

Pito Chickering - Deutsche Bank

Gary Taylor - JPMorgan

Justin Lake - Wolfe Research

Kevin Fischbeck - Bank of America

Ann Hynes - Mizuho Securities

Steve Tanal - Goldman Sachs

Frank Morgan - RBC Capital Markets

Steven Valiquette - Barclays

Scott Fidel - Stephens

Matt Borsch - BMO Capital Markets

Lance Wilkes - Sanford Bernstein

Peter Costa - Wells Fargo Securities

Brian Tanquilut - Jefferies

Matthew Gilmore - Baird

John Ransom - Raymond James

Operator

[Call Starts Abruptly]

Mark Kimbrough

This morning's call is being recorded and a replay of the call will be available later today.

I will now turn the call over to Sam Hazen.

Sam Hazen

Good morning and thank you for joining us today.

Earlier today, we reported very solid results for the third quarter. The third quarter results were generally comparable to our performance in the first six months of the year, the results were driven by strong revenue growth and good expense management.

Revenue increased more than $1.2 billion or 11% in the quarter, this increase was driven by combination of the strongest same facilities growth in volume, we have seen in over the past 17 quarters and the revenue from our recent acquisitions.

On a same facilities basis, revenue grew by approximately $700 million or 6.3%. We had broad based volume growth across most service categories and it was balanced across our markets with growth in 13 or 14 domestic divisions.

On a same facilities basis, in patient admissions grew 3.2%, we have now grown our same facilities in patient admissions in 22 consecutive quarters. Equivalent admissions grew 4.2%, emergency room visits grew by 4.1%, in patient surgeries grew 2.2% and outpatient surgeries grew by 2.6%.

The growth in revenue converted into solid earnings in the quarter with diluted earnings per share of $2.23 which excludes gains on sales of facilities and the losses on retirement of debt. Adjusted EBITDA grew by 9% to approximately $2.3 billion, the strategic investments we are making in our business to expand our networks and improve our clinical capabilities are creating greater accessibility for patients to receive high quality convenient patient care in an HCA Healthcare facility.

The most recently available in patient market share data again showed good growth for the company. We grew by 55 basis points to an all time high of 25.4%.

Finally, I want to thank our employees and physicians for their great work in delivering high quality care to our patients together with our employees and physicians, we use the unique capabilities and scale of HCA Healthcare to make a difference in the communities serve by giving people a healthier tomorrow.

With that, let me turn the call over to Bill.

Bill Rutherford

Thank you, Sam, and good morning everyone.

I will cover some additional information relating to the third quarter results. As Sam mentioned, virtually all of our operating statistics for the quarter were solid and I will provide some additional information.

During the third quarter, same facility Medicare admissions increased 3.1% and equivalent admissions increased 4.5%. This includes both traditional and managed Medicare. Same-facility medicate admissions increased 4.5% and equivalent admissions increased 4.6% in the third quarter compared to the prior year.

Our same-facility managed care admission increased 3.4% and equivalent admissions increased 3.6% in the third quarter compared to the prior year. Same-facility self-pay and charity admissions increased 2.1% and equivalent admissions increased 3.5% for the third quarter compared to the prior year.

Same-facility emergency room visits increased 4.1% in the quarter, our level 1 to 3 visits increased 2%, while our higher acuity level 4 and 5 visits increased 5.8% over the prior year. In addition, admissions to the emergency room increased 3.4% over the prior year. Same-facility net revenue per equivalent admission for a domestic operation grew 2.2% over the prior year in the quarter and year-to-date is growing 2.7% in line with our guidance range for the year.

Same-facility in patient surgeries grew 2.2% and our outpatient surgeries grew 2.6% in the quarter over the prior year.

Now, let me move on to operating expenses. We had another solid quarter of expense management. Our same-store margins increased 40 basis points in the quarter and our same-facility operating expenses per equivalent admissions grew 1.5% in the quarter compared to the prior year.

Our same-facility labor cost per adjusted admission grew 1.9% in the quarter, same-facility average hourly rate grew 2.7 in the quarter versus the prior year and we continue to see labor productivity improvements.

Same-facility supply cost per equivalent admission grew 0.9% over the prior year period. Same-facility other operating expenses per adjusted admission increased 0.7% compared to the prior year.

During the third quarter, the company recognized a favorable professional liability reserve adjustment of 50 million based on our updated actuarial assessment. This compares to the 70 million favorable adjustment recognized in last year's third quarter. Also, during the quarter, the company recorded an additional 30 million share based compensation expense.

Our recent acquisitions also had another solid quarter outperforming our expectations. The acquisitions had an approximately 80 basis points unfavorable impact on consolidated margins in the quarter.

