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ALEX ROSS | ANALYST

HCA

Hospital Corporation of America℠

What's So Special About HCA?

Whatever you think is probably wrong

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TAKEAWAYS AND CONCLUSIONS

- **PRESSURE ON ADMISSION GROWTH, PRICING, AND MARGINS**
- **UNDERLYING DEMOGRAPHIC TRENDS ARE WEAK**
- **COMPRESSED NET PRICING AND COST PER ADMISSION VERSUS PEERS**
- **LOWER QUALITY ASSETS THAN PERCEIVED**
- **ACA REFORMS ARE NEGATIVE**

SOURCE: HEDGEYE

SUMMARY

HCA Holdings, Inc. $ 73.97

Financial and Valuation Summary

FY16 ends Dec '16	1Q16:A	2Q16:A	3Q16:A	4Q16:E	1Q17:E	2Q17:E	3Q17:E	4Q17:E	2015:A	2016:E	2017:E
Hedgeye EPS ($)	**1.71**	**1.66**	**1.61**	**1.77**	**1.51**	**1.54**	**1.51**	**1.98**	**5.58**	**6.75**	**6.55**
Consensus ($)	1.71	1.66	1.61	1.78	1.76	1.76	1.60	1.98	5.58	6.71	7.10
Variance %	0.0%	0.0%	0.0%	-0.2%	-14.4%	-12.3%	-5.4%	0.2%	---	0.7%	-7.8%
Hedgeye Sales ($MM)	**10,260**	**10,319**	**10,270**	**10,440**	**10,425**	**10,593**	**10,548**	**10,945**	**39,678.0**	**41,289.3**	**42,511.1**
Consensus ($MM)	10,260	10,319	10,270	10,680	10,751	10,746	10,698	11,102	39,678.0	41,519.0	43,322.7
Hedgeye EBITDA ($MM)	**2,003**	**2,052**	**1,957**	**2,164**	**1,985**	**1,991**	**1,954**	**2,213**	**7,915**	**8,176**	**8,143**
Consensus ($MM)	2,003	2,052	1,957	2,187	2,131	2,136	2,033	2,278	7,915	8,199	8,577
Metrics											
SS Adj Admissions %	**3.1%**	**1.6%**	**1.3%**	**-1.0%**	**-1.5%**	**-0.2%**	**-0.2%**	**1.8%**	**3.8%**	**1.2%**	**0.0%**
Consensus	3.1%	1.6%	1.3%	2.5%	2.7%	1.4%	1.3%	1.8%	3.8%	1.2%	2.0%
SS Rev Per Adj Admission %	**3.1%**	**1.6%**	**1.3%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**1.8%**	**2.3%**	**2.1%**
Consensus	3.1%	1.6%	13.0%	2.5%	1.8%	2.1%	2.1%	2.3%	1.8%	2.3%	2.1%
Multiples											
P/E	---	---	---	---	---	---	---	---	13.3	11.0	11.3
EV/EBITDA	---	---	---	---	---	---	---	---	7.6	7.3	7.4

SOURCE: COMPANY FILINGS & HEDGEYE ESTIMATES

BALANCE SHEET + WEAK RESULTS = 34% DOWNSIDE

HIGHLY LEVERED

Key Statistics	
Market Value (M)	**27,708.0**
(-) Cash	677.0
(+) Total Debt	32,828.0
(+) Preferred Equity	-
(+) Minority Interest	-
Enterprise Value	**60,023.0**
52 Week Range	**$60.07 - 83.69**
Avg Daily Vol (3 mo)	3,421,737
Shares Out (M)	389.6
Float	80.5%
Top 10 Inst Hldrs	33.1%
Short Interest	4.0%
Dividend Yield	0.0%

SIGNIFICANT DOWNSIDE POTENTIAL

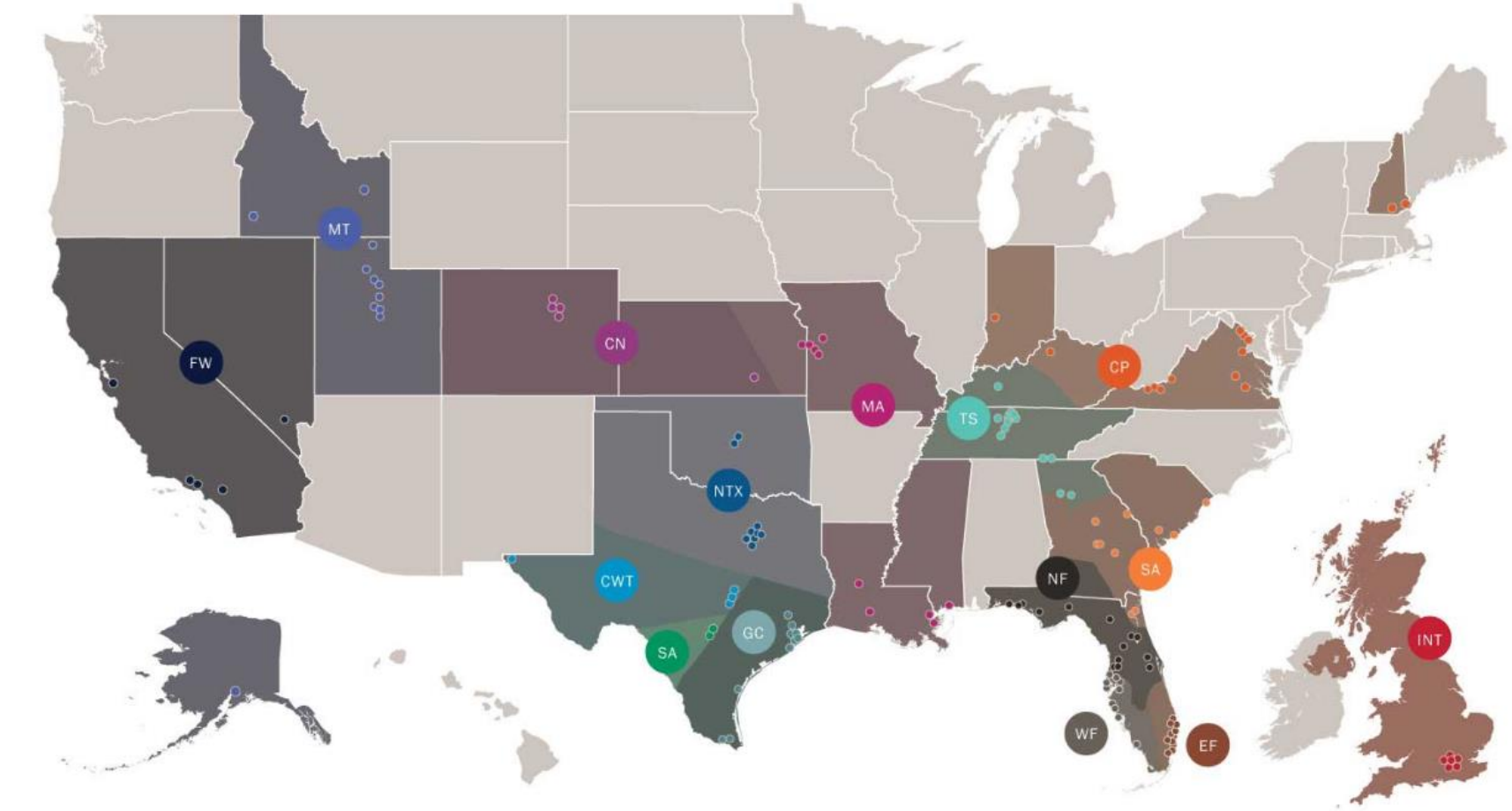
2017 EBITDA Growth \ 2017 EV/EBITDA	5.0x	5.5x	6.0x	6.5x	7.0x	7.5x
-5.0%	$ 15.4	$ 25.4	$ 35.4	$ 45.3	$ 55.3	$ 65.3
-2.5%	18.04	28.3	38.5	48.7	59.0	69.2
0.0%	20.7	31.2	41.65	52.1	62.6	73.1
2.5%	23.3	34.0	44.8	55.6	66.3	77.1
5.0%	25.9	36.9	47.9	59.0	70.0	81.0
7.5%	28.5	39.8	51.1	62.4	73.7	84.9

Bear	Base	Bull
-79%	**-34%**	15%
$15.4	**$48.5**	$65.3

SOURCE: COMPANY FILINGS & HEDGEYE ESTIMATES

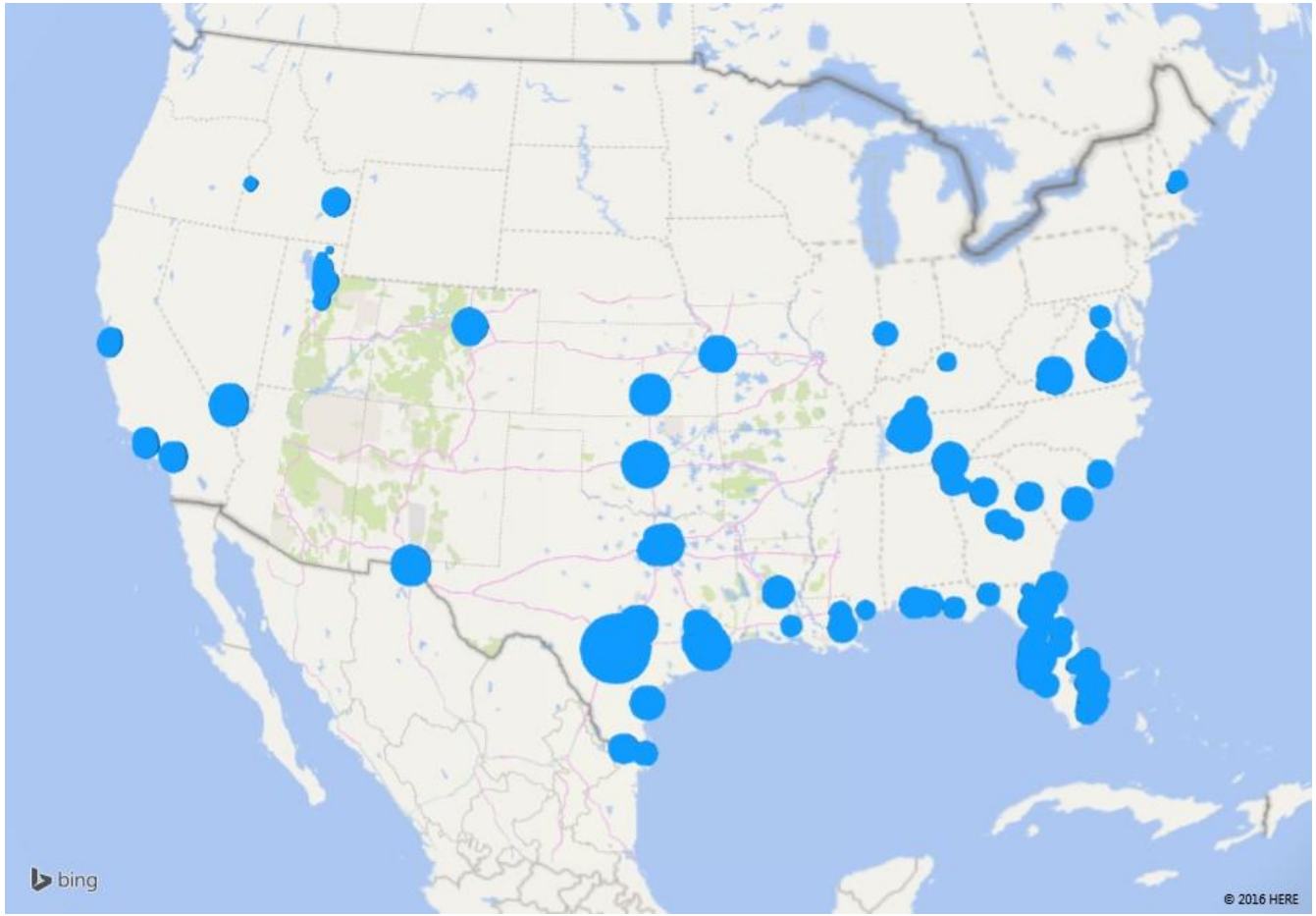
HCA – THE BASICS

HCA FACILITY MAP



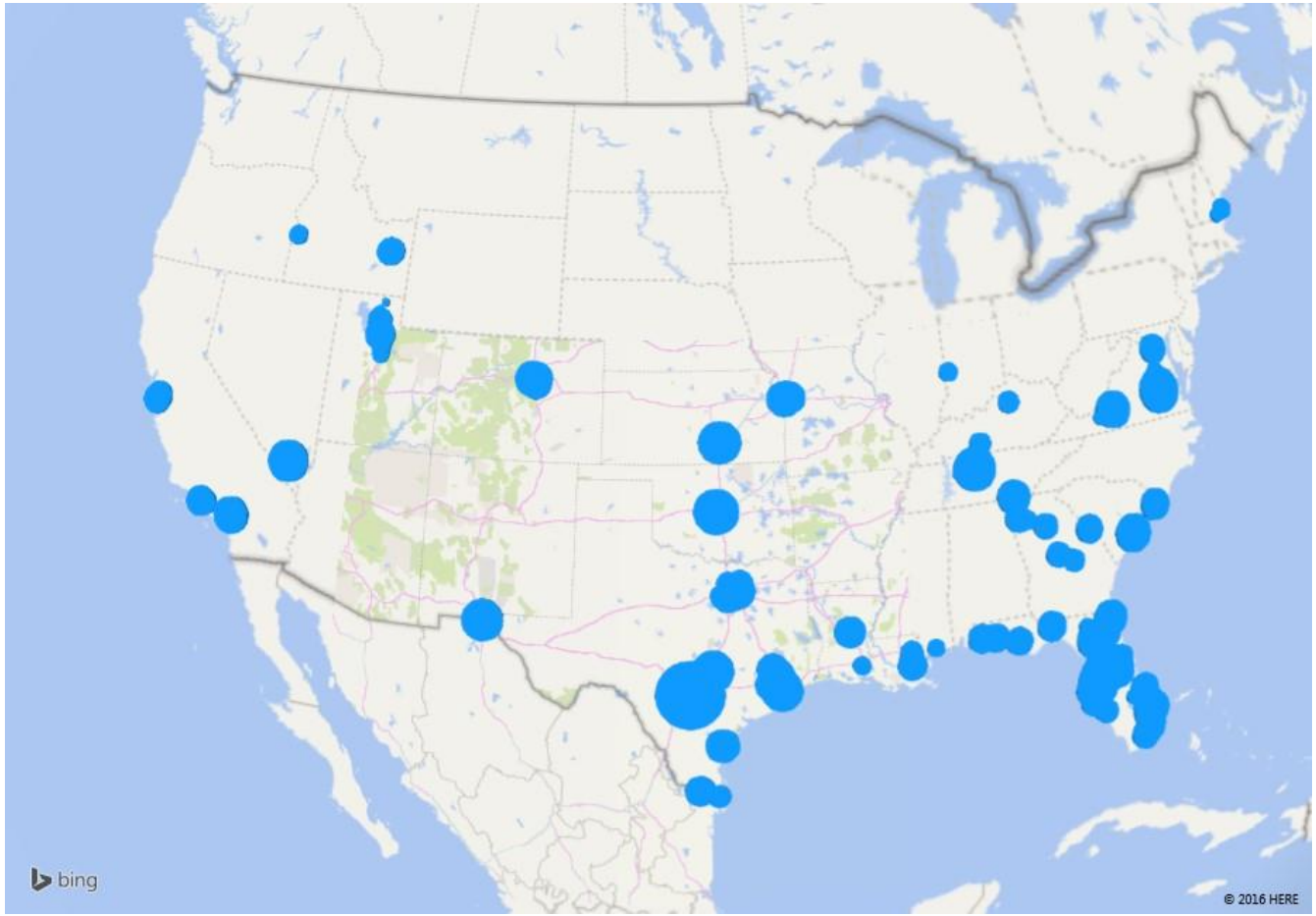
SOURCE: HCA WEBSITE

TOTAL BEDS



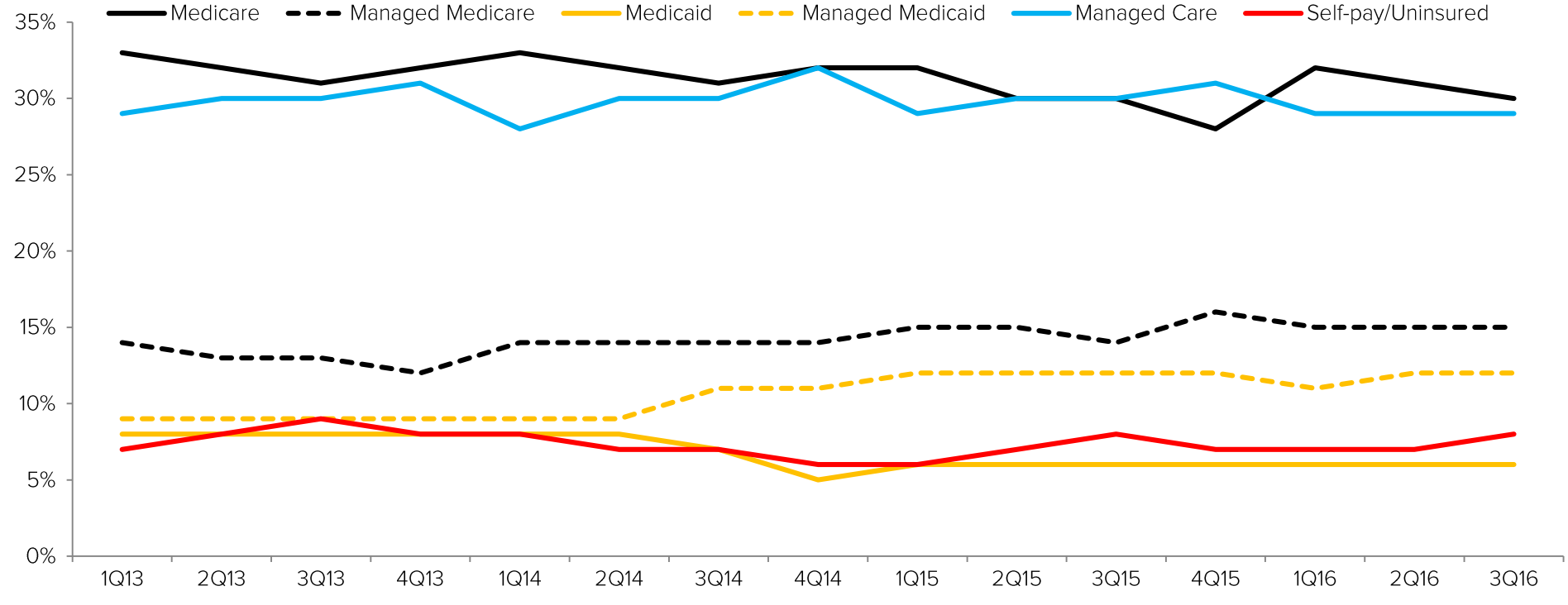
SOURCE: AHA

ADJUSTED ADMISSIONS



SOURCE: AHA

MIX OF ADMISSIONS BY PAYOR

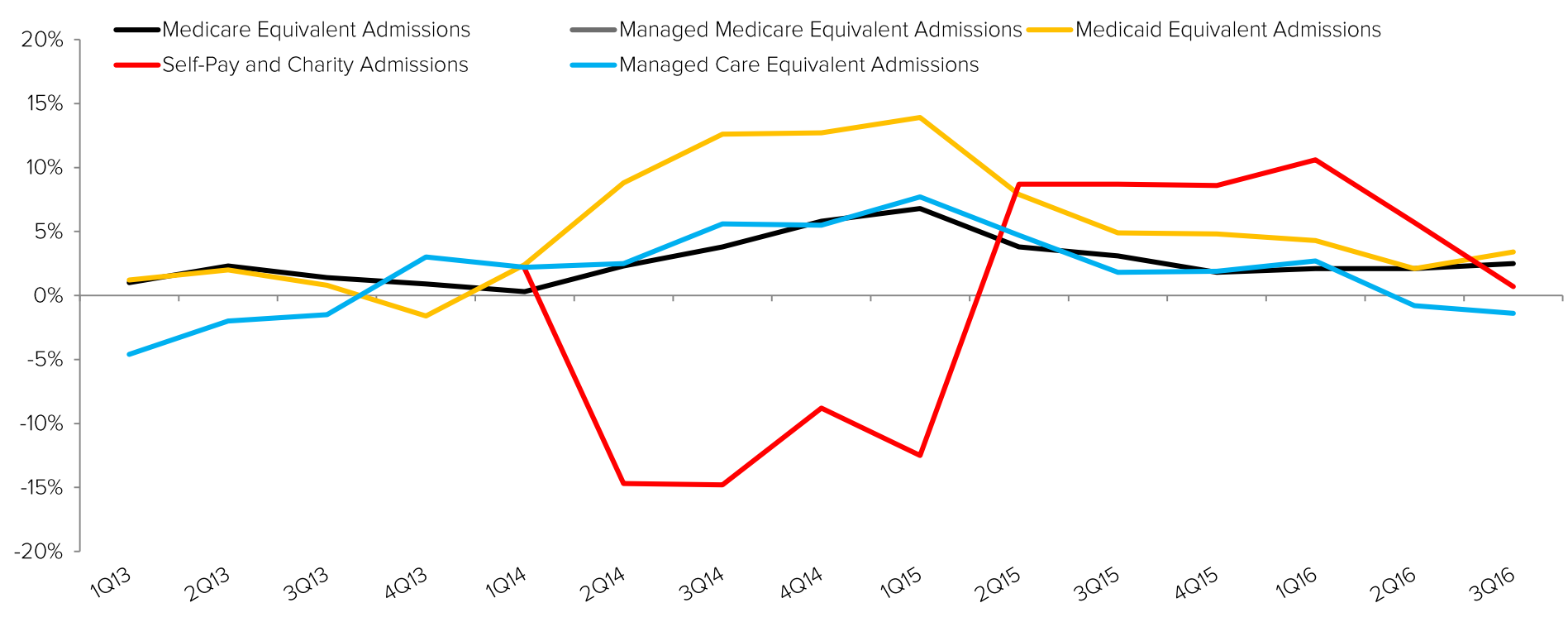


MIX OF MANAGED GOVERNMENT INCREASING SLOWLY

The positive trend in self-pay mix appears to have retraced to pre-ACA levels while Managed Care is flat.

SOURCE: COMPANY FILINGS

SAME FACILITY ADMISSIONS GROWTH BY PAYOR

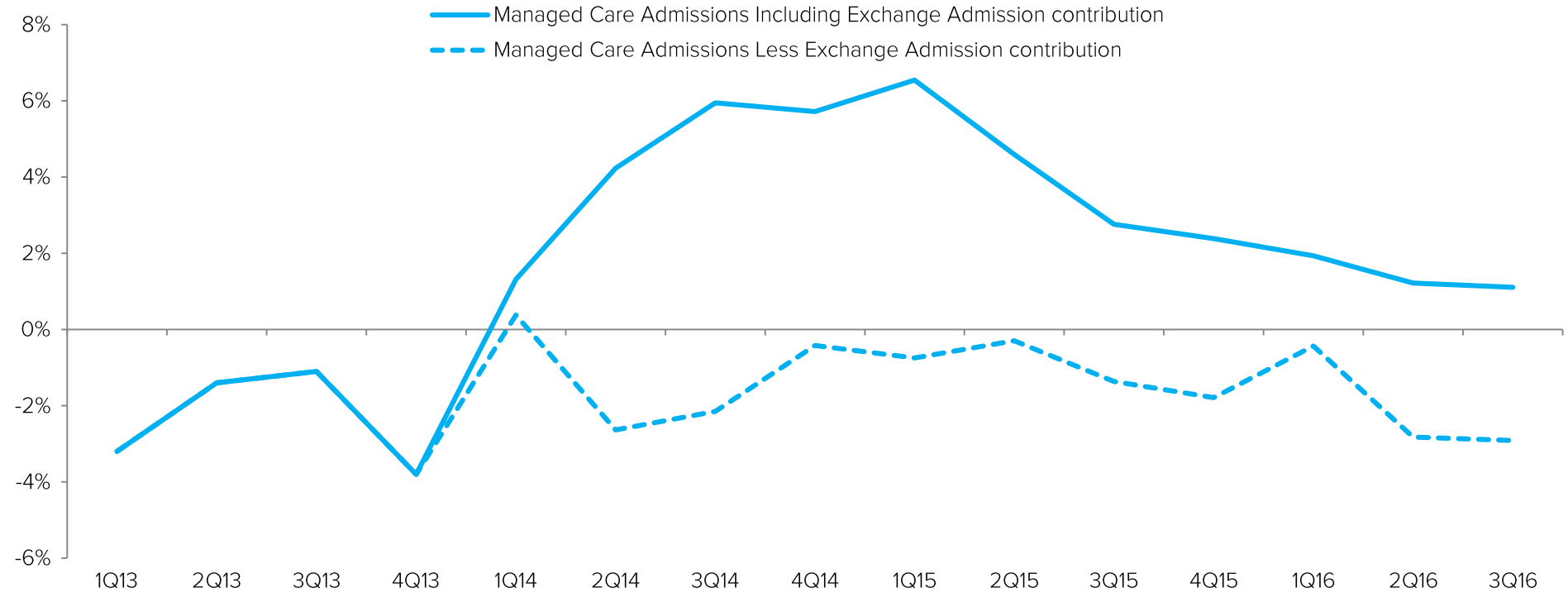


UNINSURED DECLINES APPEAR OVER

In addition, Medicaid received a significant boost despite minimum exposure to Expansion states.

SOURCE: COMPANY FILINGS

MANAGED CARE ADMISSIONS EXCLUDING EXCHANGE



4 YEARS OF DECLINING MANAGED CARE ADMISSIONS VOLUME

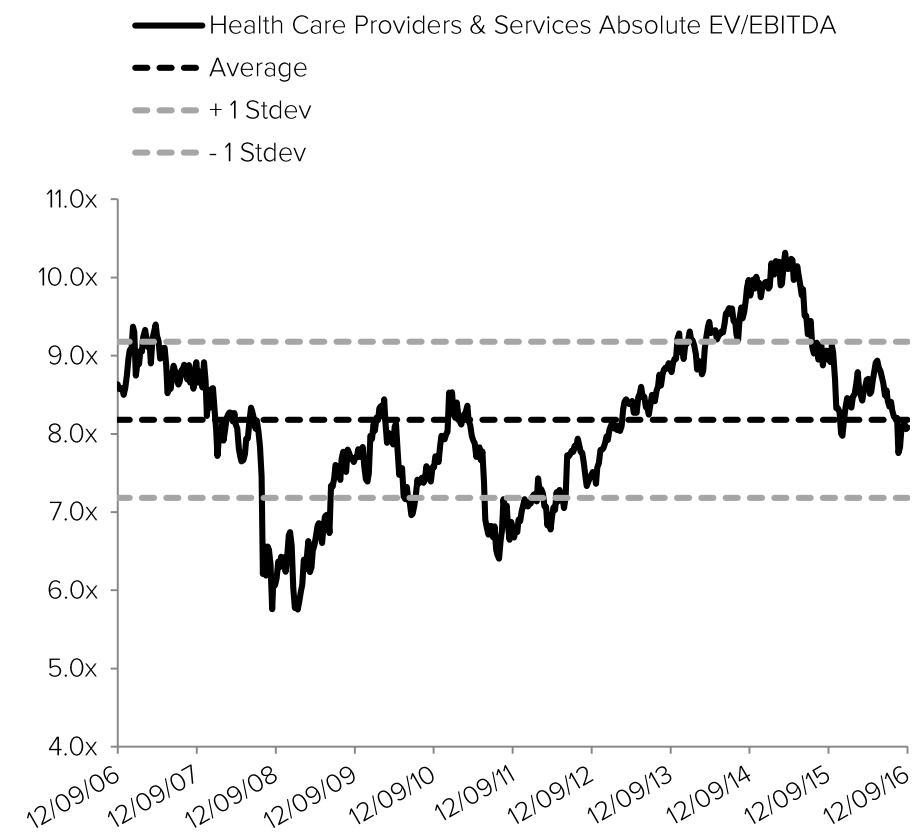
We backed out the impact of Exchange admission volume on HCA's same facility growth in Managed Care. We believe the Exchange volume has masked deteriorating trends in in commercial volume that date back to 2013. With flat Exchange enrollment and #ACA2.0, the odds for negative Managed Care volume in 2017 appear high.

