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Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap	Dividend Yield	Beta	% Held by Institutions
273.14	247.08	263.92	121.91	14.65	\$80.311B	.58	1.64	70.90%

**Company Overview:**

HCA Healthcare is a leading healthcare services company in the U.S. and operates the largest number of acute-care hospitals in the nation. HCA operates in 21 states as well as in England, totaling 2,000 sites of care. Their dominating market presence plays a huge role in their success. The majority of their operations are concentrated in Texas, Florida, and Tennessee with 46, 45, and 13 hospitals in each state respectively. HCA's strategic guiding principles revolve around the goal of being the provider of choice for patients and physicians by leveraging the scale and capabilities of HCA Healthcare in the local market to create a competitive advantage. CEO Samuel Hazen and CFO William Rutherford have spent a combined 70 years at the company. Many other executives have spent 15 or more years either with the company, or within the industry, providing us confidence that they will be able to handle future growth and development.

**Industry Outlook:**

After the adverse effect Covid-19 had on the hospital industry in the second half of 2019 and 2020, the hospital industry has a positive outlook. In the short term, 3Q results appear as though they will be strong. Deferred procedures are now taking place, and there has been a reduction in the required number of hospital beds for Covid-19. Hospitals were at maximum occupancy during August and most of September. This all despite the seasonality weakness that comes in 3Q within the industry. The EV-to-EBITDA ratio of North America hospitals peer group vs. The S&P 500 remains below its 10-year average and may present a long-term opportunity, specifically for HCA. In 2019, approximately 25% of HCA's operating revenue was funded directly by government funded programs such as Medicare and Medicaid. The repeal and replacement of the Affordable Care Act could result in lower insurance enrollment in the US and higher bad debt throughout the industry.



## Investment Thesis:

HCA Healthcare is the largest for-profit hospital system in the United States. The company is exposed to local markets with high weighted average population growth, specifically in Florida and Texas. HCA holds a 43.7% market share in Florida, and 31.8% share in Texas. In these markets, the average population growth and income growth outpaces the national average while the unemployment rates are below national average. HCA operates a spider-web like business, with many various treatment centers concentrated in an area. This is a tremendous competitive advantage for the company as it is able to treat patients for a number of different ailments and collect information to continuously improve efficiency. HCA's scale and operating experience is another reason for our belief in the company. In recent years, HCA's acquisitions and partnerships have demonstrated they have a strong understanding of the healthcare industry. HCA has an average length of stay about 10% less than that of the average hospital, which equates to about half a day less in the hospital per patient. This efficiency will result in greater satisfaction from insurers, thus making them more inclined to work with HCA regarding patient healthcare coverage. Low leverage combined with the company's ambitions of future cost cutting will allow for external growth through M&A as well as internal growth through improving the robustness of internal systems.

## Investment Risks:

There are risks surrounding both nursing shortages as well as drug inflation, two important aspects of HCA's day-to-day business. The Bureau of Labor Statistics projects and annual deficit of about 194,500 registered nurses a year through 2030. However, HCA did purchase the Galen College of Nursing, which will likely lead to greater success in recruitment and retainment of nurses. This is a somewhat unusual transaction for a hospital; however, it is a move that demonstrates a strong knowledge of the healthcare landscape. Also, in order to combat the ever-rising costs of pharmaceutical drugs, the company recently teamed up with other healthcare providers to form Civica Rx, a nonprofit company whose objective is to manufacture generic medications. The potential repeal and replacement of the Affordable Care Act could result in lower insurance enrollment in the US and higher bad debt. This risk is mitigated by the fact that it seems unlikely that the ACA will be repealed in the next 3 years at the very least.

HCA's Texas, Florida Markets Dynamics			
	HCA Texas Markets	HCA Florida Markets	National Average
Median Age	34	43	37
Average Population Growth	2.0%	1.1%	0.7%
Average Income Growth	2.2%	2.6%	1.8%
Average Unemployment Rate	2.9%	3.1%	3.5%

Fiscal Year Ending 12/31	Projected				
	2022	2023	2024	2025	2026
Revenues	\$59,835.7	\$62,707.8	\$65,529.6	\$68,085.3	\$70,468.3
% Growth	5.30%	4.80%	4.50%	3.90%	3.50%
EBITDA	12,535.6	13,137.3	13,728.5	14,263.9	14,911.1
% Margin	20.7%	20.6%	21.3%	23.9%	24.6%
Less: Depreciation & Amortization	(3,171.3)	(3,010.0)	(2,948.8)	(2,655.3)	(2,466.4)
Less: Stock-Based Compensation	0	0	0	0	0
EBIT	9,364.3	10,127.3	10,779.6	11,608.5	12,444.7
% Margin	15.7%	16.2%	16.5%	17.1%	17.7%
Less: Income Taxes	(2,266.2)	(2,375.0)	(2,481.9)	(2,578.7)	(2,700.2)
Cash Tax Rate	21.1%	21.1%	21.1%	21.1%	21.1%
Unlevered After-Tax Income	7,098.0	7,752.3	8,297.7	9,029.8	9,744.5
Plus: Depreciation & Amortization	3,171.3	3,010.0	2,948.8	2,655.3	2,466.4
As a % in Revenue	5.30%	4.80%	4.50%	3.90%	3.50%
Less: Capital Expenditures	3,739.7	3,919.2	4,095.6	4,255.3	4,404.3
As a % of Change in Revenue	6.25%	6.25%	6.25%	6.25%	6.25%
Less: Working Capital Investment	538.5	564.4	589.8	612.8	634.2
As a % in Change in Revenue	0.90%	0.90%	0.90%	0.90%	0.90%
Free Cash Flow	\$5,991.1	\$6,278.6	\$6,561.2	\$6,817.1	\$7,172.4
Annual Discount Rate	8.5%	8.5%	8.5%	8.5%	8.5%
Discount Factor	0.9217	0.8495	0.7829	0.7216	0.6650
Present Value of Annual Free Cash Flows	\$5,521.73	\$5,333.43	\$5,136.81	\$4,919.03	\$4,769.99

## Valuation Assumptions:

WACC: 8.5%  
 Perpetuity Growth Rate: 3.5%  
 Implied Share Price: \$273.14  
 Margin of Safety: 10.6%

Terminal Multiple Method		Perpetuity Growth Method	
Annual Discount Rate (WACC)	8.5%	Annual Discount Rate (WACC)	8.5%
Multiple of 2026 EBITDA	9.96x	Perpetuity Growth Rate	3.50%
Present Value of Terminal Value	98,768.8	Present Value of Perpetual Cash Flows	98,738.8
Plus: Sum of PV of Annual Free Cash Flows	25,681.0	Plus: Sum of PV of Annual Free Cash Flows	25,681.0
Implied Enterprise Value	124,449.8	Implied Enterprise Value	124,419.8
Implied Equivalent Perpetuity Growth Rate	3.50%	Implied Equivalent EBITDA Multiple	9.96x
Less: MSCC Net Debt @ 12/31/20	34,339.0	Less: MSCC Net Debt @ 3/31/11	34,339.0
Implied Equity Value	90,110.8	Implied Equity Value	90,080.8
Fully-Diluted Shares Outstanding	329.8	Fully-Diluted Shares Outstanding	329.8
Implied Equity Value per Share	\$273.23	Implied Equity Value per Share	\$273.14