So, let me take a moment to talk about cash flow. Cash flow from operations continues to be strong. Cash flow from operations totaled 2.13 billion versus 1.72 billion in the third quarter of last year. Capital spending for the quarter was 1.14 billion in line with our expectations.

During the quarter, we redeemed 4.95 billion aggregate principle amount of senior secured notes. Pre-tax losses on retirement of debt totaling 211 million for these redemptions were recorded during the quarter.

During the quarter, we paid 239 million to repurchase 1.846 million shares and we have 1.5 billion of repurchase authorization remaining as of September 30, 2019. Also, as mentioned in our release this morning, our Board of Directors has declared a quarterly cash dividend of $0.40 per share.

At the end of the quarter, we had 2.7 billion available on our revolving credit facilities and our debt to adjusted EBITDA ratio was 3.56x. Earnings per shares including gains on sales of facilities on losses on retirement of debt was $2.23 in the third quarter of this year versus $2.16 in the third quarter of last year.

The adjustment to the professional liability reserve accounted for $0.11 of EPS this year versus $0.15 last year. Share based compensation expense equated to $0.23 this year and $0.15 last year. And we also recorded $0.08 of EPS in 2018 due to some hurricane tax credits.

And finally, the excess tax benefit per share based compensation was $0.01 this year versus $0.07 last year.

As noted in our release, we updated our full year 2019 guidance with projected adjusted EBITDA to range between 9.65 billion and 9.85 billion. And projected earnings per share ranged between $10.30 to $10.65 and we anticipate capital spending to approximate 3.8 billion.

So, that concludes my remarks and let me turn the call back over to Sam.

Sam Hazen

Before we go to questions, I want to give you some preliminary thoughts around 2020. It's always difficult to predict with certainty, the various components of our business. We believe the overall fundamentals in our markets and primary drivers of growth remain strong. We also believe, we are well positioned to capitalize on this favorable environment as we continue to execute our operational initiatives, improve the competitive positioning of our networks with capital spending and integrate our acquired hospitals.

As a result, in 2020, subject to our usual assumptions, we believe core operation should grow organically near the mid to upper part of our long-term growth expectations and we believe the acquisitions we have completed should push our growth rate slightly above the top of our long-term growth expectations. We will be wrapping up our budgeting process over the next few months and we look forward to sharing our detailed guidance with you in January.

Now, let me turn the call over to Mark for questions.

Mark Kimbrough

All right. Thank you, Sam. Anna, you might now give instructions to those who like to ask questions.

Question-and-Answer Session

Operator

Yes, sir. Thank you. [Operator Instructions] And will now take our first question from A.J. Rice with Credit Suisse.

A.J. Rice

Hi, everybody. Thanks for the question.

Just I guess want to jump off of Sam's comments there. So, core growth toward the high-end, I want to just verify that the core growth target is roughly 4% to 6%. And I think this year, you are talking about acquisitions contributing to that, I'm pretty sure you guys have been saying that the acquisition have been contributing about 3% to 4% to growth, I'm assuming that would moderate next year. But, can you just comment on the trajectory of how those bigger acquisitions will continue to contribute as we look at the next year to grow because I assume there'll be incremental permission in Savannah for a couple of years.

Sam Hazen

Thanks A.J. Bill?

Bill Rutherford

Hey A.J. This is Bill. Let me take this. Yes. Let me confirm, we said some time our long-term adjusted EBITDA growth range is between 4% to 6%. We think we have a pretty solid track record of performing within that range and at least recently we've been at the mid to high-end of that range. We're also in a period where acquisitions been contributing to our growth profile. As you mentioned, we anticipated 3% to 4% this year. We expect them to continue to the growth of the company. But as you alluded to likely not at the same rate as this year as we had first year permission and continue to turnaround some of the performance for few others.

So I think as Sam mentioned, we haven't completed our budget process, but our commentary was trying to give you some direction on where we see operating with our long-term range. We'll provide obviously a lot more detail and specifics on our year-end call. But I think with a solid performance of the company this year we want to provide a little -- some general comments related to early thoughts for 2020.

A.J. Rice

All right.

Sam Hazen

A.J. Thank you.

Operator

We'll take our next question from Whit Mayo with UBS.

Whit Mayo

Hey thanks. Bill, you've got the final 2020 in patient rates and dish -- Medicare dish set. We've got the pending outpatient rule. Just sort of curious how the improved pricing environment is sort of shaping your views as you comment on growth at the high-end of your long-term guide, any help around just how internally you guys are thinking about Medicare rates next year would be helpful.