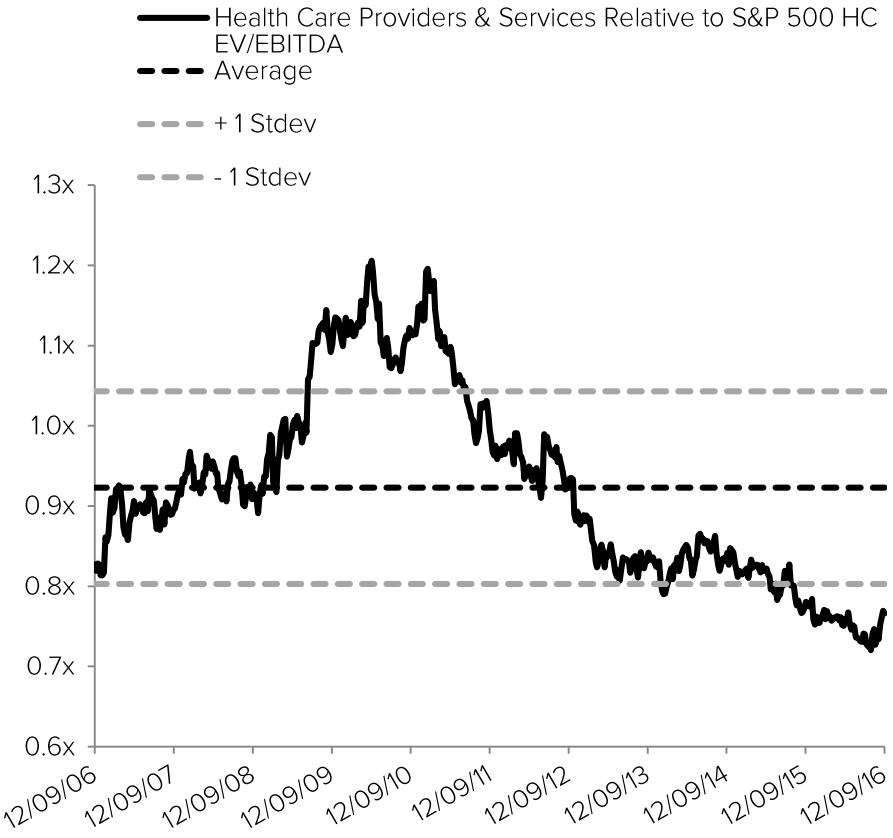
SOURCE: COMPANY FILINGS, HEDGEYE ESTIMATES

