Tenet Healthcare (THC)

Equity Research Report | May 2025

SELL | HOLD | **BUY**

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Key Metrics

Current Price
$145.29

Target Price
$190.06

Upside
34.9%

52 Week Range
109.82 – 171.20

Avg Volume
1.73M

Market Cap
13.50B

P/E Actual
9.61x

Beta
1.14

Key Statistics

Hospitals EBIT Margin
14.0%

ASC EBIT Margin
40.0%

Executive Summary

We recommend a BUY on Tenet Healthcare Corporation (THC) with a price target of $190.06 (34.9% upside) for a 3% allocation in the SMIF Portfolio by using cash given these factors: by expanding its ASC network, Tenet will accelerate outpatient procedure volume and drive patient growth; the company has earmarked $250 million to fund new ASC builds and strategic acquisitions; and ambulatory surgery centers yield higher margins and stronger profitability compared to traditional hospital care.

Business Overview

Tenet Healthcare is a for-profit healthcare service company headquartered in Dallas, Texas. The company comprises two main revenue segments, Hospital Operations and Services and Ambulatory Care. Recently, THC has strategically shifted its focus towards selling low-margin hospitals and expanding its ambulatory care services. Tenet has acquired numerous ASCs and outpatient facilities through its subsidiary, United Surgical Partners International (USPI). Under the leadership of CEO Dr. Sutaria, Tenet continues to deliver quality healthcare services to its communities.

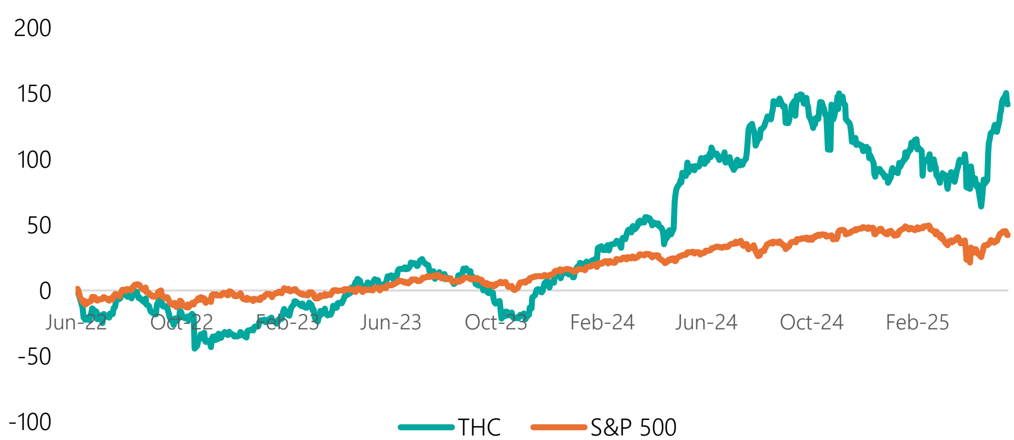
Catalyst

(1) **Driving Higher Margins through Portfolio Rebalancing:** Management's strategic shift away from low-margin hospitals and pivoting their main business model towards ambulatory surgery centers (ASC's), positions the company for more growth opportunities, as well as higher ROIC and EBIT margins.

Investment Risks

(1) Medical Workforce Shortages: A structural shortage in medical staff may impact the quality of care in Tenets ASC segments. While demand for their outpatient services experiences growth, their expansion plans may be hindered as a result of being short on qualified staff.

(2) Reimbursement and Competitive Pressure: Tenet faces pressure from insurers to accept lower reimbursement rates as they have less negotiation power, along with the possible increase of competition from insurer-owned facilities.



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Sources: FactSet, Tenet Healthcare 10K Report (SEC), Tenet Healthcare Earnings Calls

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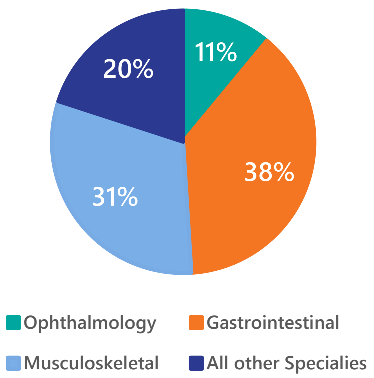
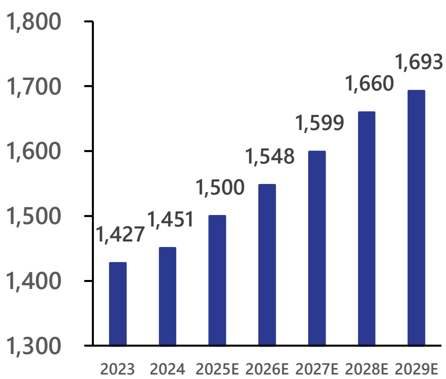
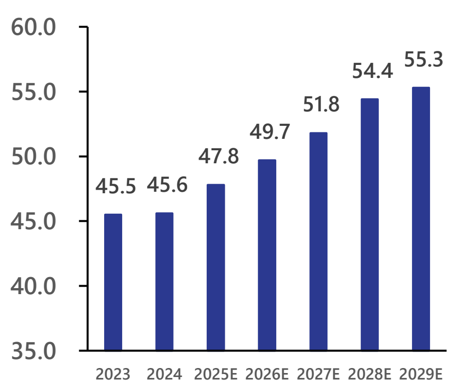
Service Lines Offered



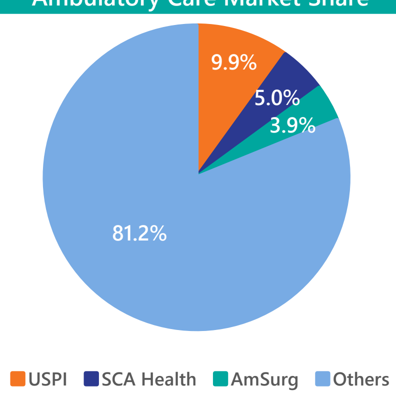
Hospital Operations TAM (millions)



Ambulatory Care TAM (millions)



Ambulatory Care Market Share



Business Overview

Tenet Health Care Corporation (THC) is a health services company that currently owns and operates 49 acute-care hospitals, 518 ambulatory surgical centers (ASCs), 25 surgical hospitals, and 135 outpatient facilities across 37 states. Tenet's diversified portfolio accounts for just about 1% of U.S. hospitals, while it also represents nearly 10% of the national ambulatory surgical centers. Under their current CEO, Saum Sutaria, M.D., Tenet delivers comprehensive inpatient and outpatient care that ranges from complex hospital procedures to other elective surgeries through its hospital operations segment and its United Surgical Partners International (USPI) platform. Within its outpatient centers, gastrointestinal procedures were the most common at 38%, followed by musculoskeletal care at 31%, while ophthalmology accounted for roughly 11% of visits, and the remaining 20% encompassed a variety of different services like cosmetic procedures, pain management, urology, and more. From this wide variety of services, in 2024, Tenet was able to generate 79% of its revenue from hospital operations, while the other 21% came from ambulatory care.

