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Introduction

Hospital Corporation of America owns and operates hospitals mainly in the U.S. and a few in the U.K. As of 2018, HCA operated 178 hospitals and approximately 1,800 sites of care, including surgery centers, freestanding ERs, urgent care centers, and physician clinics located in 20 U.S. states and in the United Kingdom. Sales have been very consistent and are increasing at a moderate pace thanks to steady gains in in-patient admissions and higher revenue per admission. HCA focuses on growing their presence in existing markets, where patients know their brand. HCA's strategic position is to make it easier for patients to get higher-quality, convenient patient care in an HCA facility. They are doing so by expanding their networks and improving clinical capabilities. Acquisitions have played a huge role in HCA's growth. Currently the company has in excess of \$3.5 billion of capital spending in the pipeline that will become available over the next 2 years. These investments will create additional inpatient and outpatient capacity within their healthcare systems.

Recommendation

We recommend a **BUY** on HCA Healthcare (HCA). The stock is currently trading at \$124.78; however, we believe the stock price will increase to \$175.11, based off our valuations. If the stock reaches the price we are forecasting it would offer a gain of 40.38%. We think this is a strong company that is currently trading at an undervalued price. This is a great opportunity that is in line with our healthcare key drivers, especially considering that we are in the late stage in the economic cycle.

In addition to buying HCA, we recommend a **Partial Sale** of Intuitive Surgical, to hedge our risk of an economic slowdown. Intuitive Surgical has seen dramatic gains for our portfolio so it is an ideal time to cash out those gains and move towards a more defensive sector.

Investment Thesis

Size Advantage

Despite criticism, for profit healthcare organizations don't sacrifice quality care for profitability. Public hospitals have stock they can turn to for investment strategies, while private hospitals turn to donors, minor investments and the community. Not having a ceiling to invest, for profit hospitals have a financial stream in which they can invest in efficient innovations, upgraded facilities and the latest technology that can often offer the best healthcare. Funds from equity aids in improved cybersecurity, protecting patients, employees and shareholders. Lobbying is another benefit for profit hospitals, they don't have restrictions on advocating legislatively for profitable laws. Public healthcare providers can also benefit from their size, utilizing many of their own resources like legal teams and specialized consultants instead of outsourcing. HCA is the largest public healthcare facility organization. Their size helps sister companies under HCA share the most efficient practices. Having the largest revenue stream, HCA can buy facilities faster than competitors and is showing to do a pretty good job at it. HCA market share ranks first or second in 27 of 38 markets it is represented in.

Outpatient Capabilities

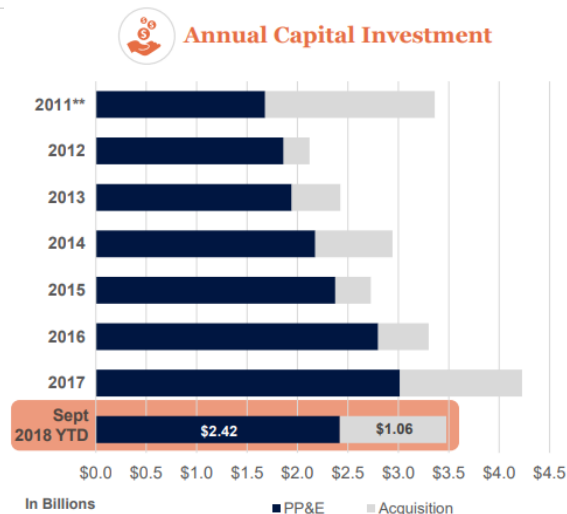
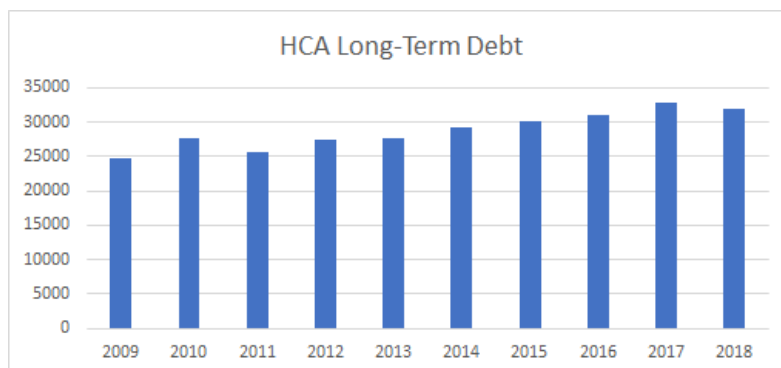
Up until 2016, HCA invested more into acquiring non-hospital entities than hospitals. Their non-hospital health care entities include:

- Surgery Centers
- Emergency Facilities
- Urgent Care Centers
- Walk in Clinics
- Diagnostics & Imaging Centers
- Cancer Centers
- Physical Therapy

These different forms of business support a comprehensive business opportunity for patient access in the HCA Healthcare system. When patients have to leave the hospital for outpatient care, they are referred to other streams of HCA. To reach the most dense populations urban areas are the main focus for HCA, however, they reach rural areas pretty effectively. They have very sophisticated rural outreach capability through telemedicine, affiliations/ownership with rural hospitals and EMS relations. HCA is utilizing telemedicine to reach the market that usually wouldn't be part of their market, reaching the people that don't prefer hospitals or won't make the drive into the city to the HCA facility.

Debt

We stressed in our industry sector report the importance of debt in the healthcare industry as there was a significant spike in 2015. HCA has high debt as they are in the game of buying hospitals and other healthcare facilities, however there is less risk with their investments compared to other riskier industries. Commercial contracts help to further reduce this risk as they are locked in revenue streams. HCA Healthcare has 80% contracted in rates for 2019. Debt is an important factor because companies are borrowing massive amounts to invest in new streams of revenue, however these streams can dry up or lead to nowhere. This ends up being a waste in investment costing companies millions or even billions. HCA is in the business of buying hospitals and other health care centers, places that will always see customers as healthcare is a number one priority. Also, as HCA keeps increasing investments in new streams of revenue and new technology, their debt hasn't been following that growth.

