

# Universal Health Services, Inc. (UHS)

## Key Takeaways Q3 2024 Earnings Call

### Earnings Results

On October 25, 2024, Universal Health Services, Inc. announced its earnings for the third quarter, ending September 30, 2024. The company reported \$3.96 billion in revenue, surpassing analyst expectations, while adjusted EBITDA net of non-controlling interest (NCI) rose 24.9% compared to the same period in 2023. Adjusted EPS came in at \$3.71, slightly below the \$3.75 analyst estimate. Acute care admissions grew by 1.5%, falling short of projections, leading to a 9.8% decline in share value on the announcement day. Despite this, management maintained a positive outlook, highlighting revenue growth, supplemental Medicaid payment opportunities, effective cost controls, and ongoing expansion efforts.

\$ in millions, except EPS

Metric	Q3 2024	Q3 2023	Change
<b>Consolidated Results of Operations</b>			
Net Revenues	\$3,963	\$3,563	11.2%
Adjusted EBITDA, Net of NCI	\$527	\$422	24.9%
Margin	13.3%	11.8%	1.5%
Adjusted EPS	\$3.71	\$2.55	45.4%
<b>Acute Care (Same Facility)</b>			
Net Revenues	\$2,148	\$1,966	9.3%
Adjusted Admissions			1.5%
Revenue per Adj. Admission			7.0%
<b>Behavioral Health (Same Facility)</b>			
Net Revenues	\$1,672	\$1,513	10.5%
Adjusted Admissions			2.2%
Revenue per Adj. Admission			6.8%

### Behavioral Health

- Behavioral Health revenue grew 10.5%, driven by higher revenue per adjusted patient day. Behavioral pricing has been running at historically high levels but is expected to track in the 4-5% range going forward.
- Over the long term, management anticipates volume growth to be 3%. Recovery in behavioral health has taken longer than expected, partly due to labor scarcity. UHS remains optimistic about sustained recovery in the fourth quarter.
- Management envisions an expanding continuum where outpatient care will play a greater role, and they are expanding the outpatient footprint.

### Acute Care

- Over the long term, UHS expects admissions growth to be 3%. Management attributed the previous high growth in Acute Care (6-7% in Q3 2023) to deferred and postponed procedures from the pandemic, which have now moderated.
- On a same-facility basis, EBITDA at acute care hospitals increased 36% compared to the prior year quarter; the increase was 17% when excluding the impact of incremental Medicaid supplements.
- Physician expenses, which were a significant headwind in 2023, have stabilized at 7.2% of revenue.
- UHS continues to develop additional inpatient and ambulatory care capacity, with de novo acute care hospitals under construction in Nevada and Washington, D.C.

### Medicaid Supplemental Payment Programs

- New programs are being implemented in Tennessee and Washington, D.C., along with a proposed increase in the existing program in Nevada. If all changes are approved, this could result in an approximate annual net benefit of \$150 million.
- UHS typically only discloses supplemental programs when the states have a formal plan submitted to CMS; there is potential benefit beyond the programs they have disclosed.

### Financial Position

- Year to date, UHS has repurchased 1.7 million shares at a cost of \$350 million. Since 2019, UHS has repurchased approximately 31% of the company's outstanding shares.
- The company has \$1.01 billion in available borrowing capacity under its \$1.3 billion revolving credit facility.
- Year to date, UHS has spent \$698 million supporting the development of new facilities.
- UHS has increased its reserves by \$30 million for self-insured professional and general liability claims due to unfavorable trends experienced in recent years.

# Key Quotes Q3 2024 Earnings Call

## Acute Care Volume

"... We expected broadly acute care growth to return to sort of more normal, I'll call them, pre-COVID levels. So same-store revenue growth in the 6% to 7% range, that would be split pretty evenly between price and volume. I think if you actually look at our year-to-date metrics in acute care, I think our adjusted admissions are up 3%. I think our pricing per -- or revenue per adjusted admission is up 5%. I think if you adjust that for the Nevada Medicaid supplemental, you're sort of in that range of 6% to 7% revenue growth split pretty evenly between price and volume."

"...some of the commentary from our peers have been a little bit more bullish about what acute care volume may look like and suggesting that there have been some structural changes in the business that would result in elevated acute care volume growth for the foreseeable future. We haven't seen that yet."

**- Steve G Filton, Executive VP, CFO & Secretary**

## Physician Expense and Recruitment

"... last year when there was a significant increase for almost all providers in the expense of hospital-based physicians, in our case, especially emergency room physicians and anesthesiologists. I think that increased expense was more a result of billing changes, and I think specifically the, No Surprise billing act and the constraints that, that put on those specialties emergency room anesthesiology in terms of their ability to bill for out-of-network patients. So I think the pressures on those expenses were driven more by those billing changes than they were by a lack of or a scarcity of those sort of physicians. I don't think that there is a dearth of physicians nor do I think there's a glut necessarily in every market, different specialties are more challenging, et cetera. But I don't think we would describe physician recruitment as particularly difficult in the current period. I don't think it's changed much over the last several years"

**- Steve G Filton, Executive VP, CFO & Secretary**

## Next Five Years

"... we have a view that the care continuum has clearly been expanded and payers are looking to ensure that patients can be treated in the most cost effective settings of care, which has resulted in a growth of ambulatory surgery facilities and freestanding imaging facilities and much greater access points. We've had great success with our penetration of freestanding emergency departments as an example. But broadly, I think we are trying to participate in that -- in the investment in that broader continuum.

"... a continued alignment with our physicians, whether that's through accountable care organizations. We have at least one of those in every single market in which we operate. Whether it's employed physicians, which we have in virtually all of our markets, et cetera."

"...cite those 2 issues, the continued emphasis on physician alignment in a bunch of different ways and the continued expansion of the care continuum as 2 of our major focuses as we think about the next 5 years.

**- Steve G Filton, Executive VP, CFO & Secretary**

## Additional Information

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