TAM and Relative Positioning

The Total Addressable Market (TAM) for the healthcare sector that Tenet Health Care's core services encompass is roughly $1.25 trillion. The $1.25 trillion market in which Tenet operates is highly fragmented, especially across the acute-care hospital and ASC segments, which creates significant opportunities for strategic M&A. Through consolidating market share through acquisitions, Tenet can accelerate growth, strengthen its competitive positioning, and capitalize on the shifting dynamics in outpatient care within the industry. From this $1.25 trillion market, the U.S. acute-care hospital segment accounts for nearly $1 trillion, while the ambulatory surgical centers (ASCs) contribute to the other $250 billion. With the U.S's current aging population and the current rise of chronic diseases, we are seeing a 3.9% CAGR in hospital revenues over the next 5 years from 2024 to 2029. While payers and patients are preferring lower-cost operations and more convenient care, we are still going to see a 3.1 % CAGR in the ASC market over the same period. Together, these trends are supporting an industry-wide revenue growth rate of 2.9% with an EBIT CAGR of 8.0 % through 2029, highlighting the financial resilience of diversified facility portfolios such as Tenet's.

Within healthcare's $1.25 trillion landscape, Tenet's 49 acute-care hospitals represent less than 1% of the approximately 6,000 U.S. hospitals in use. However, its USPI network of 518 ASCs happens to represent nearly 10% of the roughly 5,200 ambulatory surgical centers nationwide. This statistic places Tenet as one of the companies among the top three ASC operators nationwide. Outpatient centers are currently being underused compared to their hospital counterparts. Although outpatient centers are still offering companies higher profits, more effective costs, and faster growth. Today, Tenet has an opportunity to invest another $250 million in 2025. With that, Tenet will be able to open 10–12 new ASCs, which will then use proceeds from hospital sales to boost its current share of the $250 billion outpatient market.

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Catalyst: Driving Higher Margins through Portfolio Rebalancing

Tenet's strategic shift towards portfolio rebalancing has been a strong catalyst for driving higher margins. Following the COVID-19 Pandemic, Tenet and its healthcare industry peers faced several headwinds such as decreased hospital admissions, a shift towards high-deductible insurance plans, and labor shortages. As a result, patients turned to lower-cost medical options such as urgent care clinics and outpatient centers.

Through a deliberate move away from the company's hospital-centric business model, THC pivoted towards scalable, outpatient facilities that provide higher ROIC and EBITDA margins and long-term financial stability.

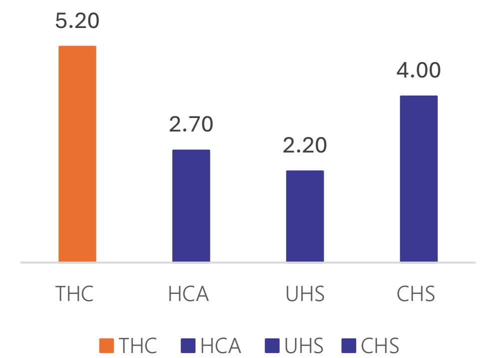
In 2024, management sold 14 low-margin hospitals for approximately $5 billion and acquired 70 ASCs, positioning the company as a leader in outpatient care services. Ambulatory Surgery Centers (ASCs) are an integral part of Tenet's long-term success. These facilities offer a combination of cost efficiency and quality, operating at a lower cost than hospitals while generating a substantial revenue increase. Tenet's ASC segment delivered impressive earnings before interest and tax (EBIT) margins of 40% in the past year, nearly three times higher than their hospital operations segment, at 14%.

Additionally, the 14 hospital sell-offs and the increase in ambulatory surgery centers have significantly deleveraged Tenet's balance sheets. This reduced the company's financial risk and gave them the financial flexibility necessary to position the company to continue reinvesting in strategic growth initiatives.

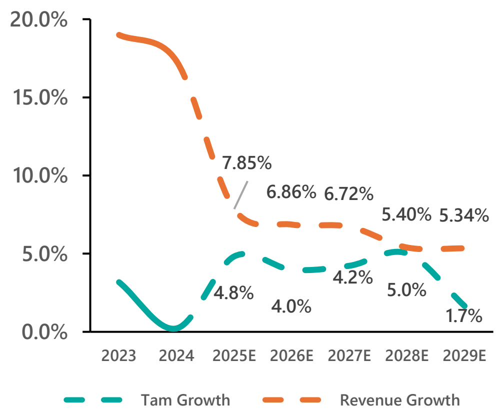
Looking forward, management has stated they anticipate having between 575 and 600 combined hospital and ambulatory surgery centers by the end of 2025, including plans to build 10 to 12 de novo facilities. Following Tenet's spike in growth in 2024 due to hospital sell-offs and expansion of ASCs, Tenet's operating margins nearly doubled to 32.78%. Despite the increase in ASCs, their hospital sell-offs help offset any additional operating expenses incurred from expansion. Overall, Tenet's higher operating and EBIT margins for its ASC segment result in higher net margins. Although the company experienced a spike in EBIT margin in 2024, EBIT Margin growth is expected to increase to 16.7% through 2029, compared to 12.2% in 2023 (the 28.8% in 2024 was due to the profits from the hospital sell-offs). In the long run, Tenet Healthcare is well-positioned to support future growth and increase financial stability by focusing on higher-margin revenue segments.

This strategic portfolio rebalancing aligns with broader healthcare industry trends towards value-based care, cost efficiency, and patient-centered decision making. Compared to the industry EBIT margin of 22.6%, Tenet Healthcare can offer low-cost services to its patients, giving them a competitive edge. Rapid growth is expected from outpatient care settings such as ambulatory surgery centers, primarily driven by site-of-care shifts. There's a growing emphasis on meeting patient needs without the high cost and challenges of a traditional hospital, and Tenet holds a competitive advantage in this evolving outlook. By taking a new approach and expanding into Ambulatory Surgery Centers while selling off low-margin hospitals, Tenet Healthcare quickly adapted to the latest market trends and positioned itself at the forefront of an evolving healthcare landscape.