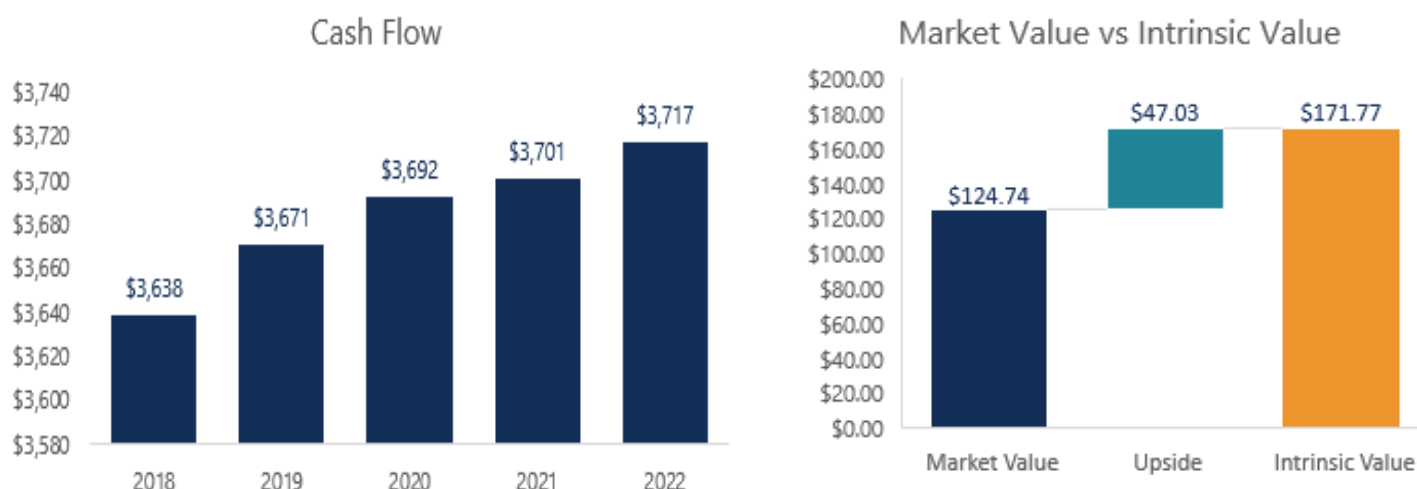


Balancing the Portfolio

The Healthcare sector is one of the most defensive sectors. Therefore, the healthcare portion of our portfolio is critical if our economy starts for a down turn. The healthcare section of our portfolio consists of two companies that make robotics and medical devices while the other two are pharmaceutical and biotechnology companies, which have great financials and are all very promising. However, in

a time where the market is volatile and due for a recession, we believe diversifying our healthcare sector even more would be a good investment for our portfolio, putting it in an even more stable place. HCA is in the business of hospitals and other healthcare centers, which will still see consistent sales if the economy turns.

Valuation



With our DCF model, we get a target price of \$171.77, which is a 37.77% upside. This target price appears very high because we thought the stock was still a buy trading at \$144 last week. We believe that growth in the next five years would be at least X%. The target price was determined using the following assumptions (on the right):

Discount Rate	6.5%
Long term growth rate	3%
EBIT, D&A, ΔNWC 1st year growth	4%
EBIT, D&A, ΔNWC 2nd and 3rd year growth	4%
EBIT, D&A, ΔNWC 4th and 5th year growth	4%

For the multiples approach, we chose P/E and EV/EBITDA ratios. First, we found the mean EV/EBITDA ratio and Sales of HCA's peers, who are; Tenet Healthcare, Community Health Services, Universal Health Services (B), Encompass Health, and AMN Healthcare services. Then we weighted the P/E and EV/EBITDA ratio with a 35%-65% weight. We got a target price of \$185.13, which is a 48.71% upside. We decided to weight EV/EBITDA slightly more because the peers all had similar values despite their Market Cap. Our final target price is \$175.11 after we weighted DCF and multiples approach with a 75%-25% weight which brings a 40.38% upside.

Risks

Regulatory risk

A significant portion of patient volume, 41% of revenues, is derived from government healthcare programs like Medicare and Medicaid. Changes in government programs may reduce reimbursement and adversely affect the result of operations. Congress has established automatic spending reductions that extend through 2027. Congress and state legislatures have introduced and passed a large number of proposals and legislation designed to make major changes in the healthcare system, including changes intended to increase access to health insurance. Additionally, transparent pricing has been a major talking point in health care news recently. Although we don't project that this would cause major harm to the industry, it is something we will keep an eye on.

Debt

At the same time that debt is an advantage, it also comes with risk. With acquisitions being a key part of the company's strategy, HCA has a large debt load. Although it isn't off the chart when looking at the company's competitors, it could still be a significant risk in the event of a major economic downturn, or strict regulation that would threaten the cash flows of for-profit healthcare providers.

Competitors

Healthcare is highly competitive and competitions amongst healthcare providers for patients has risen over the years. This will drive prices down as most hospitals and other care centers offer many of the same type of services offered. Additionally, when looking at Non-Profit competitors, they have a few advantages over profit driven hospitals such as major tax advantages.

Insider shareholder

Thomas F. Frist Jr. is a co-founder of HCA who owns a major portion of HCA healthcare. He owns over 20% of the Market Capitalization. Because of this huge share, he has shown to drive the price of the stock down notability every time when he sells a large number of shares. We will touch more on this on page 6.

