LONG IDEAS 2/27/25

A Healthy Business

We previously made HCA Healthcare Inc (HCA: $320/share) a Long Idea in June 2020, and have reiterated our bullish view on the stock many times. See all our reports on HCA Healthcare here. Since our original report, HCA has outperformed as a Long Idea by 137%, rising 224% while the S&P is up 87%. Even after outpacing the overall market, HCA Healthcare remains a strong business and Very Attractive stock.

HCA offers favorable Risk/Reward based on the company's:

- consistent top- and bottom-line growth,
- growing patient and hospital numbers,
- strong position as the industry leader,
- high dividend and share repurchase yields on shares, and
- cheap stock valuation.

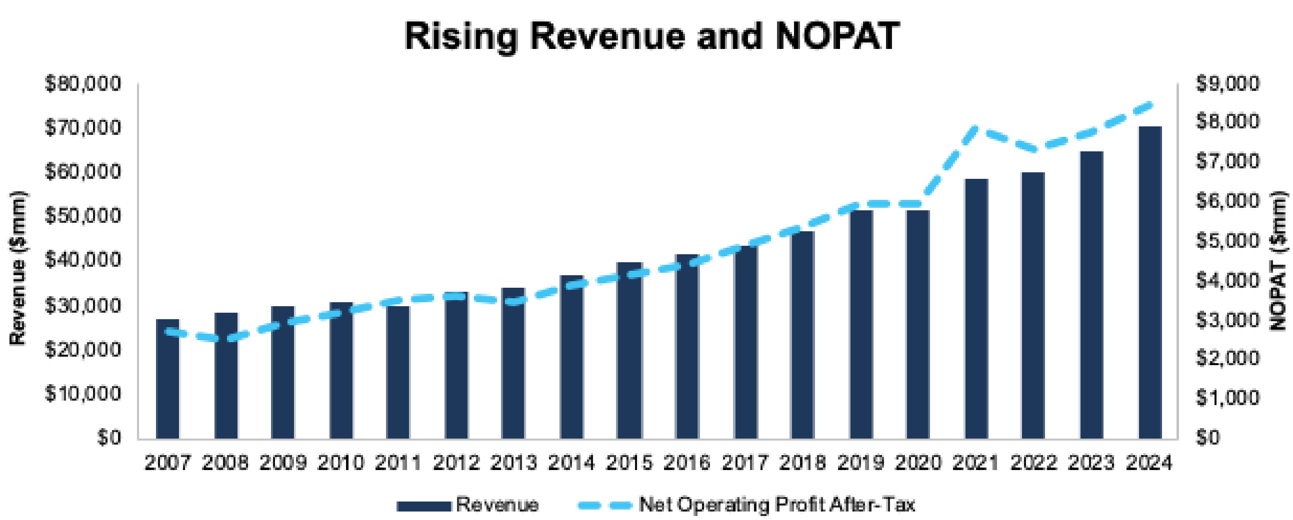
What's Working

Consistently Growing Fundamentals

HCA Healthcare has steadily grown its top- and bottom-line since 2007.

HCA Healthcare has grown revenue by 6% and net operating profit after-tax (NOPAT) by 8% compounded annually since 2007. See Figure 1. The company has improved its NOPAT margin from 10.2% in 2007 to 11.9% in 2024 while increasing invested capital turns from 1.32 to 1.48 over the same time. Rising operational and capital efficiency drive return on invested capital (ROIC) from 13% in 2007 to 18% in 2024.

