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 retention 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.

**Valuation Assumptions:**

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