TOTAL MEMBERS	Mgmt	23	INDEPENDENT DIRECTORS	AVERAGE AGE	Mgmt	58	AVERAGE TENURE	Mgmt	12	INSIDER OWNED	Mgmt	0.813%
35	Board	13	69%	60 YRS	Board	62	9 YRS	Board	5	1.385%	Board	0.821%

Management

HCA just underwent a management change as their COO, Samuel Hazen, just succeeded Milton Johnson as CEO, which went into effect January 1, 2019. Hazen was appointed a member of the board of directors also. When Johnson retires from the board in April during the annual directors meeting, the board will go from 69% independent to 77% independent. This is a good percentage because the board will be able to make management and business decisions with little influence from the management team. HCA has top executives that have moved up in the company and knows it inside and out.

Name	Position	Age	Years with HCA
Samuel N. Hazen, MBA	President, CEO, Chief Operating Officer & Director	57	36
William B. Rutherford, CPA	CFO, Principal Accounting Officer & Executive VP	55	30
Jonathan B. Perlin, MD, PhD	Chief Medical Officer	57	13
P. Martin Paslick, MBA	Chief Information Officer & Senior Vice President	59	34

Stock Chart of Past Year Performance



Peer Analysis

Healthcare facilities, specifically hospitals have been struggling lately. With the increasing number of hospitals and specialized practices, public and private health care facilities are finding it hard to stay in the green. However, HCA has consistently found gains year after year. Below we made a chart to show how HCA Healthcare compares to its peers using key ratios.

Company Name	Price	Shares Outstanding	Market Value	P/E	Sales	Enterprise Value/ EBITDA
HCA Healthcare	124.74	342.6	42,741.7	12.2	46,677.0	8.69x
Average	53.26	89.6	4,611.3	13.8	9,930.7	9.42x
Median	46.26	98.7	2,789.5	12.7	10,772.3	9.34x
Tenet Healthcare	27.17	102.7	2,789.5	11.5	18,313.0	8.04x
Community Health Systems	4.64	116.2	539.3	(neg. earnings)	14,155.0	9.15x
Universal Health Services B	129.19	83.5	11,728.8	12.7	10,772.3	9.34x
Encompass Health	59.05	98.7	5,830.8	15.6	4,277.3	9.94x
AMN Healthcare Services	46.26	46.9	2,168.0	17.2	2,136.1	10.63x

Top 5 Shareholders

Ownership Statistics



SHARES OUT

342,377,000

94.70% TOTAL OWNERSHIP

- 72.91% Inst. Ownership
- 33.73% Top 10 Inst. Holders
- 21.75% Insider Ownership
- 5.34% Unknown

Insiders / Stakeholders	% of Ownership	Market Val (in millions)	Report Date
Frist Thomas Fearn Jr	20.24	8,645	12/31/2018
Johnson R Milton	0.41	175	02/25/2019
Hazen Samuel N	0.25	106	02/25/2019
Frist William Robert	0.12	51	12/31/2018
Campbell Victor L	0.12	49	02/25/2019

As mentioned before, Thomas F. Frist owns a major portion of HCA (20.24 %). In 1968, he co-founded the Hospital Corporation of America and was the CEO from 1987 to 2001. He alone makes up for 93% of Insider ownership. Of the shares outstanding, 72.91% of ownership is Institutional. The Top 10 of those Institutional holders are more balanced and make up 33.73% of the stock.

Institutional/Mutual Funds

Owner	% of Ownership	Mkt Val (in millions)	Activism	Report Date
The Vanguard Group, Inc.	5.90	2,519	Very Low	12/31/2018
Wellington Management Co. LLP	4.29	1,833	Very Low	12/31/2018
BlackRock Fund Advisors	3.89	1,659	Low	12/31/2018
T. Rowe Price Associates, Inc.	3.78	1,616	Medium	12/31/2018
Magellan Asset Management Ltd.	3.69	1,578	Very Low	12/31/2018