Figure 1: HCA Healthcare's Revenue and NOPAT Since 2007



Sources: New Constructs, LLC and company filings

Patient Admissions and Hospital Locations on the Rise

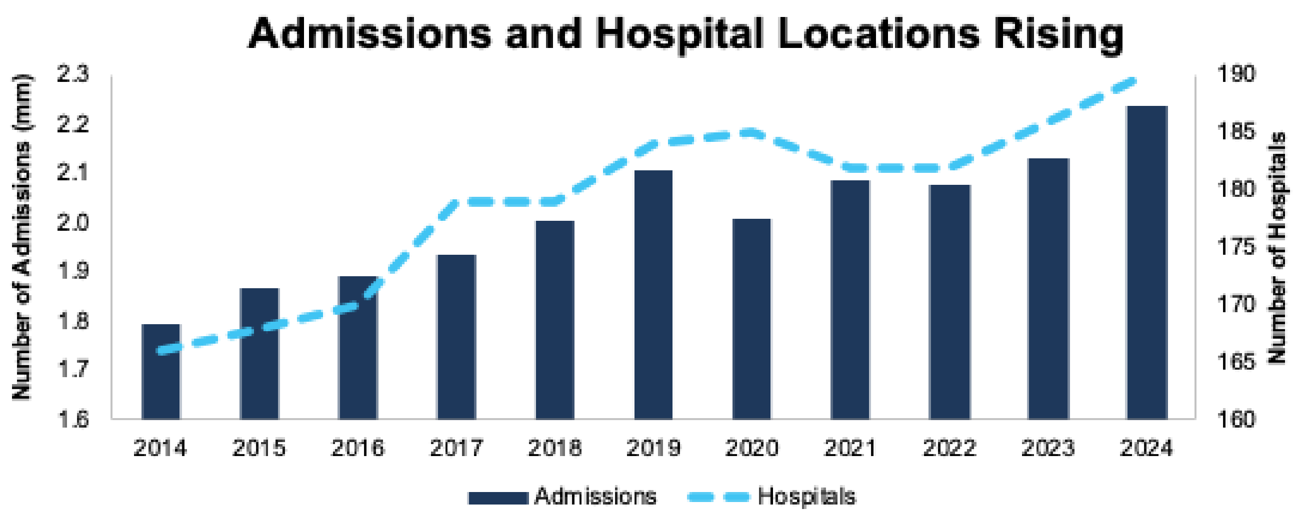
Year-over-year (YoY) in 2024, HCA Healthcare's:

- same facility revenue increased 7.9%
- same facility admissions increased 4.9%
- same facility inpatient surgical volumes increased 2.2%
- same facility emergency room visits increased 4.9%

Longer-term, the company has grown its admissions (general measure of inpatient volume) YoY in 8 out of the last 10 years.

HCA Healthcare's total admissions grew from 1.8 million in 2014 to 2.2 million in 2024, or 2% compounded annually. Over the same time, the company has expanded the number of hospitals it operates from 166 to 190. See Figure 2.

Figure 2: HCA Healthcare's Number of Admissions and Hospitals: 2014 - 2024



Sources: New Constructs, LLC and company filings

Medical Spending Tailwinds

Hospital operators, such as HCA Healthcare, benefit from consistent, and long-term, tailwinds of an aging population and rising healthcare costs.

In 2022, 17% of the U.S population was 65 years or older. That percentage is expected to increase to 22% by 2040. The population of those aged 85+ is also expected to double from 2022 to 2040.

As populations age, healthcare spending increases. In fact, per capita healthcare spending for those aged 65-84 is 1.6x higher than those aged 45-64 and 3.1x higher than those aged 19-44.

Rising spend from an aging population drives projections for continued growth in hospital spending. According to the Peterson KFF Health System Tracker, the annual hospital spending is expected to grow:

1. 4.8% in 2025
2. 4.6% in 2026
3. 5.9% in 2027
4. 5.7% in 2028
5. 5.8% in 2029
6. 5.4% in 2030
7. 5.3% in 2031
8. 5.4% in 2032

With its industry leading position and superior profitability (more on that below), HCA Healthcare is well-positioned to capitalize on steady growth in healthcare spending for years to come.

Attractive Dividend and Repurchase Yield

Since 2018, HCA Healthcare has paid $3.8 billion (5% of market cap) in cumulative dividends and has increased its quarterly dividends from $0.35/share in February 2018 to $0.72/share in March 2025. The company's current dividend, when annualized, provides a 0.8% yield.

HCA also returns capital to shareholders through share repurchases. From 2018 through 2024, the company repurchased $28.1 billion (34% of market cap) of shares. $16.9 billion of this repurchase activity occurred from 2022-2024.