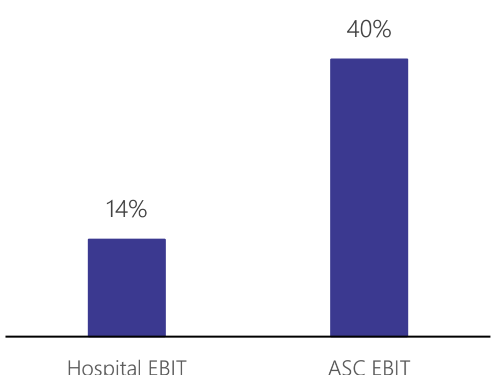
ASC Revenue vs TAM



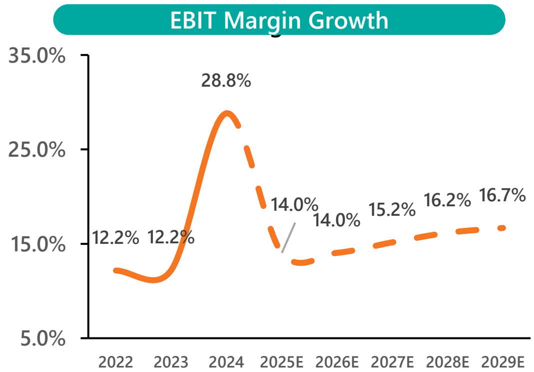
ASC Revenue vs TAM



Hospital vs ASC EBIT



EBIT Margin Growth



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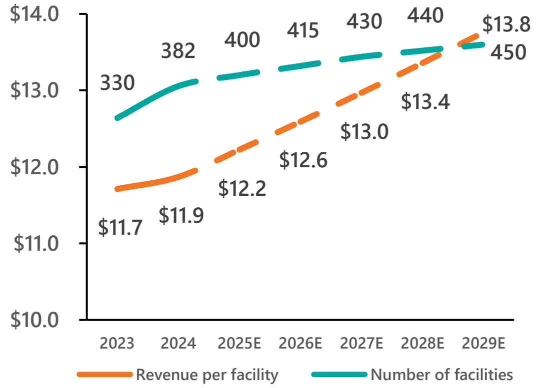
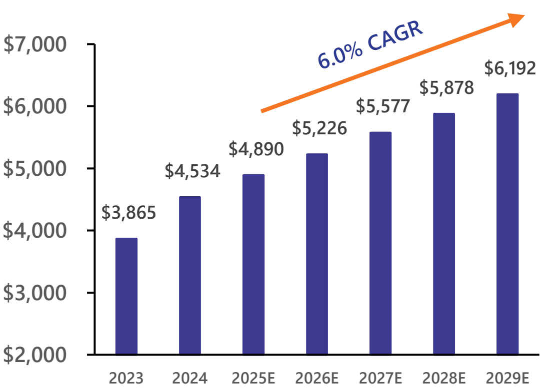
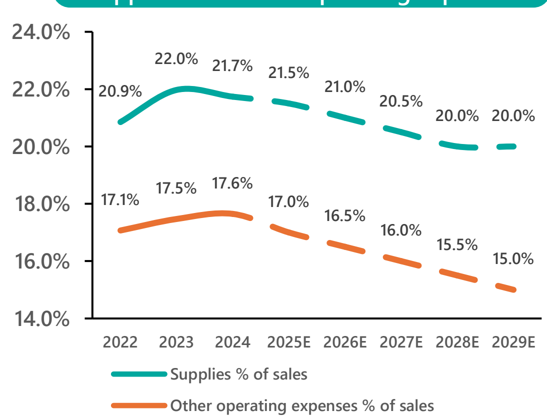
ASC Revenue Growth



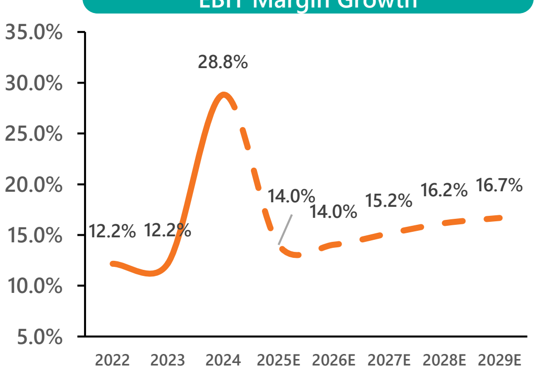
ASC Revenue (in millions USD)



Supplies and Other Operating Expenses



EBIT Margin Growth



Financial Analysis

The Discounted Cash Flow Model projects a price target from $159.48 to $268.21, implying a 9.8% to 97.9% upside from the current share price of $74.02. We calculated a weighted price target of $190.06 with an upside of 33.9%.

Revenue

To forecast their revenue, we separated it into two factors, which are revenue per facility and the number of facilities. With their efforts in increasing their facilities through acquisitions and building de novo facilities, we forecast them to have 450 Ambulatory Surgery Centers in 2029. We have a more optimistic forecast than the consensus for their ASC expansion forecast as the consensus forecasts 442 ASCs in 2029. Because of their competitive edge in the Ambulatory Care market, we expect them to generate $13.8 million in revenue per facility in 2029. Through these variables, we forecast their revenue to grow at a CAGR of 6% from 2025 to 2029.

EBIT Margin

We forecasted their costs as a percentage of sales for the next five years. As the Ambulatory Care Segment's EBIT margin is 40% compared to the Hospital Operations Segment's EBIT margin of 14%, the expansion of the Ambulatory Care Segment will increase the total EBIT margin in the next five years.

Supplies and Other Operating Expenses

With the expansion of ASC, they are able to decrease costs such as supplies and other operating expenses. Therefore, we forecast their supplies as a percentage of sales to decrease to 20% in 2029 and other operating expenses as a percentage of sales to decrease to 15%.

WACC and Terminal Growth Rate

We used a WACC of 10.0%, which is a conservative approach compared to FactSet's WACC of 7.02%. We also used a conservative terminal growth rate of 1% due to the stable growth of the ambulatory care and hospital operation industries.

