HCA Healthcare, Inc. (HCA)

Key Takeaways Q3 2024 Earnings Call

Earnings Result

HCA Healthcare, Inc. (HCA) released earnings results for the third quarter ended September 30, 2024 on October 25, 2024. The company's share price decreased following their earnings announcement, from $398.90 at market close on October 24th to $363.55 at market close on the earnings release date. Please see below for select metrics from the call, press release, and previous press releases.

$ in millions except EPS

Metric	Q3 2023	Q3 2024	*Change*
Net Revenue	$16,213	$17,487	*7.9%*
Adjusted EBITDA	$2,880	$3,267	*13.4%*
Margin	17.8%	18.7%	*5.2%*
Diluted EPS	$3.91	$4.88	*24.8%*

Same Facility Metrics	***Change***
Inpatient Admissions	*4.5%*
Equivalent Admissions	*4.5%*
Inpatient Surgeries	*1.6%*
Emergency Room Visits	*4.6%*
Outpatient Surgeries	*(2.0%)*

Volume Trends

- Company-wide broad based volume growth
- Same facility outpatient surgeries declined 2.0%; due to Medicaid and Uninsured
- Observed strong growth in cardiac procedures, inpatient rehab admissions, and obstetric volumes
- Medicare Advantage representative of 58% of total Medicare volume
- Observed approximately 1.5% decrease in length of stay this year

M&A and Capital Deployment

- Capital expenditures totaled approximately $1.19 billion
- Plan to have added 600 inpatient beds and 100 outpatient facilities by year end bringing total sites of care to 2,600
- $6B in capital projects under development
- Estimate $5B in total capital expenditures for 2024; slightly lower due to timing of capital projects
- Approximately $1.79B share repurchases and $169M dividends distributed
- Increasing the number of surgery centers through greenfield development as well as some targeted acquisitions

Operating Costs

- Labor costs decreased 1.6% as a percentage of revenue
- Contract labor reduced to 4.6% of total labor costs, down 18% from the prior year
- Anticipate 2.5-3.5% wage increases for 2025
- Announced expanded partnership with Commure to deploy ambient AI system-wide
- Supply costs and other operating costs increased 30 and 40 basis points respectively over the prior year as a percentage of revenue
- Professional fee cost growth over the prior year moderated to 10% and was flat to Q2 2024

Payor and Reimbursement

- Outpatient surgery revenue increased 5.0% due to acuity and payer mix, despite 2.0% volume decline
- Same facility Medicare admissions grew 5.3%
- Medicare Advantage admissions grew 11%; HCA attributed 2% of growth to 2-Midnight Rule
- Same-facility adjusted commercial admissions increased approximately 4%, exchange increased 43%, Medicaid declined 8.5%, and Uninsured adjusted admissions increased approximately 7.2%
- HCA has observed an increase in payor denials but has not seen a dollar impact

Hurricane Impact

- HCA Florida Largo Hospital: Closed due to infrastructure damage. Significant repair expenses and revenue losses anticipated in Q4
- HCA Mission Hospital in Asheville: Continued to operate, despite the disrepair of the city infrastructure. Anticipate significant expenses and lost revenue through year end

Go-Forward Expectations

- Reaffirmed guidance, but indicated likely lower end of range due to ongoing hurricane impact:
  - Revenues between $69.75 and $71.75 billion; net income between $5.675 and $5.975 billion; adjusted EBTIDA between $13.75 and $14.25 billion; diluted EPS between $21.60 and $22.80
- Expect reimbursement growth of 2-3%
- Anticipate volume growth of 3-4%

Key Quotes Q3 2024 Earnings Call

Revenue and Volume

“So on outpatient surgery, as we indicated, nothing has changed from the trends we've seen this year. The declines have been focused almost entirely in Medicaid and uninsured. That's why our revenue per surgical case has been up 7%. We've seen acuity growth, and we've also seen payer mix improvement in our outpatient surgery.

The profitability of our outpatient surgery service is better as a result. So on the headline, volume is down. On the bottom line, profits are up with respect to outpatient surgery. So we're comfortable with that outcome. As it relates to next year, we don't anticipate any significant changes at this particular juncture. We believe our overall volume guidance includes the different categories that we've got.