VALUATION AND REVISION CYCLE

PROVIDERS/SERVICES NTM EV/EBITDA

IN-LINE ABSOLUTE / BELOW RELATIVE

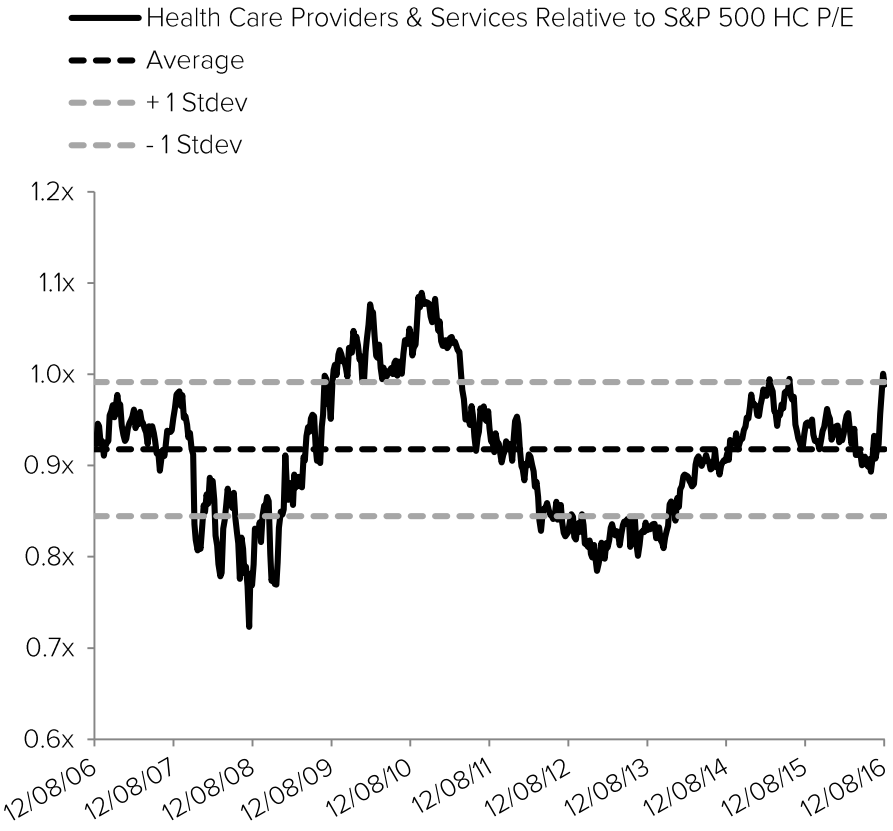


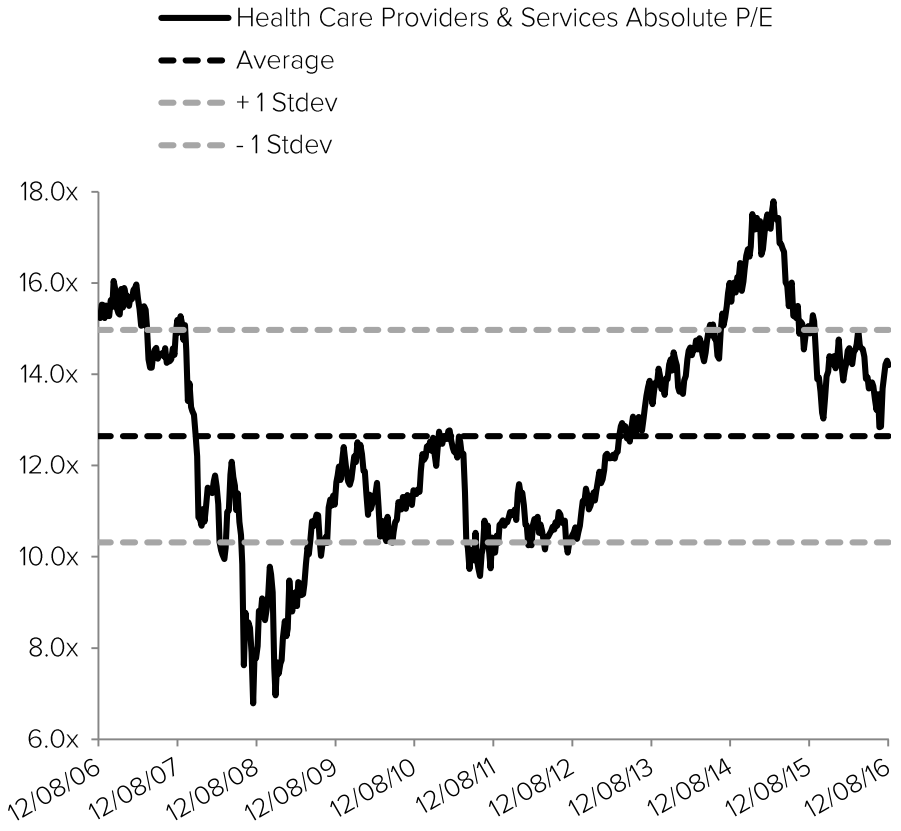


DATA SOURCE: FACTSET

PROVIDERS/SERVICES NTM P/E

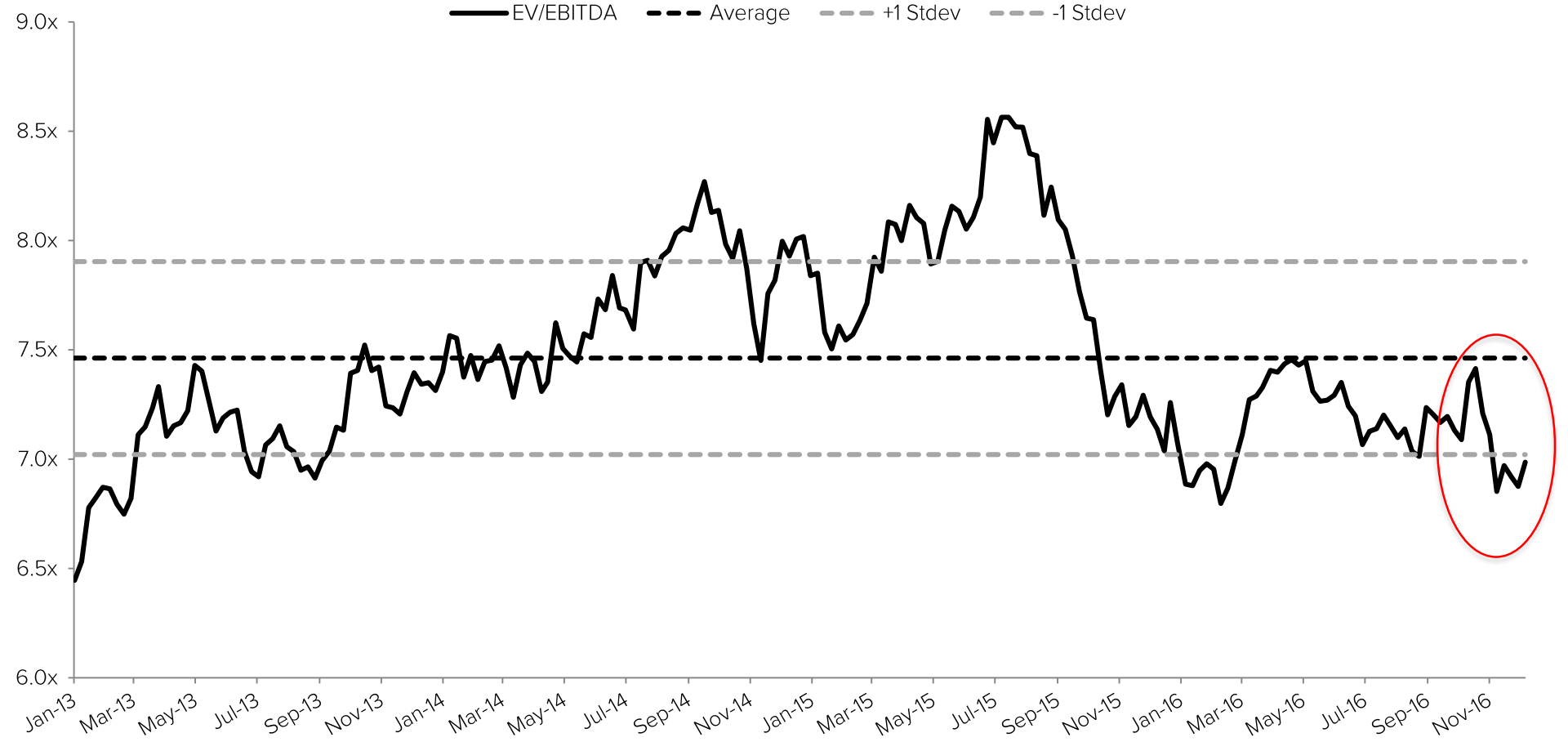
ABOVE ABSOLUTE / ABOVE RELATIVE





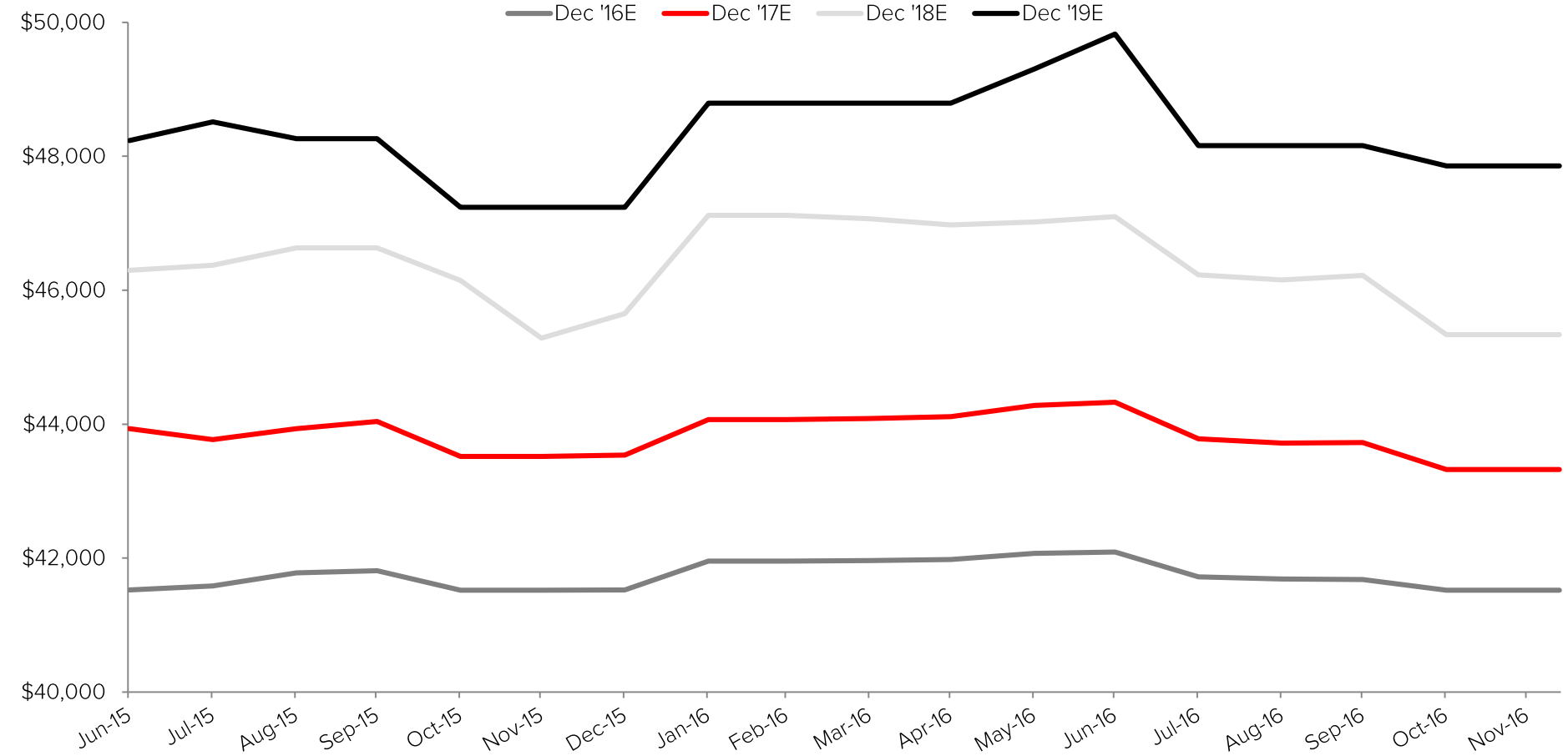
DATA SOURCE: FACTSET

EV/EBITDA DISCOUNT TO PROVIDER AVERAGE



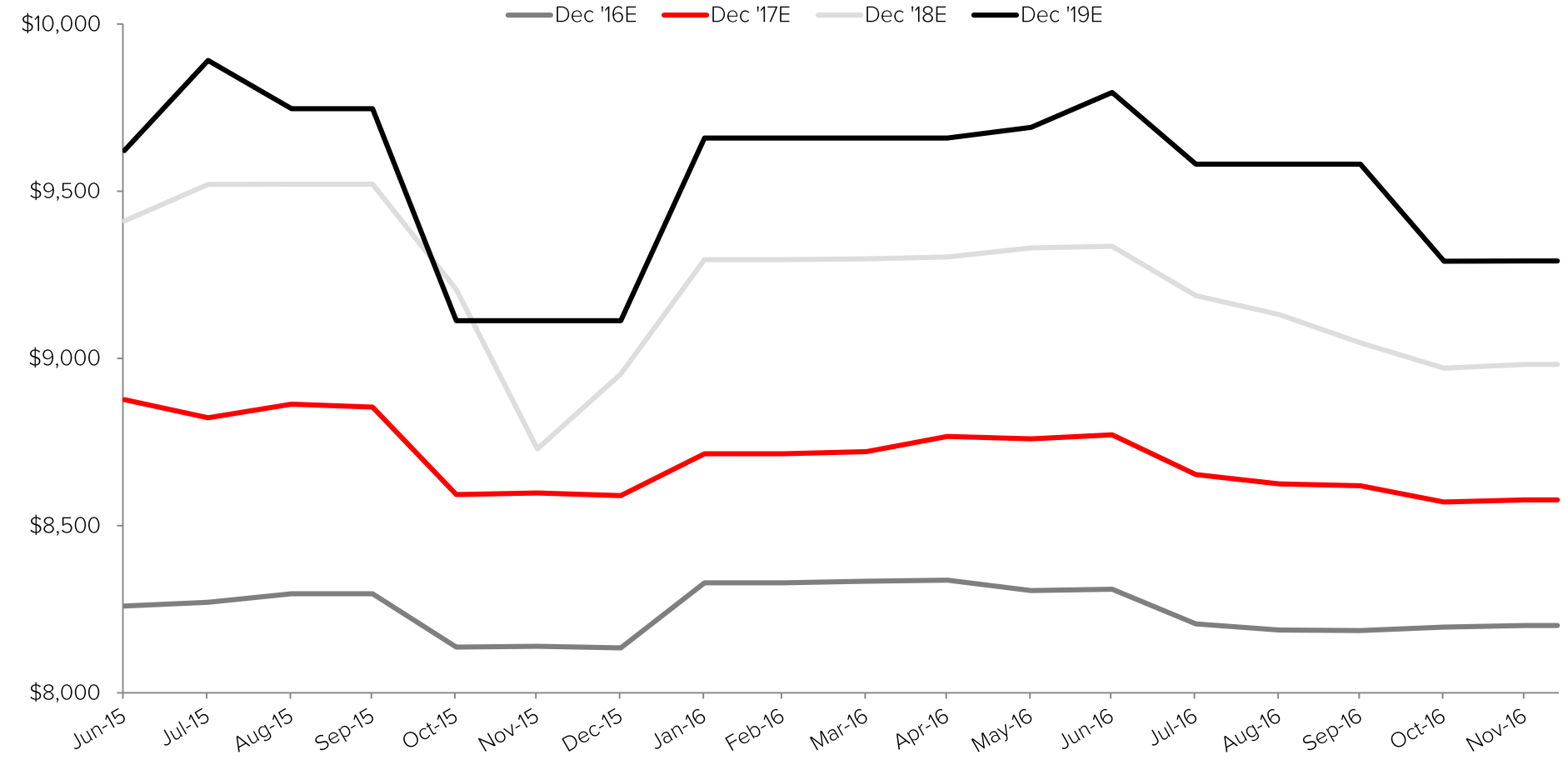
SOURCE: FACTSET

HCA REVENUE ESTIMATES



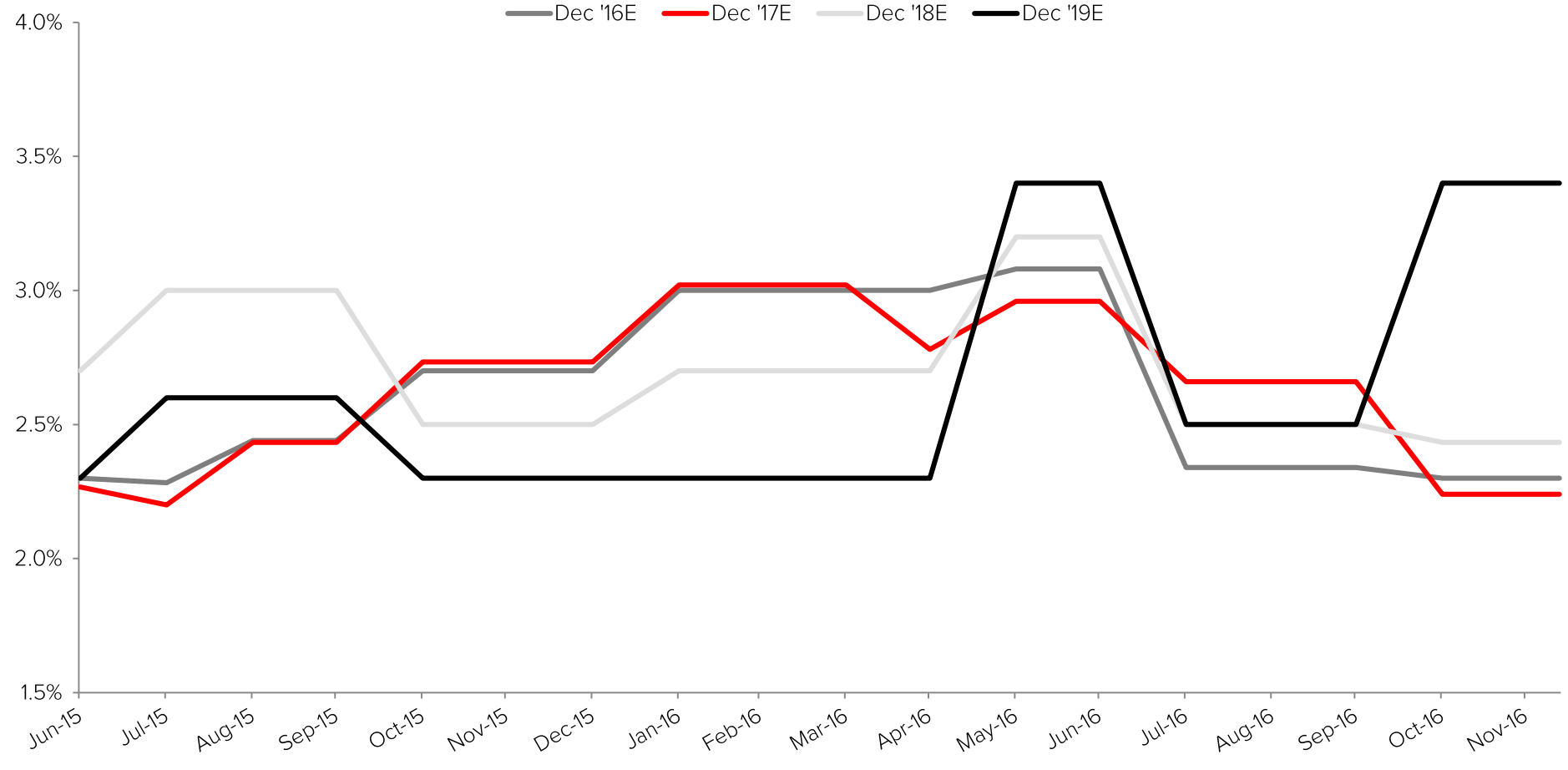
SOURCE: FACTSET

HCA EBITDA ESTIMATES



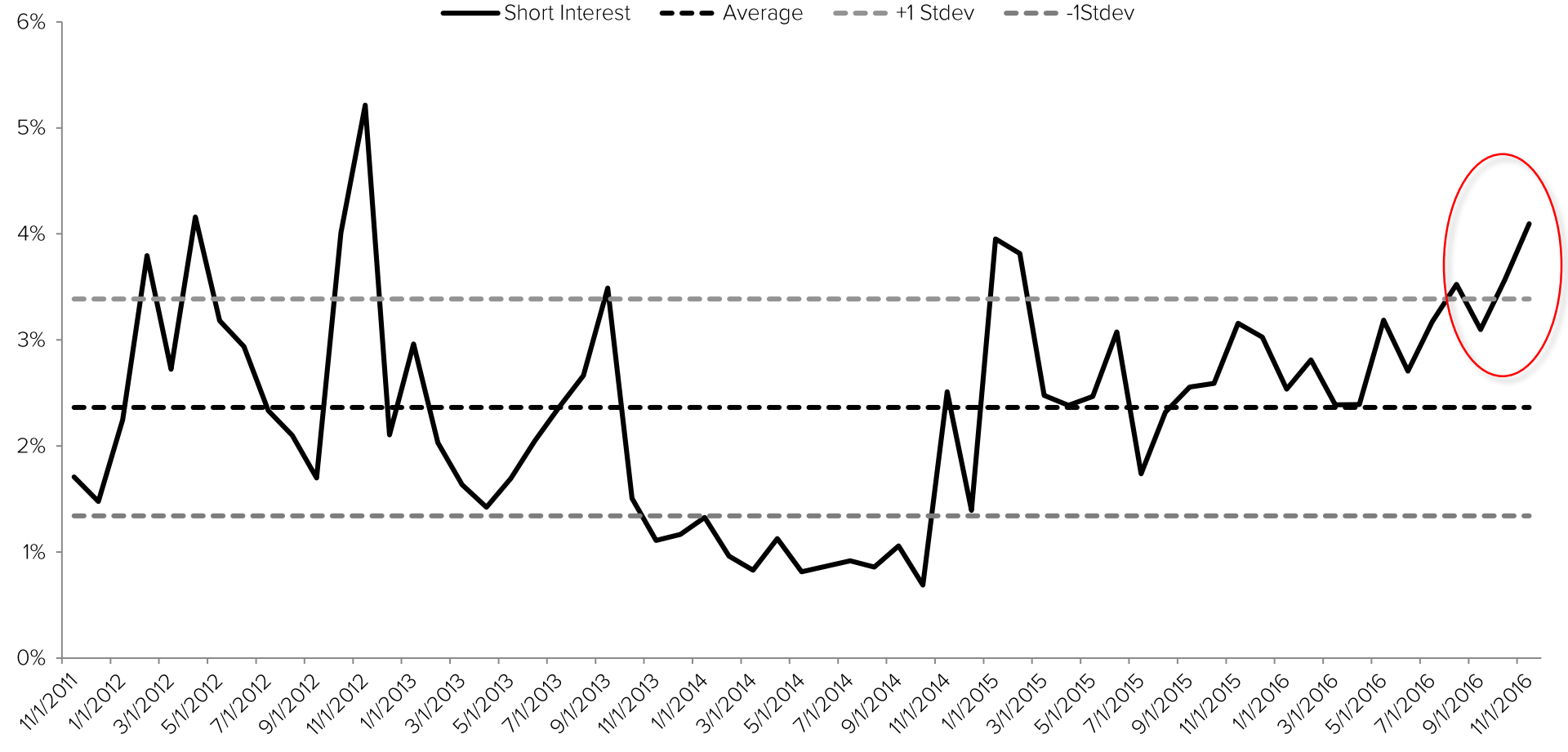
SOURCE: FACTSET

SAME FACILITY ADJUSTED ADMISSIONS ESTIMATES



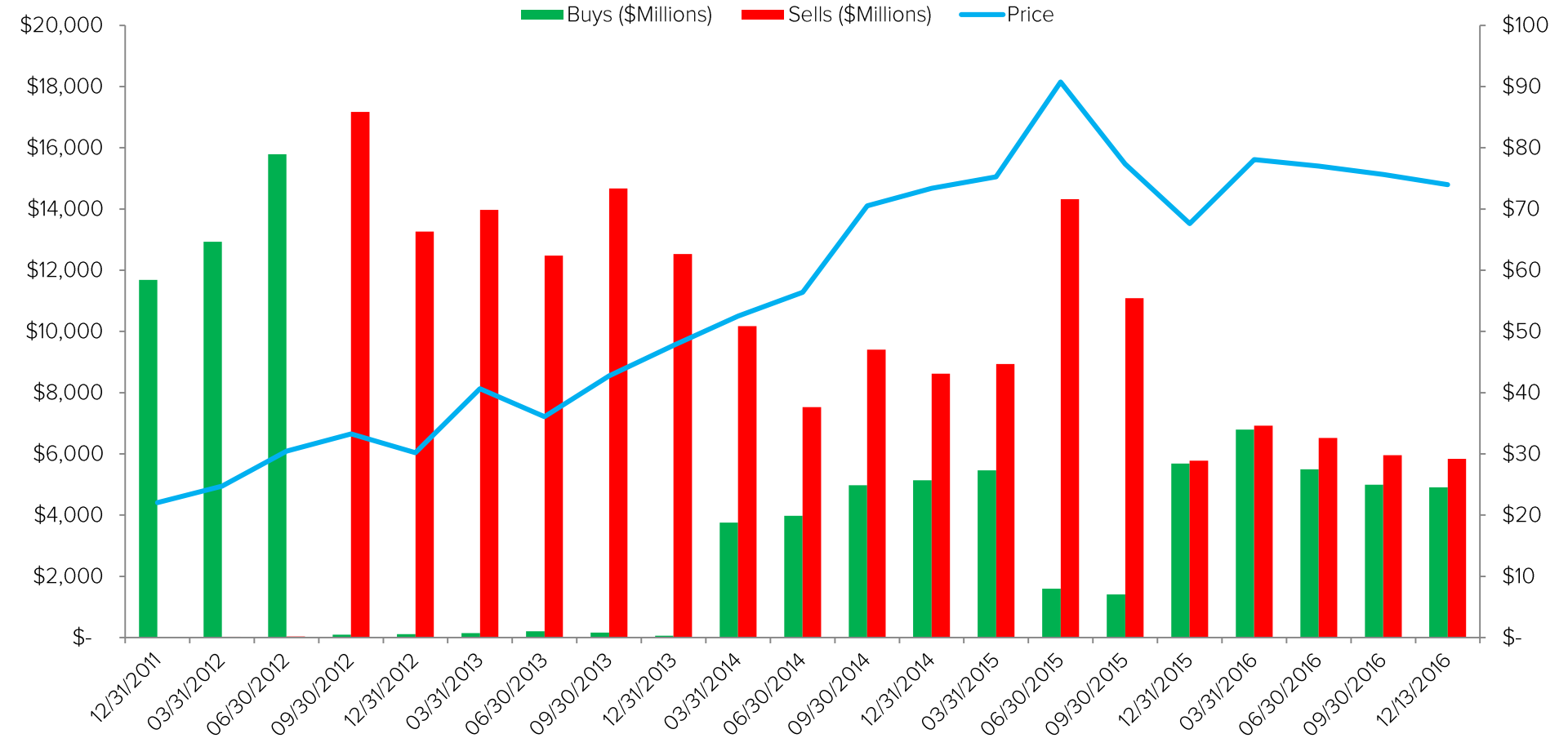
SOURCE: FACTSET

SHORT INTEREST



SOURCE: FACTSET

INSIDER TRANSACTIONS

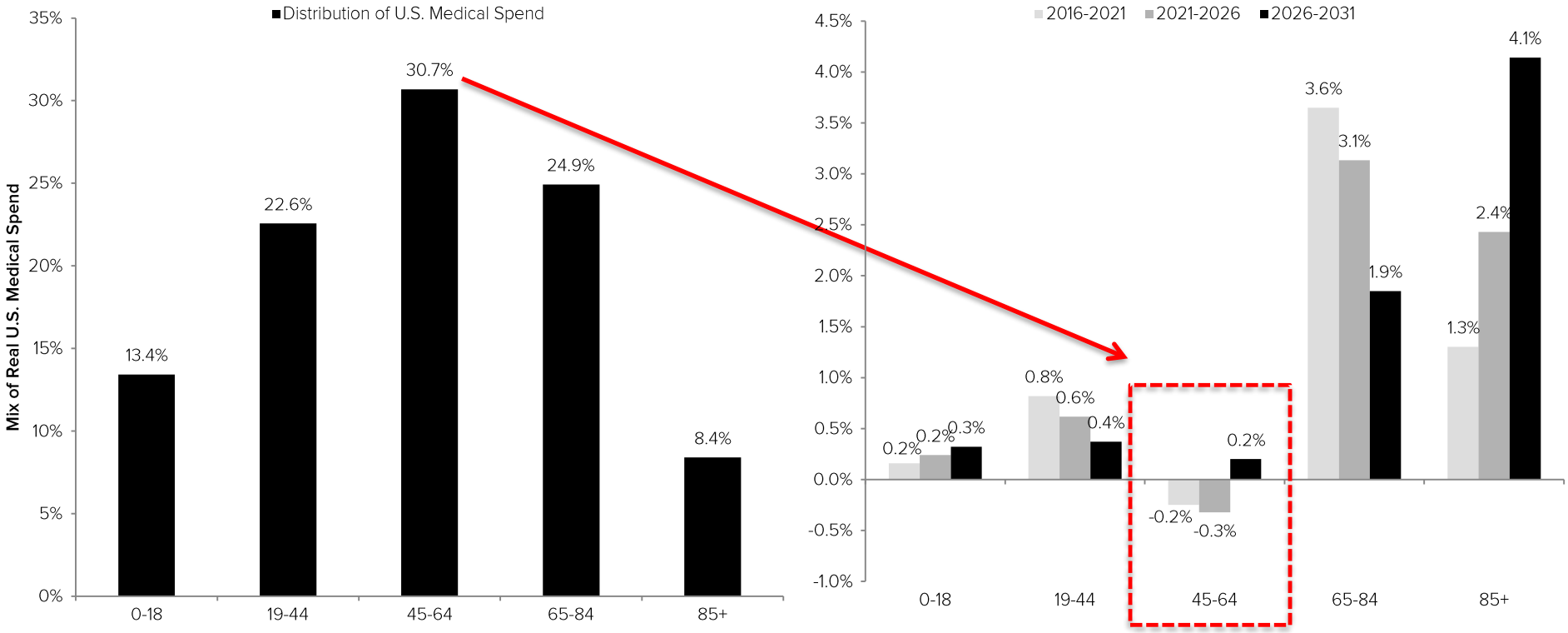


SOURCE: FACTSET

DEMOGRAPHICS

DISTRIBUTION TOTAL MEDICAL SPEND

NEGATIVE GROWTH IN LARGEST SPENDING COHORT

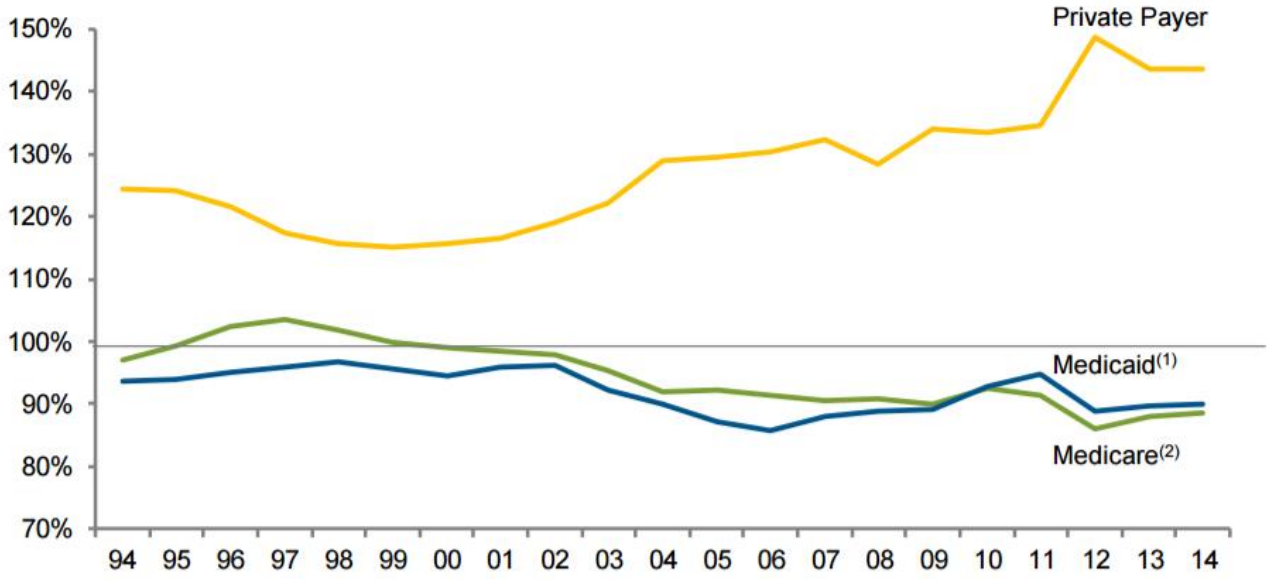


DATA SOURCE: NCBI, BEA, U.S. CENSUS AND CMS

MIX SHIFT TO MEDICARE A DRAG ON MARGIN

MEDICARE A POOR PAYOR COMPARED TO COMMERCIAL INSURANCE

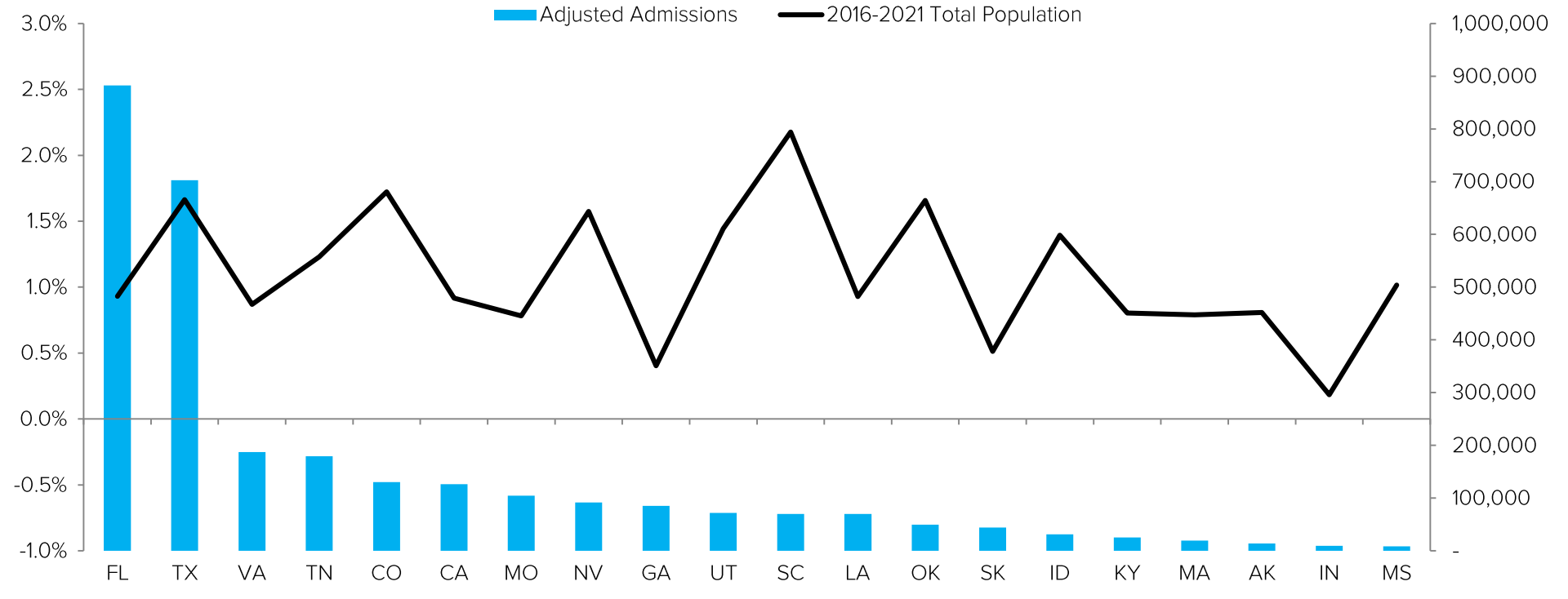
Chart 4.6: Aggregate Hospital Payment-to-cost Ratios for Private Payers, Medicare and Medicaid, 1994 – 2014



Source: Analysis of American Hospital Association Annual Survey data, 2014, for community hospitals.
(1) Includes Medicaid Disproportionate Share payments.
(2) Includes Medicare Disproportionate Share payments.

SOURCE: AHA

TOTAL POPULATION GROWTH HCA MARKETS

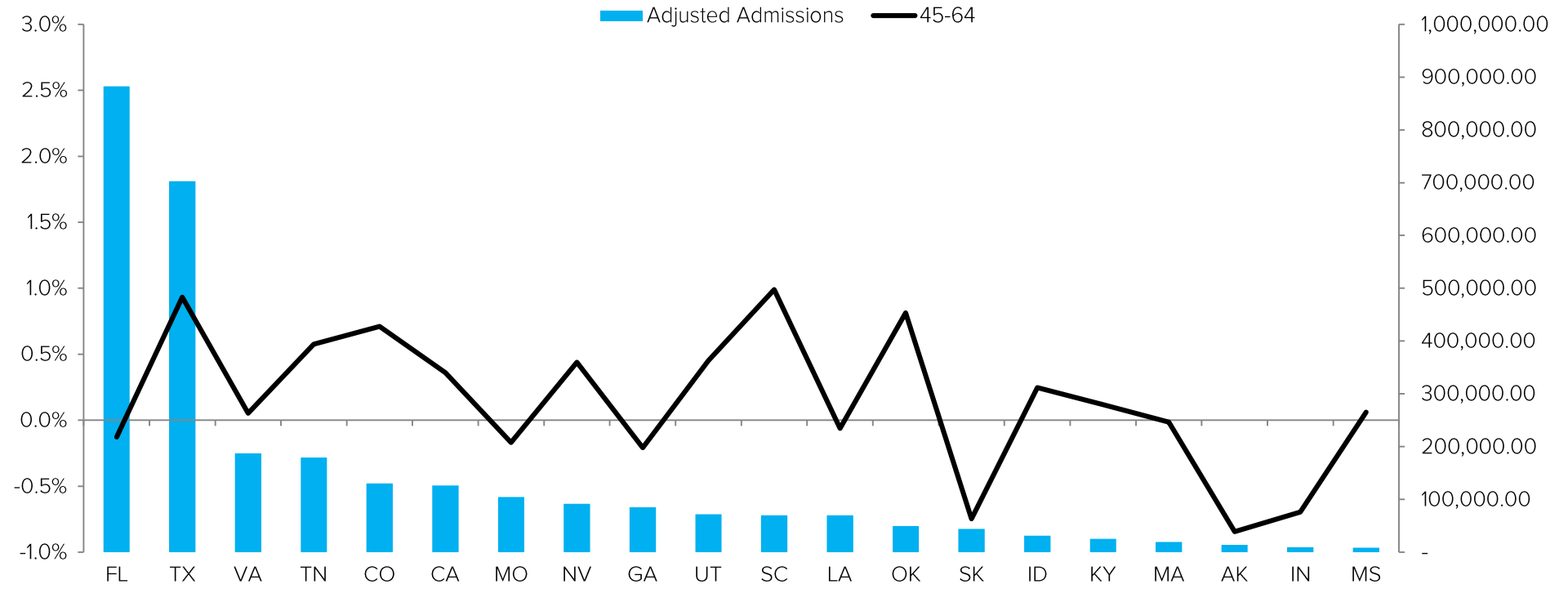


POPULATION GROWTH MODEST IN TOTAL

The combined annual growth for each CBSA combined by state will be modest over the coming 5 years at +1.37% for HCA, weighted for their CBSA exposure by admissions.

SOURCE: AHA, ESRI

45-64 AGE POPULATION GROWTH HCA MARKETS

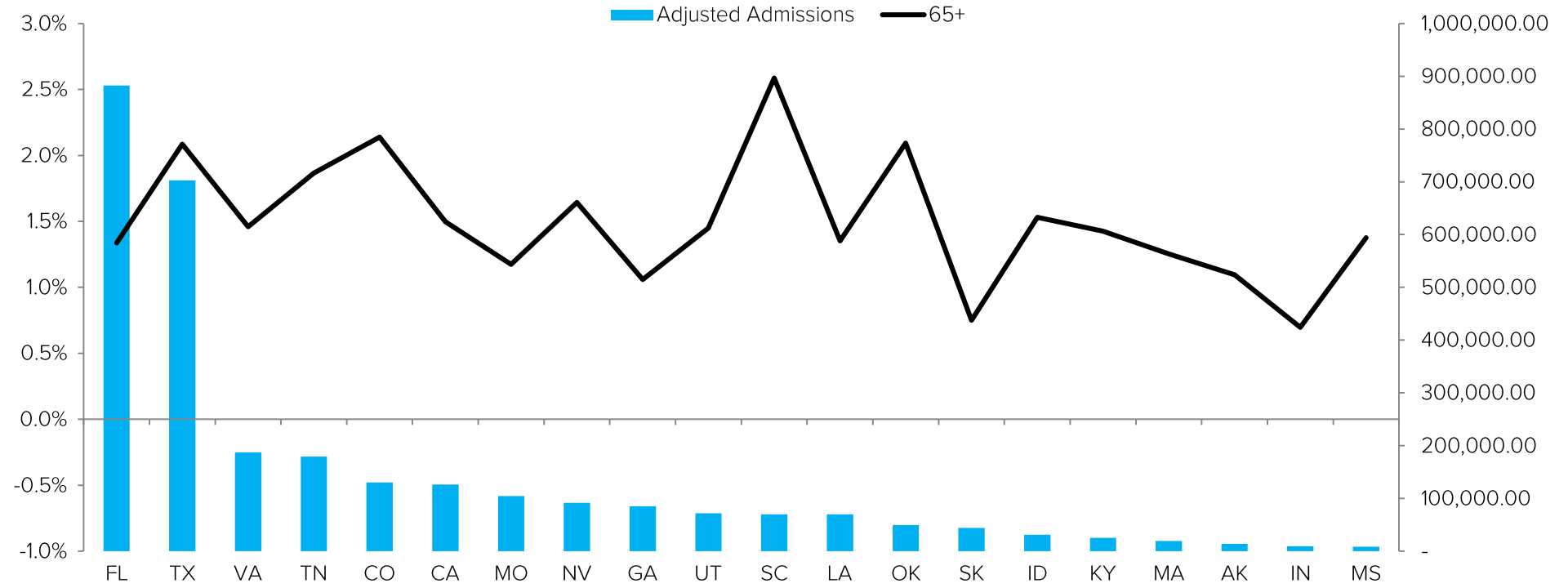


POPULATION GROWTH FOR 45-64 YEAR OLD GROUP NEAR 0%

The combined annual growth for each CBSA combined by state for the commercially insured population, the highest revenue per admission and profit will grow 0.45% over the coming 5 years.

SOURCE: AHA, ESRI

65+ AGE POPULATION GROWTH HCA MARKETS

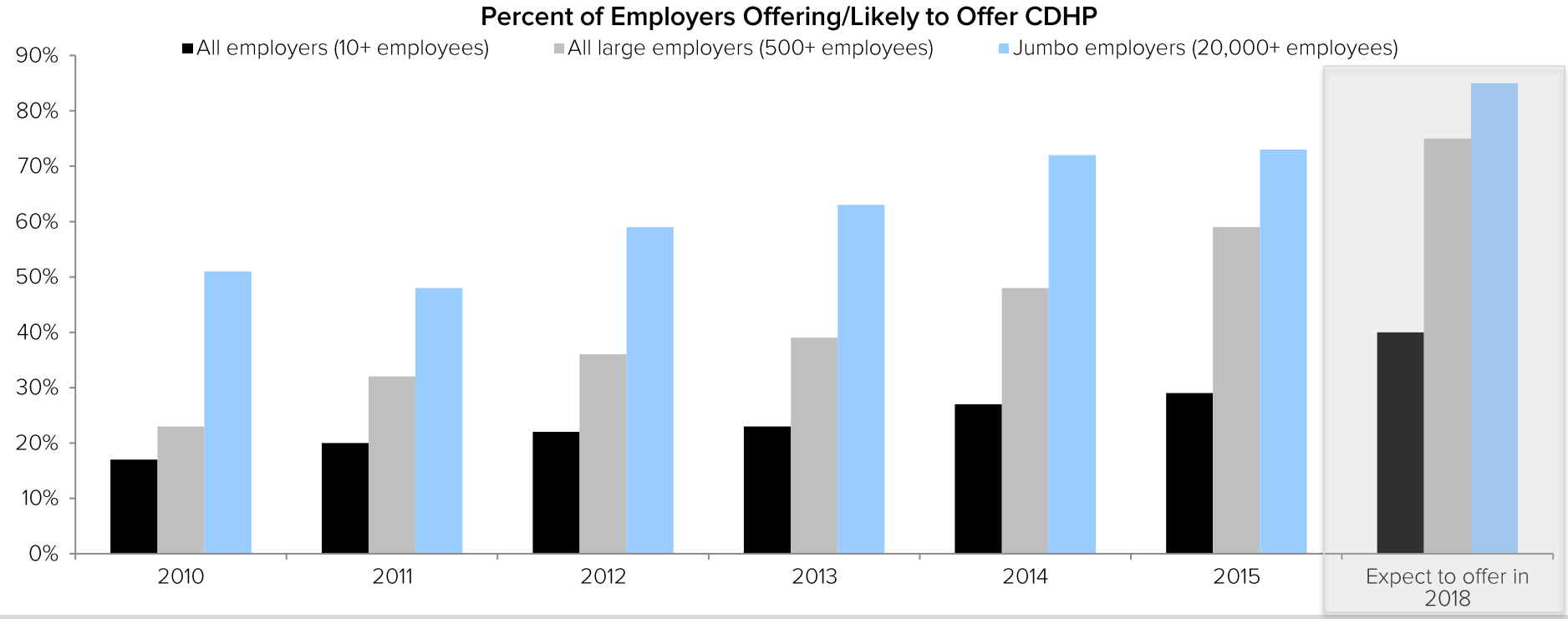


MEDICARE WILL BE THE ONLY SOURCE OF GROWTH NEXT 5 YEARS

The combined annual growth for each CBSA combined by state for the 65+ population represents 90% of the incremental growth over the coming 5 years for HCA, creating

SOURCE: AHA, ESRI

GROWTH IN HIGH DEDUCTIBLE ACCELERATING

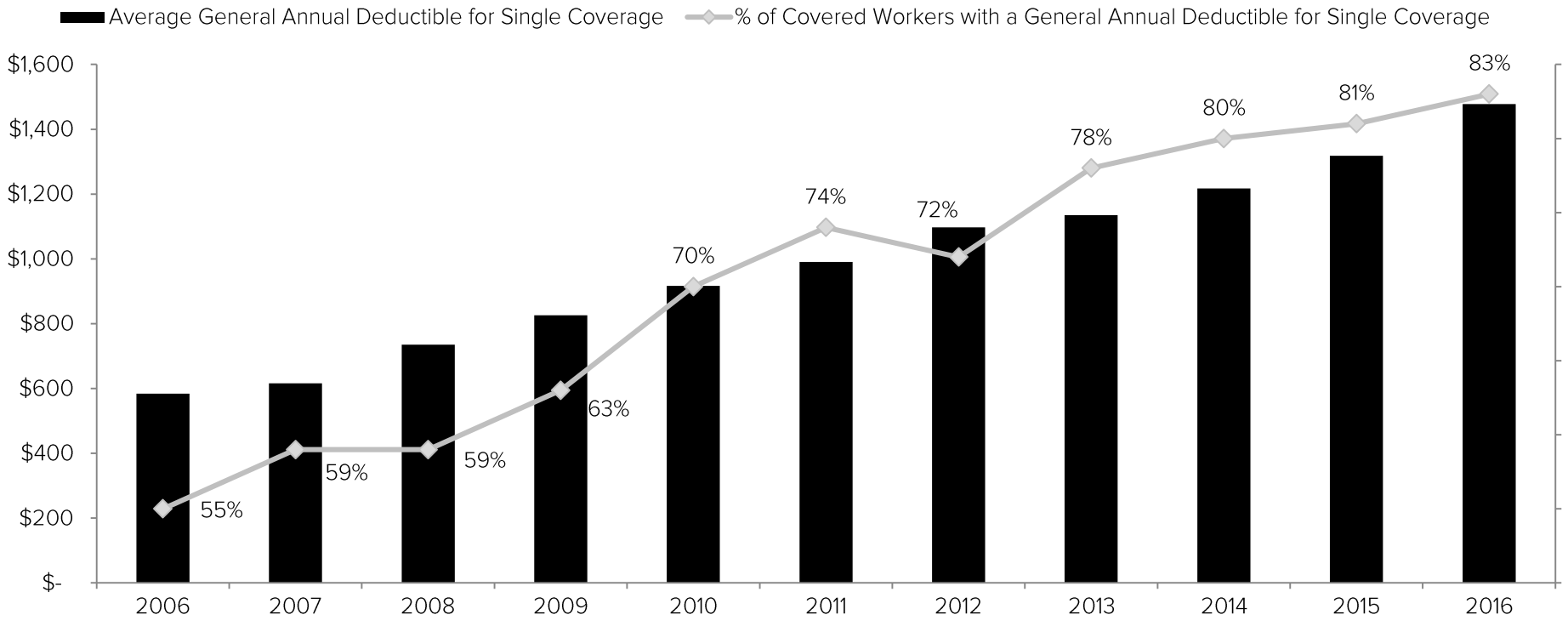


HDHP IS ALREADY PERVASIVE

The implication for consumer preferences for lower price and higher quality is very likely to accelerate alongside higher out of pocket expenses.

DATA SOURCE: 2014/2015 MERCER SURVEY OF HEALTH PLANS

DEDUCTIBLE CAN EAT AN ENTIRE PAYCHECK

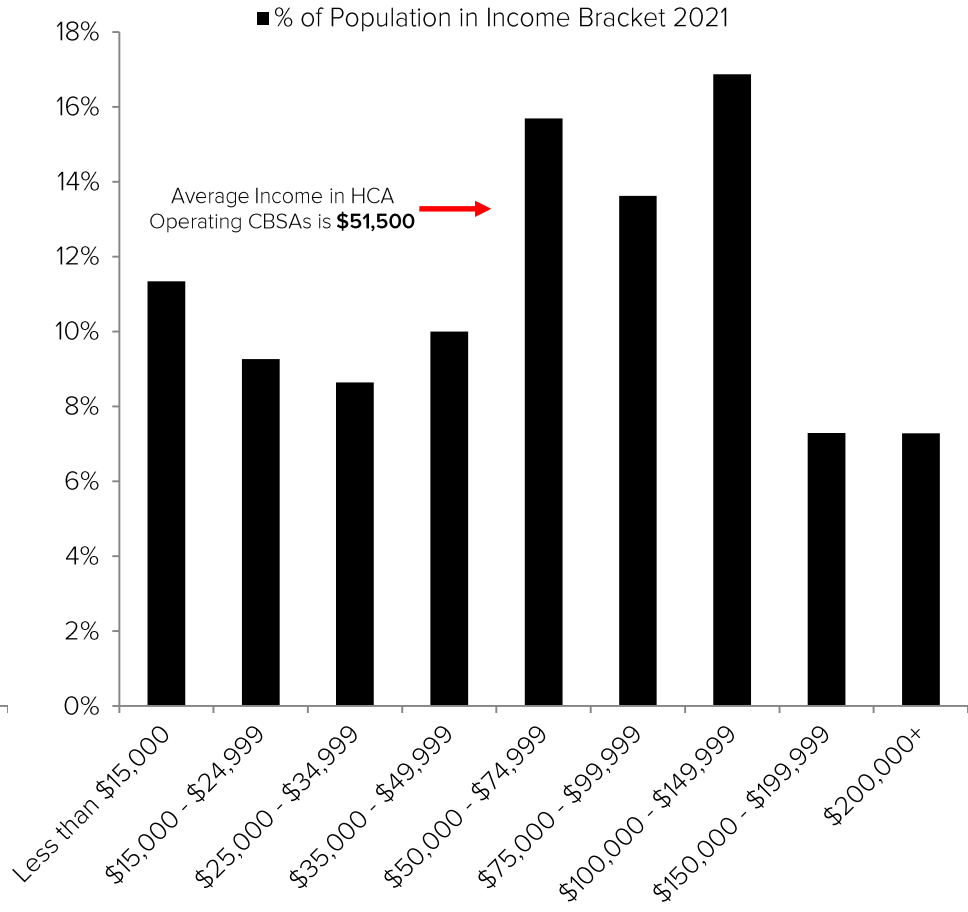


AGGREGATE DEDUCTIBLE IS NOT JUST AN HDHP PHENOMENON

Assuming a $45,000 salary and a 35% tax rate, the deductible would consume an entire paycheck or more.