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Governance

Executive Compensation

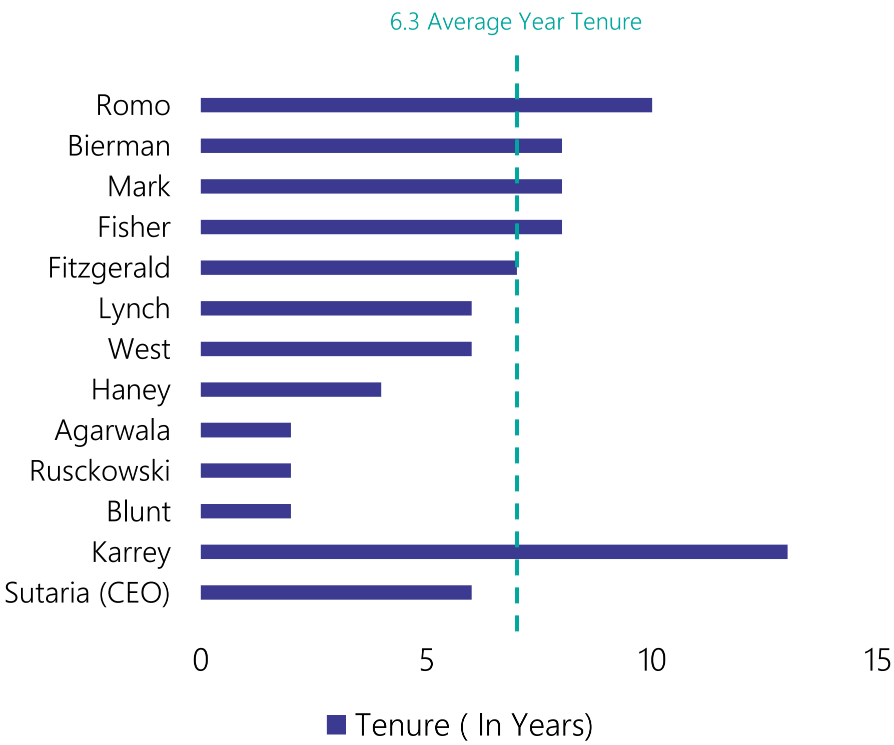
Tenet Healthcare's Board of Directors comprises 13 members, 12 of whom are independent. The Board evaluates its leadership structure based on the company's best interests. In 2023, the company underwent two significant changes with the appointment of Dr. Sutaria as Chairman and CEO and the reappointment of Senator Kerrey as Lead Director.

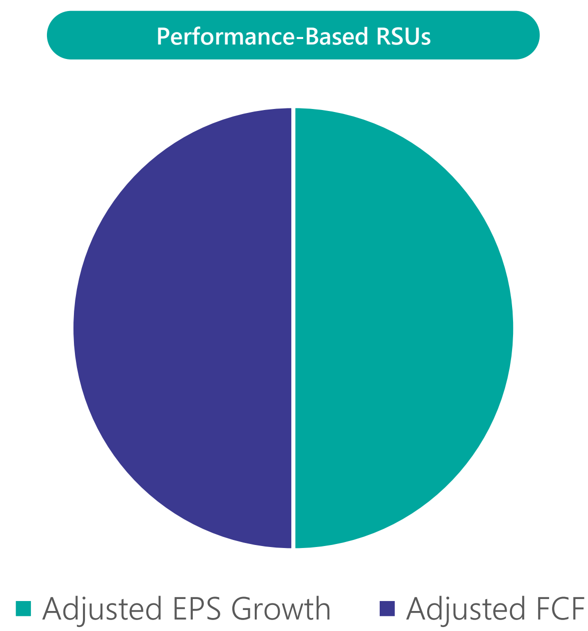
The board's average tenure of 5 years allows for a healthy and thoughtful approach to board refreshment, aligning with the company's governance principles and ESG commitments. The overall tenure of the board ranges from 2 to 13 years, which allows for fresh perspectives and time-proven ideas to surround the table.

Tenet Healthcare compensates its Board of Directors through annual cash retainers, grants of restricted stock units, and a performance-based incentive plan. Tenet's compensation-based plan is tied to the company's three-year performance on Adjusted Earnings-per-Share (EPS) and Adjusted Free-Cash-Flow (FCF). This value-based approach to bonus incentives poses a risk for the company as it can potentially encourage management to boost margins inorganically.

Governance

Tenet's ESG committee was formed in 2021 and plays a crucial role in making a positive impact through the company's everyday operations. The committee comprises Roy Blunt, Richard Fisher, Meghan FitzGerald, Richard Mark, and Nadja West. The company has followed its sound governance practices through ongoing board refreshment, fully independent board committees, and self-evaluation for the Board and each Committee.





Sources: FactSet, Tenet Healthcare 10K Report (SEC), Tenet Healthcare Earnings Calls

Investment Risks

1. Reimbursement Pressure and Payer Concentration

Tenet generates about 70% of their revenue from managed care payers, making its earnings sensitive to payer negotiations. In 2024, ten managed care payers accounted for 71% of their revenue, displaying heavy concentration risk on these rates. Mergers among insurers and hospital facilities have increased payer bargaining power, pressuring Tenet to accept lower rates. If Tenet and insurers cannot agree on payment rates, the insurer may choose not to include Tenet's hospitals or ASCs in their network.

Patients will have to pay additional out-of-pocket payments if their insurance does not work with Tenet Healthcare. This risk can disrupt growth and lead patients to choose hospitals under the insurer that agreed to lower reimbursement rates. In a new trend, insurance companies are acquiring hospital systems, positioning themselves as a payer and direct competitor to Tenet's hospitals and ASCs. Payment denials and policy changes after care has already been provided have led to slower collections and contributed to higher operational costs.

ACA tax credits have been extended through 2025 under the Inflation Reduction Act. This makes private insurance affordable for patients to maintain coverage. Although negotiation risk with insurers remains high, the extension of these subsidies supports a larger group of privately insured patients. This benefits Tenet, as private insurance typically reimburses at higher rates than government programs like Medicare and Medicaid. Conifer Health Solutions, a subsidiary of Tenet, utilizes its Revenue Cycle Management segment (RCM). Conifer assists Tenet in collecting co-pays and deductibles by verifying insurance before care, reducing payment denials, and ensuring Tenet gets paid reliably.