Bill Rutherford

Yes. This is Bill. So, we are anticipating variable Medicare rate update again this year pretty comparable to what we're seeing this year likely in a 2.5% to 3% rate update. So, we factor that in not only to our guidance, and will continue to factor into our 2020. But we do see it being a generally favorable environment relative to the combined Medicare pricing force next year.

Whit Mayo

Okay. Thanks.

Sam Hazen

Thanks Whit.

Operator

Our next question comes from Josh Raskin with Nephron Research.

Josh Raskin

Hi. Thanks. Good morning. Question around sort of the CapEx and sort of impact that you guys are getting, it feels like we're kind of in years three of this recent acceleration in CapEx obviously this year are going to be running even higher than you have in recent years. And I know you've spoken in the past about sort of that 15% to 16% return on CapEx. So, I'm curious is that one of the drivers of sort of this improved growth rate that we're seeing in recent years and is there a way to kind of line up growth in specific markets where you've really put some serious dollars in terms of projects and how you guys track it. So, just sort of generally around the CapEx and how that's working?

Sam Hazen

This is Sam. I think capital expenditures and our capital spending plan that's geared toward increasing capacity, adding clinical technology for our physicians, and really building out our ambulatory network is clearly a key component of our growth agenda. It's difficult to pinpoint specifically the value of that in the total performance of the company. Clearly, we can look at an individual hospital and score whether or not we achieved our expectations on our capital.

But, keep in mind a lot of our capital is for long run purposes. It's not just for a short run. And so some of our projects because of the complexity of building the project, it's really geared toward a much longer run. So it takes us a while to get a full payoff on that. And so, we monitor our performance against our expectations. Generally speaking, we have outperformed our modeled financial returns on most of our projects. We've had a few obviously that we don't accomplish what we had hoped. But, when you sort of aggregate all that we believe it's contributing to the performance of the company and putting the company globally in a much better competitive position.

We are running the company today at occupancy levels of approximately 73% on the inpatient and that's in spite of a lot of capital that's hit this year. I think over the course of this year we're adding more beds than we did in the previous year. And I think in 2020, we're anticipating a similar amount coming online as we had in 2019. So, it's hard for me to point to just that. I mean have a robust physician relationship agenda that's adding value as we continue to add physicians to our network.

I think our clinical excellence agenda is yielding value as we continue to improve our quality performance. And then ultimately our outpatient network continues to grow. We will be up to roughly 145 ambulatory surgery centers over 100 freestanding emergency rooms almost 150 urgent care centers and roughly 1300 physician clinics that are connected to our 185 hospitals and all of that is connected to I think the overall volume performance of the company.

Bill alluded to this. We had the broadest based volume performance as far as positive metrics that I've seen in almost three years. The only two areas that were flat were behavioral health was flat from an admissions standpoint and our outpatient surgery centers were modestly up. Our hospital based outpatient surgeries was very strong and that's what drove our overall outpatient volumes. So, we had really broad based comprehensive volume growth that I think speaks to the overall growth agenda that the company has had for years. And we think is appropriate as we look forward.

Josh Raskin

Perfect. Thanks.

Mark Kimbrough

All right. Thanks Josh.

Operator

Our next question will come from Pito Chickering with Deutsche Bank.

Pito Chickering

Good morning guys. Nice quarter. Just a follow-up actually on that topic of inpatient and outpatient surgeries. Third quarter was quite strong versus sort of the first half of the year, strong and sort of very challenging comps. And so I guess could you talk a bit more about what caused the strength of both inpatient, outpatient which was it expansion [indiscernible], expansion of ORs, hiring docs or what led to that strengthen and gives conviction around that continuing over the next year and a half.

Sam Hazen

Well, Pito. This is Sam. That's obviously a solid question for us given some of the trends. And we indicated that we expected our procedure volume in the third quarter to be a little bit stronger because we did have a slight calendar tailwind. And when you score that tailwind it did contribute some modestly we think to the overall performance. But I think our surgical growth initiative has been one that we've spoken to over the past number of years as we continue to improve our operating room processes as we continue to respond to what our physicians need. And then, as we continue to invest in technology within our surgical suite. Robotics is an example of that adding deeper capabilities in cardiovascular care and so forth is driving surgical performance for the company.

