



Tenet Healthcare Corp.

NYSE: THC

Recommendation: BUY



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March 25th, 2022

Executive Summary

Recommendation:

We are recommending a 'buy' on Tenet Health Corp. stock (NYSE: THC)

Price Target Year 1:

Price Target Year 3:

Bear:

Base:

Bull:

Bear:

Base:

Bull:

14.3%/\$100.0

33.6%/\$116.9

37.6%/\$120.4

26.6%/\$110.8

47.1%/\$128.7

51.3%/\$132.4

Strong Expansionary Acquisitions with Low Leverage Commitments

Strategic Repositioning within the Industry

Experienced Leadership with Focus on Conifer Health Solutions

Business Overview

Business Segments

Hospital

Specialty hospitals provide acute care services, tertiary care services, and advanced treatment options for patients

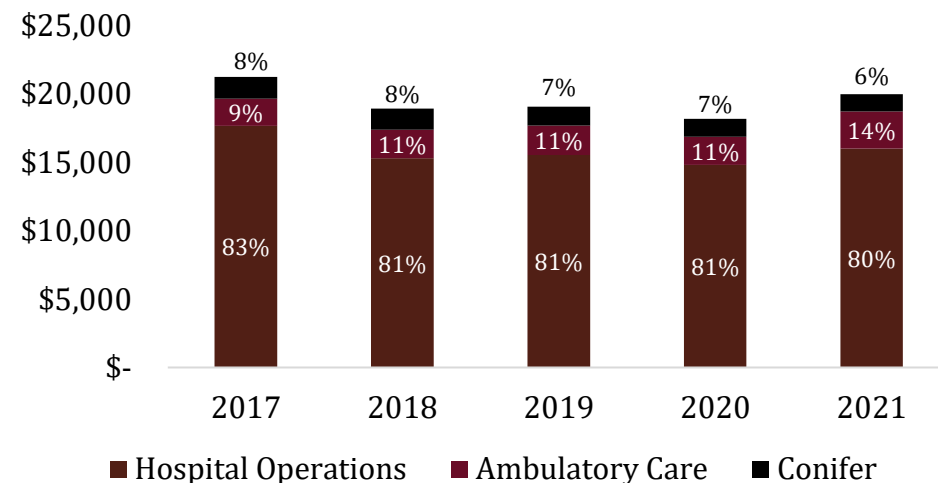
Ambulatory

USPI Holding Company (95% interest) that develops facilities through joint ventures