2. Labor Costs and Workforce Shortages

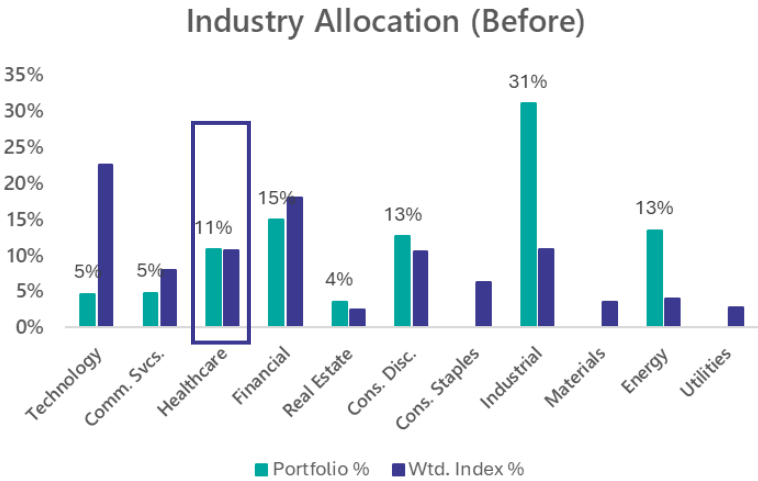
Tenet, as well as many other health institutions, are facing staffing shortages for medical personnel. These pressures are structural, but they still present a risk to Tenet as they risk shrinking profit margins across its hospitals and new outpatient ambulatory surgery centers. Shortages can impact the access and quality of care patients would receive.

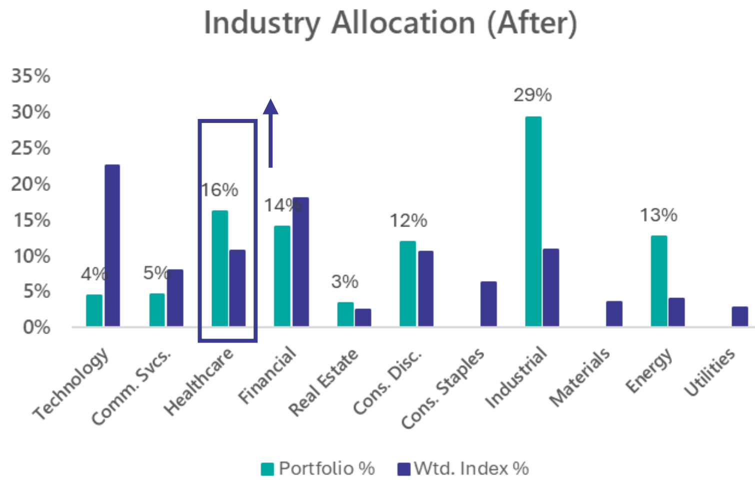
Tenet has taken action to increase wages and offer additional sign-on bonuses, but has relied on expensive contract labor, increasing operating expenses. A link between the change is California's mandated minimum wage hike for healthcare workers in October 2024, labor union activity escalating with 21% of the workforce unionized, and potential work strikes that could disrupt operations. Labor risks threaten Tenet's ability to scale outpatient services where demand is currently rising from an aging US population.

Sources: FactSet, Tenet Healthcare 10K Report (SEC), Tenet Healthcare Earnings Calls

Portfolio Impact

We recommend a 3.0% allocation of Tenet Healthcare Corporation (THC) to the SMIF portfolio using cash. The trade increases the healthcare sector exposure by 5%.





Appendix

Appendix

Exhibit 1: Revenue Drivers

Revenue Segments	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E
Net Revenue	17,640.0	19,485.0	19,174.0	20,548.0	20,665.0	21,343.7	22,008.3	22,695.3	23,338.6	24,001.7
% Growth	-4.5%	10.5%	-1.6%	7.2%	0.6%	3.3%	3.1%	3.1%	2.8%	2.8%
Hospital Operations Revenue	14790	15500	14610	16683	16131	16454	16783	17118	17461	17810
% growth		4.80%	-5.74%	14.19%	-3.31%	2.00%	1.10%	1.09%	1.09%	1.09%
Hospitals	65	60	61	61	49	49	49	49	49	49
% growth		-7.7%	1.7%	0.0%	-19.7%	0.0%	0.0%	0.0%	0.0%	0.0%
Base						0.0%	0.0%	0.0%	0.0%	0.0%
Street						0.0%	0.0%	0.0%	0.0%	0.0%
Revenue per facility	227.5	258.3	239.5	273.5	329.2	335.8	342.5	349.4	356.3	363.5
% growth		13.5%	-7.3%	14.2%	20.4%	2.0%	2.0%	2.0%	2.0%	2.0%
Base						2.0%	2.0%	2.0%	2.0%	2.0%
Street						-2.4%	4.2%	2.9%	2.8%	4.1%
Ambulatory Operations Revenue	2072	2718	3248	3865	4534	4890	5226	5577	5878	6192
% growth		31.18%	19.50%	19.00%	17.31%	7.85%	6.86%	6.72%	5.40%	5.34%
Surgical Facilities	290	257	308	330	382	400	415	430	440	450
% growth		-11.4%	19.8%	7.1%	15.8%	4.7%	3.8%	3.6%	2.3%	2.3%
Base						4.7%	2.5%	2.4%	2.4%	2.3%
Street						4.5%	4.9%	2.0%	0.7%	2.8%
Revenue per facility	7.1	10.6	10.5	11.7	11.9	12.2	12.6	13.0	13.4	13.8
% growth		48.0%	-0.3%	11.1%	1.3%	3.0%	3.0%	3.0%	3.0%	3.0%
Base						3.0%	3.0%	3.0%	3.0%	3.0%
Street						4.3%	4.0%	4.5%	5.1%	3.7%