Our cardiovascular surgery on the inpatient was very strong almost 7.5% up. Our orthopedic volume in total, our total joints were up 7%. We had strong robotics performance. Our vascular surgery was performance. So, some of this is clearly supply and that we're adding more Ors, but it's also our physician strategy. It's our program strategy. It's our performance improvement strategy, our clinical initiatives. All of this is really sort of the foundation as I mentioned previously for us as we think about our growth prospects. And we detail our surgical performance very carefully. We detail our physicians in the marketplace very carefully, so we understand what their needs are and then we monitor best performances and best practices across the company to share those broadly. And we think that's a very successful formula and one that's yielding success not just in this quarter but over time. And we believe it will continue to pay dividends for the company as we move into the future.

Mark Kimbrough

Right. Thanks Pito.

Operator

Our next question comes from Gary Taylor with JPMorgan.

Gary Taylor

Hi, good morning. I had a couple of questions. I think I'll settle on this one. Could you give us a little update on how you're approaching physician recruiting, physician employment, acquisition of physicians or seems to be sort of a renewed pace of activity private equity, others making acquisitions are rolling up some of the physician space and just wanted to see if your strategy is going to have to change to any degree in terms of outright employment and acquisitions.

Sam Hazen

I don't see a change. This is Sam again. Gary, thank you. I don't see a change in our strategy per se. We have been about recruiting we have been about employment. We have been about other methods of alignment with a clinical relationship and leadership and program development and those continue to yield success for us. We are growing our medical staffs at about 1.5% to 2% per year. It's coming through all of those channels, I just spoke to. We believe that across the company's portfolio of facilities that are physician development initiatives are gaining momentum in the face of some of these issues that you alluded to. And it's because folks are seeing the investments that we're making, the improvements in overall quality and nursing that we're making. And it's attracting physicians.

We have 45,000 physicians who practice at HCA facilities. We employ about 7,000 of those. We are growing our employment ranks at probably 8% to 12% per year. So, it is a more common tactic within our physician ranks, but it's not a sole strategy for us as we look to the future.

Gary Taylor

Thank you.

Mark Kimbrough

All right. Thanks Gary.

Operator

Our next question comes from Justin Lake with Wolfe Research.

Justin Lake

Thanks. Good morning. Appreciate the commentary on 2020 guys. A question here on the balance sheet. Came out of the -- it looks like you're going to come out of the year, I should say with debt to EBITDA at low end of your range at about 3.5%. If I kind of just do some math on the implied guide, you'd be at more like 3.25%. So yes, I know your long-term target is 3.5% to 4.5%. It looks like you'd have $7 billion, $8 billion of room just to get back to the mid point. So, just curious as to how you're thinking about that opportunity kind of going into 2020, would think the M&A pipeline share repurchase opportunity, et cetera. Thanks.

Bill Rutherford

Justin, thanks for the question. This is Bill. You're right, our leverage ratios at the low end of our range and we are obviously very pleased with that. We think this continues to give the company a lot of flexibility and optionality into the future. As far as the longer term range. Obviously, some will give a lot of thought to and we'll continue to evaluate it. Not making any changes to our range at this time, but as you know, we're going into our planning cycle. We continue to evaluate our capital policies. We do have a couple of smaller acquisitions that hopefully we'll close towards the end of the year. We'll likely fund through that. We've stated for some time we think the strength of our cash flow and physician, the balance sheet is obviously an important attribute for the company. We think we've got a pretty balanced and disciplined approach to capital allocation from our capital investments to share repurchase to dividends as well as managing the balance sheet.

So, again, I think we're very pleased with the result. I think the level where we are right now continues to give us a lot of flexibility as we continue to see potentially high value acquisitions come into the fold. We've got the capability to execute on those.

Mark Kimbrough

All right. Thanks Justin.

Justin Lake

Thanks for the color.

Operator

Our next question comes from Kevin Fischbeck with Bank of America.

Kevin Fischbeck

Great. Thanks. I just want to follow up. I guess Q2 was a little bit surprising to people and it seemed like it was -- I guess you guys called it a revenue issue and I guess in particular kind of commercial volumes being weak. This quarter looks better, but I wonder if you could maybe say it's still kind of towards the lower end of your long-term view on pricing. So, just want to see where we are on that and if there's any post-mortem on what happened in Q2 and why it seems to be getting better now.

Sam Hazen

Bill.

Bill Rutherford

Yes. Kevin, thanks. This is Bill. So yes, Q2 was a little soft. We attributed some case mix, some isolated issues and a few markets. We were pleased to see it bounce back up. Obviously, we had very good payer mix with the commercial volume growth. Year-to-date as we mentioned, we're at that 2.7, 2.5 range if you will, which is right in the midpoint of our range. So again, I think with our visibility and our contracts, we will continue to have great visibility into our commercial contracts. We continue, as Sam mentioned, invest in some of our higher acuity services that I think second quarter just post some softness for us and pleased with where we are in a year-to-date. And rebounded here in the third quarter as well.