Our efforts on outpatient surgery continue to advance. We're advancing the number of surgery centers that we have in our company through greenfield development as well as some targeted acquisitions. And we continue to improve operations of our hospital-based outpatient surgery centers, providing better environments for our physicians and better care environments for our patients.”

- Samuel N. Hazen, CEO & Director

“Sure. So I'm going to use equivalent admission growth in third quarter of '24 to prior year same-facility. And so let's run down the Medicare up 5% on equivalent admissions, Medicaid down 8.5% on equivalent admissions. Managed care volume, excluding exchanges, up just short of 4%. The exchange volume was at 43% growth, same-facility to prior year. And then uninsured volumes were up 7.2%. So that equates to that total of 4.5% growth in equivalent admissions in the quarter.”

- Michael A. Marks, CFO & Executive Vice President

M&A and Capital Deployment

“This is Sam. On Valesco, we're pleased with the integration that's happened this year. We were able to assimilate, as we've mentioned before, 5,500 physicians from that particular group into HCA management systems and so forth. Our objectives with Valesco are to get it to an appropriate level of financial performance. This year, we are, in fact, on our plan, maybe slightly ahead of it but it's not material to the company as a whole.

Our long-term objectives with Valesco are to create an internal capability with this particular physician group that basically turns this into a strategic asset. And by that, I mean, we have the ability to improve our clinical outcomes and quality results for our patients because we have a physician group that is fully integrated as an employed base inside of HCA. We can build more rigor, more routines, more standards in how we do clinical processing.

The second thing we think we can accomplish in our journey to make it a strategic asset is to improve efficiency, embed these physicians more into how we manage our emergency room, how we execute on our case management agenda and so forth. And then thirdly, we think we can leverage this group to help us with our tech agenda, to help us with our growth agenda by building relationships with referring physicians and help us with outreach.

So those aspects of value creation that we see with Valesco far exceed sort of the financial performance inside the group. We continue to improve our reimbursement with the payers as it relates to hospital- based physicians. But these other elements provide more value, we think, globally to the organization and will be part and parcel to our core initiatives.”

- Samuel N. Hazen, CEO & Director

“So on insurance, and we noted this in our release, the impacts that we've noted related to fourth quarter and third quarter did not include any estimate related to insurance recoveries at this point. It's still early. We're working through that now. We do anticipate having insured losses related to these hurricanes. It's a little early yet, and we're really not in a position to provide an estimate either to the timing of a potential recovery or the amount. But we do believe that there will be a claim for sure, given the size of these storms.

Related to the change in CapEx, it's really just the timing of capital projects. These are, especially the bigger projects, as you know, take a long time and the timing can flow a little bit up and down. But there's no -- there's an implication there. We're still seeing a lot of really good opportunities to invest in our business. And so I would just articulate the slight decrease in what we think we're going to spend this year on CapEx being related more to timing.”

- Michael A. Marks, CFO & Executive Vice President

Payor Mix

“Josh, this is Sam. Actually, no, on the contrary, we are finding opportunities to improve offerings for Medicaid beneficiaries through some of our outpatient development in certain markets. The supplemental payment programs that Mike has alluded to over the past have created reimbursement in some situations where it makes it easier for us to invest in services and capabilities that help the Medicaid beneficiaries and produce better environments for them to get care.

So I don't see that anything has changed our core thinking around how we provide available services to that particular beneficiary and we'll continue to evaluate that. I think for HCA as a whole, 17%, 18% of our adjusted admissions are Medicaid so it's a large piece of our organization. The decline this year is really centered around redeterminations mostly, not funding from one state to the other. It was through that process of redetermination that some of the business moved amongst the payer classes as we've indicated over the year.

That will slow down because we don't have a redetermination process next year. And we will continue to evaluate how to use our investments to properly allocate to meet the needs of our communities broadly and, in some cases, specifically for Medicaid.”

- Samuel N. Hazen, CEO & Director

“Yes, great question. Largely, I think exchange enrollment will moderate next year. Maybe in the 8% to 10% growth in enrollment is the best estimates we have versus in our states this year, enrollment growth was over 30%. So that's one factor, certainly. I do think that Medicaid volumes will flatten out a bit in '25 versus '24 as we kind of sunset through the Medicaid redetermination process. So largely, I would say those are the 2 biggest dynamics. I think the net effect of that will be generally stable payer mix as we move from 2024 to 2025.”