Appendix

Exhibit 2: Income Statement Forecast

Income Statement	FY 2020A	FY 2021A	FY 2022A	FY 2023A	FY 2024A	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Revenue	**17,640**	**19,485**	**19,174**	**20,548**	**20,665**	**21,344**	**22,008**	**22,695**	**23,339**	**24,002**
Grant income	882	191	194	16	10					
Equity in earnings of unconsolidated affiliates	169	218	216	228	260					
COGS	(16,702)	(17,023)	(17,251)	(18,282)	(14,979)	(17,395)	(17,937)	(18,270)	(18,554)	(18,961)
Salaries, wages and benefits	(8,418)	(8,878)	(8,844)	(9,146)	(8,801)	(9,178)	(9,684)	(9,986)	(10,269)	(10,561)
Supplies	(2,982)	(3,328)	(3,273)	(3,590)	(3,647)	(3,628)	(3,631)	(3,631)	(3,617)	(3,600)
Other operating expenses	(4,125)	(4,206)	(3,998)	(4,515)	(4,492)	(4,589)	(4,622)	(4,653)	(4,668)	(4,800)
D&A	(857)	(855)	(841)	(870)	(818)	(854)	(880)	(885)	(910)	(936)
Impairment and restructuring charges, and acquisition-related costs	(290)	(85)	(226)	(137)	(102)	(100)	(100)	(100)	(100)	(100)
Litigation and investigation costs / benefit	(44)	(116)	(70)	(47)	(35)	0	0	0	0	0
Gains on sales, consolidation and deconsolidation of facilities	14	445	1	23	2,916	0	0	0	0	0
EBIT	**1,989**	**2,871**	**2,333**	**2,510**	**5,956**	**2,995**	**3,091**	**3,440**	**3,774**	**4,004**
Interest expense	(1,003)	(923)	(890)	(901)	(826)	(713)	(713)	(710)	(702)	(706)
Other non-operating income / expense, net	1	14	11	19	126	0	0	0	0	0
Loss / gain from early extinguishment of debt	(316)	(74)	(109)	(11)	(8)	0	0	0	0	0
Pretax Income	**671**	**1,888**	**1,345**	**1,617**	**5,248**	**2,282**	**2,378**	**2,730**	**3,072**	**3,299**
Income tax expense / benefit	97	(411)	(344)	(306)	(1,184)	(479)	(499)	(573)	(645)	(693)
Net Income	**768**	**1,476**	**1,001**	**1,311**	**4,064**	**1,803**	**1,879**	**2,157**	**2,427**	**2,606**
Net income avaialble to noncontrolling interest	(369)	(562)	(590)	(700)	(864)	(864)	(864)	(864)	(864)	(864)
Net Income available to THC common shareholders	**399**	**914**	**411**	**611**	**3,200**	**939**	**1,015**	**1,293**	**1,563**	**1,742**
Basic EPS	3.80	8.55	3.84	6.01	33.02	9.69	10.47	13.34	16.13	17.98
Diluted EPS	3.75	8.42	3.79	5.71	32.70	9.59	10.37	13.21	15.97	17.80
Weighted avg shares and dilutive securities outstanding										
Basic	105.0	106.8	106.9	101.6	96.9	96.9	96.9	96.9	96.9	96.9
Diluted	106.3	108.6	110.5	104.8	97.9	97.9	97.9	97.9	97.9	97.9

Appendix

Exhibit 3: Balance Sheet Forecast

Balance Sheet

	FY 2020A	FY 2021A	FY 2022A	FY 2023A	FY 2024A	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Assets										
Cash & equivalents	2,446	2,364	858	1,228	3,019	4,355	5,240	6,313	7,608	9,035
Accounts receivable	2,690	2,770	2,943	2,914	2,536	2,625	2,707	2,792	2,871	2,952
Inventories	368	384	405	411	346	402	414	422	429	438
Assets held for sale	140	-	0	775	21	21	21	21	21	21
Othe current assets	1,503	1,557	1,775	1,839	1,760	1,818	1,874	1,933	1,988	2,044
Investments	2,534	3,254	3,147	3,157	3,037	3,138	3,235	3,336	3,431	3,528
Deferred income taxes	325	65	19	77	80	80	80	80	80	80
PP&E	6,692	6,427	6,462	6,236	6,049	5,683	5,744	5,882	6,073	6,318
Goodwill	8,808	9,261	10,123	10,307	10,691	10,759	10,827	10,895	10,964	11,032
Other intangible assets	1,600	1,497	1,424	1,368	1,397	1,451	1,497	1,543	1,587	1,632
Total assets	**27,106**	**27,579**	**27,156**	**28,312**	**28,936**	**30,332**	**31,640**	**33,217**	**35,050**	**37,080**
Liabilities										
Current portion of LT debt	145	135	145	120	92	95	98	101	104	107
Accounts payable	1,207	1,300	1,504	1,408	1,294	1,503	1,550	1,578	1,603	1,638
Accrued compensation and benefits	942	896	778	930	899	929	957	987	1,015	1,044
Professional and general liability reserves	243	254	255	254	238	246	253	261	269	276
Accrued interest payable	248	203	213	200	149	154	159	164	168	173
Liabilities held for sale	70		0	69	13	13	13	13	13	13
Income tax payable	659	959		23	18	18	18	18	18	18
Other current liabilities	1,333	1,362		1,756	1,607	1,660	1,711	1,765	1,815	1,866
Long-term debt, net of current portion	15,574	15,511	14,934	14,882	13,081	13,081	13,081	13,081	13,081	13,081
Professional and general liability reserves	735	791	790	792	900	930	959	988	1,016	1,045
Defined benefit plan obligations	497	421	331	335	298	298	298	298	298	298
Deferred income taxes	29	36	217	326	227	227	227	227	227	227
Other long-term liabilities, excluding deferred tax	2,535	1,454	1,800	1,709	1,573	1,625	1,675	1,728	1,777	1,827
Total liabilities	**24,217**	**23,322**	**22,548**	**22,804**	**20,389**	**20,777**	**20,999**	**21,210**	**21,404**	**21,614**
Redeemable noncontrolling interest in subsidiaries	**1,952**	**2,203**	**2,149**	**2,391**	**2,727**	**2,727**	**2,727**	**2,727**	**2,727**	**2,727**
Equity										
Common stock	7	8	8	8	8	8	8	8	8	8
Additional paid-in capital	4,844	4,877	4,778	4,834	4,873	4,942	5,014	5,087	5,163	5,241
Accumulated other comprehensive loss	(281)	(233)	(181)	(181)	(180)	(180)	(180)	(180)	(180)	(180)
Retained earnings / accumulated deficit	(2,128)	(1,214)	(803)	(192)	3,008	3,947	4,962	6,254	7,817	9,559
Common stock in treasury, at cost	(2,414)	(2,410)	(2,660)	(2,861)	(3,538)	(3,538)	(3,538)	(3,538)	(3,538)	(3,538)
Noncontrolling interests	909	1,026	1,317	1,509	1,649	1,649	1,649	1,649	1,649	1,649
Total equity	**937**	**2,054**	**2,459**	**3,117**	**5,820**	**6,828**	**7,914**	**9,281**	**10,919**	**12,739**
Total liabilities and equity	**27,106**	**27,579**	**27,156**	**28,312**	**28,936**	**30,332**	**31,640**	**33,217**	**35,050**	**37,080**
Balance Check	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Balances?	**YES**	**YES**	**YES**	**YES**	**YES**	**YES**	**YES**	**YES**	**YES**	**YES**