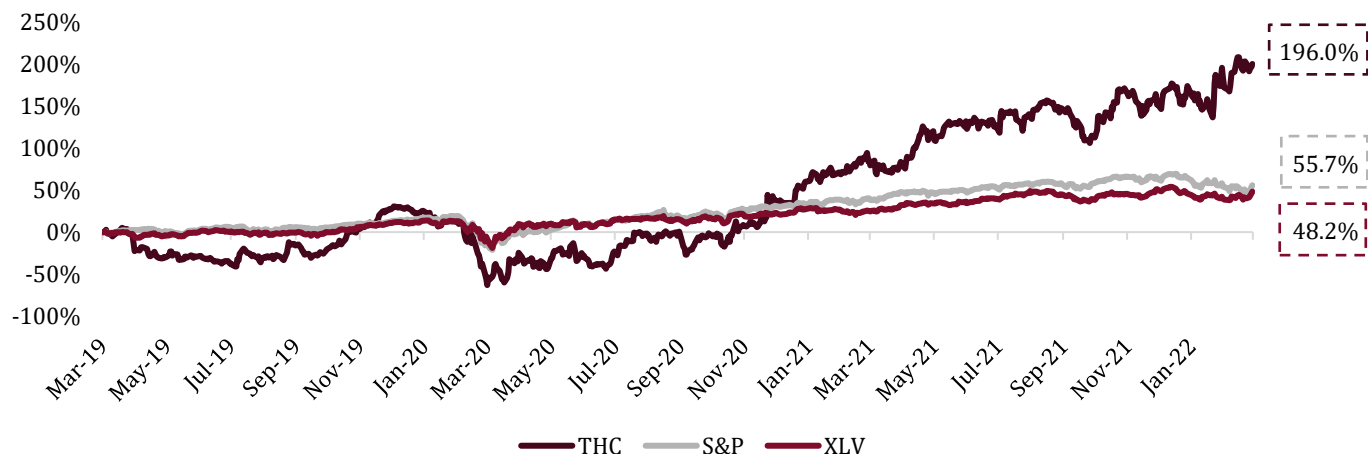
Conifer

Revenue cycle management and value-based care

Revenue Breakdown



3YR Relative Performance



Current Metrics

Share Price	\$88.90
Market Cap	\$9.58 Bn
EV/EBITDA	6.23x
P/E	10.56x
Target Price	\$116.71
Implied Upside	33.40%

Industry Overview

Hospital

Industry

- Includes general medical and surgical hospitals

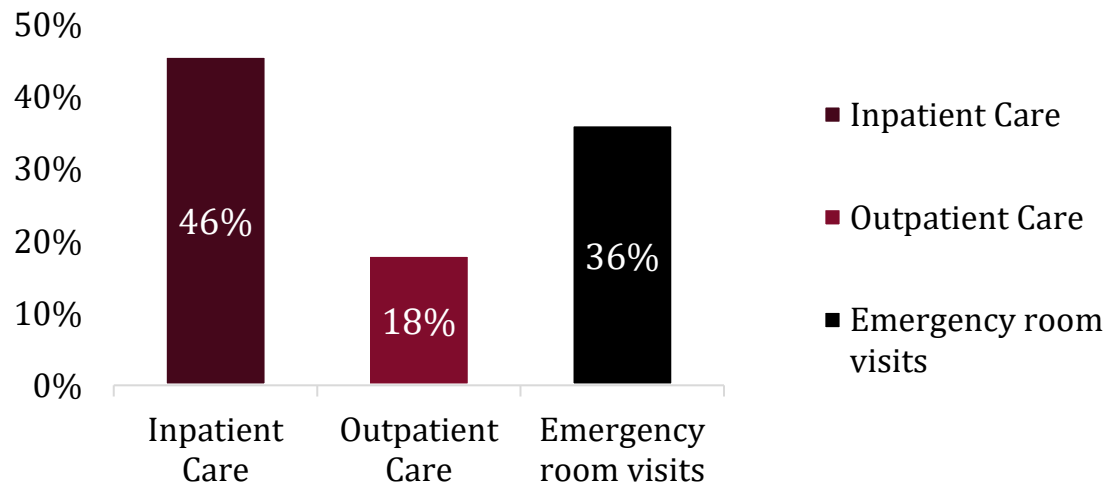
Drivers

- Growth in aging population and federal spending on Medicare and Medicaid

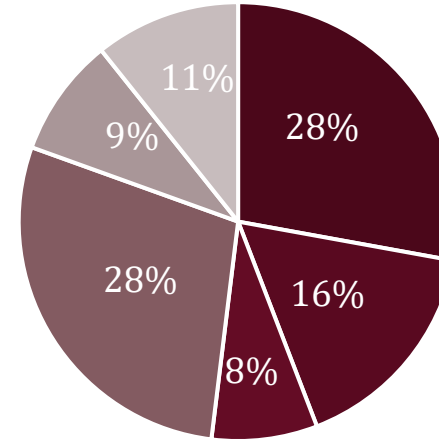
Outlook

- -1.7% from 2016-2021, -2.9% in 2021, and 2.5% to 2026

Hospital Care Breakdown



Ambulatory Care Market Composition



- Musculoskeletal/Connective Tissue Disease
- Nervous System/Sense Organ Diseases
- Respiratory Diseases
- Digestive System Diseases
- Symptoms, signs, and ill-defined conditions
- Injury and Poisoning