- Michael A. Marks, CFO & Executive Vice President

“Let me talk about denials generally first, and then we'll pivot to two-midnight impact in the quarter. Ben, as we noted in our Investor Day, we have been working diligently on denial mitigation strategies through our integrated revenue cycle over the past several years. We certainly have seen payers ramp up the intensity level of their denial activities over the past several years. But given our focus and investment in these areas, we've been able to moderate the rate of growth and denial write-offs this year from prior year. So denials were not a material impact to HCA in third quarter of 2024.

A quick update on the Medicare Advantage two-midnight rule adoption. Our same-facility total Medicare admissions increased 5.3% in the quarter. Traditional Medicare admits were basically flat. Medicare Advantage admissions were up 11%, and we attribute approximately 2% of that 11% growth in Medicare Advantage admissions coming from the two-midnight rule impact. This is equivalent to approximately 50 basis points of our overall admission growth and has remained consistent over the year.

As we continue -- as I think about the denial impact, to your question on the two-midnight rule, we do continue to see a modest reduction in the prior authorization denial trends for accounts with two-

midnights or greater compared to prior year so far in 2024. But we still have way too many denials. And we have a few large Medicare Advantage payers that are significant outliers driving these denials.

For context, let me highlight a couple of the comparisons of Medicare Advantage to traditional Medicare. Medicare Advantage now represents 58% of total Medicare volume. The mix of observation to inpatients with Medicare Advantage is still significantly higher than traditional Medicare, even now 9 months past the implementation of the two-midnight rule. Lastly, the Medicare Advantage CMI-adjusted length-of-stay ratio is approximately 10% higher than traditional Medicare, driven by payer-driven discharge lays. These drive cost burdens to providers.

So as we're working with our Medicare Advantage payers, we're really trying to address 2 things. We're trying to address this denial burden and the cost burden. And so if you think about the adjudication process, we are starting to get through the first quarter's denials through -- all the way through the adjudication process, and now we are pursuing those through dispute resolution. As we've talked about before, dispute resolution can take a year to 2 years to fully complete. And so we are going to have to continue to pursue that strategy as we move forward."

- Michael A. Marks, CFO & Executive Vice President

Staffing and Contract Labor

"So generally speaking, as we've come through this year, the wage rates that we're seeing across our markets are generally pretty stable. I think we've marked before somewhere between the 2.5% to 3.5% range is about kind of what we're seeing. And that -- if I think about for next year, as Sam mentioned, that we're anticipating and planning for a fairly stable operating environment, including wage inflation. So that would be the wage part of that."

- Michael A. Marks, CFO & Executive Vice President

Go-Forward Expectations and Guidance

"Well, it's again, a little early to be giving that level of detail for '25. Clearly, we are pleased and encouraged with the work that our operating and our physician services teams have been doing to deal with the pressures and really specifically in a hospital-based physician world. As you kind of walk through the quarters this year, our first quarter grew 20% to prior year. Our second quarter grew 13% to prior year. And now in the third quarter, we're down to 10%.

And we were able to keep that growth fairly sequential from second to third quarter. I do think, given what we're seeing in the results of our work that, that's part of Sam's comment for next year of a stable operating environment. And so I think that I would, for now, until we get to January, I would largely articulate the pro fee environment in that same concept."

- Michael A. Marks, CFO & Executive Vice President

"Ann, let me say this. It's a little early to give a lot of details around 2025. And as we finish our planning process in January call, we'll give you all of those details. I would say this, though, largely, I think our cash net revenue per adjusted admission, we're planning on somewhere between 2% to 3% growth in 2025 and that's our early look at that metric.

In terms of payer contracting, I don't know if this is exactly where you're going, but I'll go ahead and give you the update that we're now 80% complete in 2025, 54% complete for 2026 and just short of 20% complete for 2027. And we're still tracking in that mid-single-digit update. So that's a quick update on the commercial side."

- Michael A. Marks, CFO & Executive Vice President

Additional Information

Contributors

Rene Kinkade
Senior Analyst
Valuation & Transactions

Jordan Tussy, CVA
Manager
Valuation & Transactions

Contact Us

Savanna Ganyard, CFA
Manager
Valuation & Transactions
savanna.ganyard@vmghealth.com
972-616-5866

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