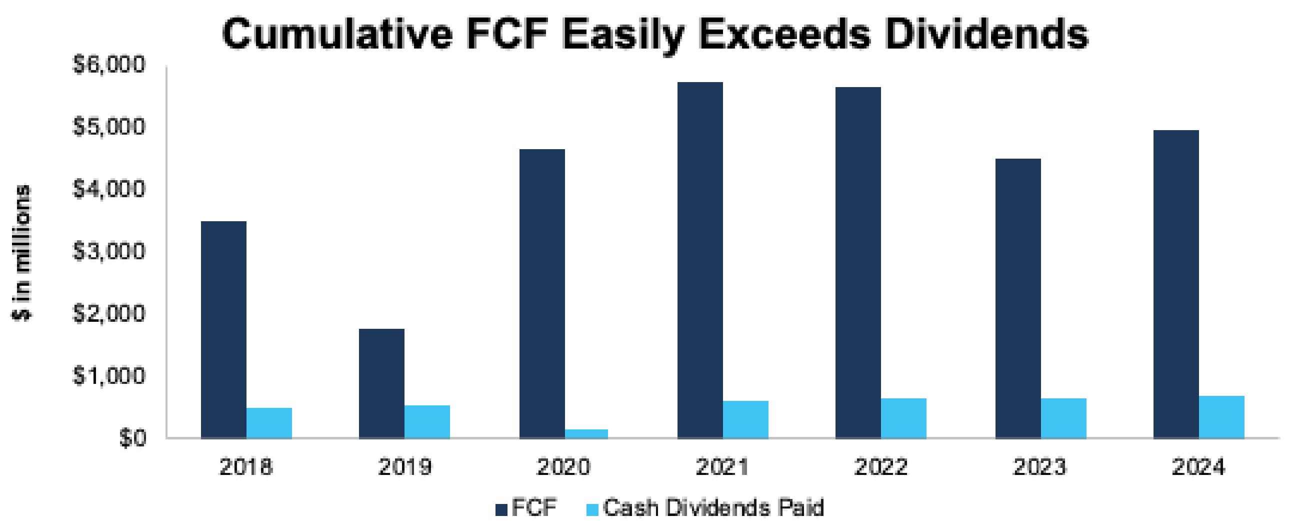
In January 2025, HCA Healthcare's board of directors authorized a new $10 billion share repurchase program. Management noted in the 4Q24 earnings call that they "anticipate completing a significant portion in 2025."

Should the company repurchase shares at its 2024 rate, it would repurchase $6.0 billion of shares in 2025, which equals 7.3% of the current market cap. When combined, the dividend and share repurchase yield could reach 8.1%.

Long Track Record of Quality Cash Flow Generation

HCA generates enough free cash flow (FCF) to cover both its share repurchases and regular dividend payments. From 2018 to 2024, HCA generated $30.9 billion in FCF while paying $3.8 billion in dividends and $28.1 billion in repurchases, for total capital return of $31.9 billion. We like companies that choose to return so much capital to shareholders instead of spending it on executive bonuses or acquisitions. See Figure 3.

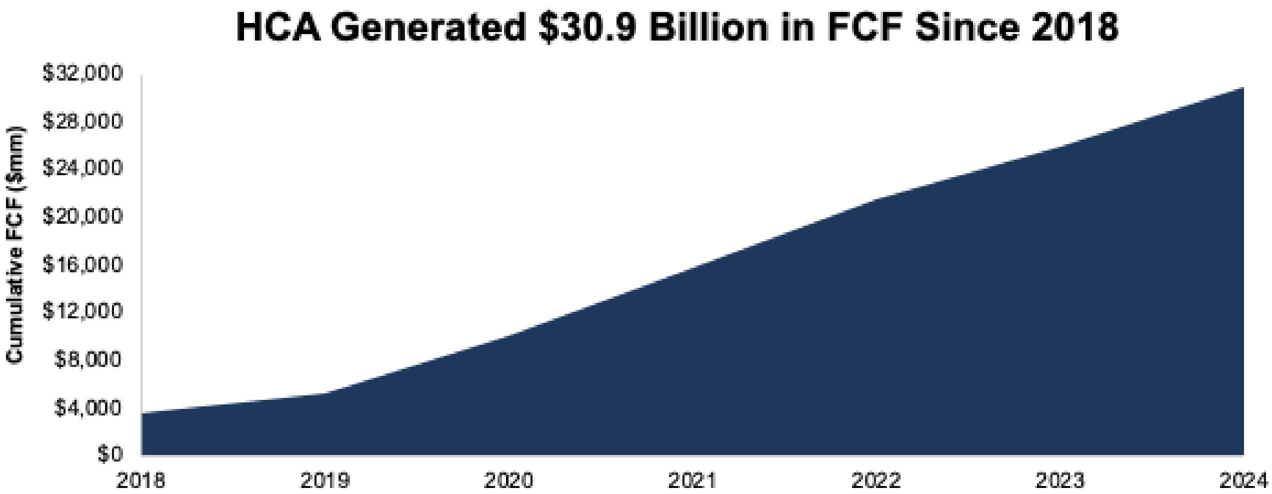
Figure 3: HCA Healthcare's Free Cash Flow Vs. Cash Dividends Paid: 2018 Through 2024