Ambulatory Care



Surgical services and emergency care services which are provided on an outpatient basis



Shift from procedures done in hospitals to ambulatory surgical centers



4% growth projected from now to 2025

Thesis



Strong Expansionary Acquisitions with Low Leverage Commitments



Strategic Repositioning within the Industry



Experienced Leadership with Focus on Conifer Health Solutions

Strong Expansionary Acquisitions with Low Leverage Commitments

Acquisitions

2015: USPI initial investment of 50.1% majority stake at \$1.9Bn

2019: Desert Regional Medical Facility for \$120Mn

2019: Aloha Cardiology PC, opened to cardiology market in Arizona

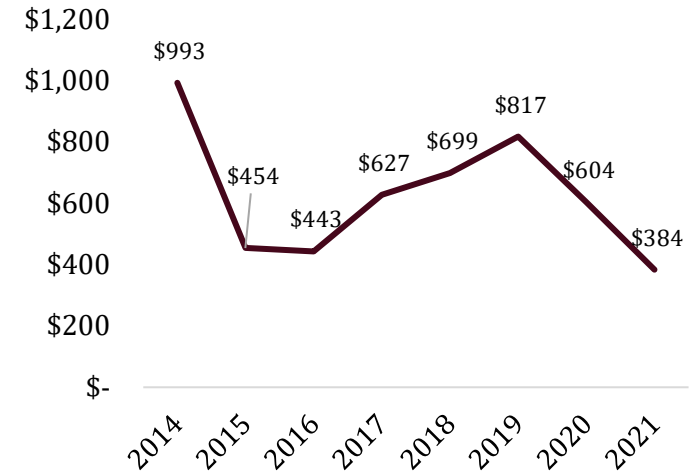
2020: USPI now 95% stake with 5% being owned by Baylor University Medical

2020: 308 ASCs, 40 Urgent Care Centers, 24 imaging centers and 24 surgical hospitals in 31 states

2021: Compass 9 ASCs expected to be completed by 12/31/21

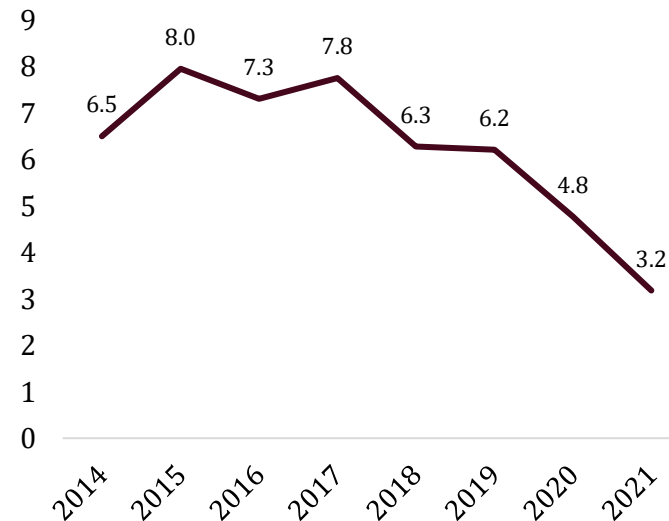
2021 Surg Center Development deal currently being processing

Total Debt/Equity



THC's larger share of prominent acquisitions had been made during and after 2019, since then we have seen the leverage ratio decline to historical lows.

Net Debt/EBITDA



THC's Net Debt/EBITDA shows how they have increased earnings relative to their net debt, remaining profitable for shareholders and competitive with low leverage.