DATA SOURCE: KAISER/HRET SURVEY OF EMPLOYEE-SPONSORED HEALTH BENEFITS, 2004-2016

AVERAGE INCOME WITH HCA CBSAS SET TO DECLINE

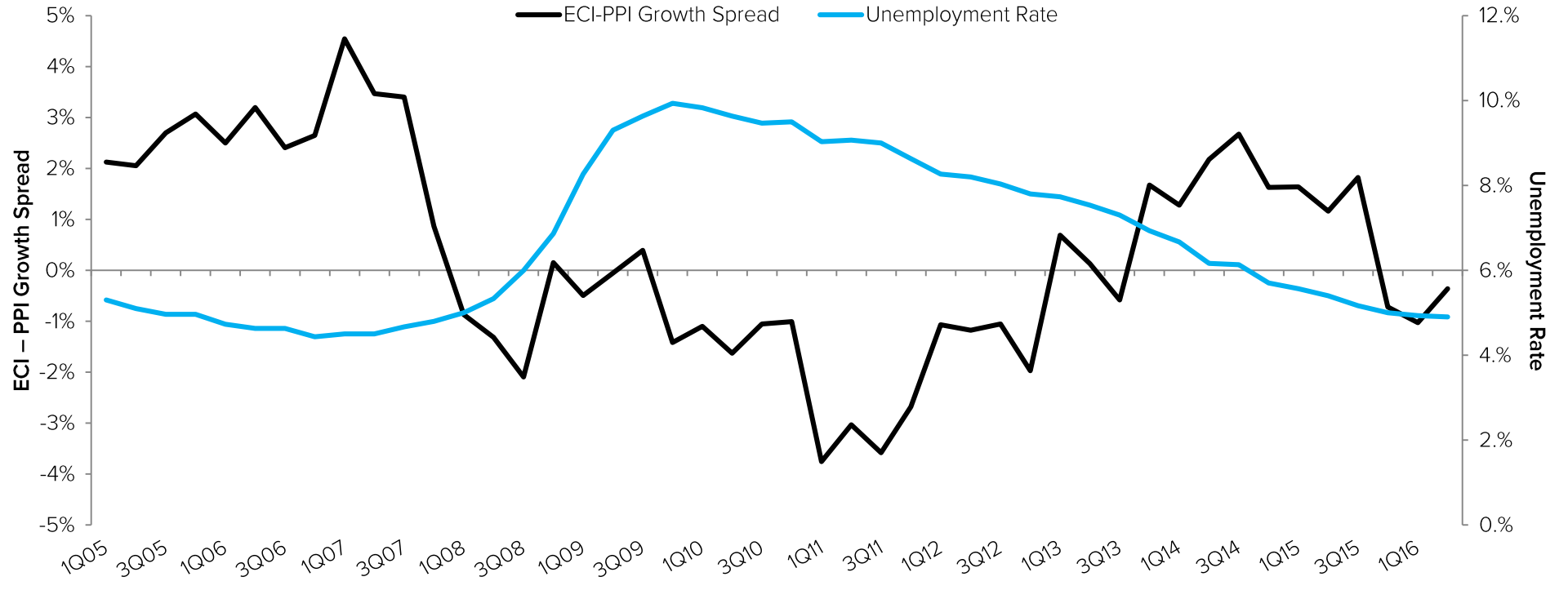


SOURCE: ESRI & BLS

INCOME GROWTH 2016-2021

SOURCE: ESRI & BLS

COST SHIFTING MOVING BACK TO CONSUMER

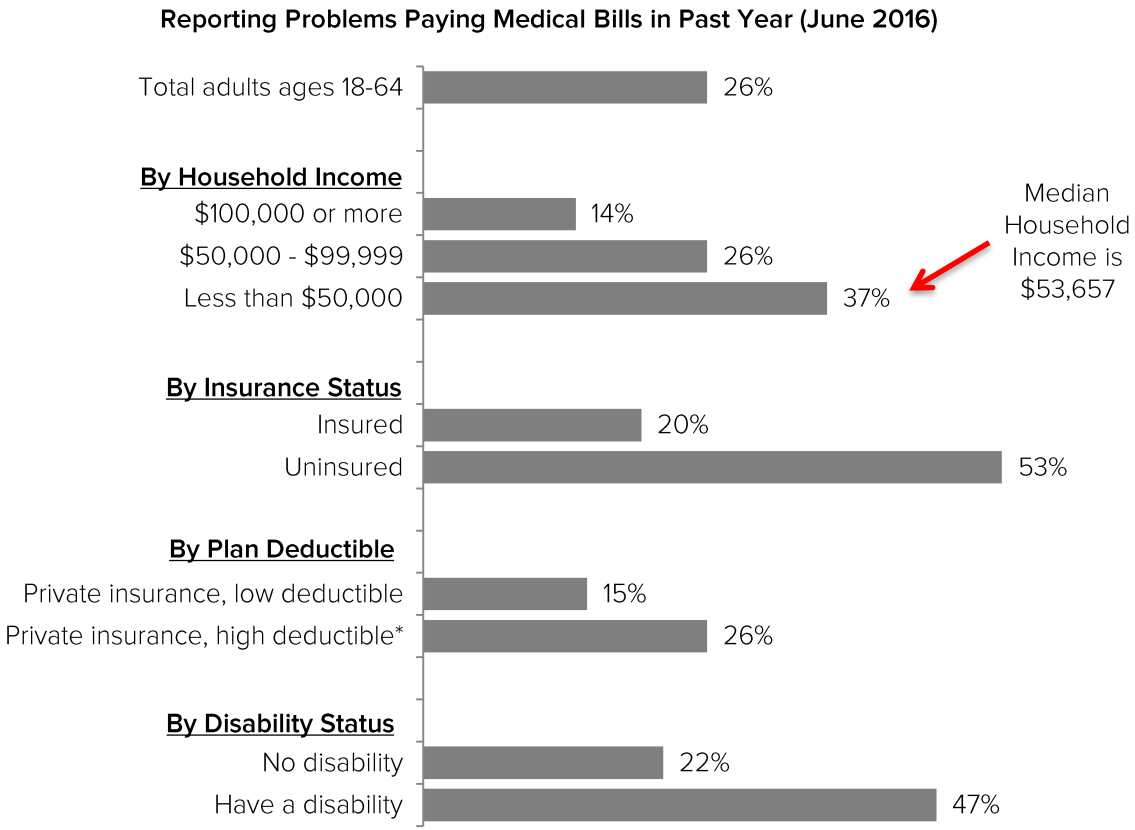


EMPLOYEES ABSORBING THE MARGINAL PREMIUM $ INCREASE

PPI includes co-pays and deductibles and ECI does not. A negative spread means employers are pushing cost sharing to their employees.

DATA SOURCE: BLS & BEA

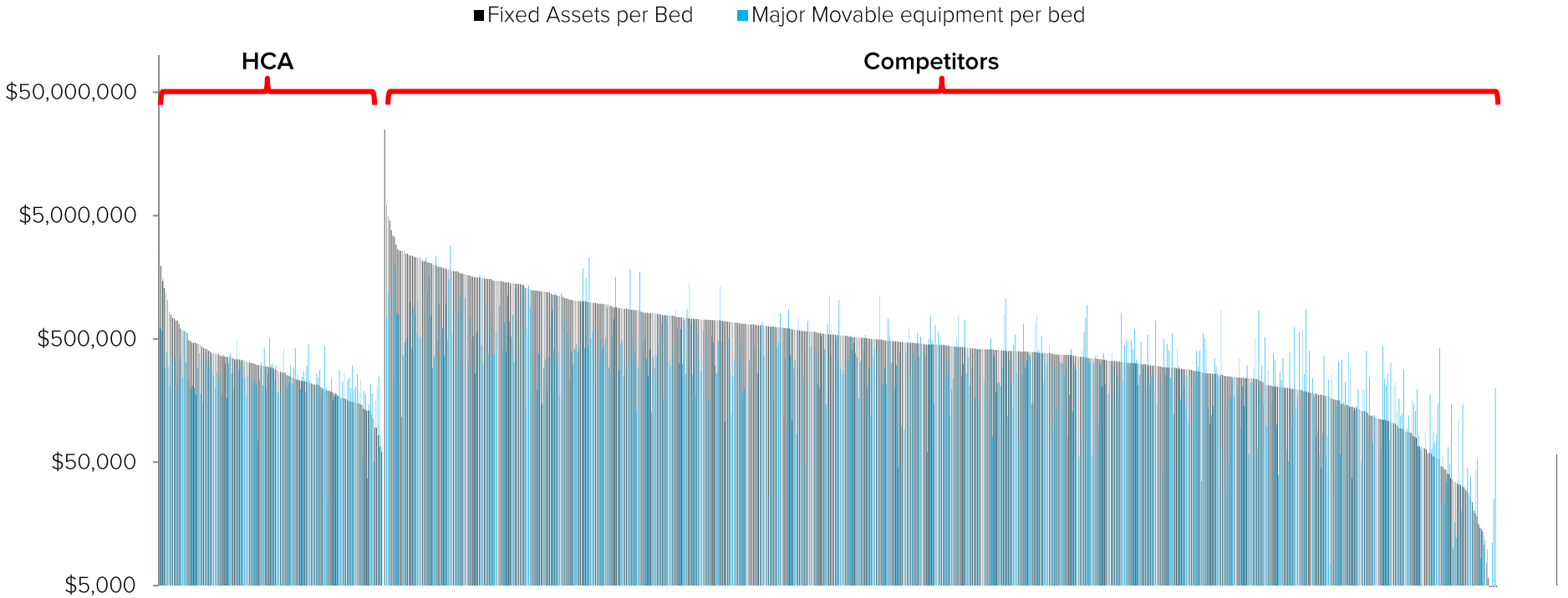
DIFFICULT PAYING MEDICAL BILLS



DATA SOURCE: KAISER FAMILY FOUNDATION

QUALITY

FIXED AND MOVABLE EQUIPMENT ASSETS PER BED

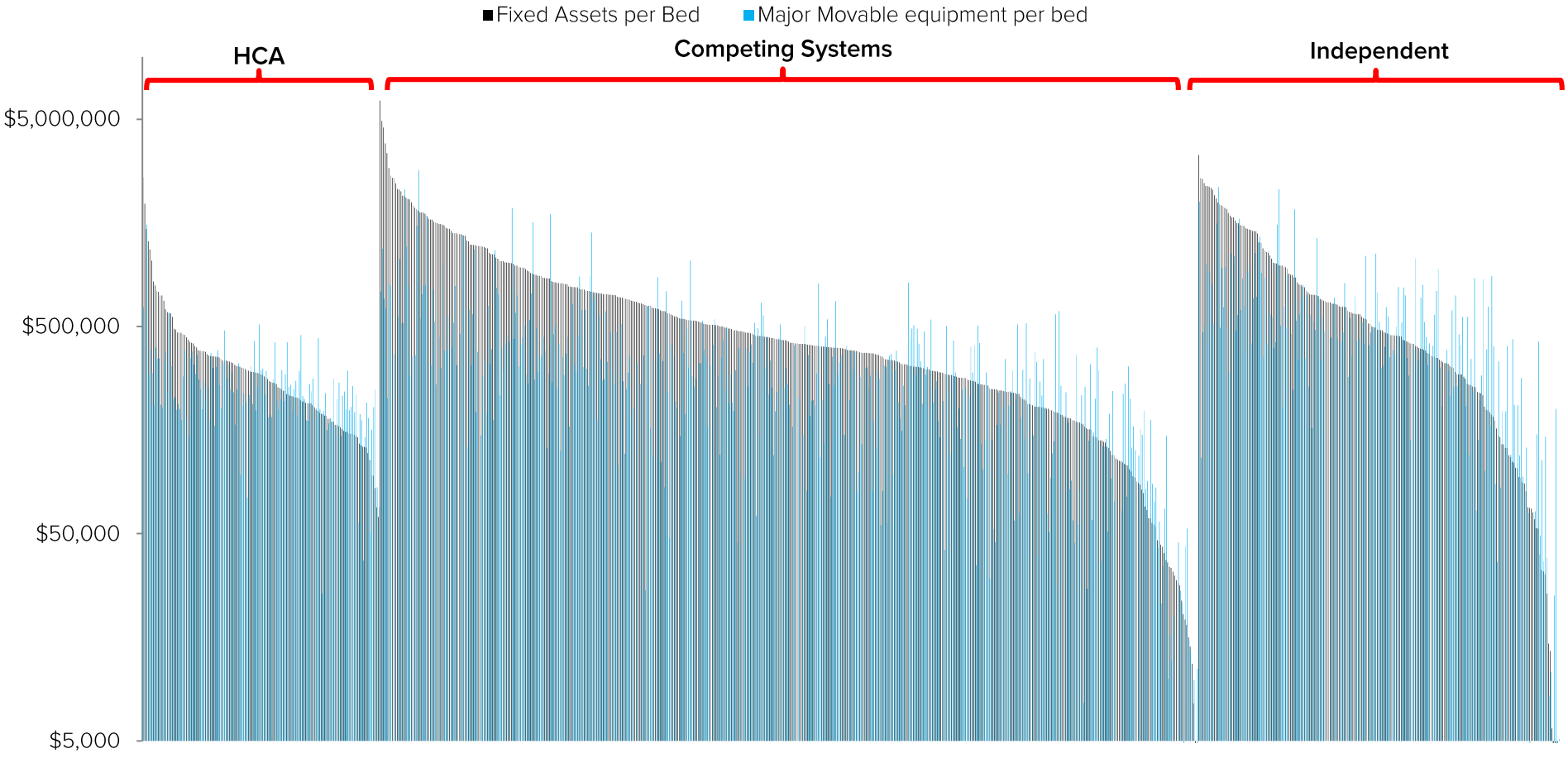


HCA INVESTS LESS PER BED COMPARED TO IN MARKET COMPETITORS

The capital advantage in not apparent in either fixed or major movable medical equipment when comparing HCA to its in-market competition.

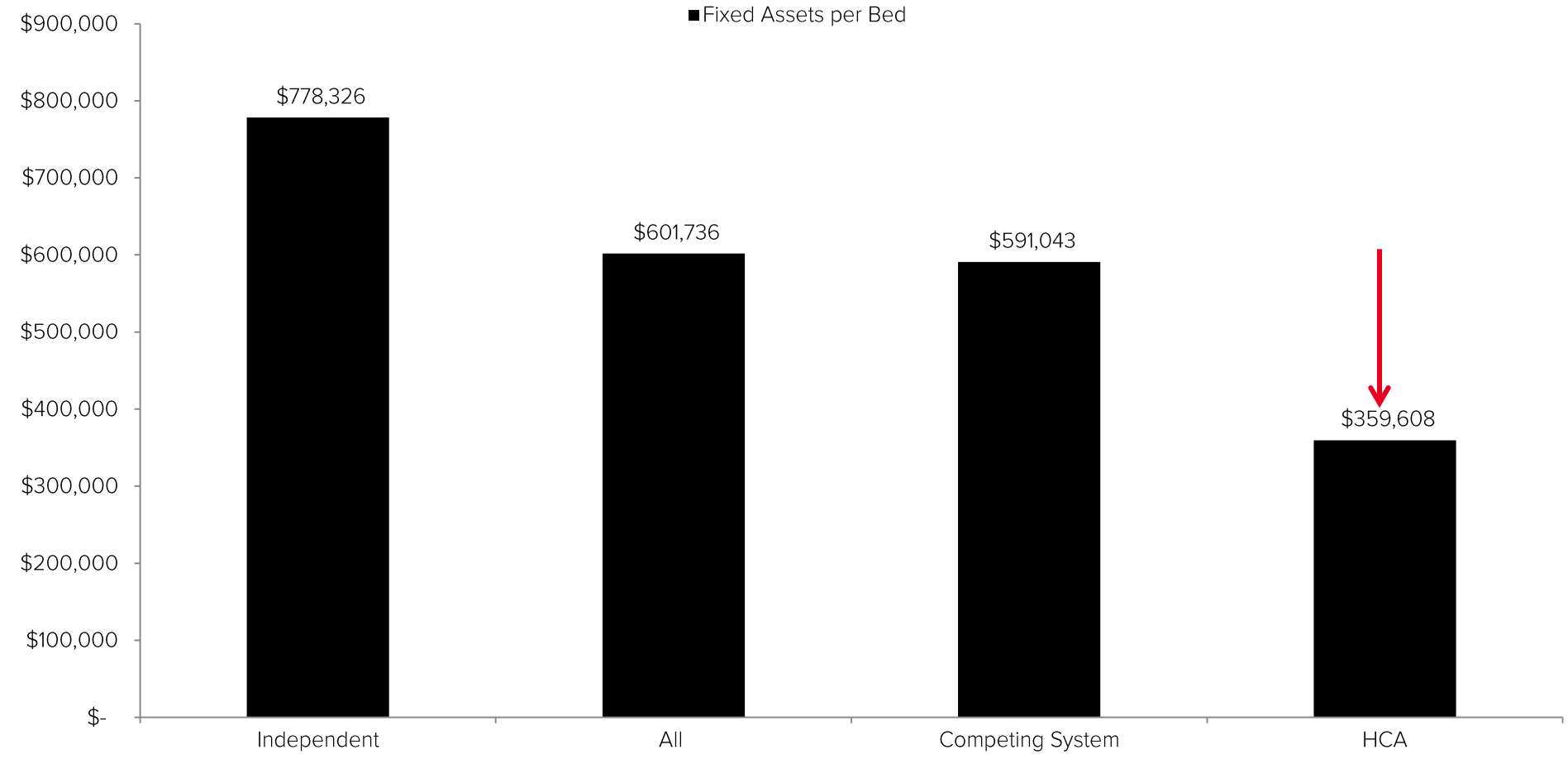
SOURCE: AHA

HCA SPENDS LESS ON CAPITAL COMPARATIVELY



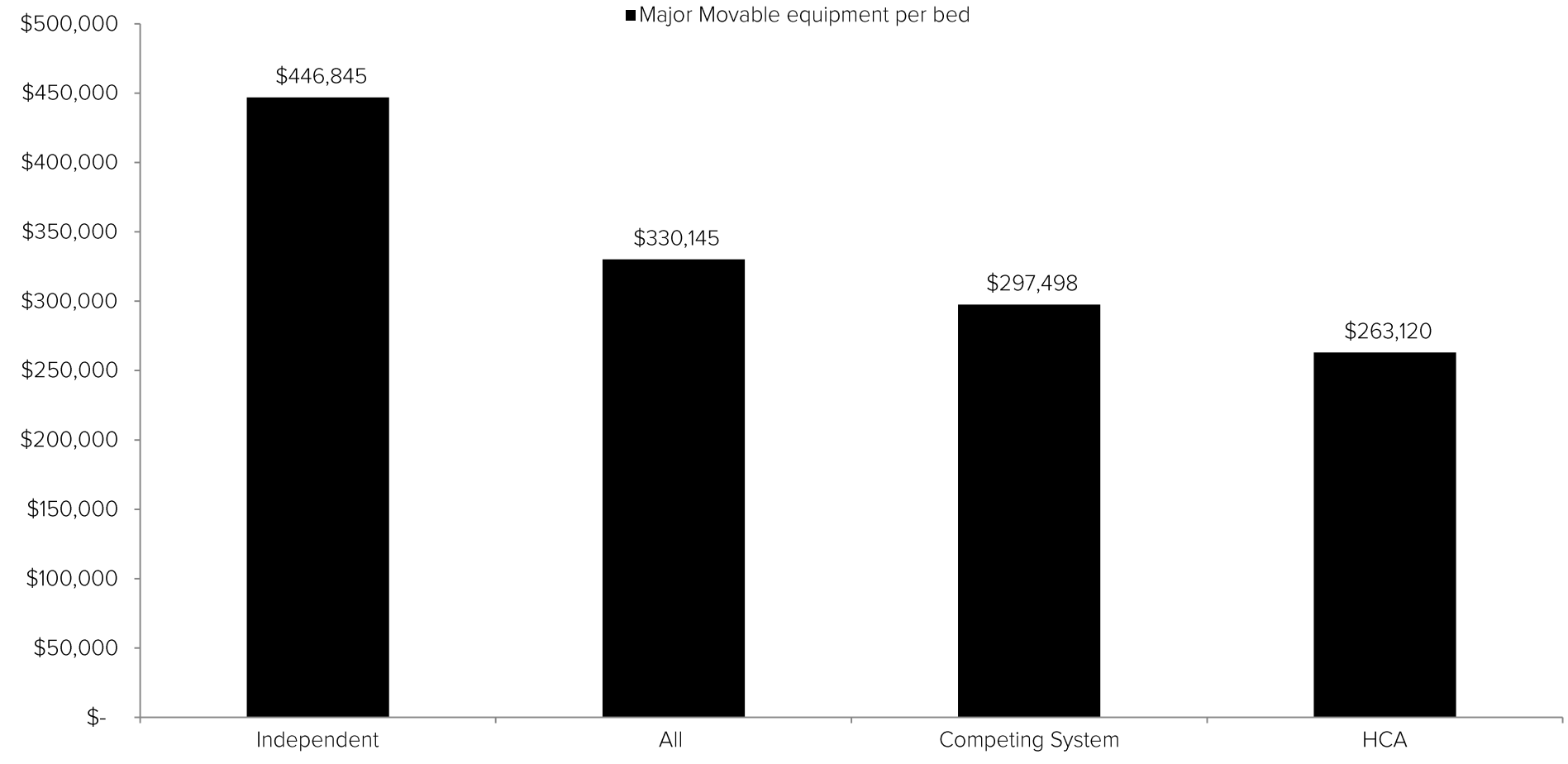
SOURCE: AMERICAN HOSPITAL ASSOCIATION

FEWER ASSETS PER BED



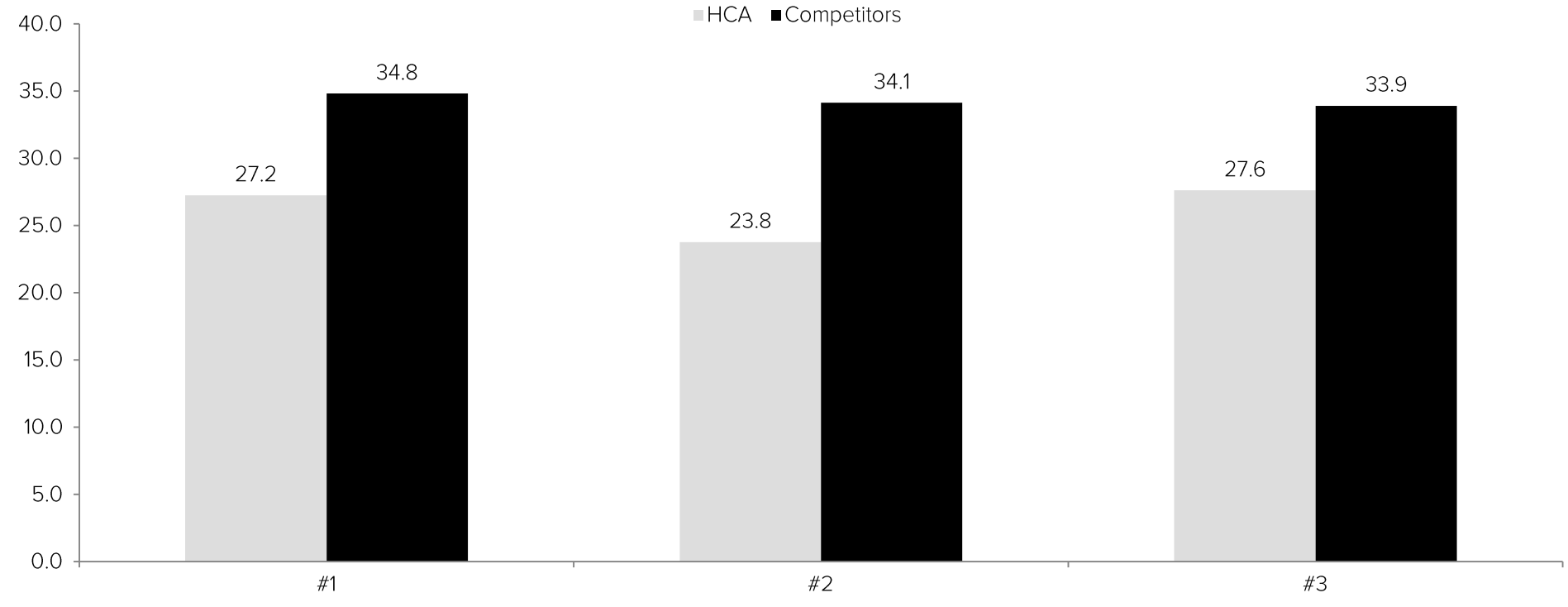
SOURCE: AMERICAN HOSPITAL ASSOCIATION

LESS MOVABLE EQUIPMENT PER BED



SOURCE: AMERICAN HOSPITAL ASSOCIATION

PATIENT EXPERIENCE CARE DOMAIN SCORE

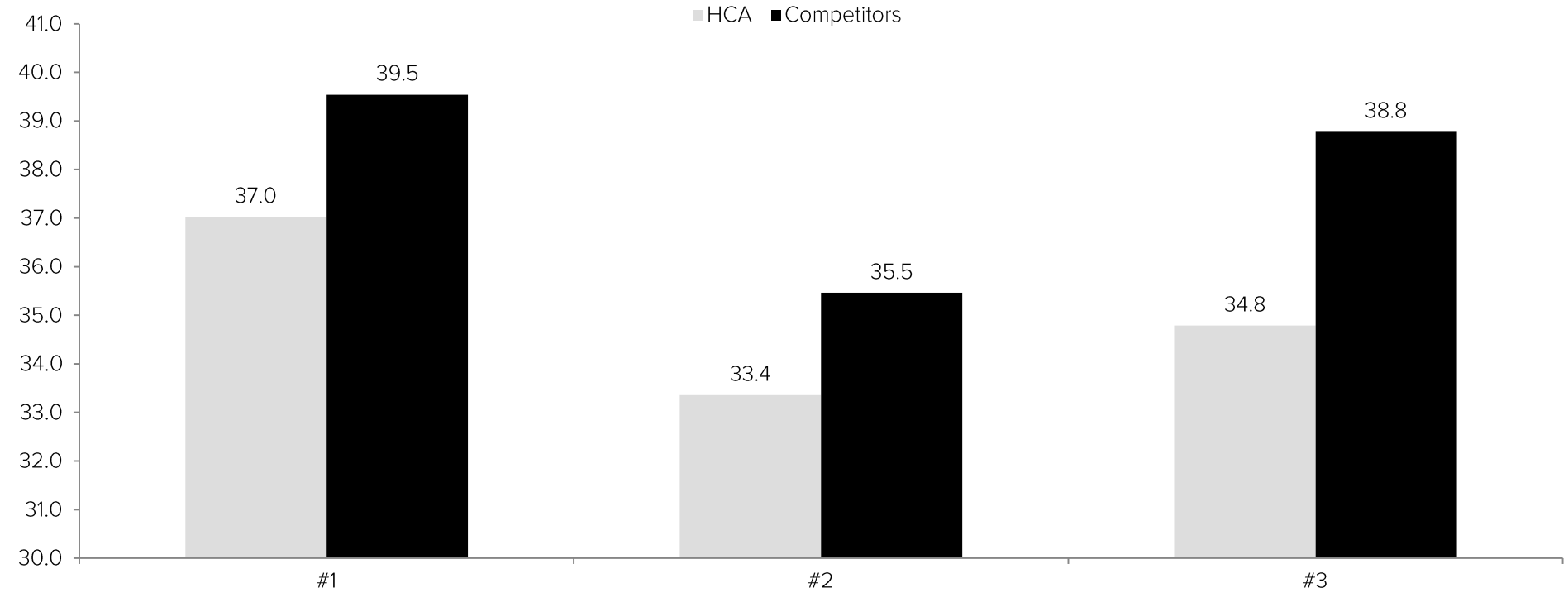


LESS FAVORABLE PATIENT SURVEY SCORING

We suspect improving patient satisfaction will run through HCA's payroll expense and advertising budgets.