Mark Kimbrough

Thanks, Kevin.

Operator

We will take our next question from Ann Hynes with Mizuho Securities.

Ann Hynes

Hi, good morning. I know you gave some color on the acquisitions, but I love some more color just on the margin profile. Late 2017, early 2018 you acquired 2 billion of revenue. Can you let us know what the merger and profile of those acquisitions are right now and mission as well? Thanks.

Sam Hazen

As a portfolio if you will, I'd say the margin of those acquisitions are running high single digit right now. And that's where we anticipated, we knew each of them have a little bit different story to them. We knew Memorial and Savannah would take us some time to recover, very pleased with the performance of where that stands. Mission, obviously, we're in the first year. So, I think I characterize the margin performance of those acquisitions is high single digit. The contributing to the growth this year as we've mentioned, we think they'll continue to contribute to growth next year and we knew those would be multi-year process for us. So that's how I would characterize the margins, high single digits right now.

Ann Hynes

Thanks.

Mark Kimbrough

Thanks Ann.

Operator

Our next question comes from Steve Tanal of Goldman Sachs.

Steve Tanal

Thanks guys. Good morning. I guess one quick question. Hey, Mark. Just the managed care adjusted admissions growth was really strong and compare a year ago looked particularly tough. So kind of just thinking through that, I kind of wanted to get your thoughts on the macro environment. Obviously, Medicaid adjusted admins are still growing a bit faster than commercial, but commercial's really solid and absolutes. And so how are you all thinking about payer mix? Are these dynamics pretty good? I mean, is that a headwind in your mind or any commentary there. And if you have the acuity mix number that would be great to the index. Thanks guys.

Sam Hazen

Well, I think the environment we still read is very positive. We continue to see solid economic indicators in our markets. Good employment numbers. We had anticipated commercial growth in that 1% to 2% range. We're running on a year-to-date basis. So, I think would characterize the overall market is still is favorable for us. We know in any one period they are subject to some trends here or there, very pleased with the commercial volume trends in the second quarter. But overall, when we look at the economic indicators, we look at the employment indicators, we're looking at our access to contracts. We still think that's a pretty good environment for the HCA.

Relative to intensity, our case mix was basically flat for the quarter. We think there are some factors that are contributing to that. We continue to see that our clinical improvement initiatives are paying dividends as we see reducing sepsis, reducing ventilator days for critical care patients, improving end of life. All of these clinical initiatives do have some impact on our case mix metrics, but obviously brings a lot of value to our patients. So, we think there's some -- probably a few other service line areas, but again, I think the revenue clearance that we had in the quarter was very strong and in line with our expectations.

Mark Kimbrough

Thanks Steve.

Operator

We will now take a question from Frank Morgan with RBC Capital Markets.

Frank Morgan

Good morning. You referenced a couple of smaller acquisitions that you may wrap up before the end of the year in terms of capital deployment. I think I've seen some press accounts on some of those, but I'm more curious about the opportunity for larger systems like you did with Mission and with then Savannah. I'm just curious, are you seeing any change in the landscape there that might suggest some of those kinds of opportunities maybe more likely. Thanks.

Sam Hazen

I don't know that the landscape per se Frank, this is Sam. It's changing. I think we are having more discussions. I'll say with systems, whether or not any of those discussions materialize into a transaction that works for the seller or works for us is yet to be determined. We as Bill indicated, have a balance sheet that we think is positioned to absorb some decent size acquisitions. We think our organizational capability and chassis if you will, is built to take on more.

And so we're looking, we're talking, but we don't know if anything will necessarily surface as we go through the next few years. Obviously, the marketplace is generally good for most of the not-for-profits that are out there. And it will be a forward thinking board that makes a decision in my estimation to want to do a strategic decision or transaction with us and looks beyond sort of the short run.

So, what we have to see how those discussions go? We're excited about the acquisitions that we've done. As Bill indicated, we're seeing a progression in performance. We're accomplishing what we had anticipated internally with our modeling for the most part. And we still see opportunities for improvement in them. So, that gives us confidence that our capability in assimilating acquisitions in the organization are getting better. And so as opportunities present themselves we're hopeful that we'll be able to take advantage of those.

Mark Kimbrough

Thanks, Frank.

Frank Morgan

Thank you.

Operator

Our next question comes from Steven Valiquette with Barclays.

Steven Valiquette

Sorry. Thanks. Good morning. So, certainly lots of strong operating trends this quarter. And this was touched on a little bit, but obviously the same-store revenue per adjusted admission improved slightly from last quarter. But didn't have quite the snapback in 3Q to the 3.5% to 4.5% trends that the company posted for about six quarters in a row before that metric softened up a little bit with the 2Q results.