Appendix

Exhibit 4: Cash Flow Statement Forecast

Cash Flow Statement	FY 2020A	FY 2021A	FY 2022A	FY 2023A	FY 2024A	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Cash from operating activities										
Net Income (Loss)	768	1,476	1,001	1,311	4,064	1,803	1,879	2,157	2,427	2,606
D&A	857	855	841	870	818	854	880	885	910	936
Deferred income tax expense	(128)	250	209	52	(103)	0	0	0	0	0
Stock-based compensation expense (SBC)	44	56	56	66	67	69	71	74	76	78
Impairment and restructuring charges, and acquisition-related costs	290	85	226	137	102	100	100	100	100	100
Litigation and investigation costs	44	116	70	47	35	0	0	0	0	0
Gains on sales, consolidation and deconsolidation of facilities	(14)	(445)	(1)	(23)	(2,916)	0	0	0	0	0
Loss / gain from early extinguishment of debt	316	74	109	11	8	0	0	0	0	0
Equity in earnings of unconsolidated affiliates, net of distributions recei	(37)	(10)	2	(13)	(29)	0	0	0	0	0
Amortization of debt discount and debt issuance costs	38	33	33	32	26	0	0	0	0	0
Net gains from sales of investments	(25)	(23)	(117)	(29)	(4)	0	0	0	0	0
Other items, net	(29)	(33)	(106)	(33)	(8)	0	0	0	0	0
Changes in cash from operating assets and liabilities										
accounts recievable	195	(197)	(140)	(29)	245	(89)	(82)	(84)	(79)	(82)
inventories and other current assets	(145)	(52)	(64)	(139)	(86)	(114)	(69)	(66)	(61)	(66)
income taxes	19	68	(26)	10	16	0	0	0	0	0
account payable, accrued expenses and other current liabilities	1,302	(584)	(898)	215	(30)	304	140	125	115	128
Other long-term liabilities	221	28	(15)	14	(9)	81	80	82	77	79
payments for restructuring charges, acquisition-related costs, and litiga	(333)	(153)	(214)	(154)	(153)	(222)	(213)	(215)	(212)	(213)
Operating cash flow	**3,407**	**1,568**	**1,083**	**2,374**	**2,047**	**2,785**	**2,786**	**3,057**	**3,352**	**3,566**
Cash from investing activities										
PPE	(540)	(658)	(762)	(751)	(931)	(800)	(992)	(1,022)	(1,051)	(1,081)
Purchase of Businesses	(1,177)	(1,220)	(234)	(224)	(571)	(250)	(250)	(250)	(250)	(250)
Proceeds from sales of facilities/other assets	77	1,248	210	71	4,981	562	300	250	200	150
proceeds from sales of marketable securities... assets excluding purcha	59	31	76	50	63	(101)	(98)	(101)	(95)	(97)
Proceeds from marketable securities	(44)	(108)	(92)	(104)	(94)	0	0	0	0	0
Other items, net	17	(7)	(6)	(11)	(19)	0	0	0	0	0
Investing cash flow	**(1,608)**	**(714)**	**(808)**	**(969)**	**3,429**	**(589)**	**(1,039)**	**(1,123)**	**(1,196)**	**(1,279)**
Cash flows from Financing Activities										
repayments of other borrowings excluding proceeds from other borrowir	(3,293)	(3,221)	(2,851)	(1,542)	(2,243)	3	3	(2,997)	(3,097)	(1,397)
proceeds from other borrowings	3,818	2,872	2,023	1,370	23	0	0	3,000	3,100	1,400
repurchases of common stock	0	0	(250)	(200)	(672)	0	0	0	0	0
distributions paid to noncontrolling interest	(287)	(423)	(560)	(594)	(681)	(864)	(864)	(864)	(864)	(864)
other items, net excluding debt issuance and distributions	234	(106)	(19)	114	56	0	0	0	0	0
Contributions from noncontrolling interests	14	25	27	43	23	0	0	0	0	0
Purchases of noncontrolling interests	(39)	(27)	(100)	(167)	(200)	0	0	0	0	0
advances from managed care players	-	-	0	0	342	0	0	0	0	0
Repayments of advancees from managed care playerrs	-	-	0	0	(310)	0	0	0	0	0
Other items, net	33	(64)	(46)	71	33	0	0	0	0	0
Financing cash flow	**385**	**(936)**	**(1,781)**	**(1,035)**	**(3,685)**	**(861)**	**(861)**	**(861)**	**(861)**	**(861)**
Net change in cash	**2,184**	**(82)**	**(1,506)**	**370**	**1,791**	**1,336**	**885**	**1,073**	**1,295**	**1,427**

Appendix

Exhibit 5: Debt Waterfall

Debt Waterfall	FY 2020A	FY 2021A	FY 2022A	FY 2023A	FY 2024A	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Refinanced Notes										
BOP Bal						0.0	0.0	0.0	3000.0	6100.0
New Issurance						0.0	0.0	3000.0	3100.0	1400.0
Redemption						0.0	0.0	0.0	0	0
Ending Balance						0.0	0.0	3000.0	6100.0	7500.0
2027 Note 6.250% Coupons						(94)	(94)	(47)		
2027 Note 5.125% Coupons						(77)	(77)	(38)		
2028 Note 4.625% Coupons						(28)	(28)	(28)	(14)	
2028 Note 6.125% Coupons						(153)	(153)	(153)	(77)	
2029 Note 4.250% Coupons						(60)	(60)	(60)	(60)	(30)
2030 Note 4.375% Coupons						(63)	(63)	(63)	(63)	(63)
2030 Note 6.125% Coupons						(123)	(123)	(123)	(123)	(123)
2031 Note 6.750% Coupons						(91)	(91)	(91)	(91)	(91)
2031 Note 6.875% Coupons						(25)	(25)	(25)	(25)	(25)
Refinanced Note Coupons						0	0	(83)	(250)	(374)
Total IE						(713)	(713)	(710)	(702)	(706)

Exhibit 6: WACC Model

WACC			
		Risk Free Rate	4.2%
Share Price	$127.49	Equity Risk Premium	4.4%
# of shares (mm)	96	Beta	1.14
Market EV ($mm)	12,239	Cost of Equity	9.3%
Short term debt ($mm)	92		
Long term debt ($mm)	13081		
Cash ($mm)	3019	Interest Expense	826
Net Debt ($mm)	10154	Cost of Debt	8.1%