SOURCE: AHA

TOTAL PERFORMANCE SCORE BY MARKET POSITION

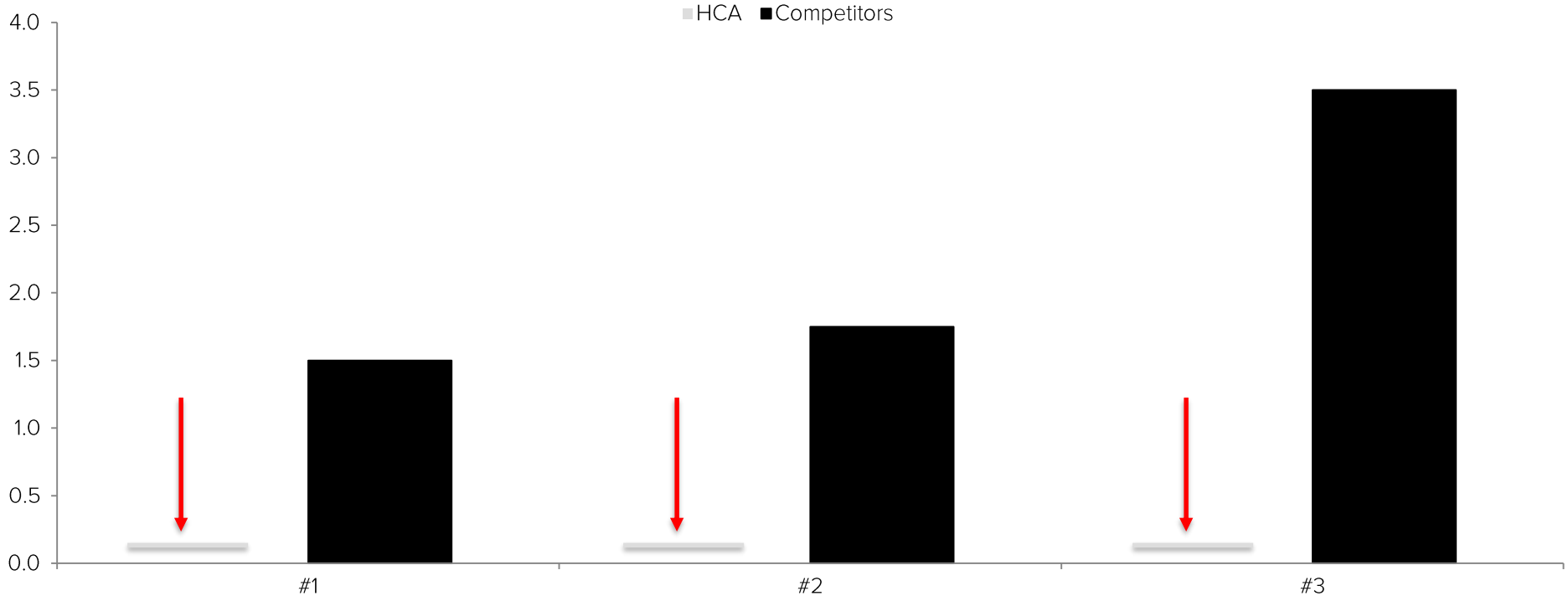


LOWER TOTAL PERFORMANCE SCORE VERSUS IN-MARKET SYSTEM PEERS

Total Performance Score impacts Medicare pricing, with lower scores leading to lower Medicare reimbursement. Compared to in-market peers, HCA routinely receives lower aggregate scoring, primarily driven by patient survey data, at least under the current system.

SOURCE: AHA

U.S. NEWS RANKINGS | NATIONAL RANKINGS

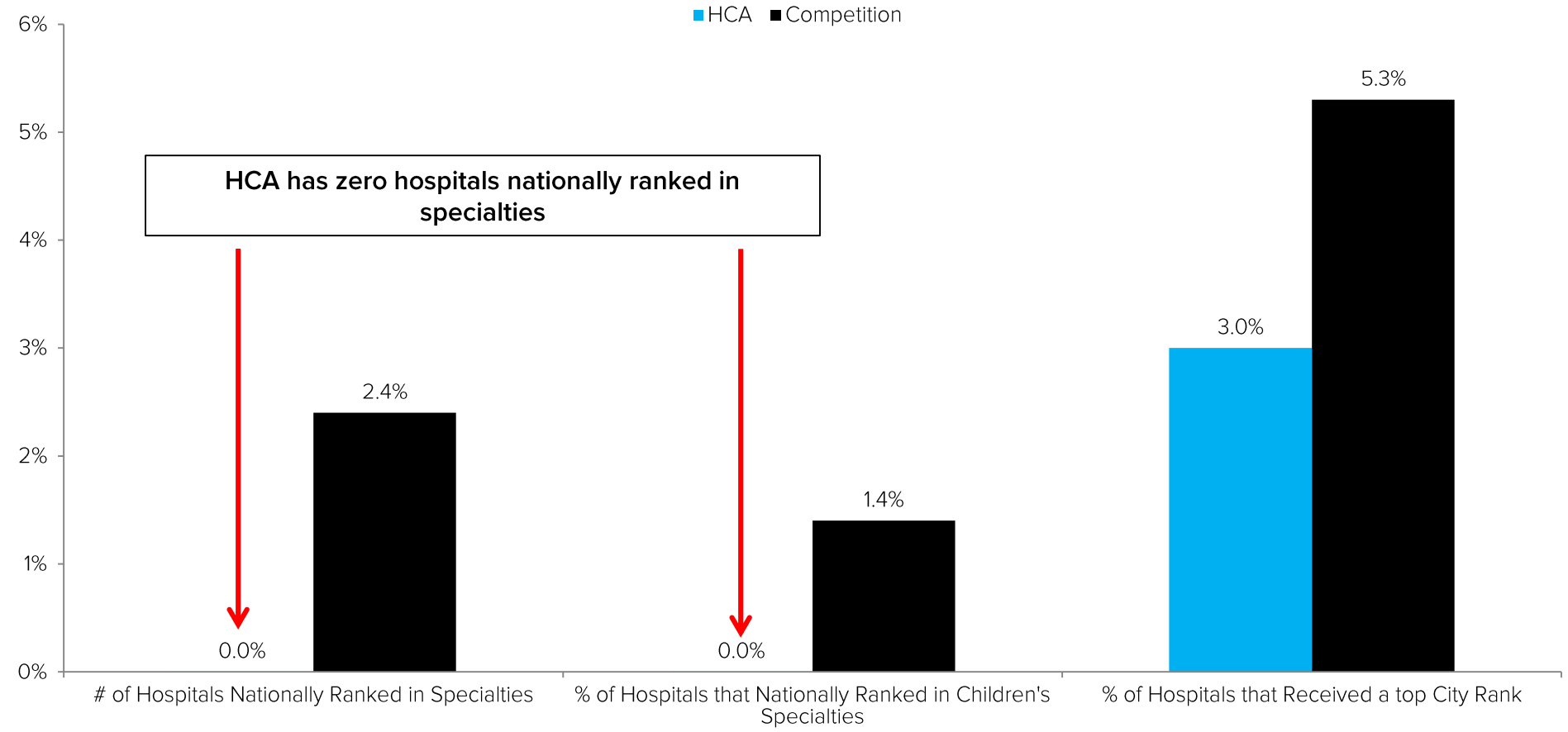


NO NATIONALLY RANKED HOSPITALS AMONG HCA FACILITIES

These rankings reinforce local market consumer attitudes and will likely have increasing influence on facility pricing power.

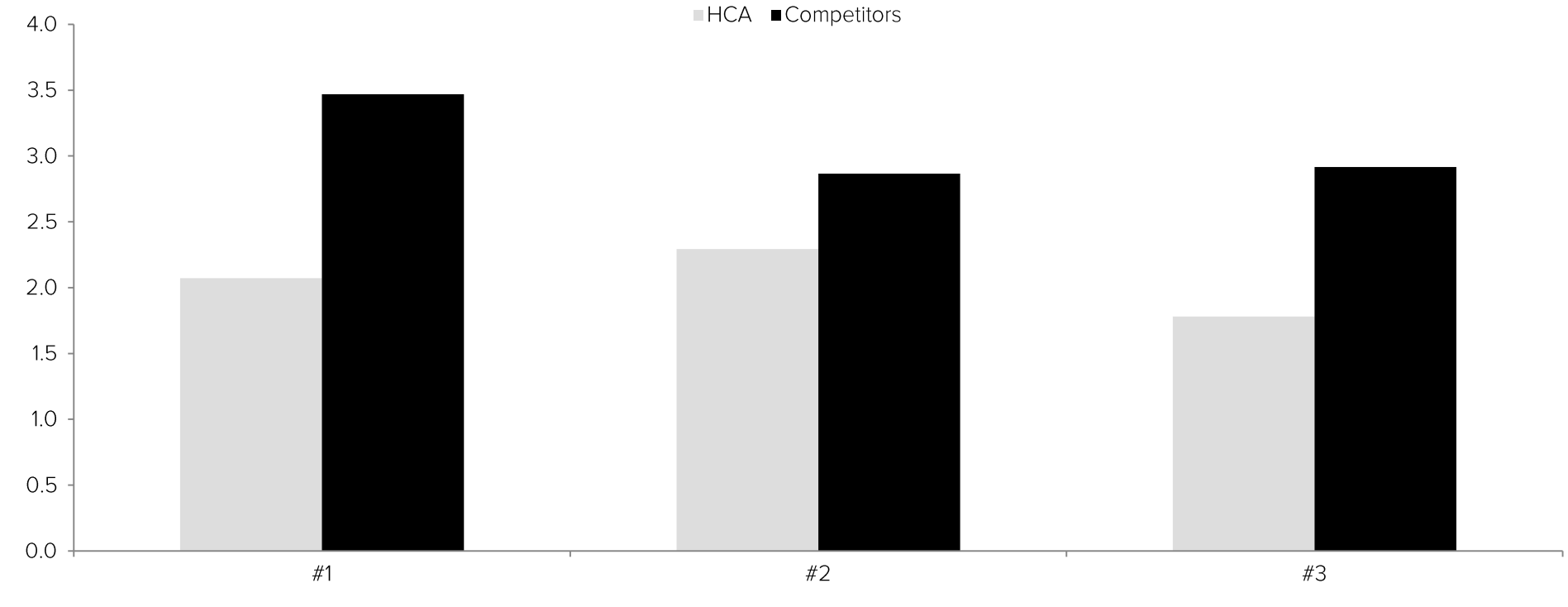
SOURCE: U.S. NEWS

U.S. NEWS RANKINGS | TOP CITY HOSPITAL



SOURCE: U.S. NEWS

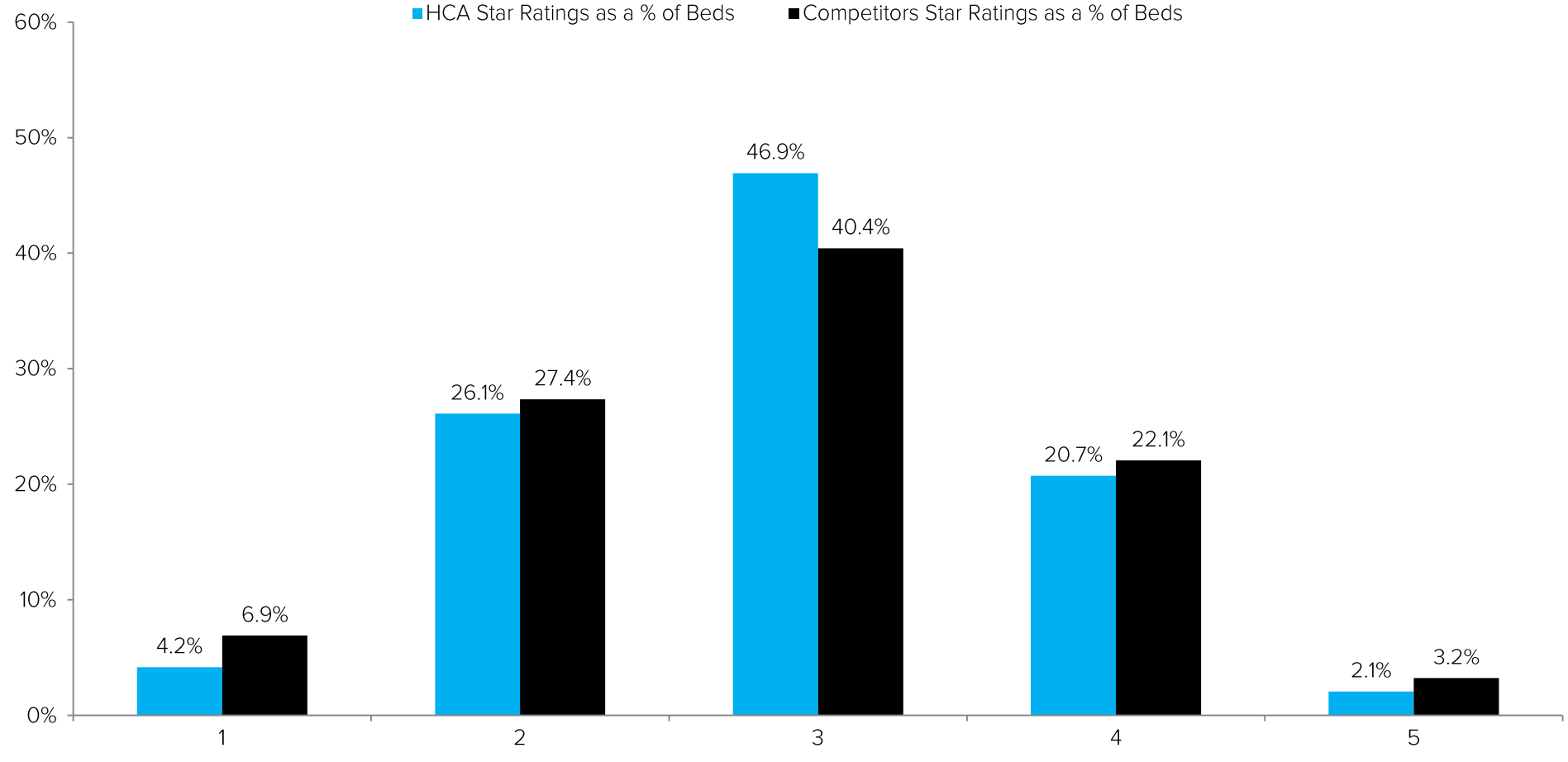
U.S. NEWS RANKINGS HIGH PERFORMING CATEGORIES