So I guess, I'm just curious if there's any -- just additional color around potential improvements in the variables that are hidden there, I mean, you obviously touched on the commercial surgeries, but curious if there is anything else kind of hitting that a little bit. And do you see a glide path to that getting back to 4% near term just based on how things are progressing right now. Thanks.

Bill Rutherford

Thanks. This is Bill. So, we've said we anticipate 2% to 3% in RAA. We've said our year-to-date performance is right in the middle of that. We are confident that we saw the improvement from the second quarter to third quarter. We look at our inpatient revenue per admission grew 4.2%, so really solid inpatient growth. And that coupled with our outpatient revenue growth.

I'll tell you, we really don't see any structural or major factors that influence that, or with the complexity of our revenue, there are a lot of variables that impact that between mix and service acuity and so forth. But, I think I characterize, we're pleased with where we are on a year-to-date performance. And again, I don't see any really major changes -- structural changes that should impact materially.

Steven Valiquette

Okay. All right. Appreciate the extra color. Thanks.

Operator

We will now take a question from Scott Fidel with Stephens.

Scott Fidel

Thanks. Question just -- one of your peers that had reported that talked about being a bit more aggressive posture from some of the payers in 3Q in terms of denials on inpatient admits versus observation. Just wanting to see it doesn't look like it from some of the fundamentals that you recorded on commercial volumes and pricing, but they just want to see whether, have you seen any of that similar dynamic in any of your markets and recently or has that not been the case?

Bill Rutherford

This is bill. So, those are always factors that we deal with in the administration of health. We called out observation in the past and we see that kind of cycle around the country in terms of utilizing observation in patient status. Denials is a challenge for the industry that we spend a considerable amount of time and effort appealing and making the clinical case. And we have seen that activity increase. I don't characterize it as that a material driver for us. We've got strong operating indicators that we can overcome that. But, I think the industry continues to deal with patient status and observation as well as denials and the adjudication of claims that we spent a considerable amount of time, effort and resources and we think HCA is well positioned to advance our case when we do have those denials. But, it's a factor for us that we have to deal with.

Sam Hazen

Let me add to that Bill. I think we have efforts underway with a number of the major payers to take advantage of our technology, their technology, our size, their size to create a more friction free environment for our patients and not have sort of the confusion that that centers around some of the billing processes both for them and their members and for us and our patients. And I'm optimistic that some of these major payers are going to move toward a more technology friendly capability for both organizations that yield a better answer for the patient and the member. And so that's part of what we're attempting to do with our Parallon capabilities and integrate that appropriately into some of the claims shops that these big payers have. So that it's a much more efficient, low cost transaction environment for both organizations.

Mark Kimbrough

Thanks, Scott.

Operator

We will now move to Matt Borsch with BMO Capital Markets.

Matt Borsch

Let me yet stick on theme that Scott was asking about, but a different -- slightly different area that which is, we've heard that one of the largest payers is instituting a rule where all hospital cited outpatient procedures are going to have to go through pre-certification of some sort. I'm curious if you're -- if that's something on your radar screen and whether you think that will have impact in the fourth quarter.

Sam Hazen

Well, this is Sam. I don't anticipate any fourth quarter impact from that particular policy that you're referencing. We have provisions inside of most of our contracts that speak to how the network will function, the network being our inpatient facilities or outpatient hospital facilities and our ambulatory facilities. And so typically speaking, we protect that network in a way that is appropriate for the payer and the patient and our physicians. And ultimately we have dealt with a lot of these policies and procedures in the past around site selection and so forth. And we'll continue to work with the payers on those to find the right location for the patient, so they get the clinical outcome they want. It's at the price point that's appropriate and we're not anticipating any significant change in sort of the composition of our business as a result of that.

Matt Borsch

Thank you.

Mark Kimbrough

Thanks, Matt.

Operator

We'll now move to Lance Wilkes with Sanford Bernstein.

Lance Wilkes

Yes. I was wondering for the quarter, can you talk a little bit about the share taking end market and how much of that is payer strategies, maybe changes in steerage networks and things like that as opposed to maybe physician directed with your owned or affiliated physicians and other sorts of strategies?

Sam Hazen

I think if you go back to the comments -- this is Sam that I made about our growth model and how we think about our growth model. That model has been consistent for us over the years and we find that it resonates in the marketplace with the patient. It resonates with the physician and it resonates with the payer. And so the combination of those components of our model we think is yielding the market share gains that we have sustained over time.