Strategic Repositioning Within the Industry

Industry at a Glance

Hospital

- 2.5% Growth 2026
- 1.8% Market Share by THC
- 7.1% Profit Margin

Ambulatory

- 4% Growth to 2025
- 4.7% Market Share by THC
- 19.7% Profit Margin

Divestitures

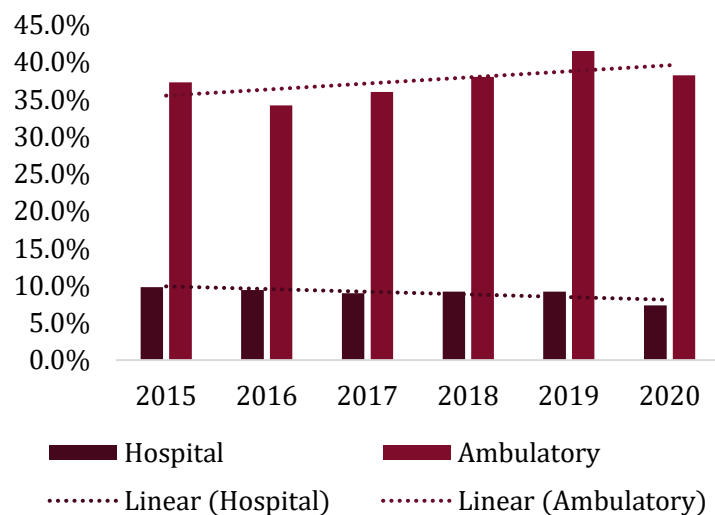


4-30-20: Urgent Care Health Platform to FastMed Urgent Care PC for \$80Mn



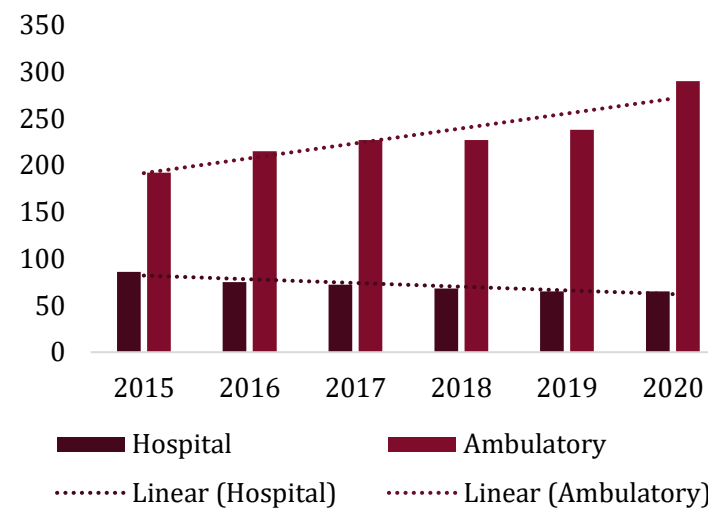
8-2-21: Sold 5 Hospitals and % Hospital related Operations to Steward Healthcare for 1.1Bn

EBITDA Margins



To the left is the EBITDA margins of both the Hospital and Ambulatory business segments. Ambulatory has higher margins which are increasing at a year over year rate whereas the Hospital margins are lower and declining year over year.




Facility Numbers



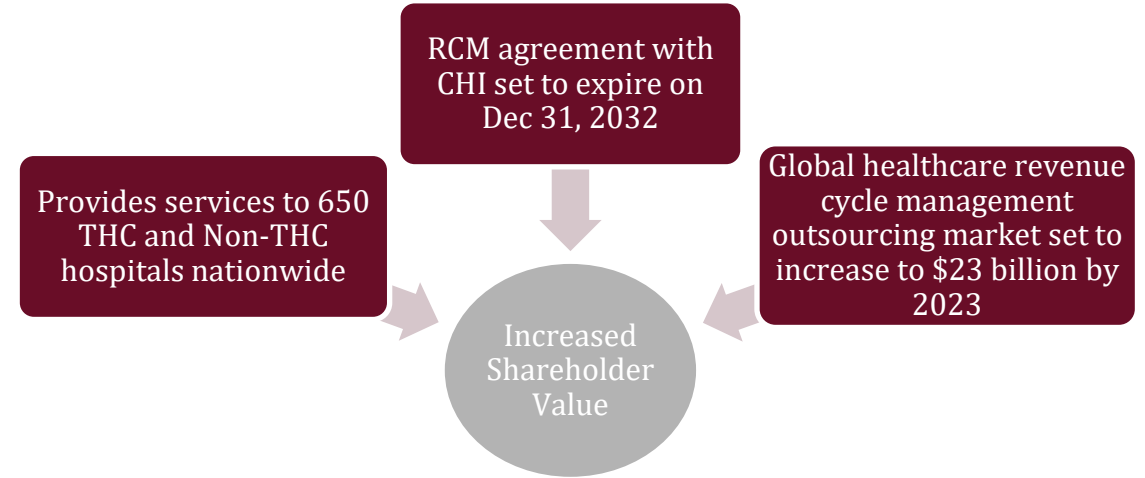
The ambulatory segment of healthcare is an industry THC dominates with larger profit margins and room for growth. Management has identified this and aims to shift towards more ambulatory facilities over hospitals.