Sources: New Constructs, LLC and company filings

HCA Healthcare has generated positive free cash flow (FCF) in every year of our model on an annual basis. On a quarterly basis, the company has generated positive FCF in 46 of the past 52 quarters. Since 2018, HCA Healthcare generated $30.9 billion (23% of enterprise value) in FCF. See Figure 4.

Figure 4: HCA Healthcare's Cumulative FCF Since 2018



Sources: New Constructs, LLC and company filings

Proven Industry Leader

HCA Healthcare was the most profitable healthcare company amongst its peers when we originally wrote our Long Idea report, and it remains #1 today. It is also the largest hospital operator by revenue and number of locations.

HCA Healthcare's ROIC and invested capital turns are higher than all peers, while the company's NOPAT margin surpasses all but one of its publicly traded competitors. Competitors in this analysis include Encompass Health (EHC), Tenet Healthcare (THC), Universal Health Services (UHS), and more, per Figure 5.

Figure 5: HCA Healthcare's Profitability Vs. Peers: Trailing Twelve Months (TTM)

Ticker	Company Name	NOPAT Margin	IC Turns	ROIC
HCA	**HCA Healthcare Inc**	**12%**	**1.5**	**18%**
UHS	Universal Health Services	8%	1.2	10%
EHC	Encompass Health	13%	0.7	9%
THC	Tenet Healthcare	12%	0.7	9%
SEM	Select Medical Holdings	6%	0.8	4%
CYH	Community Health Systems	6%	0.7	4%

Sources: New Constructs, LLC and company filings

What's Not Working

Skilled Labor Is Hard to Come by in Healthcare

Skilled labor in the healthcare industry remains in short supply. Job satisfaction for Registered Nurses (RN) and Advanced Practice Registered Nurses (APRN) remains low since COVID-19 due to increased levels of stress and excessive work hours. Many nurses also left the workforce after Covid. Worse yet, a significant segment of the nursing workforce is nearing retirement age, while too few new nurses are entering the workforce.

According to the American Association of Colleges of Nursing (AACN), nursing enrollment is not growing fast enough to meet the projected demand for RN and APRN services. Hiring enough labor continues to be a headwind for the whole healthcare industry, including HCA. However, the company is taking steps to recruit and retain quality employees. In the 4Q24 earnings call, management noted that employee engagement is "at an all-time high", which has allowed the company to "reduce turnover and improve the capabilities of our facilities with having continuity and staffing…" Furthermore, the company continues to hire nurses from Galen College, one of the largest nursing schools in the U.S., in which HCA Healthcare acquired a majority stake in 2020.

Unknown Costs of Tariffs

The cost of goods is rising, and the potential for newly administered tariffs to drive costs even higher remains a risk for many companies. In the 4Q24 earnings call, HCA Healthcare management noted that they've been working on tariff mitigation strategies for years to manage the cost of supplies needed to operate its hospitals. Importantly, management noted that in 2025, 70% of its supplies are already contracted with firm pricing, which could help mitigate any increased supply cost when and if mass tariffs are enacted.

Importantly, HCA Healthcare is already priced as if tariffs and labor costs will hurt the business and result in deteriorating profitability. Management's ability to mitigate these challenges creates increased upside in shares, as we'll show below.

