

Company: HCA Healthcare	Ticker: HCA	Price: \$256.62 (2/10)	Industry: Healthcare
Target Price: \$279.21 Stop Loss: \$205.30 52 Week High/Low: \$279.02/\$164.47	TTM P/E: 15.47x Forward P/E: 14.76x EPS (22 FY): \$19.15	Beta (5Y): 1.63 Credit Rating: BBB- (S&P) Rating Outlook: Stable	Market Cap: 72.55 billion Avg. Vol. (3M): 1.23M Div. Yield: 0.92%

Company Background:

HCA Healthcare, Inc., through its subsidiaries, provides health care services company in the United States. The company operates general and acute care hospitals that offers medical and surgical services, including inpatient care, intensive care, cardiac care, diagnostic, and emergency services; and outpatient services, such as outpatient surgery, laboratory, radiology, respiratory therapy, cardiology, and physical therapy. It also operates outpatient health care facilities consisting of freestanding ambulatory surgery centers, freestanding emergency care facilities, urgent care facilities, walk-in clinics, diagnostic and imaging centers, rehabilitation and physical therapy centers, radiation and oncology therapy centers, physician practices, and various other facilities. In addition, the company operates psychiatric hospitals. Its revenue segments are as follows, corresponding with the percentage each contributes to total revenue: Managed Care & Other issuers (51.6%), Medicare and Managed Medicare (32.1%), Medicaid and Managed Medicaid (9.2%), International (2.3%), and Other (4.8%).

Industry Outlook:

The healthcare industry has experienced a slow post-pandemic recovery thus far. Companies and hospitals are battling tight labor markets, rising operational costs, higher interest rates, and inflationary challenges. This recovery is likely to remain at its current pace, as indicated by weak occupancy numbers. A recession would slow this recovery further, as it would exacerbate already difficult labor conditions, as well as increase uninsured patients and decrease patient willingness to spend on procedures. The industry is facing more scrutiny from corporate and governmental entities over high prices, and a divided Congress has led to cuts in government-sponsored programs. This has led to a wave of consolidation, with many nonprofits being acquired by for-profits. Other alliances and joint ventures have led to greater bargaining power and lower supply and operational costs. As the U.S. population continues to age, more individuals will enroll in Medicare and other government-sponsored programs, adjusting the revenue mix of some companies. There is still room for growth, although companies must overcome post-covid challenges to experience it.

Investment Thesis:

HCA is an industry leader with a strong market presence and growing market share. The company continues to increase its operational efficiency through its strong and talented workforce and ability to take on any patient across the markets it operates in. HCA is positioned to capture industry trends both now and into the future. An aging U.S. population will boost revenue in key retiree markets, including Florida and Texas. Additionally, consolidation throughout the industry will allow HCA to build on its competitive advantages. HCA is also committed to delivering superior value to shareholders. It has routinely made strategic investments, some of which are maturing, which has led to a high return on invested capital. Additionally, HCA has had consistent earnings growth and reduced shares outstanding by nearly 50% over the past decade. Lastly, HCA's ability to maintain stable margins amidst the toughest of headwinds illustrates the company's ability to survive and thrive in any macroeconomic scenario.

Investment Risks:

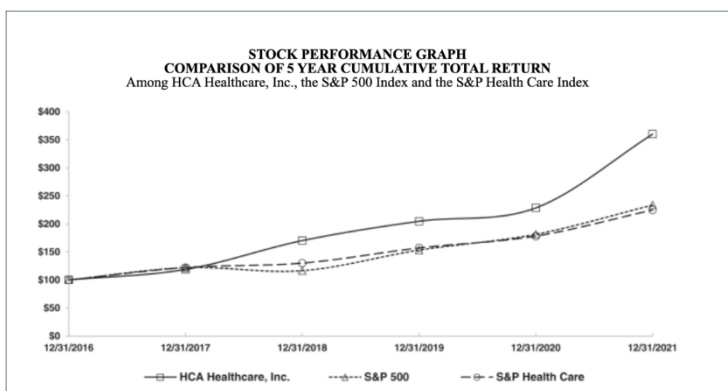
Increasing regulation throughout the industry and unfavorable legislation may reduce ability to grow revenue and profitability, given pressure to lower prices and various cuts to government spending. HCA has a large amount of debt (both historically and currently), a significant portion of which must be serviced in the next few years. An inability to do so or need to refinance at higher rates may reduce investment in other areas and hurt profitability. The slow post-covid recovery, as caused by a tight labor market and higher costs, may cause HCA to lose its competitive edge and market share if it cannot overcome these challenges. A recession would intensify an already tight labor market, spike uninsured patient rates, and reduce patient willingness to spend, all leading to reduced profitability.

3-5 takeaway's from last quarter investor call transcript:

- Amidst persistent capacity constraints, still performed well: YOY 4th quarter revenue and net income gains
- Higher revenue but lower net profit compared to 2021. Income and projections for 2023 came slightly below analyst expectations
- Facilities have seen return to normal seasonal demand, as well as a decline in covid volumes
- Making steady progress against staffing shortages, with turnover rate lower than industry average, although still higher than desired
- The focus of the coming year will be on addressing labor and capacity issues, countering inflationary pressures, and accelerating growth

5-Year Financial Performance:

	HCA	NYSE	SPY
YTD	5.51%	4.99%	7.15%
5 Years	154.08%	23.58%	49.41%



DCF Valuation:

WACC	9.0%
PERP Growth	3.5%
Terminal Value	150879.81
PV Terminal Value	89964.704
PV FCF	27895.057
Enterprise Value	117859.76
Debt (-)	39836.00
Cash (+)	908.00
Equity Value	78931.76
Shares Outstanding	282.70
Intrinsic Value	\$ 279.21
Current Price	\$ 256.20
MOS	9.0%

Sensitivity Analysis

Perpetual Growth	WACC				
	8.00%	8.50%	9.0%	9.50%	10.00%
2.5%	296.751	259.285	227.646	200.583	177.178
3.0%	331.846	287.863	251.278	220.381	193.95
3.5%	374.74	322.157	279.207	243.478	213.302
4.0%	428.358	364.072	312.721	270.775	235.879
4.5%	497.294	416.465	353.683	303.531	262.561

Comparable Companies:

Ticker	Company Name	Market Capitalization Latest (\$M)	CY2022 Total Revenue (\$M)	CY2022 Net Income (\$M)	LTM EBIT Margin %	LTM Return on Assets %	LTM Return on Common Equity %
CYH	Community Health Systems, INC.	663.9	-	-	6.9%	3.5%	-
EHC	Encompass Health Corporation	6,033.2	4,348.6	271.0	14.5%	6.3%	16.0%
THC	Tenet Healthcare Corporation	5,878.7	19,584.0	411.0	13.4%	6.0%	37.8%
ENSG	The Ensign Group, INC.	4,962.1	3,025.5	224.7	9.8%	5.9%	19.8%
HCA	HCA Healthcare INC.	72,488.6	60,233.0	5,643.0	15.0%	11.0%	-

ESG:



Above median or leading in all categories, according to Bloomberg. ESG continues to be a focus for HCA with a strong focus on employees, patients, and the communities it operates in.