FEWER HIGH PERFORMING CATEGORIES VS SYSTEM COMPETITORS

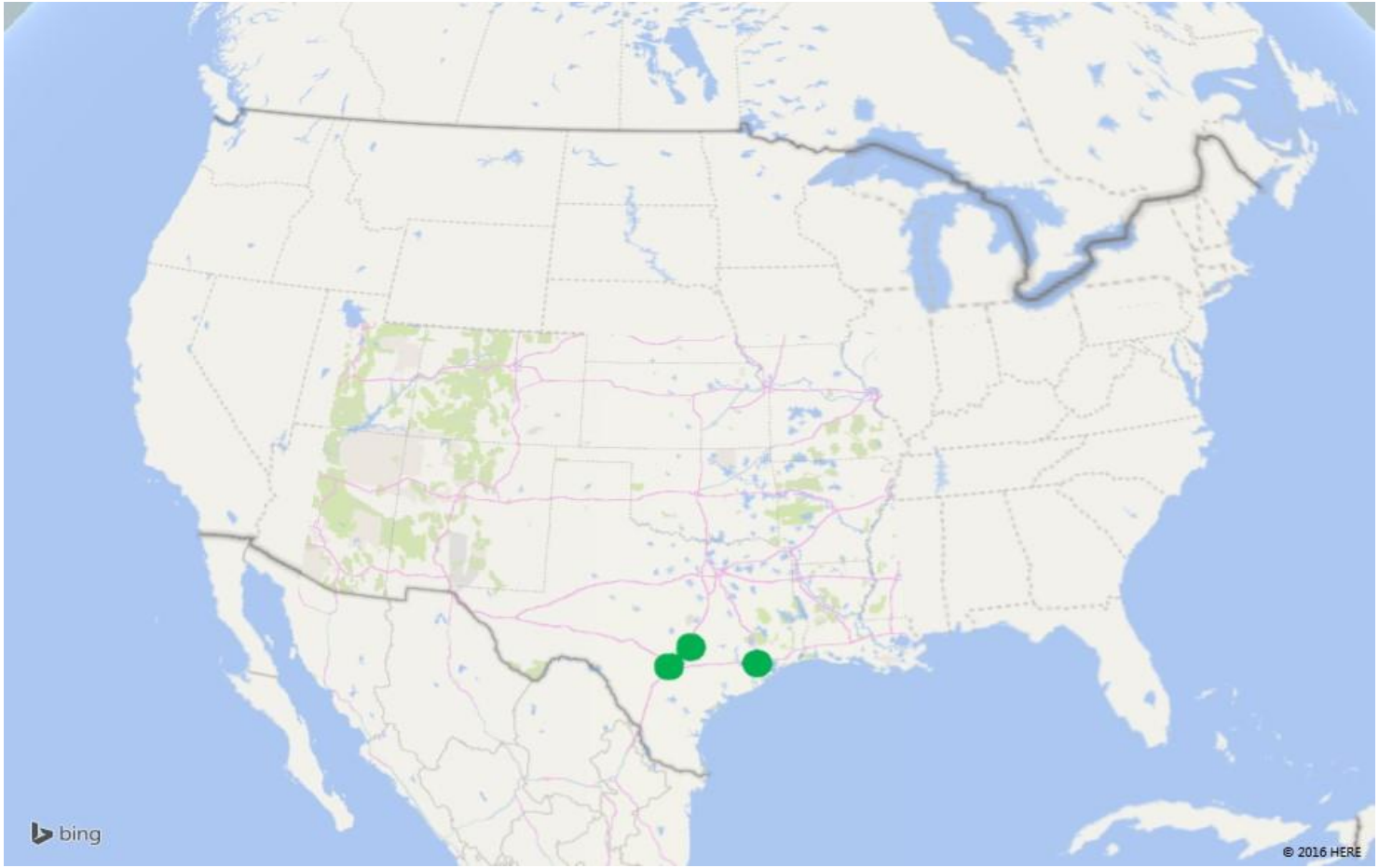
SOURCE: U.S. NEWS

STAR RATINGS AS A % OF BEDS



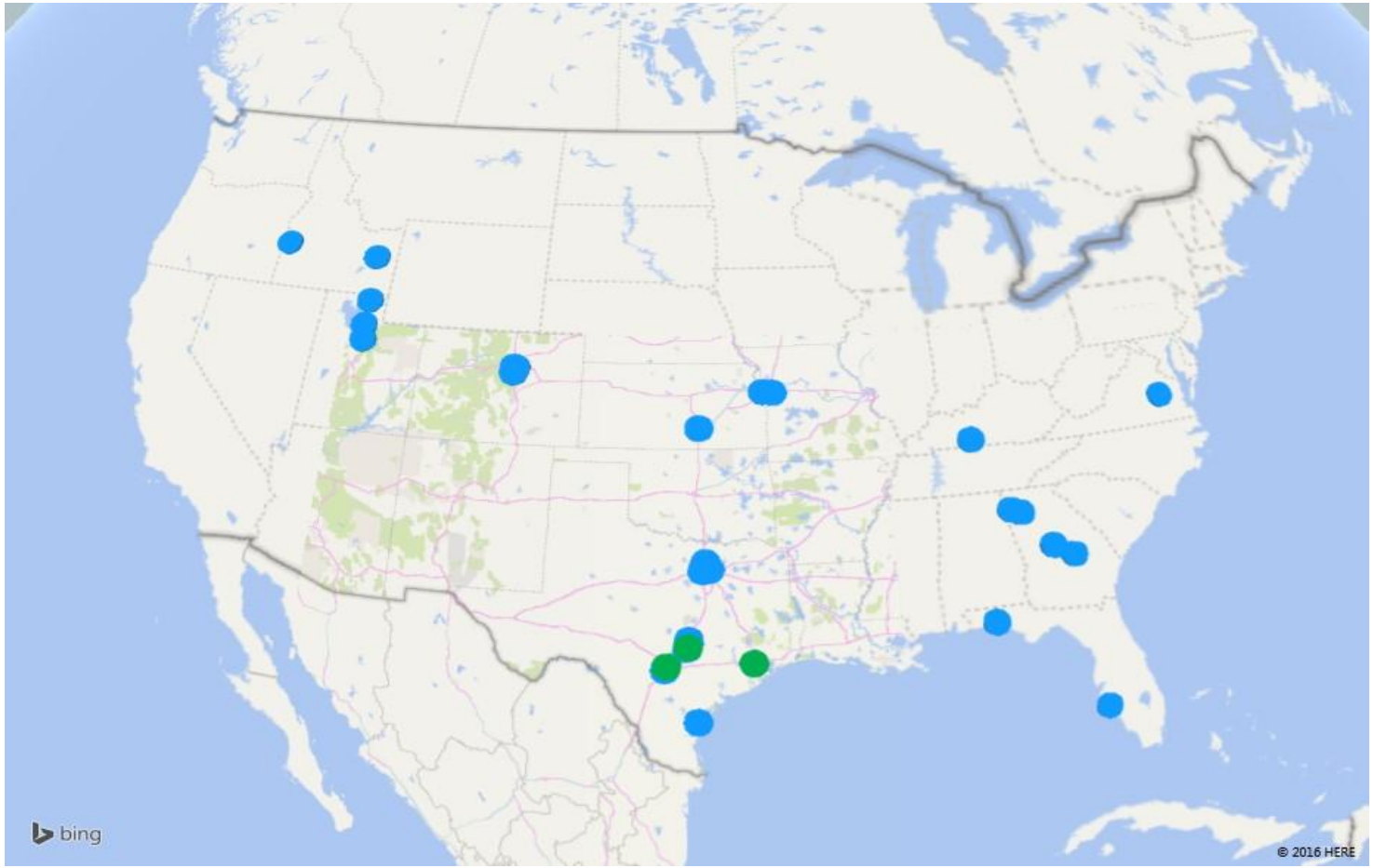
SOURCE: CMS

HCA 5 STAR RATED HOSPITALS



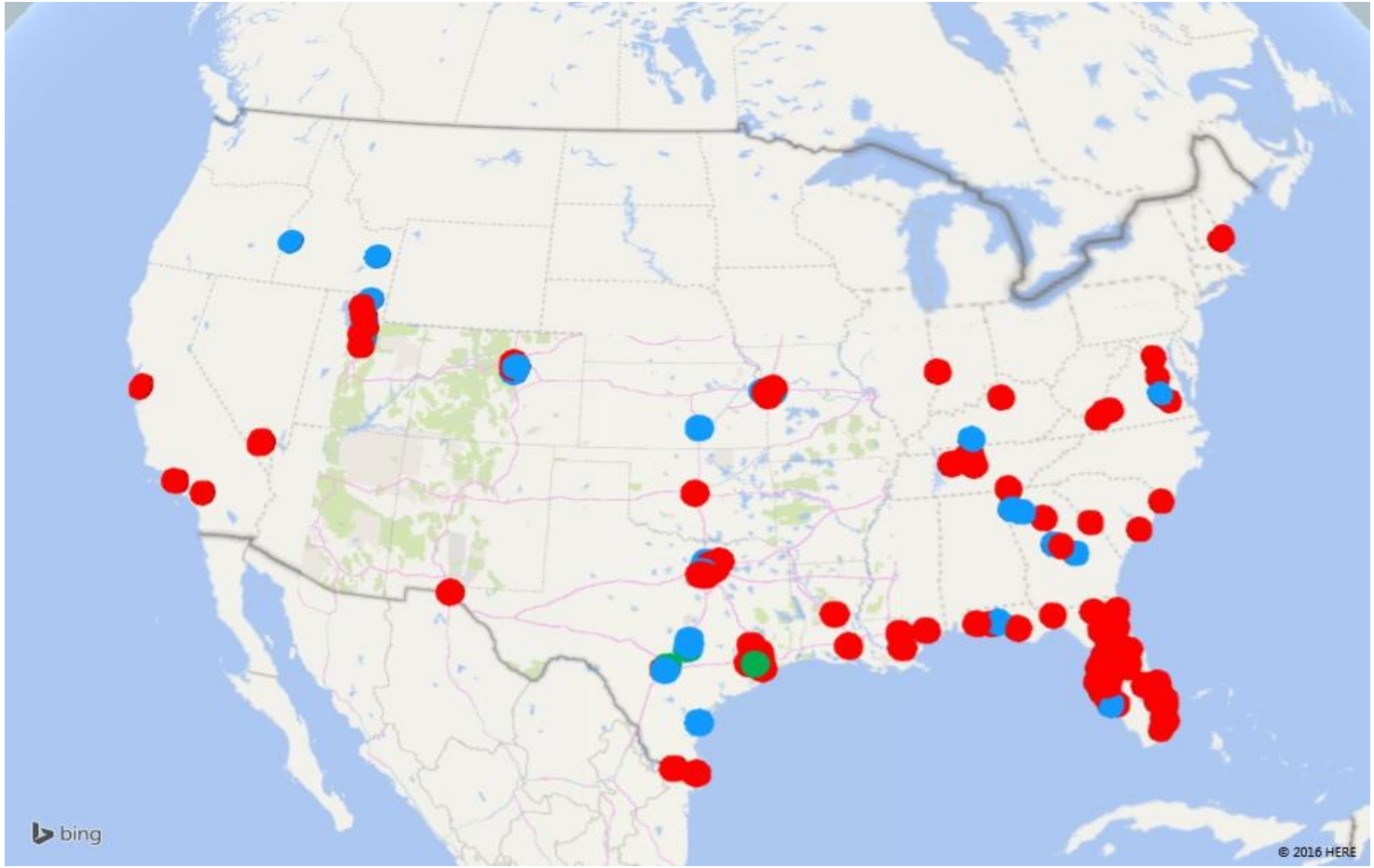
SOURCE: CMS

HCA 4 STAR AND 5 STAR HOSPITALS



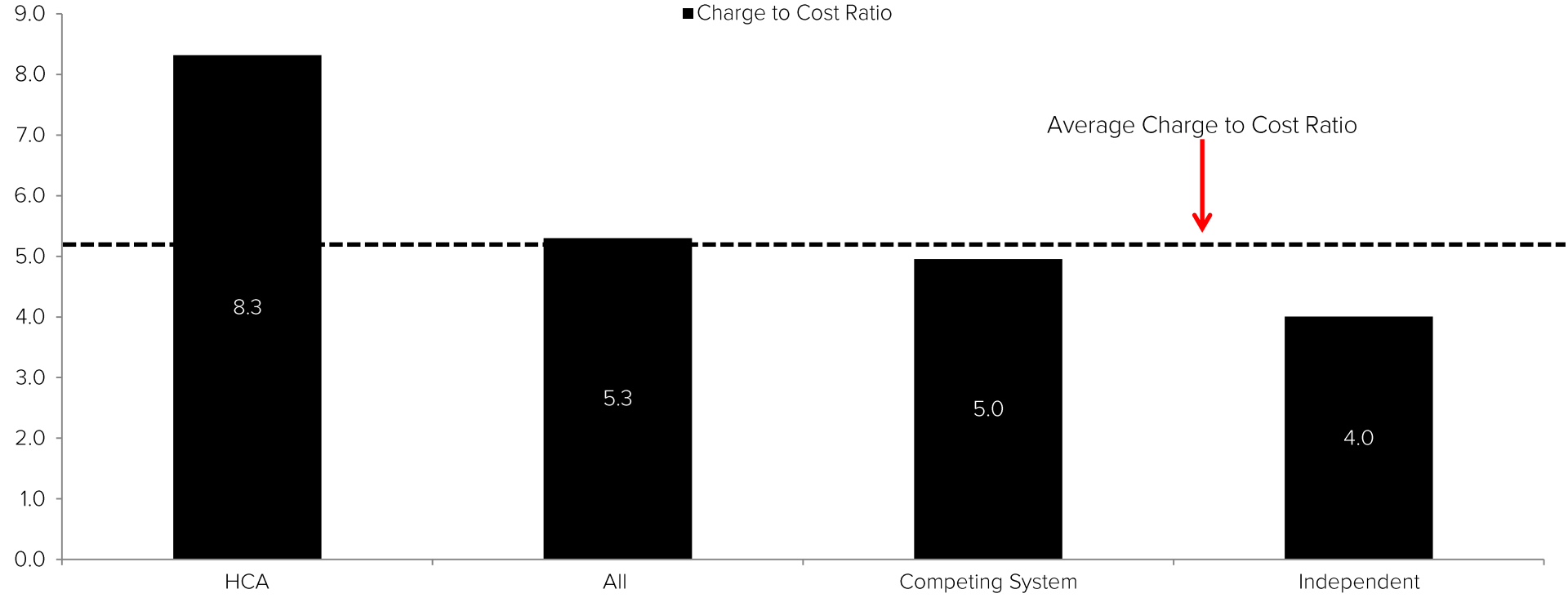
SOURCE: CMS

MOST HCA HOSPITALS HAVE A LOW STAR RATING



SOURCE: CMS

GROSS CHARGES FAR HIGHER THAN COMPETITORS



HCA GROSS CHARGE TO COST RATIO SIN

SOURCE: AMERICAN HOSPITAL ASSOCIATION

“EXTREME MARKUP” | HEALTH AFFAIRS 2015

EXHIBIT 1

Hospitals’ Charge-To-Cost Ratios, 2012

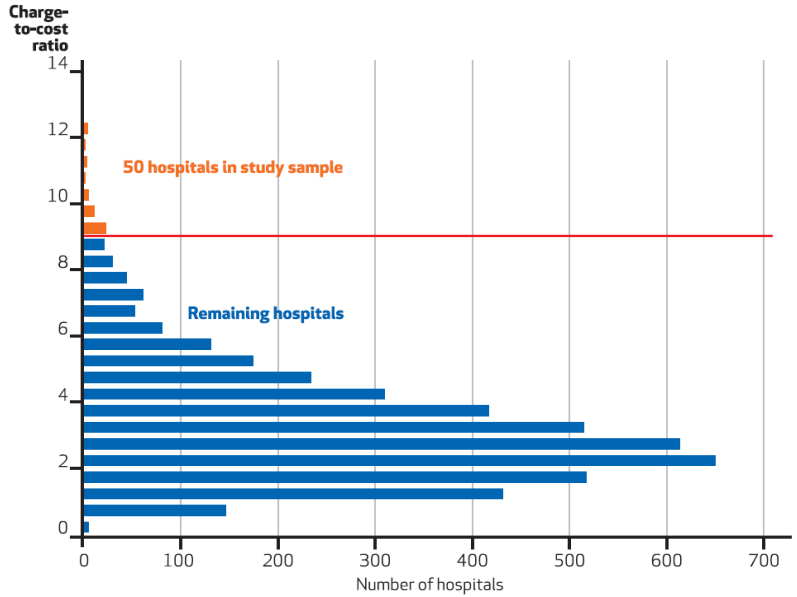
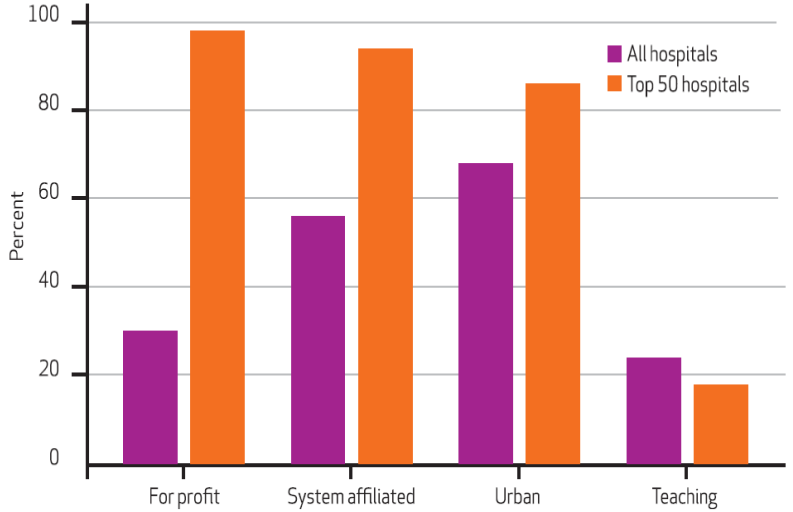


EXHIBIT 2

Characteristics Of The Fifty Hospitals With The Highest Charge-To-Cost Ratios And All Hospitals, 2012

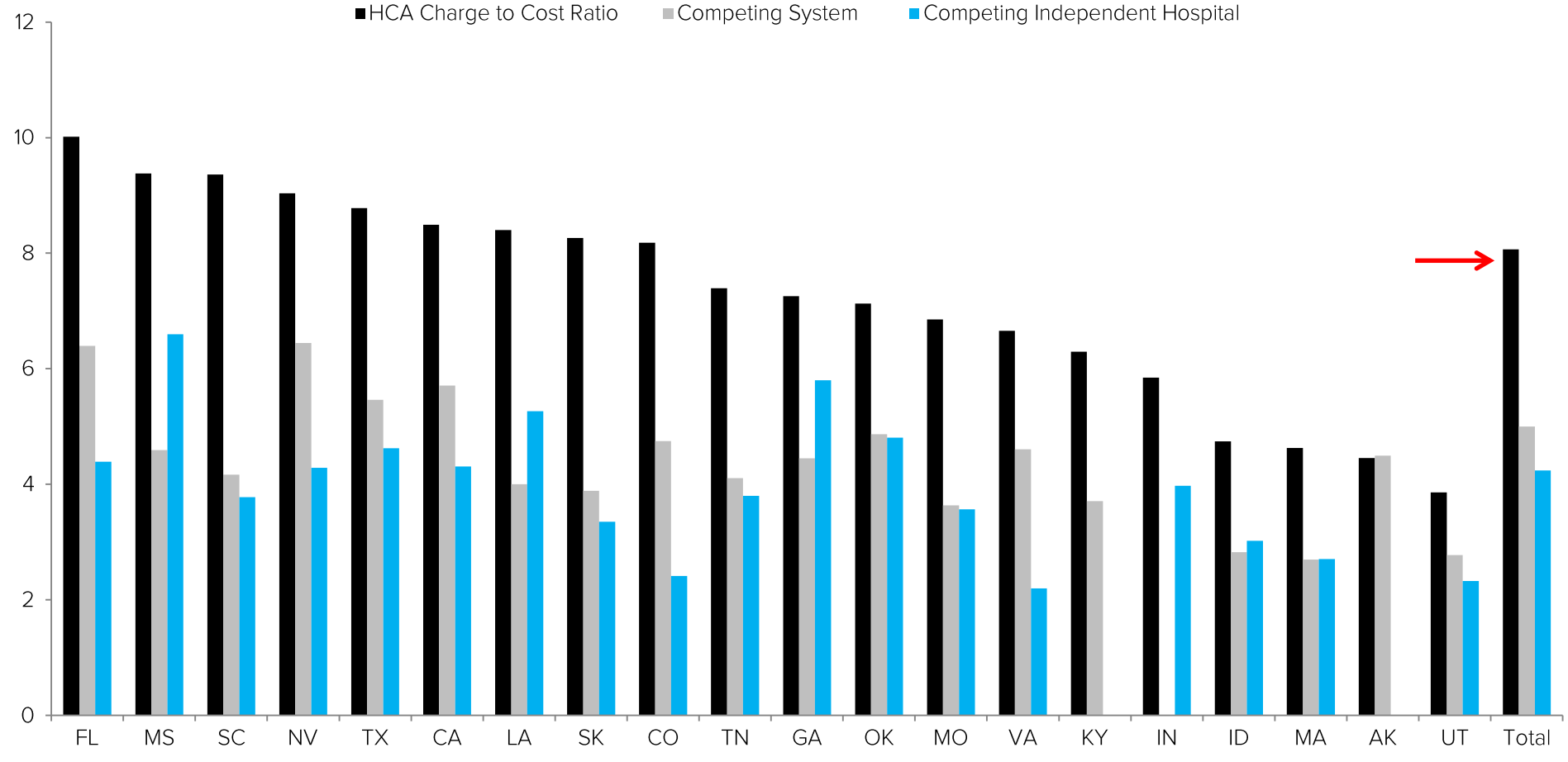


HCA GROSS CHARGE TO COST RATIO

“The main causes of these extremely high markups are a lack of price transparency and negotiating power by uninsured patients, out-of-network patients, casualty and workers’ compensation insurers, and even in-network insurers.” – Bai etal (2015)

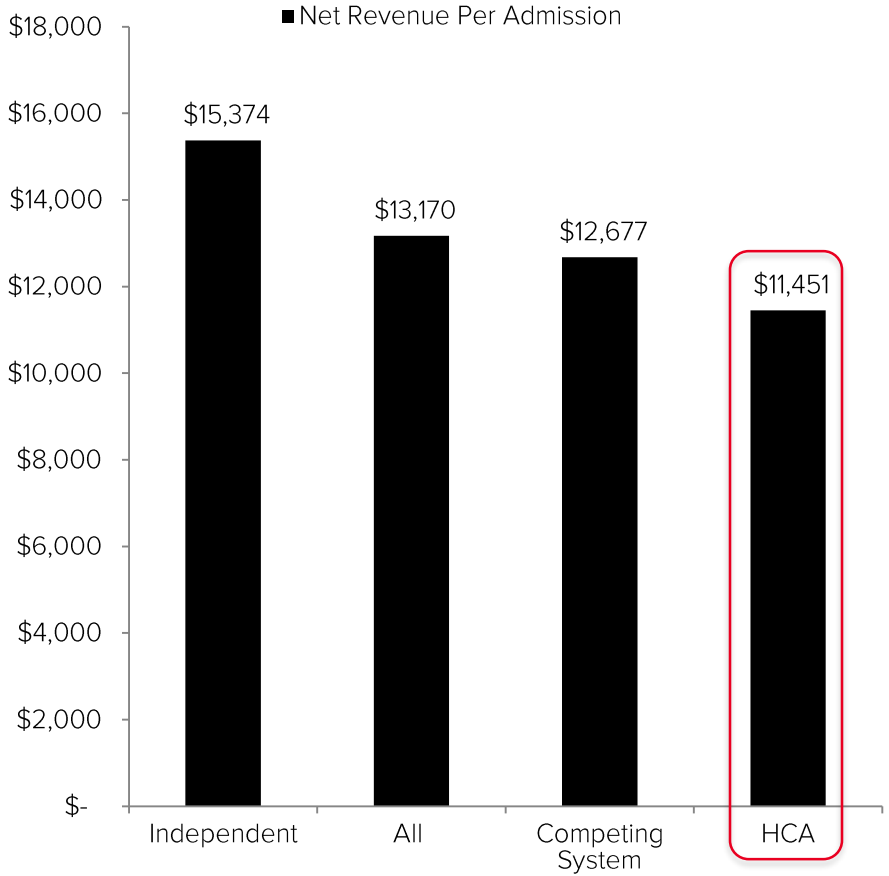
SOURCE: HEALTH AFFAIRS 34, NO. 6 (2015): 922-928

CHARGE TO COST RATIO SUBSTANTIALLY HIGHER



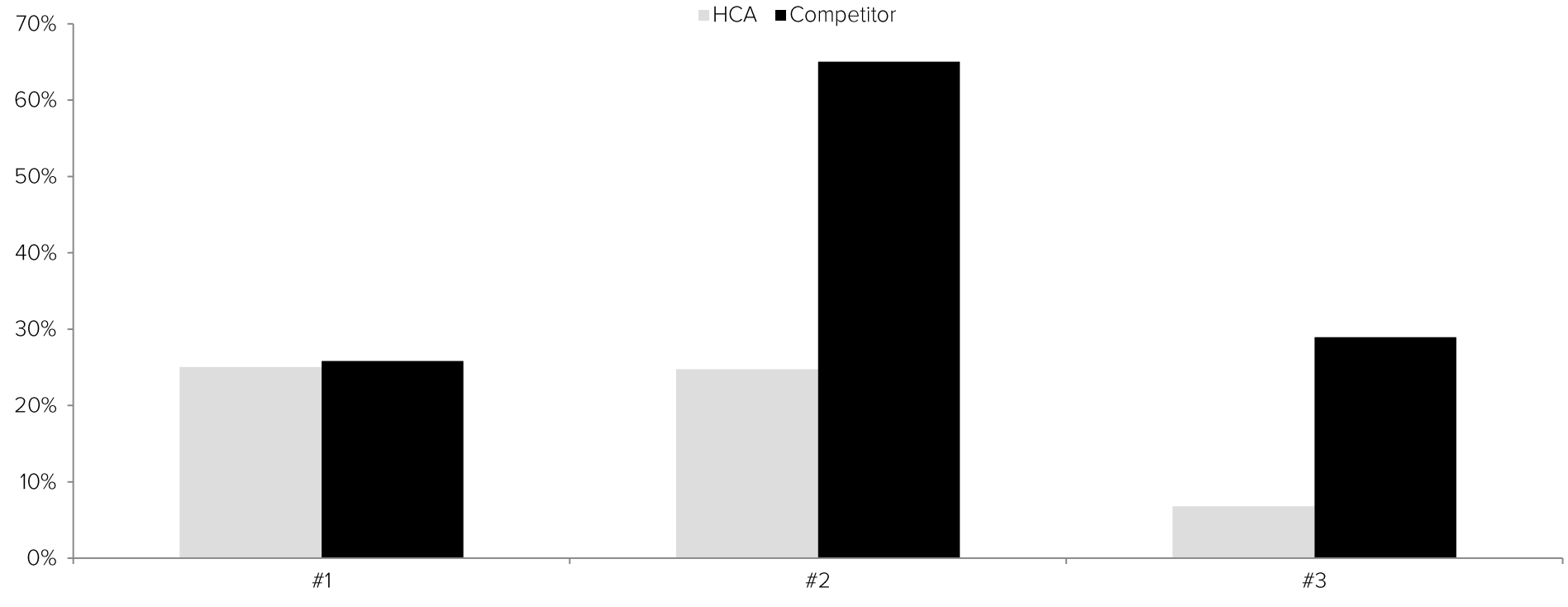
SOURCE: AMERICAN HOSPITAL ASSOCIATION

NET REVENUE AND PAYROLL COST PER ADMISSION



SOURCE: AMERICAN HOSPITAL ASSOCIATION

SHARE OF PHYSICIANS IN 100+ GROUPS



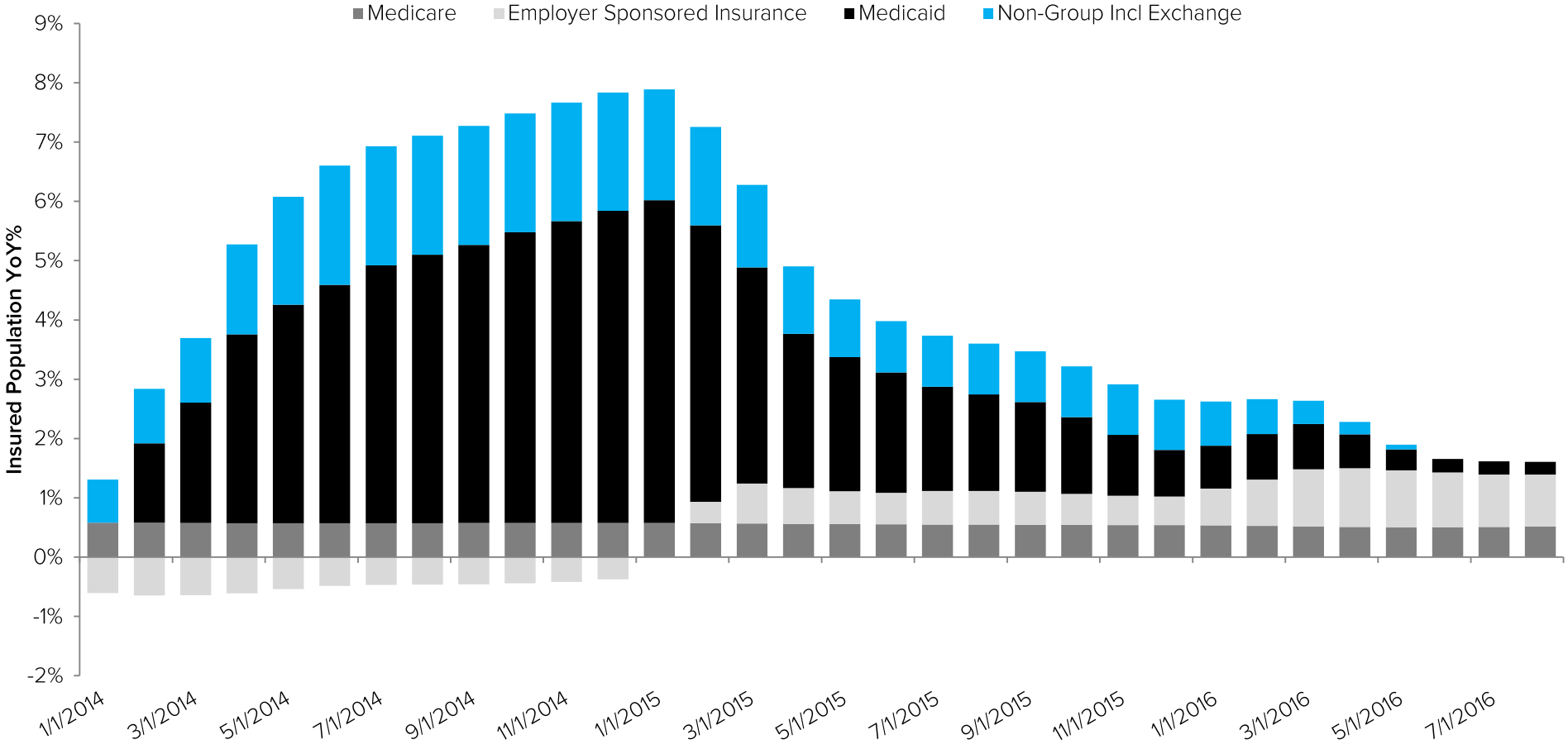
COMPETING SYSTEMS PERFORM BETTER

Share of local market large physician practices is a key leverage point for pricing, especially for commercial insurance. Competing in-market systems do a better job of maintaining high share of these 100+ doc practices.

SOURCE: AHA

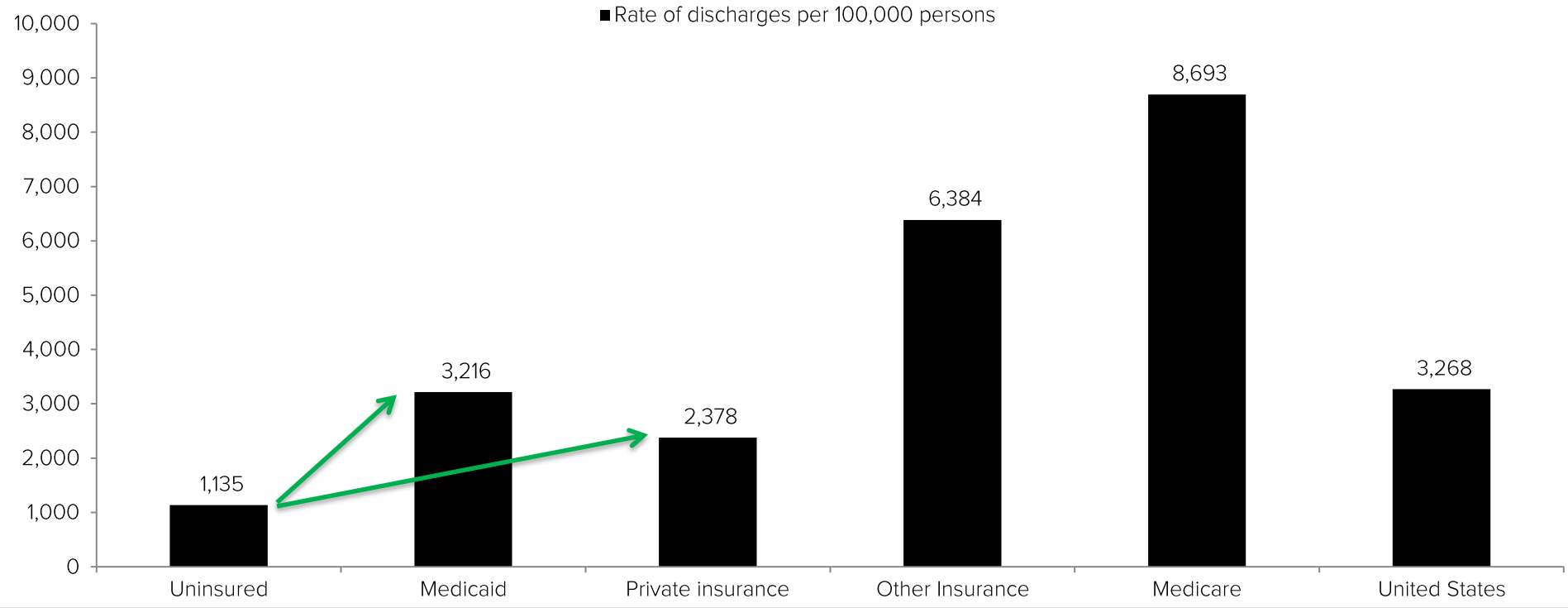
#ACA2.0

INSURED POPULATION SLOWING



DATA SOURCE: KAISER, BLS, CMS, HEDGEYE ESTIMATES

3-FOLD INCREASE IN UTILIZATION



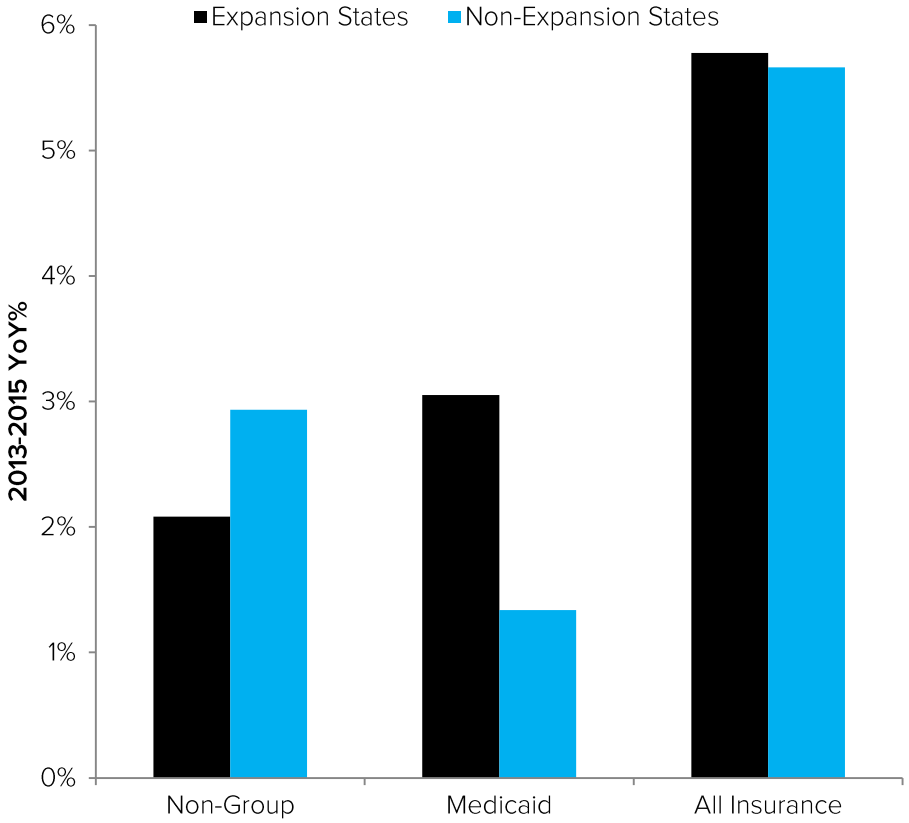
OPERATING ROOM PROCEDURES INCREASE

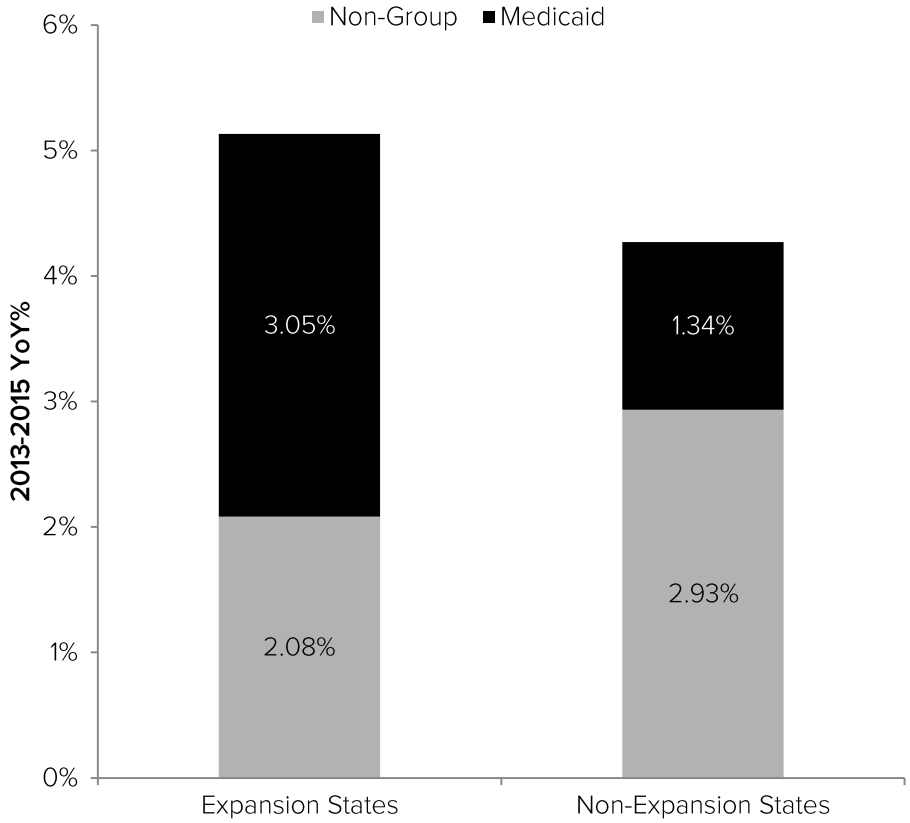
Moving from uninsured status to either Medicaid or Commercial Insurance increases medical consumption by 2-5X.