Experienced Leadership with Focus on Conifer Health Solutions

Exit of the Tax-Free Conifer Spinoff

-  Conifer fiscal 2022 revenue growth expected to be in the mid to high single digits
-  EBITDA margins have improved 1,000+ bps from Conifer segment since 2017 with a FY 2022 outlook of 17.3-18.0%
-  Conifer contributed to ~6.3% of THC's 2021 total revenues and by 2023 is projected to account for ~10%

Growth Prospects to Boost Shareholder Value



Management's Background

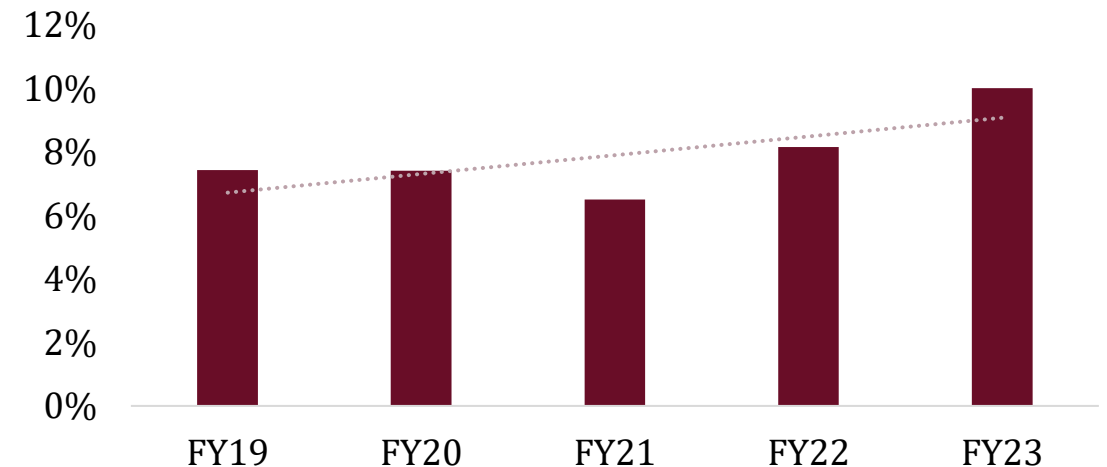
CEO: Saum Sutaria

- Received a medical degree from University of California, San Diego
- Previously held an associate clinical faculty appointment at University of California San Francisco
- Leader in healthcare and private equity practices at McKinsey until 2019

Executive Chairman: Ronald Rittenmeyer

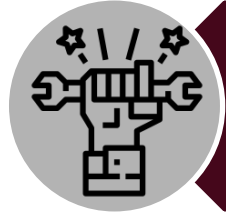
- CEO of THC for nearly four years and on the executive board since 2010
- Retired chairman, president, and CEO of EDS, a global provider of tech services
- Managing Director of The Cypress Group, responsible for a \$3.5 billion investment portfolio