	Cost	% of EV		
Equity	9.3%	17.0%		
Debt	8.1%	83.0%		
WACC	**8.3%**	100.0%	TGR	1.0%

	Cost	% of EV
Equity	9.3%	17.0%
Debt	8.1%	83.0%
WACC	**8.3%**	
Adj Multiplier	1.2	
Adjusted WACC	**10.0%**	

Appendix

Exhibit 7: Discounted Cash Flow Valuation

Discounted Cash Flow	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	
Net EBIT	**1989**	**2871**	**2333**	**2510**	**5956**	**2995**	**3091**	**3440**	**3774**	**4004**	
Margin	11.3%	14.7%	12.2%	12.2%	28.8%	14.0%	14.0%	15.2%	16.2%	16.7%	
(-) Tax Expense	(97)	411	344	306	1184	479	499	573	645	693	
NOPAT	**2086**	**2460**	**1989**	**2204**	**4772**	**2516**	**2592**	**2867**	**3129**	**3312**	
(+) D&A	857	855	841	870	818	854	880	885	910	936	
Net Working Capital	(146)	(398)	647	1179	353	344	355	381	407	426	
(+) Change in NWC						9	(11)	(26)	(26)	(19)	
(-) CapEx	(540)	(658)	(762)	(751)	(931)	(800)	(992)	(1022)	(1051)	(1081)	
Unlevered Free Cash Flow						2578	2470	2704	2962	3147	
						2025E	2026E	2027E	2028E	2029E	TV
						2,578	2,470	2,704	2,962	3,147	38,470
						2,344	2,041	2,032	2,023	1,954	23,889

Sum of PV cash flow	34283
Less: net debt	10,062
Equity Value	24221
# of Shares	96
Implied Share Price	$252.31
Market Price	$145.29
Upside	74%

Exhibit 8: All Valuations

P/FCF	
2029 FCF/Share	32.47434
Discounted	20.16595
P/FCF Multiple	13.3
Price Target	268.2071
Upside/Downside	84.6%

EPS	
2029 EPS	17.80
Discounted	11.05
P/E Multiple	15.4
Price Target	170.3048
Upside/Downside	17.2%

P/Sales	
2029 Sales/Share	247.6856
Discounted	153.8081
P/S Multiple	0.8
Price Target	117.2933
Upside/Downside	-19.3%

EV/Sales	
2029 Sales	24,002
Discounted	14904.62
EV/S Multiple	1.2
Enterprise Value	18473.7
(-) Cash	3,019
Equity Value	15,455
# of Shares	96.904
Price Target	159.4847
Upside/Downside	9.8%

Sum of PV	
Sum of PV FCF	34283
Less: net debt	10,062
Equity Value	24221
# of Shares	96
Implied Share Price	$252.31
Market Price	$127.49
Upside/Downside	97.9%

EV/EBITDA	
2029 EBITDA	3,068
Discounted	1905.311
EV/EBITDA Multiple	10.3
Enterprise Value	19603.88
(-) Cash	3,019
Equity Value	16,585
# of Shares	96
Price Target	172.7591

Appendix

Porter's Five Forces

1. Threat of New Entrants (High)
In U.S. healthcare, new companies must have significant capital to get started, go through a multitude of regulatory approvals, and already have established relationships within the industry. Tenet's portfolio includes 49 acute-care hospitals, 518 ambulatory surgery centers (ASCs), and 25 surgical hospitals. Tenet Healthcare is a well-established healthcare company with advantages in the healthcare market, making it difficult for new companies and competitors to compete. Accreditation requirements, state-by-state licensing, and the complexity of navigating Medicare and Medicaid reimbursement systems are other examples of the high barriers to entry within the healthcare services market. While private equity firms have recently shown interest in ASC investments, their ability to match Tenet's already well-established ASC portfolio is becoming increasingly complex.

2. Bargaining Power of Suppliers (Moderate)
In healthcare, suppliers are essential; therefore, medical device manufacturers, pharmaceutical companies, and labor (physicians, nurses, and skilled technicians) are just some of the suppliers healthcare companies need. Tenet manages over 11,000 physician partnerships through its United Surgical Partners International platform and provides price negotiation and supply terms. However, supplier power can increase through consolidation (large medical device mergers) or specialization. Labor shortages and tight nursing markets also pressure wage rates. To mitigate pressures like labor shortages and tight nursing markets, Tenet pursues value-based care arrangements and group purchasing organization (GPO) contracts for volume discounts, while redeploying capital into higher-margin ASCs to help offset rising input costs.

3. Bargaining Power of Buyers (Moderate)
Patients are becoming increasingly more cost-conscious and quality-driven these days. With large commercial insurers and government programs like Medicare and Medicaid, buyers wield significantly more bargaining power than they used to. They will often demand lower reimbursement rates or performance-based payment models. Tenet's diversified mix of inpatient and outpatient services allows it to pivot a lot of volume towards outpatient procedures. These outpatient procedures will typically command higher margins while facing fewer price pressures from buyers. In addition, Tenet's investments in telehealth, data analytics, and digital scheduling have improved their patient experience, making it more difficult for payers to shift to competitors purely based on price.

4. Threats of Substitutes (Moderate)
There is the threat of healthcare substitutes, including non-hospital alternatives such as physician offices, urgent care clinics, and emerging telemedicine platforms. While these options exist and can divert lower-acuity procedures away from Tenet's hospitals, Tenet's ASC network already captures many elective surgeries in outpatient settings. Effectively, this prevents the risk of substitutions to those procedures. Tenet's focus on complex and high-acuity cases within its acute-care hospitals makes it a hard-to-replicate and distinct service line. Their continued expansion into specialized outpatient services, such as gastrointestinal or musculoskeletal ASCs, allows Tenet to protect their revenue stream from other lower-cost substitutes further.

5. Rivalry Among Existing Competitors (High)
Competition within the healthcare services industry is intense. Characterized by some of the largest integrated systems, like HCA Healthcare, other private equity ASC platforms, and large regional chains. With Tenet's 8.5% share in the ASC market, they are among some of the top national operators. However, still behind leaders like HCA, their increasing market share is driven by facility expansion, service differentiation, and negotiated payer contracts. After selling 14 underperforming hospitals for $5 billion, Tenet could fund the construction of 10–12 new ASCs in 2025 to shift towards higher-margin and lower-cost outpatient care. Tenet aims to outperform competitors on cost efficiency and patient outcomes by deepening their current physician partnerships, enhancing digital care pathways, and emphasizing value-based contracts.

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