In our most recent information we gained market share in 22 or 25 service lines that we monitor and we gained share in 73% of our markets where we get information. So, the basic elements of our growth model, appropriately detailed, appropriately resourced and really well executed by our employees and our teams is yielding what we believe to be the value inside of this growth model. Again, it's value for our patients, we believe; it's value for our physicians; and ultimately we think it's value for the payers.

And so our approach, it's hard to sort of deconstruct one item to say that this item is what's driving it, because it varies a little bit from one market to the other depending on the circumstances. But when we pull up an aggregate, the performance of the company aggregate the strategy of the company and start to point to it, we think it takes all components of sort of the HCA flywheel, if you will, to ultimately drive this kind of consistent growth that we've been able to sustain for extended periods of time.

Mark Kimbrough

Thank you, Lance.

Operator

We'll now take a question from Sarah James with Piper Jaffray.

Sarah James

Thank you. Volumes were pretty strong across the board and the quarter. Did that put any pressure on using temporary staff? Where do you guys sit now on temp staff usage and how impactful is that on your expense load? Then more broadly on expense control, last quarter you mentioned ongoing efforts for supply chain and I T savings revenue cycle management. How are you thinking about how much further you can push these initiatives? How much savings is left to be achieved? Thanks.

Bill Rutherford

Thanks Sarah. Yes, Sarah. This is Bill. So, we continue to be pleased with the operating cost performance of the company. Obviously, when we get good volume we can leverage some of our fixed cost structure and pleased with the performance. We have, as you probably know, initiatives throughout all aspects of the company from continuing to manage labor costs to supply cost improvements to other operating and I think that yielded and showed itself in the third quarter.

So, we're very pleased with the performance, very proud of our teams in terms of what they do to manage the cost structure of the company. Regarding temporary labor, that was an area we call it out that we saw some really good improvement over the past, call it, year to year and a half as our operators reduced our turnover and we reduced our contract labor. Tell you that's pretty stabilized on us right now year-to-date. Pleased, when we do have volume peaks, we sometimes have to use that temporary labor, but we manage it within the whole context of the labor line.

So again, I think for the quarter we're pleased with where we stand and year-to-date we continue to manage that 2% to 3% range. That's a solid number for us.

Mark Kimbrough

Thanks Sarah.

Sarah James

Thank you.

Operator

We'll now move to Peter Costa with Wells Fargo Securities.

Peter Costa

Good morning, nice quarter. Looks like in Washington a lot of the healthcare issues are being sort of kicked into early next year. Things like surprise billing and dish. Are these delays going to hurt you guys in any way or do you think it gives you just more time to repair? And is there any one of those that we should focus on more than some of the others in terms of something that could have more of an impact given the delays?

Sam Hazen

Well, I think this is Sam again. I think, obviously, there are a lot of discussions going on in Washington about healthcare within the democratic primary and then within the legislative process currently within the Washington DC area. And even in some states we're seeing some healthcare policy discussions that we're having to engage in. Obviously, we said this before, we are supportive of legislation that protects the patient, whether that's protecting the patient from a surprise bill as defined or a in making sure that the patient has the transparency around their out of pocket costs. So, we're supportive of those elements. I think moving beyond those elements, we do have concerns and we don't believe that they're going to accomplish more than what they need to accomplish around the patient.

So those two pieces of legislation, the surprise billing and the transparency, again, as it relates to the patient being protected and getting the necessary information, we're supportive neither of those present any unusual challenges for us. As we think about the future it's just that we think if they overreach, if you will in some of those areas, it could create some challenges here or there.

As it relates to the dish, I think we're still waiting for the final outcome on that, but we don't anticipate that having a very significant impact on our Medicare revenues as we move into the 2020.

Peter Costa

Thanks.

Mark Kimbrough

All right. Thanks Pete. Diana, we are going to take three more and then, we are going to close it off.

Operator

Okay. Perfect. Thank you, sir. We'll now take a question from Brian Tanquilut with Jefferies.

Brian Tanquilut

Hey, good morning guys. Congratulations on a great quarter. Just really quick and simple question for me. So, as I think about the qualitative comments you made about what the 2020 outlook, how should we be thinking about your views on margin expansion? I'm factoring in obviously the improvement in the acquired hospitals from 2017. And then what percentage or is there M&A baked into that expectation as well, incremental over what's already been announced? Thanks.