% Revenue Growth Attributed to Conifer



Risks & Mitigants

Risks



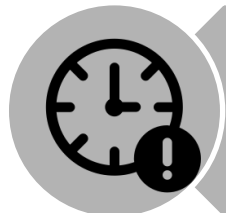
Collective bargaining and union activity could increase labor costs



Fissured workplace due to outsourcing can cause coordination problems

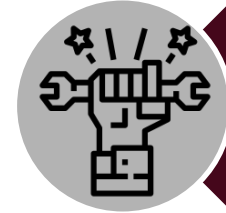


Mandated RN-to-patient ratios could increase labor costs and adversely affect operating revenue



Legislative and regulatory changes could result in reductions to Medicaid payment

Mitigants



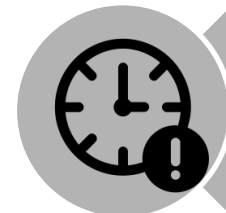
THC's staffing ratios are better than 74% of hospitals in MA and has currently reached settlements with other unions in the states



THC has announced offshoring in the past and in 2019 set up a three-year plan to reduce costs by \$500 to \$800 million. THC anticipates the offshoring to lower costs.



THC is better matching its services and capacity to patient demand. THC's use of contract labor in 3Q21 was stable from prior quarters and helped limit y/y growth in salaries, wages, and benefits, increasing both top and bottom line.



Most of the states in which THC operates have adopted broad-based provider taxes to fund the non-federal share of Medicaid programs.

Catalysts



Increases in Medicare Spending

Medicare spending is projected to rise from 4% of GDP in 2020 to about 6% of GDP by 2051. An increase in Medicare spending could have a positive impact on ambulatory and surgical center growth.



Refinancing Initiatives

As THC continues paying off its senior notes and making improvements to the company's net debt to adjusted EBITDA ratio, reaching below the targeted projection of 4.22x, could result in improved sentiment around the company.