Shares Are Pricing in Zero Growth

Below, we use our reverse discounted cash flow (DCF) model to analyze expectations for different stock price scenarios for HCA. At its current price, HCA's price-to-economic book value (PEBV) ratio is 1.0, which means the market expects its NOPAT to never grow from current levels. For context, HCA has grown its NOPAT by 8% compounded annually since 2014 and 7% compounded annually since 2007.

In the first scenario, we quantify the expectations baked into the current price. If we assume:

- NOPAT margin immediately falls to 9% (equal to lowest ever NOPAT margin vs.12% in 2024 and average of the past five years) through 2034, and
- revenue grows at 4% a year through 2034 (compared to 7% compounded annually in the last five and ten years) then

the stock is worth $319/share today – nearly equal to the current stock price. For reference, the revenue growth in this scenario would be below consensus expectations of 5.7% growth in 2025 and 5.1% growth in 2026. In this scenario, HCA's NOPAT grows just 1% compounded annually from 2025 – 2034, which is well below historical growth rates.

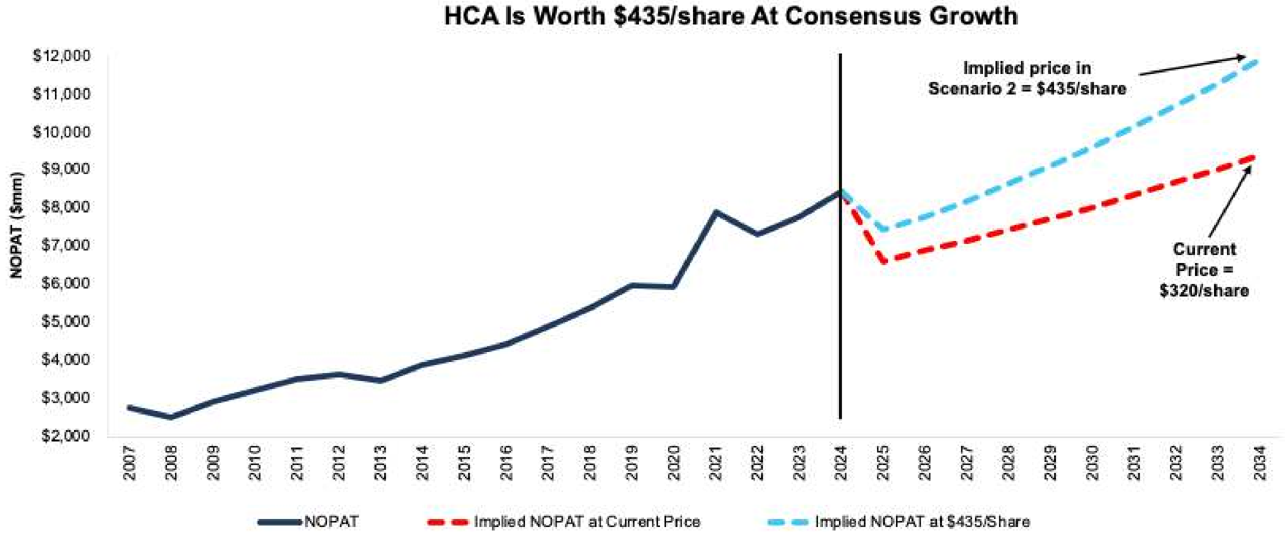
Shares Could Go 36%+ Higher at Consensus Growth Rates

If we instead assume:

- NOPAT margin immediately falls to 10% through 2034,
- revenue grows at consensus rates in 2025 (5.7%), 2026 (5.1%), and 2027 (5.3%), and
- revenue grows at 2027 consensus rate (5.5%) each year thereafter through 2034, then

the stock is worth $435/share today – a 36% upside to the current price. In this scenario, HCA's NOPAT would grow 4% compounded annually from 2025 to 2034. Should the company's NOPAT grow more in line with historical levels, the stock has even more upside.

Figure 6: HCA Healthcare's Historical and Implied NOPAT: DCF Valuation Scenarios



Sources: New Constructs, LLC and company filings

This article was originally published on [February 27, 2025](#).

Disclosure: David Trainer, Kyle Guske II, and Hakan Salt receive no compensation to write about any specific stock, sector, style, or theme.

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It's Official: We Deliver the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

In The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

Ernst & Young features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Harvard Business School. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

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