Sam Hazen

This is Sam. Obviously, if we grow our volumes and we can keep our revenue on the high side of our guidance, we said this before towards the 5% to 6% on revenue growth, which is what we've generally had over the past six or seven quarters. We believe we should be able to increase our same stores operating margin with that kind of revenue growth, whether it comes in volume or in unit price combination. We think that's high enough to where we should be able to grow our operating margin all things being equal. As it relates to the low end of the range, our belief is that we should be able to maintain margins thereabouts with respect to our same stores portfolio.

As Bill spoke to a minute ago, our models for all of our acquisitions have a steady improvement in margins over time. These are large institutions. They have a lot of people connected to them and we have to be appropriate in how we adjust them to a more efficient environment. And as we make those adjustments, we do anticipate margin improvements as to how that affects the company's overall performance. I don't think it will color the margins of the company as much as the same store's performance, but our belief is that if we can grow our revenue in the upper side of our range, we should be able to incrementally generate a margin improvement.

I think in this quarter, our revenue clearance to EBITDA was roughly a 1.5x our average margin. And that's a good metric for us. And so that's at 6.3% same stores revenue growth, we were able to clear that revenue at about a 1.5x our average margin heading into the quarter. So that's a pretty good sort of microcosm of how we think about it. There are puts and takes to that and they have to be considered from one quarter to the next, but over time that would be our approach and our thinking.

Mark Kimbrough

Thank you, Brian.

Operator

We'll now move to Matthew Gilmore with Baird.

Matthew Gilmore

Hey, thanks for the question. The self pay volume growth seemed pretty moderate this quarter even with a stronger ER visit number, I mean you could get some color on what drove that lower growth and self-pay was that just normal fluctuation quarter-to-quarter or anything new to call out that's helping to moderate that?

Sam Hazen

Well, we've been pleased with that performance, say the one thing I would call out is Virginia expanded Medicaid this year. So that's impacting some of that as we see conversions from self pay into Medicaid. So that's having a positive impact on that self-pay trend. Even if we normalize for that, I tell you it's still within what our expectations are within this, mid to higher single digit growth even outside the Virginia Medicaid expansion.

Matthew Gilmore

Got it. Thanks very much.

Mark Kimbrough

All right. Take care.

Operator

Yes, sir. That will be from John Ransom with Raymond James.

John Ransom

Hey, good morning. Pretty wide range in your 4Q guide. Do you think we'll continue to see more seasonality for elective procedures into 4Q and if so, how did you factor that into your implied guidance?

Bill Rutherford

Yes, John. This is Bill. As I look at our guidance, our full year numbers pretty much in line with what we're running generally close to that 9% on a consolidated basis. Once you adjust for a few things, do remind everyone in fourth quarter of last year was a really strong quarter for us as well. As terms of seasonality, there always tends to be a little bit, I'll tell you right now, that hasn't been a major factor in our thinking. We've seen that level out over the past several years.

So, we've just continued to look at the progression of the quarters throughout the year and our fourth quarter guidance is with that. Obviously, we've been changing and improving our guidance each quarter as we've gone through the year where we stand right now, it looks to be pretty much consistent with what our year-to-date performances. So, that's where we stand for a 2019.

John Ransom

And just kind of as a follow-up to that, I know Mark's just want to cut me off, but this is a really interesting question. The Mercer survey showed another 300 bps of high copay plan growth for fiscal '20. How are you guys thinking about, if at all your patient engagement and financing strategies just with this continued relentless growth in patient out of pocket?

Bill Rutherford

Yes. John, I think we handle that reasonably well. I'll tell you from our view, we haven't seen a change that dramatically from what we've seen over the past several years. We're very pleased with our revenue cycle and our Parallon teams to address that. But, fro our view, I don't know if I see it accelerating as much as some of those headlines. So it's just within the context of our total revenue clearance that we managed through.

Sam Hazen

And one thing, this is Sam, that Bill and his team have done is I think create industry leading patient protection policies to help the patient deal with some of the burdens that come with high deductible plans. And in many instances, the patients don't fully understand what they've signed up for. And then they hit the system and we have to work with them to understand -- explain to them their plans and so forth. But we've built I think, a very patient friendly protection policy that's probably one of the most comprehensive ones in the industry to ensure that our engagement and our understanding with our patients is fair to them in a way that helps them get through some of the challenges that exist with these policies.

John Ransom

Great. Thanks so much.

Mark Kimbrough

Thanks, John.

Operator

That does conclude our question-and-answer session for today. I'd like to turn the presentation back over to our presenters for any additional or closing remarks.

Mark Kimbrough

All right. I want to thank everyone for joining us today on the call. As always, I'm available if you have additional questions or clarifications that you would need, just feel free to give me a call. But anyway, thanks again.

Operator

And once again, that does conclude today's conference and we thank you all for your participation. You may now disconnect.