SOURCE: HCUP

TOTAL GROWTH SIMILAR

NON-EXPANSION STATES DID BETTER WITH EXCHANGES





DATA SOURCE: KAISER

REPLACEMENT PRINCIPLES - COVERAGE

1 MOVE MEDICAID TO PER CAPITA/BLOCK PROGRAM

- Designed to slow rate of growth and bring greater certainty to state budgets
- Would most likely result in focus on chronic care, mental health and substance abuse
- Relies on state innovation

2 CONSUMER-DRIVEN INDIVIDUAL & SMALL GROUP

- Create pass through refundable credits to states for purchase of insurance anywhere in individual and small group plan
- Increase portability through expanded use of HSAs, FSAs, HRAs
- Increase availability of insurers

3 PROVIDE PROTECTIONS

- Protections from pre-existing condition exclusions for continuous coverage
- Exclusions, when applied, must relate to a diagnosed or treated condition
- Dependents remain on parents health care

SOURCE: HEDGEYE

MEDICAID BLOCK GRANT PROGRAM

1

PAYMENT SYSTEM

- Using a base year to be determined and assuming expansion populations convert
- States that opt out of per capita program would automatically be included in block grant
- Differences in costs and block grant would be borne by or retained by states

2

PROGRAM MANAGEMENT

- Maximum flexibility for benefit design and eligibility for non-elderly, non-disabled adults and children
- Permit work requirement and premium payments
- Elderly and disabled populations are mandatory

3

STATE AUTHORITY AND WAIVERS

- Waivers and small modifications would not require new HHS approvals

SOURCE: HEDGEYE

INDIVIDUAL & SMALL GROUP – TAX PROVISIONS

1

TAX CREDITS

- Tax credit would scale depending on age - $900 for 0 to 17 years; $3,000 for over 50
- Refundable and advance-able and can be applied to HSA if exceeds premium
- Used for purchase in any venue – public and private exchanges, through broker, etc.
- Tax credit could also be taken in lieu of government and private insurance

2

EXPANDED USE OF HSA/REVIVAL OF HRAS

- Max contribution to HSA set at max combined annual deductible and out of pocket expenses
- Allows catch-up contributions for spouses to a joint account
- Allows rollover to parent or child
- Revives HRAs for employers

3

MORE INSURER OPTIONS

- Allowing insurers to pick home state of regulation and sell into other states
- Allowing non-convention groups to sponsor health plans

SOURCE: HEDGEYE

TAX PROVISIONS – REPEAL ONLY

1

NO PLANS FOR BUDGETARY OFFSET

- A Better Way characterizes offsets as an unnecessary tax increase
- Budget hawks may object

2

BROAD BASED TAXES

- 0.9 % Additional Medicare Tax for (MFJ) incomes over $250,000
- 3.9 % Net Investment Income Tax imposed on individuals, estates and trusts
- 10 % of AGI floor for medical expense deduction lowered to 7.5%

3

INDUSTRY SPECIFIC TAX

- 40% excise Cadillac Tax on benefit rich plans like those in highly unionized industries and government
- Medical device tax of 2.3%
- Tax on tanning bed services

SOURCE: HEDGEYE

WINNERS

1 MEDICAID MANAGED CARE ORGANIZATION

- Block grants and per capita apply downward pressure on spending
- Emphasis on 20% that cost 80% usually means managed care
- Less lives covered but probably more states involved
- MCOs like UNH have experience with innovative benefit design

2 BEHAVIORAL HEALTH/SUD AND COMMUNITY CARE

- Major public health cost driver especially in rural areas
- Ripple effect of behavioral health and SUD into other parts of health care system especially NICU
- Only about 20% of Medicaid beneficiaries' needs are medical services

3 LOWEST COST PROVIDER OF SERVICE

- ASCs instead of hospitals
- Home health instead of SNF

SOURCE: HEDGEYE

LOSERS

1

HOSPITALS

- Will pay less taxes but will also lose enhanced reimbursement as part of trade-off in financing state matching dollars; DSH and Supplemental
- Frequently inappropriate setting for beneficiary, anyway

2

SKILLED NURSING FACILITIES – SORT OF

- Would pay fewer taxes but would lose enhanced reimbursement as part of trade-off in financing state matching dollars
- States will be careful as SNFs represent critical part of safety net in areas with few options

3

PHARMA

- More restrictive spending will put more pressure on drug negotiations/group purchasing

SOURCE: HEDGEYE

CURRENT CYCLE METRICS

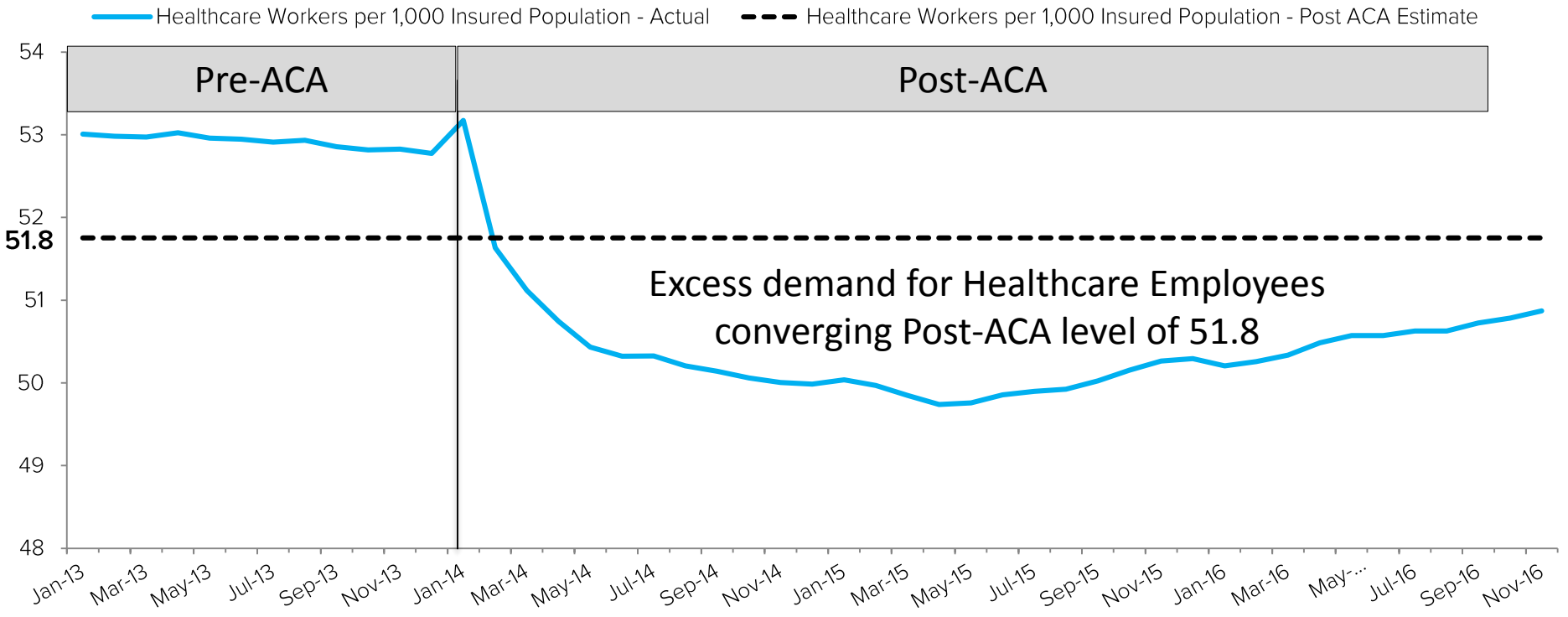
HC WORKFORCE "NEW NORMAL"

HEALTHCARE WORKERS NEEDED PER 100,000 INSURED 53.6 →51.8

	2013			2016		
Insurance Status	Population	Percent with Expense	Utilization	Population	Percent with Expense	Utilization
Employer	155,697	88.0%	137,013	155,723	88.0%	137,036
Non-Group	13,816	88.0%	12,158	21,778	88.0%	19,165
Medicaid	54,919	85.0%	46,681	72,700	85.0%	61,795
Medicare	40,876	95.7%	39,119	47,670	95.7%	45,620
Other	6,295	88.0%	5,540	6,422	88.0%	5,652
Total Insured	**271,604**	**88.6%**	**240,511**	**304,294**	**88.5%**	**269,268**
Uninsured	41,795	54.9%	22,946	28,966	54.9%	15,902
Total	**313,401**	**84.1%**	**263,457**	**333,260**	**85.6%**	**285,170**
Healthcare Workers	14,554,900		14,554,900	15,754,494		15,754,494
Healthcare Workers per 100,000 Population	53.59			51.77		
Healthcare Workers per 100,000 Units of Utilization			55.25			55.25

DATA SOURCE: MEPS, KAISER, BLS, HEDGEYE ESTIMATES

THE "NEW NORMAL" FOR HC LABOR

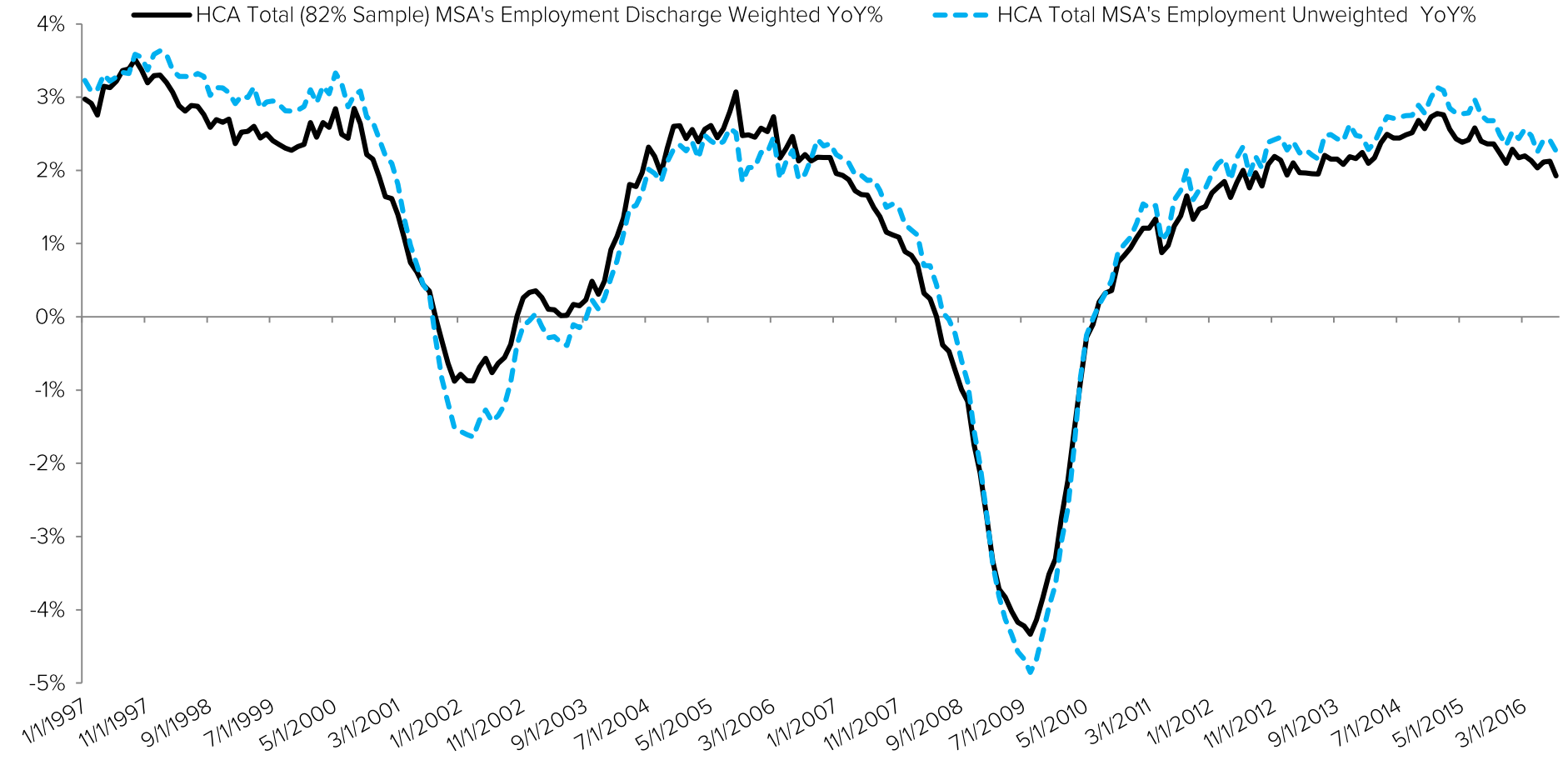


DEMAND FOR HC WORKERS PEAKED 1Q15

The labor market is 1.7% below the "New Normal" ratio of healthcare workers to insured population. At its peak

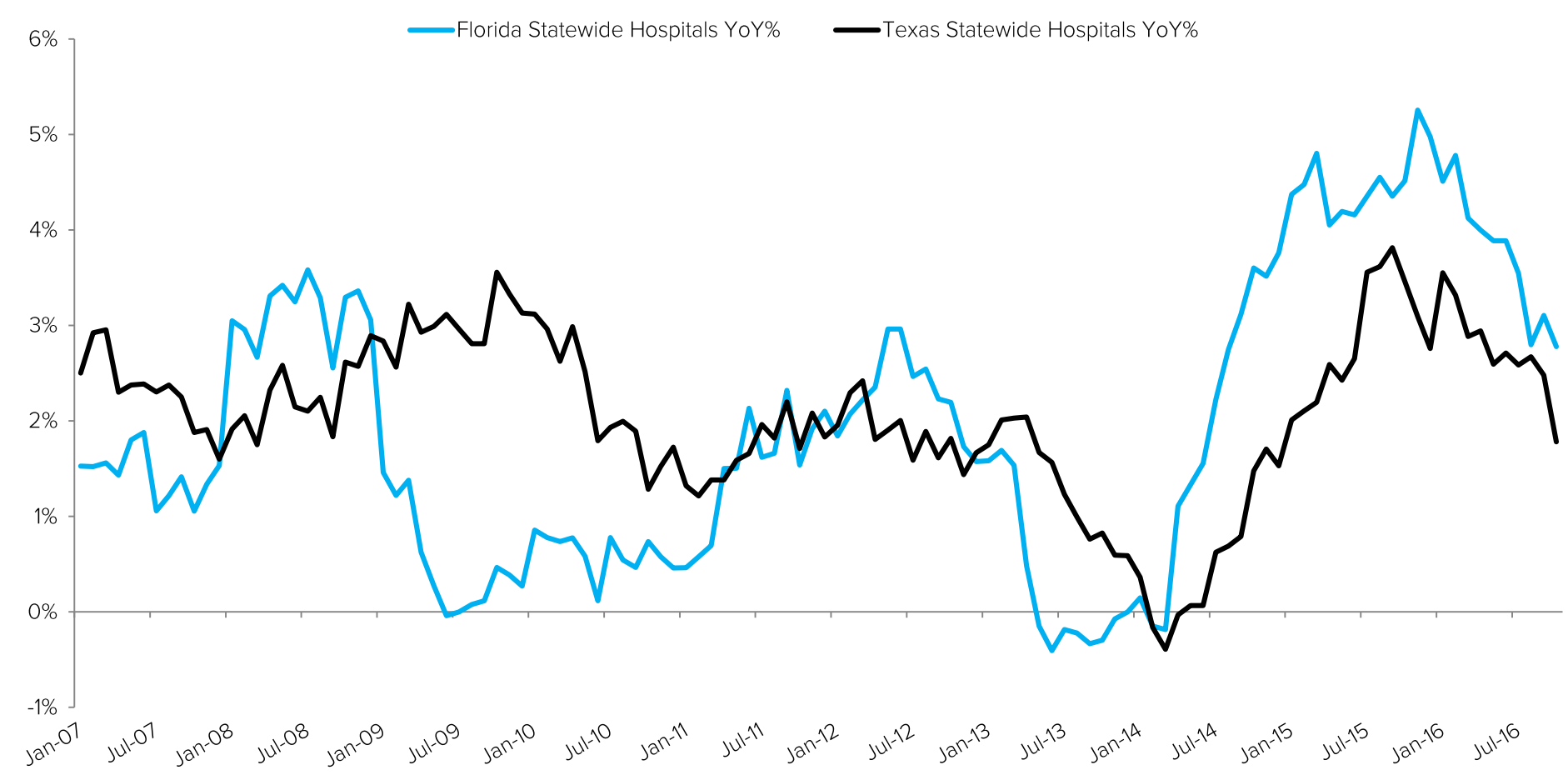
DATA SOURCE: MEDICAID EXPENDITURE PANEL, KAISER, BLS, HEDGEYE ESTIMATES

YOY% EMPLOYMENT



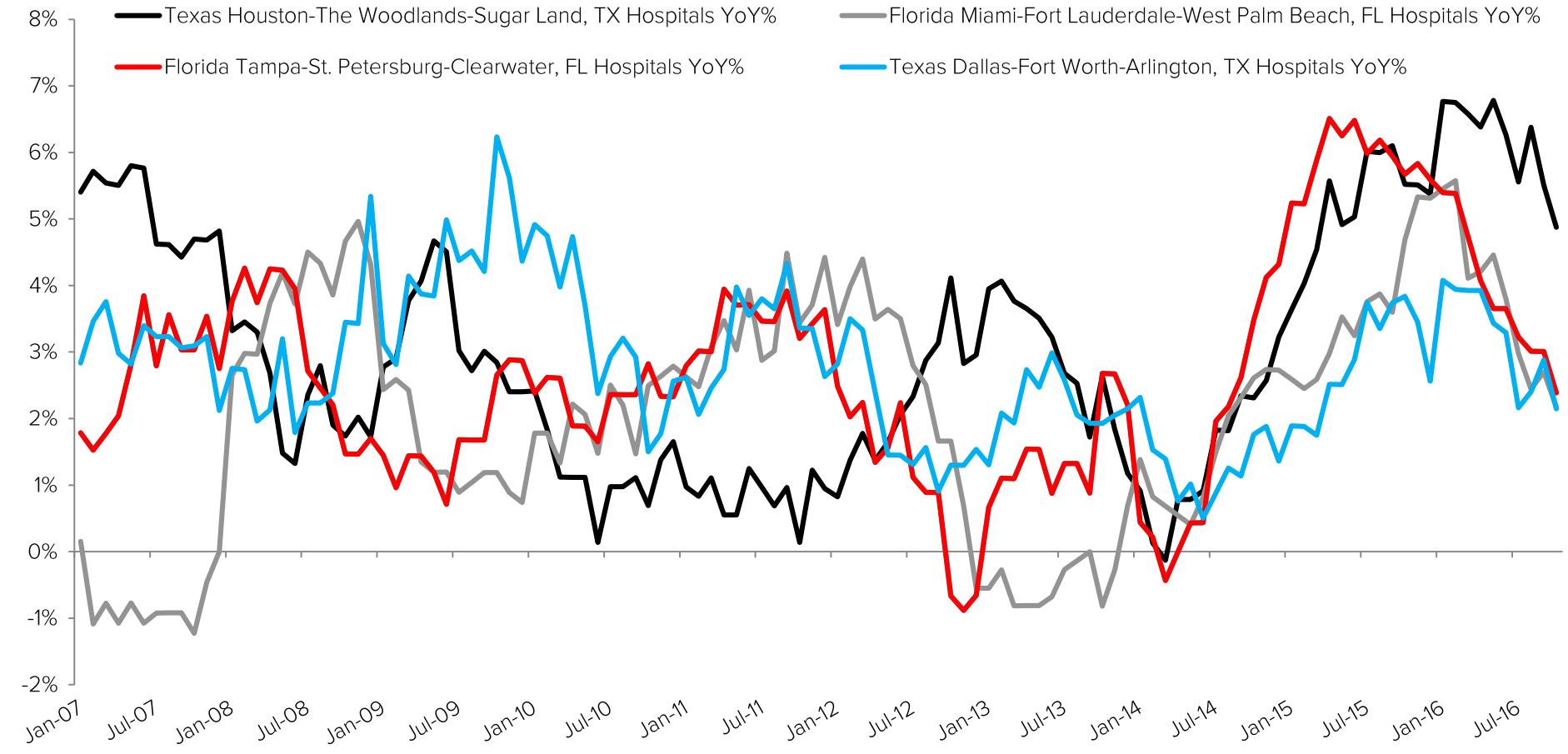
SOURCE: BLS & COMPANY FILINGS

FLORIDA AND TEXAS HOSPITAL EMPLOYMENT YOY%



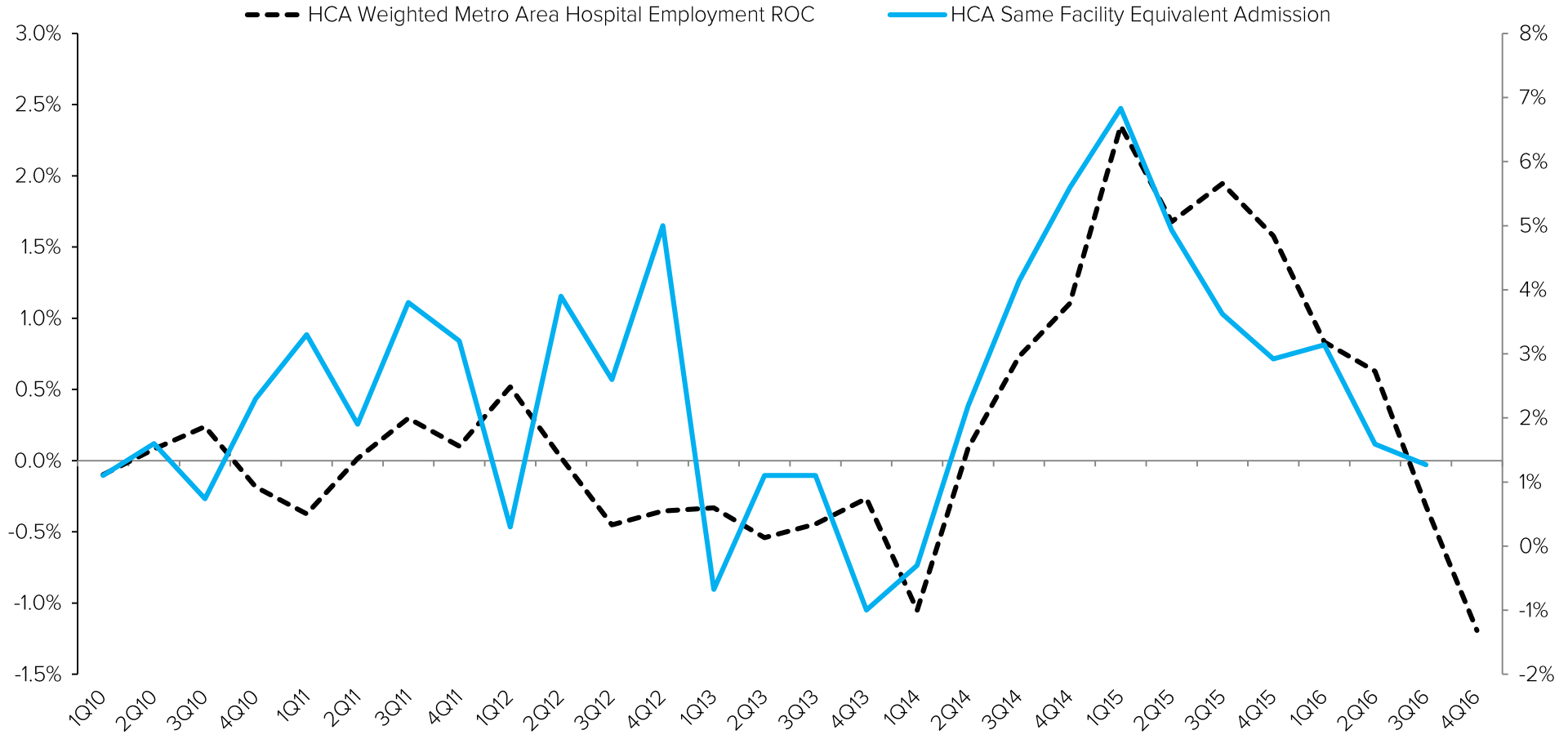
SOURCE: BLS

MAJOR HCA CBSA'S HOSPITAL EMPLOYMENT YOY%



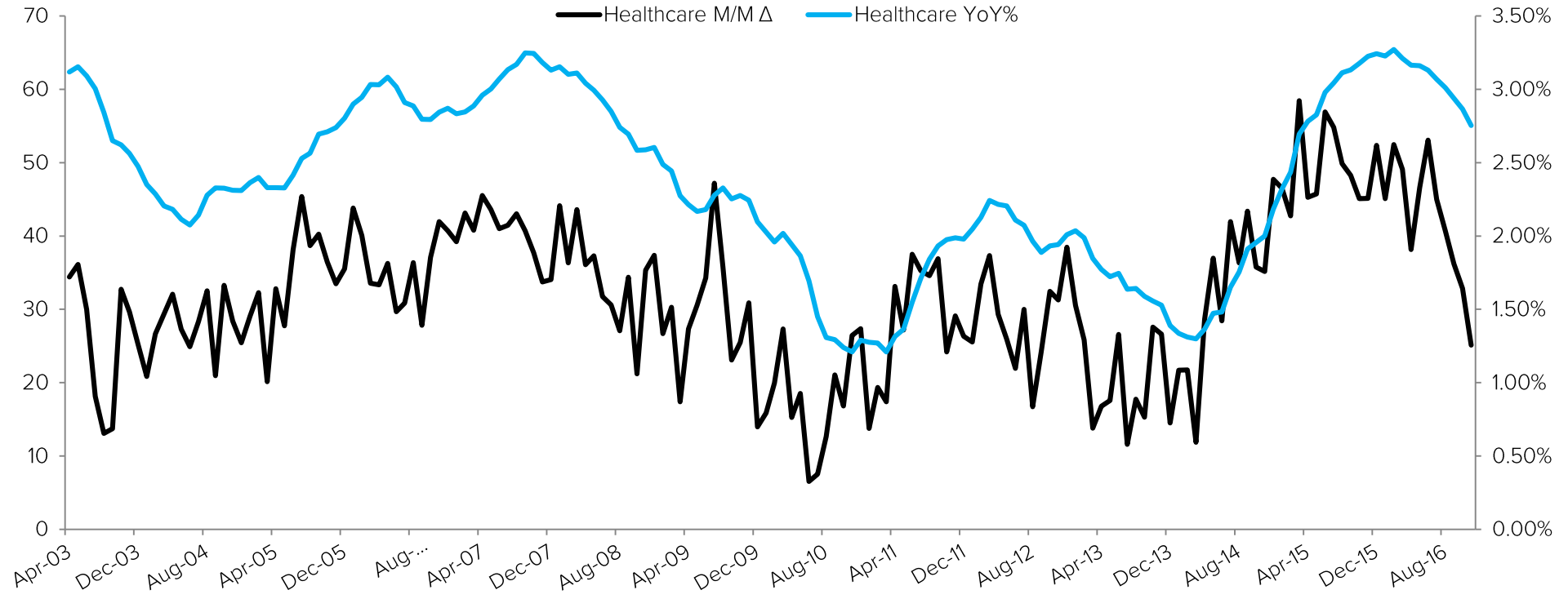
SOURCE: BLS

METRO AREA HOSPITAL EMPLOYMENT



SOURCE: BLS

ADP HEALTHCARE EMPLOYMENT

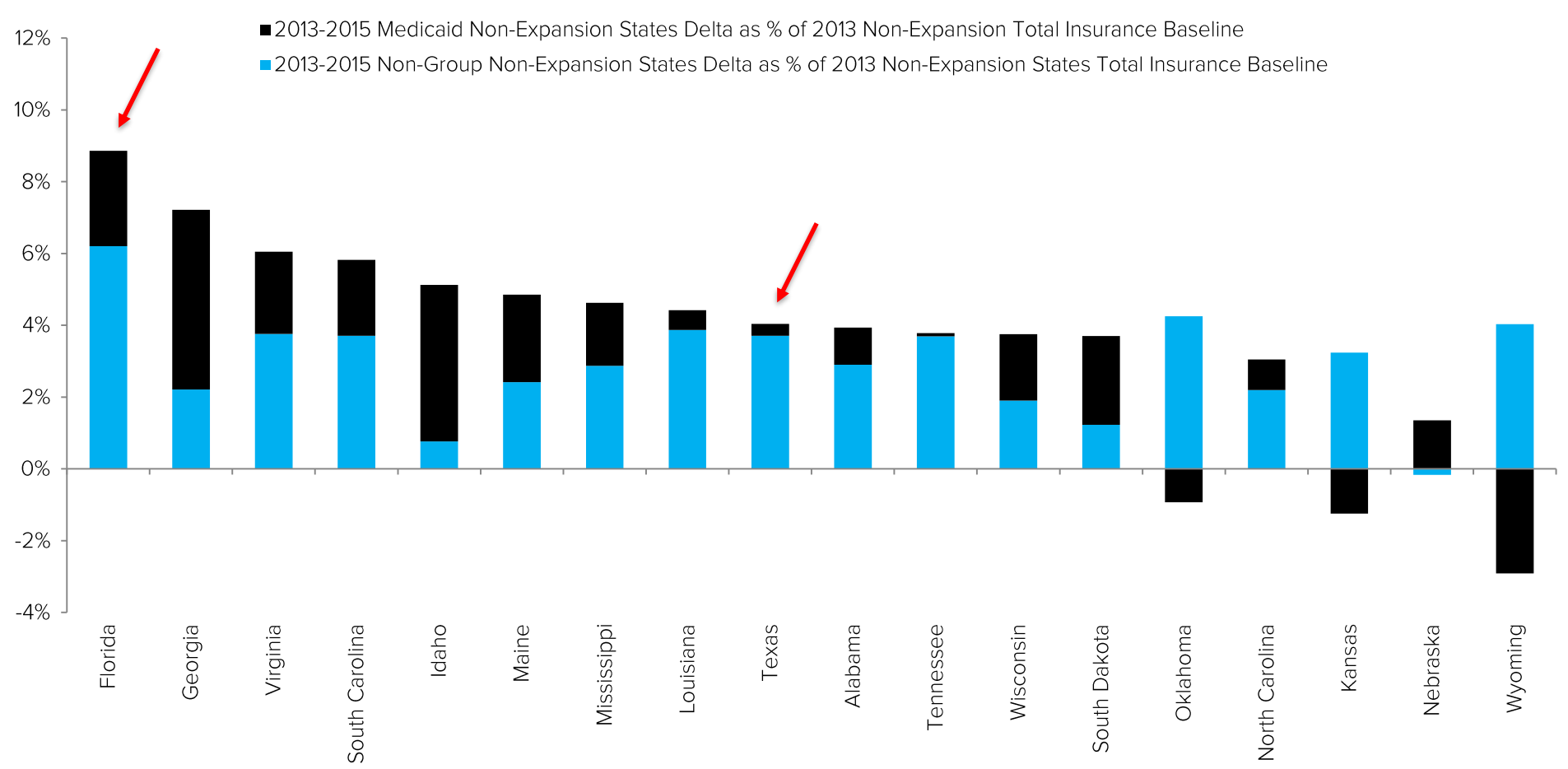


ADP NATIONAL EMPLOYMENT SERIES FOR HEALTHCARE SLOWING

Month over month increase back to Pre-ACA levels.

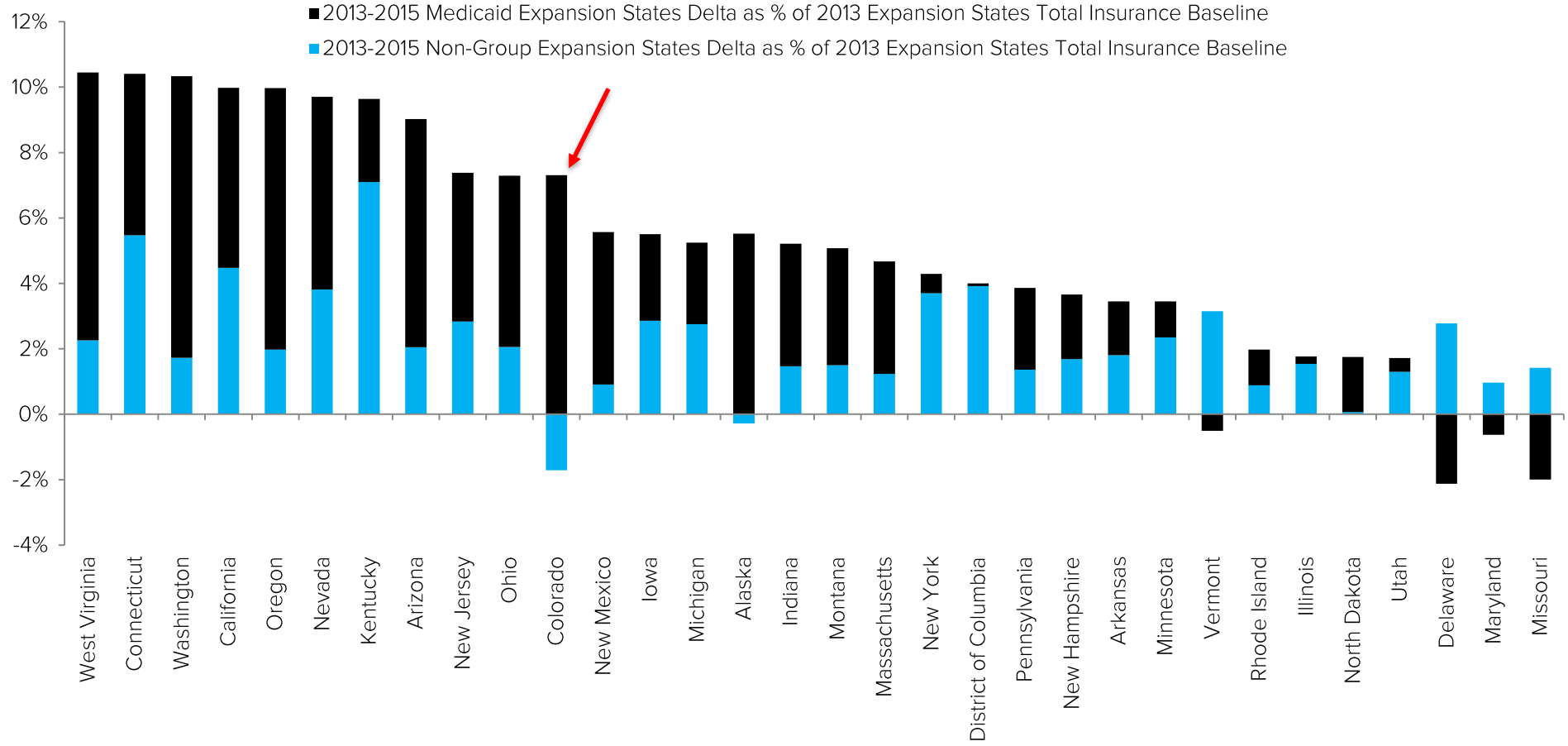
SOURCE: BLS

NON-EXPANSION STATES RANKED



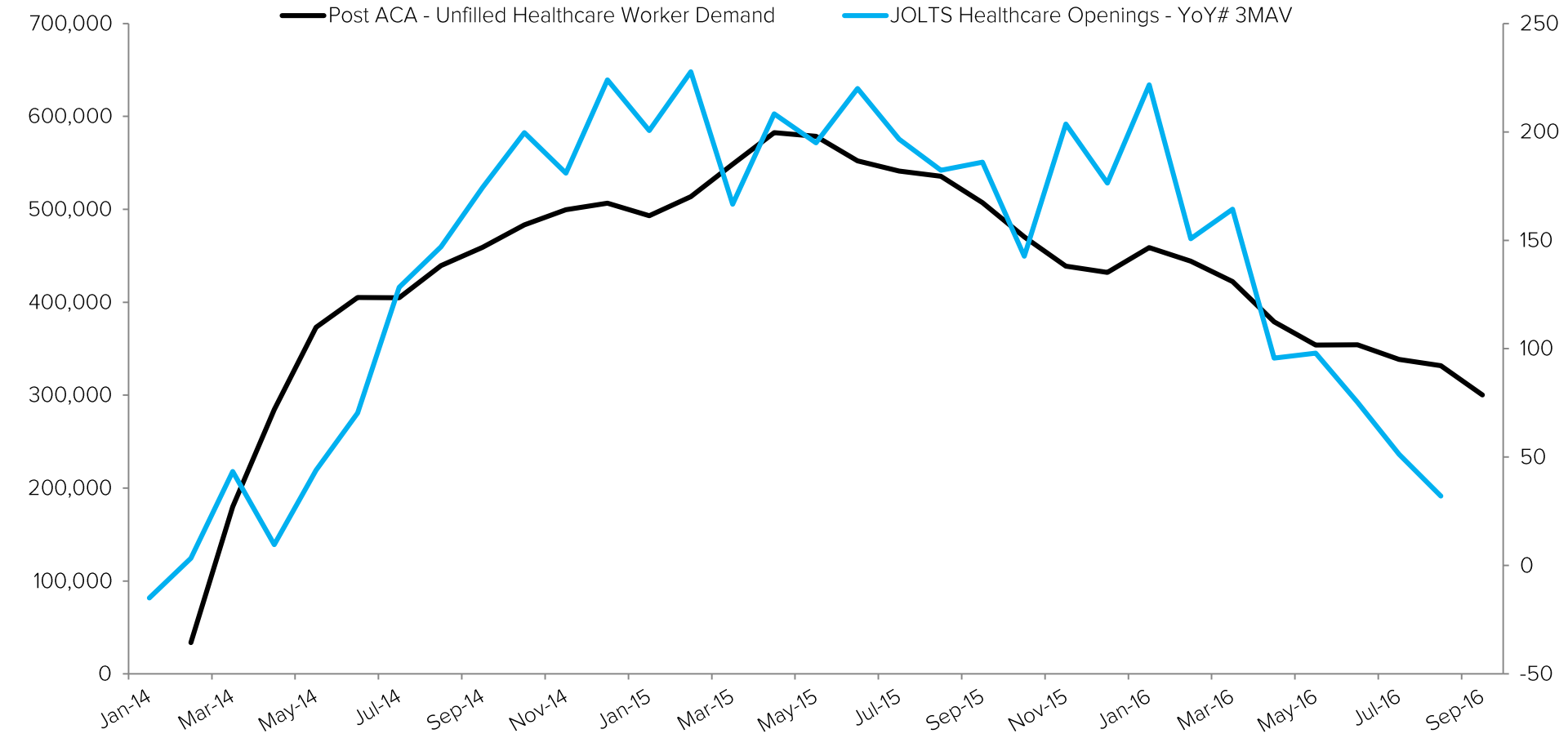
DATA SOURCE: KAISER

EXPANSION = MEDICAID + NON-GROUP



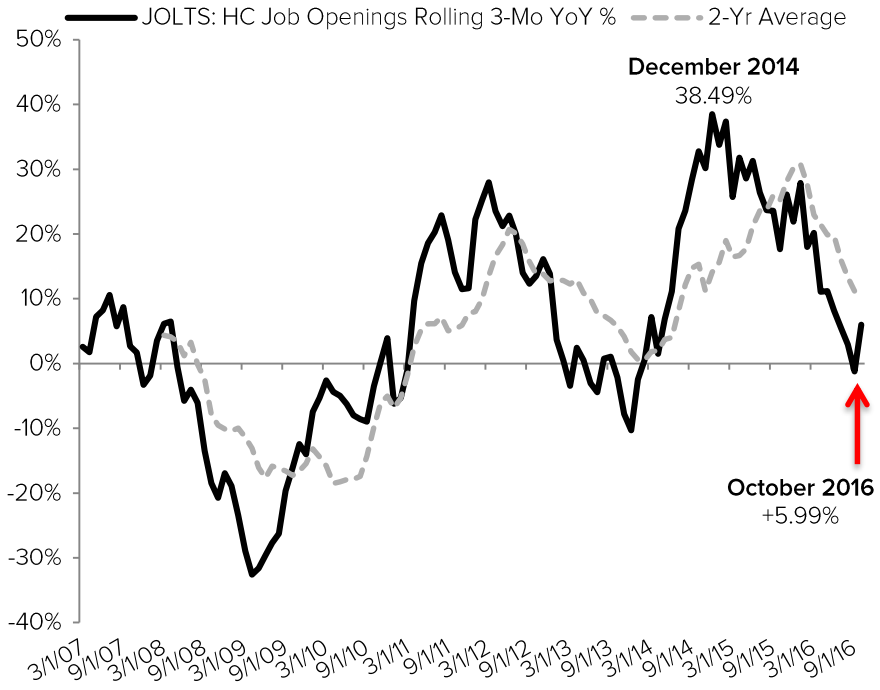
DATA SOURCE: KAISER

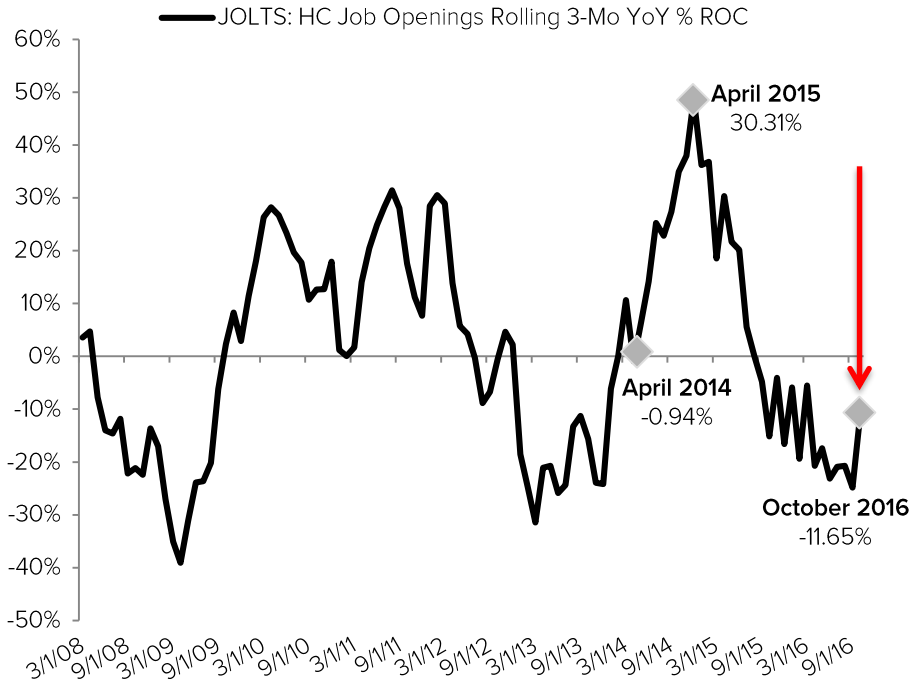
DEMAND FOR HC WORKERS FALLING



DATA SOURCE: MEDICAID EXPENDITURE PANEL, KAISER, & MIPS

HEALTHCARE JOB OPENINGS (JOLTS)





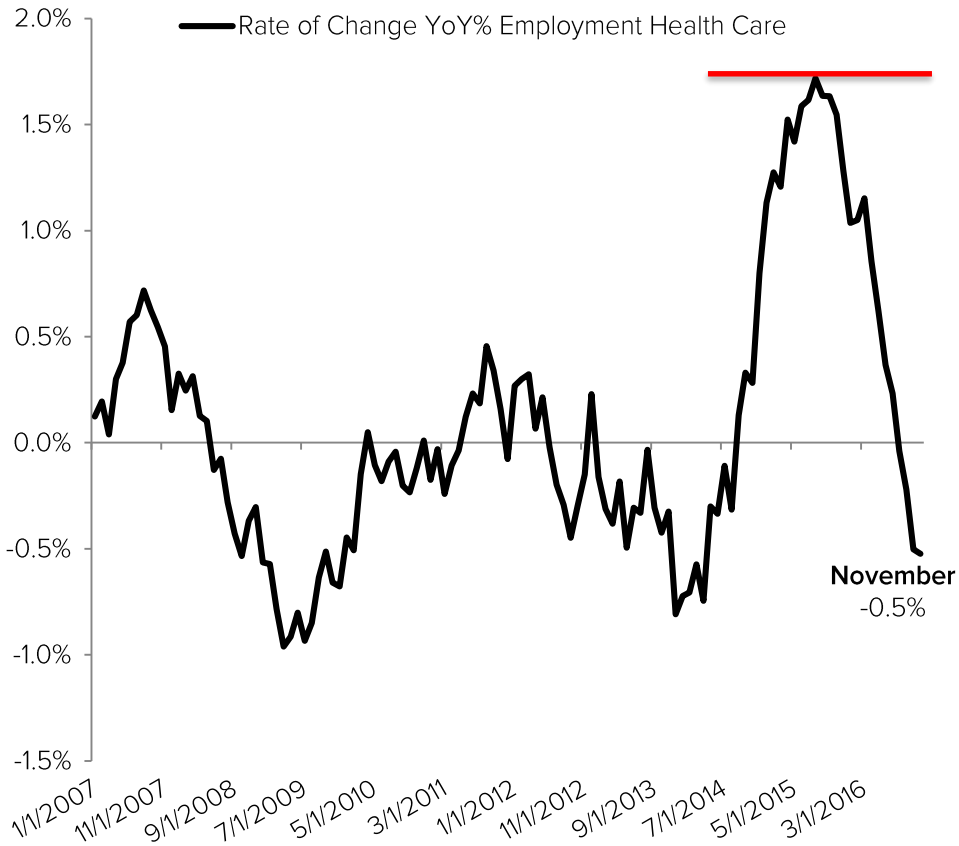
HEALTHCARE JOB OPENINGS SLOWING...

After peaking in December 2014, Healthcare Job Openings posted the slowest growth in approximately 2-years. We expect growth to slow further as we comp out of stimulus.

DATA SOURCE: BLS

HEALTHCARE EMPLOYMENT

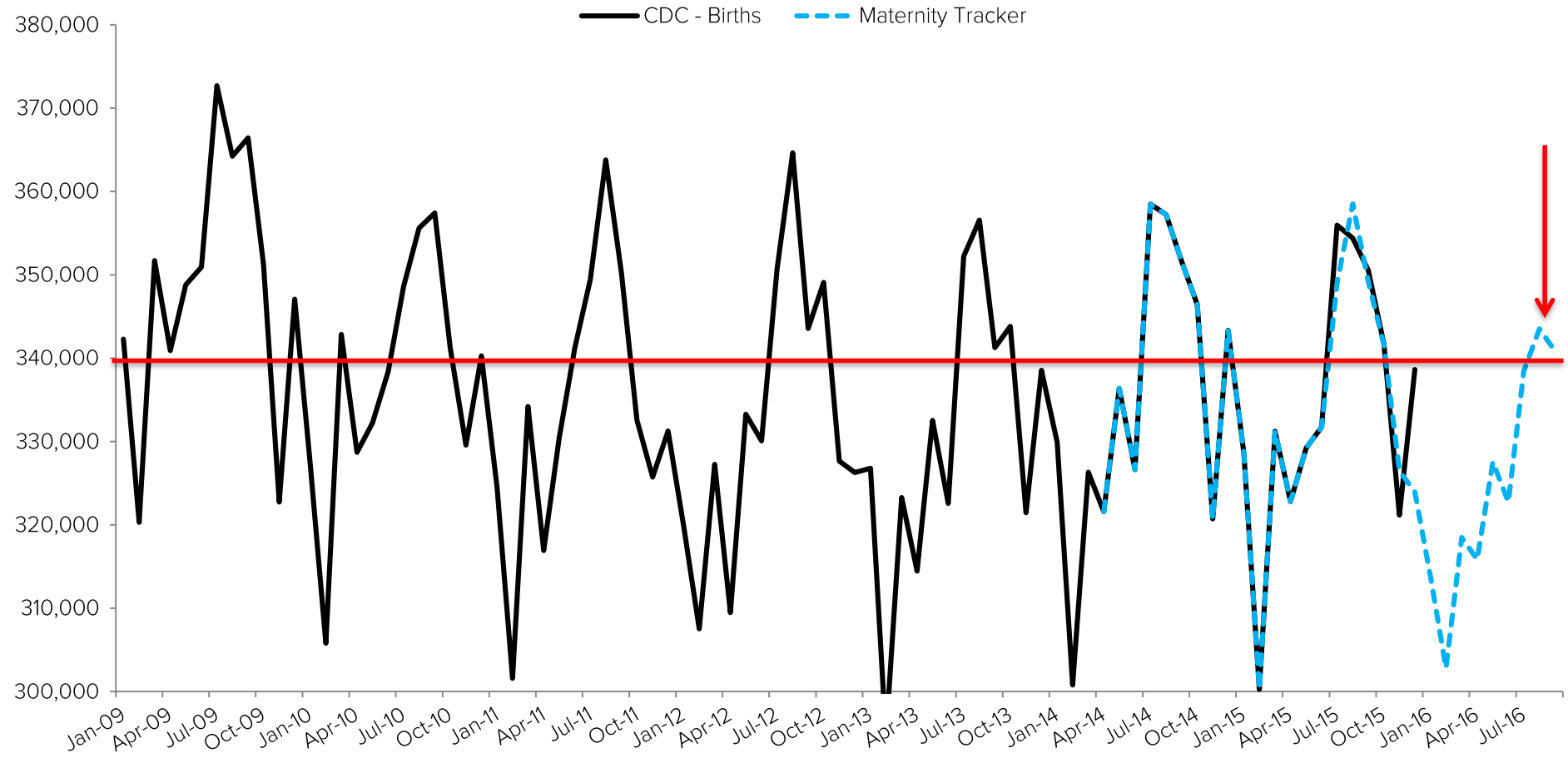
CONTINUES TO SLOW...



DATA SOURCE: BLS

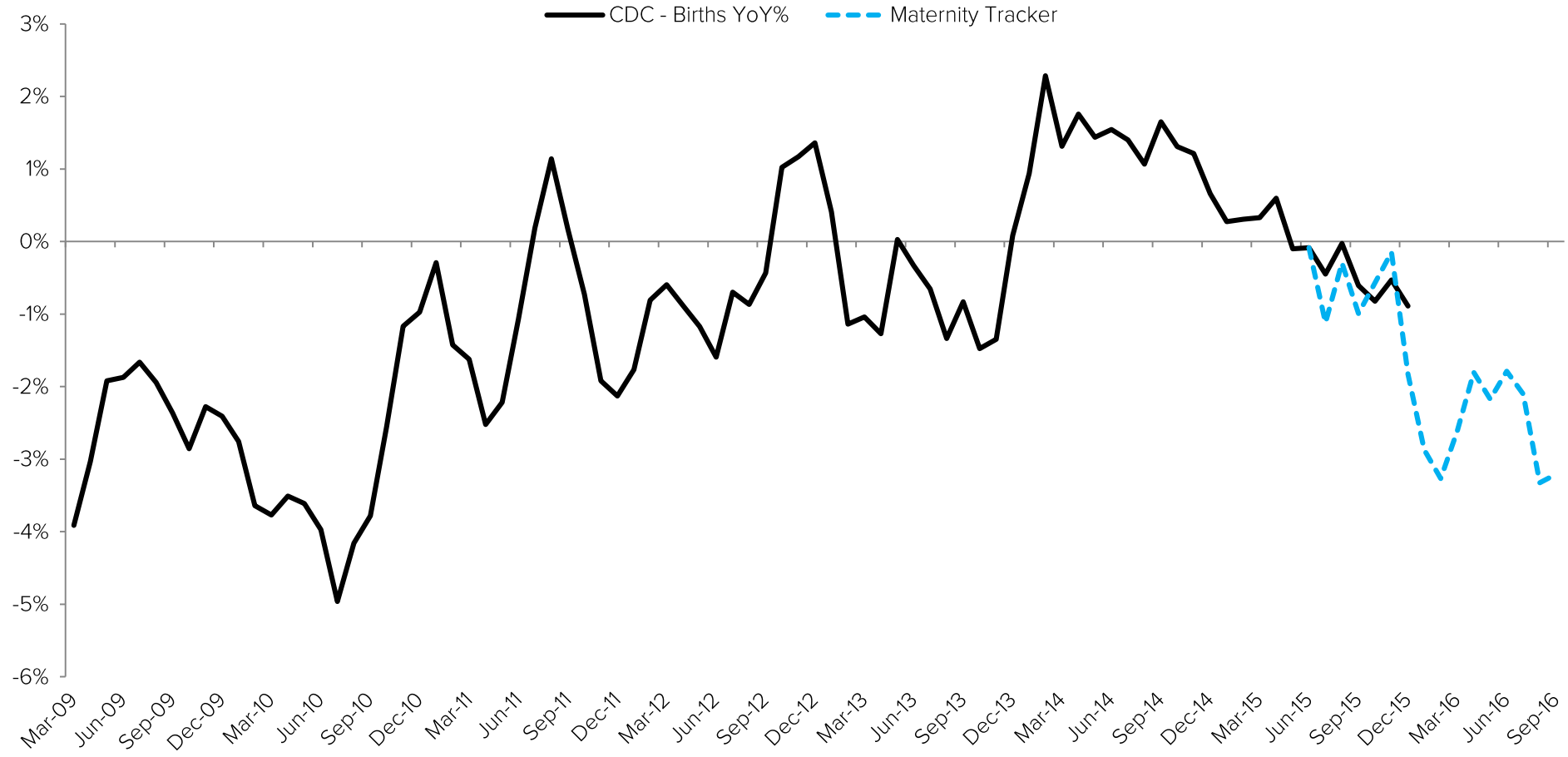
MATERNITY

MATERNITY DOWN IN 2016



DATA SOURCE: CDC, HEDGEYE ESTIMATES

MATERNITY CONTINUES NEGATIVE



DATA SOURCE: CDC, HEDGEYE ESTIMATES

FACILITY WEIGHTED MATERNITY

	3Q15	4Q15	1Q16	*Apr-16*	*May-16*	*Jun-16*	2Q16	Jul-16	Aug-16	Sep-16 (P)	3Q16
Maternity Tracker/CDC Regression (yr/yr)	-1.0%	-1.8%	-2.5%	-2.2%	-0.5%	-2.7%	-1.8%	-3.0%	-4.2%	-2.4%	-3.2%
HCA - Maternity Tracker (wtd, yr/yr)	-0.9%	-1.6%	-2.8%	-1.7%	0.6%	-3.0%	-1.3%	-2.9%	-5.1%	-3.3%	-3.8%
THC - Maternity Tracker (wtd, yr/yr)	0.2%	-1.0%	-2.4%	-1.4%	1.2%	-2.4%	-0.9%	-3.0%	-4.4%	-2.1%	-3.2%
CYH - Maternity Tracker (wtd, yr/yr)	-0.6%	-1.7%	-3.3%	-1.5%	0.7%	-1.7%	-0.8%	-2.5%	-4.3%	-1.4%	-2.8%
MD - Maternity Tracker (wtd, yr/yr)	-0.7%	-1.4%	-1.8%	-1.2%	-0.4%	-2.6%	-1.4%	-3.1%	-4.5%	-3.1%	-3.6%
LPNT - Maternity Tracker (wtd, yr/yr)	-1.5%	-0.2%	-2.6%	-0.1%	0.1%	1.6%	0.5%	0.6%	-1.5%	-2.6%	-1.2%
AHS - Maternity Tracker (wtd, yr/yr)	-1.8%	-1.9%	-2.0%	-2.0%	-0.8%	-2.8%	-1.9%	-3.3%	-4.2%	-2.7%	-3.4%

DATA SOURCE: CDC, HEDGEYE ESTIMATES

SUMMARY

TAKEAWAYS AND CONCLUSIONS

- **PRESSURE ON ADMISSION GROWTH, PRICING, AND MARGINS IN 2017 AND BEYOND**
- **DEMOGRAPHIC TRENDS ARE WEAK**
- **COMPRESSED NET PRICING AND COST PER ADMISSION OFFER LITTLE EXPANSION OPPORTUNITY**
- **LOWER QUALITY ASSETS THAN PERCEIVED**
- **ACA REFORMS ARE NEGATIVE**

SOURCE: HEDGEYE

MODELING CONSIDERATIONS

- FLAT ADJUSTED ADMISSION GROWTH WITH DECLINES IN COMMERCIALLY INSURED VOLUME
- MODEST INCREASE IN BAD DEBT REFLECTED THROUGH NET PRICING PER ADJUSTED ADMISSION
- SG&A COST PER ADMISSION INCREASES INLINE WITH RECENT PERIODS
- SUPPLY COST INLINE WITH RECENT PERIODS
- ACA REFORMS ARE NEGATIVE

SOURCE: HEDGEYE

FOLLOW UP WORK

- COST TO CHARGE RATIO INVESTIGATION
- MONTHLY DATA UPDATES
- INDUSTRY ADVERTISING SPEND ANALYSIS
- INSURANCE PLAN DETAIL AND DEMOGRAPHICS BY CBSA
- MEDICARE MIX SHIFT IMPACT TO MARGINS

SOURCE: HEDGEYE

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