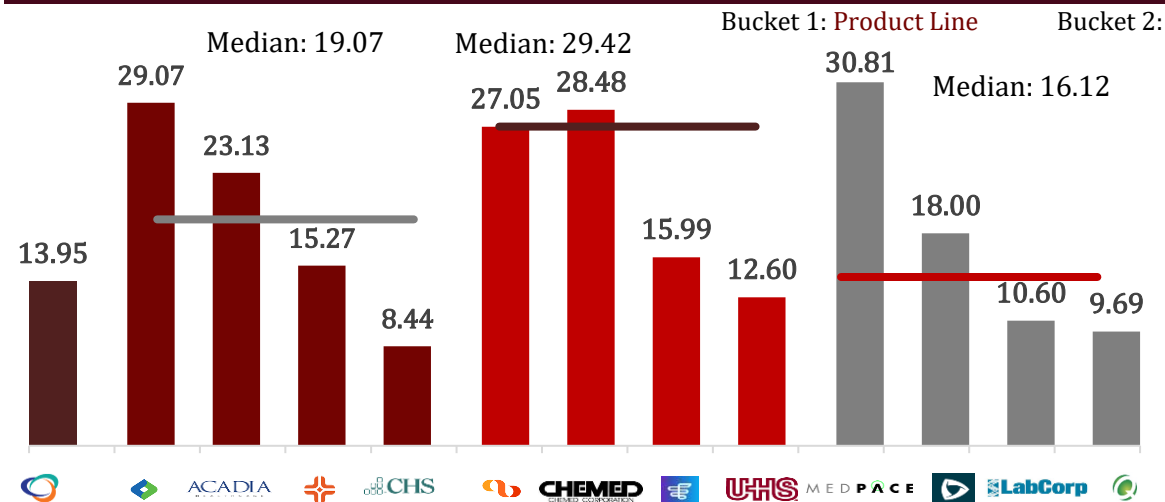


Urbanization Trends

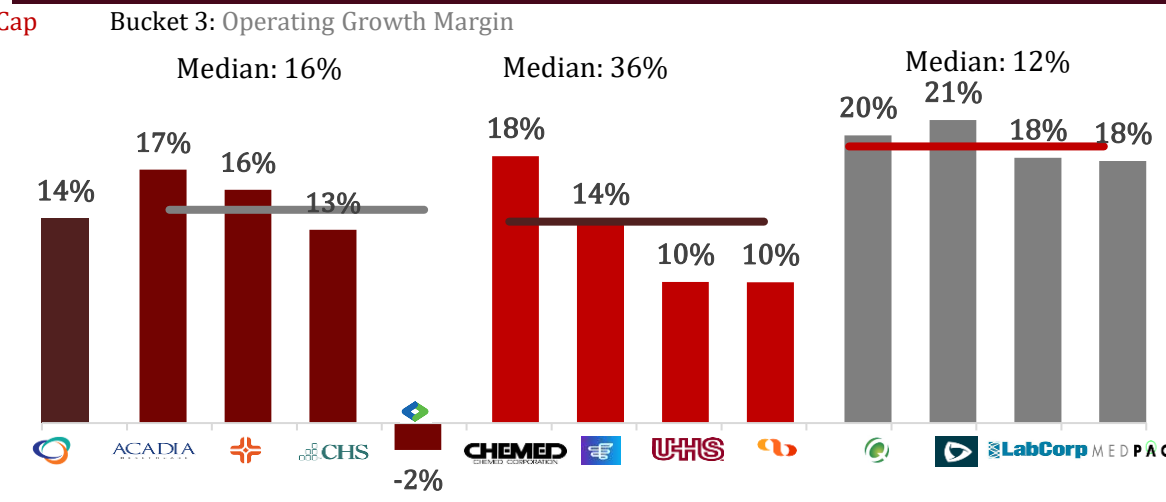
Population growth within cities in the southern and western regions of the countries, areas where THC has its largest proportion of operations, could contribute to increased patient volumes in hospital operations and ambulatory surgery centers.

Comparable Company Analysis

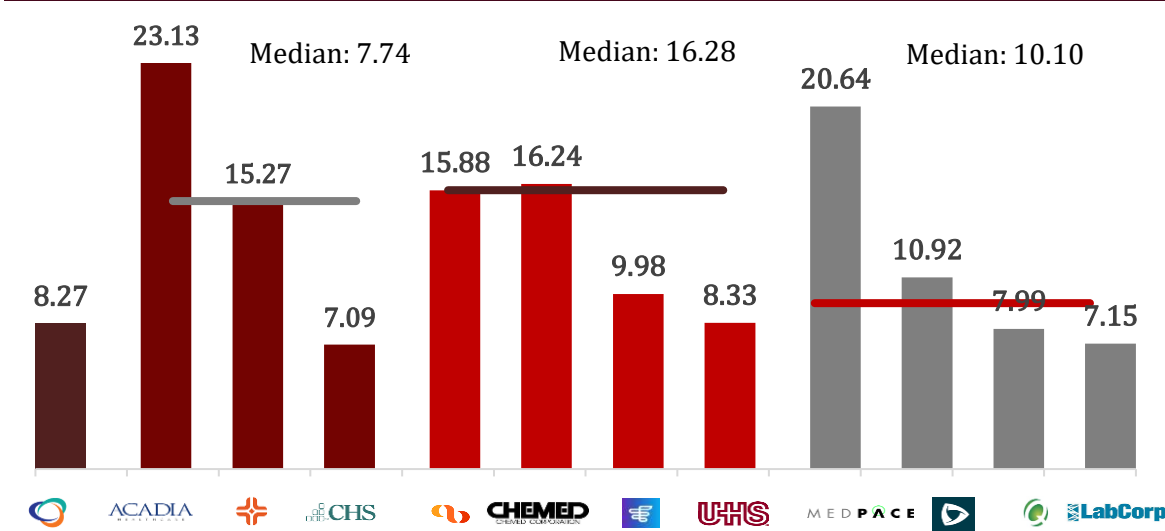
P/E



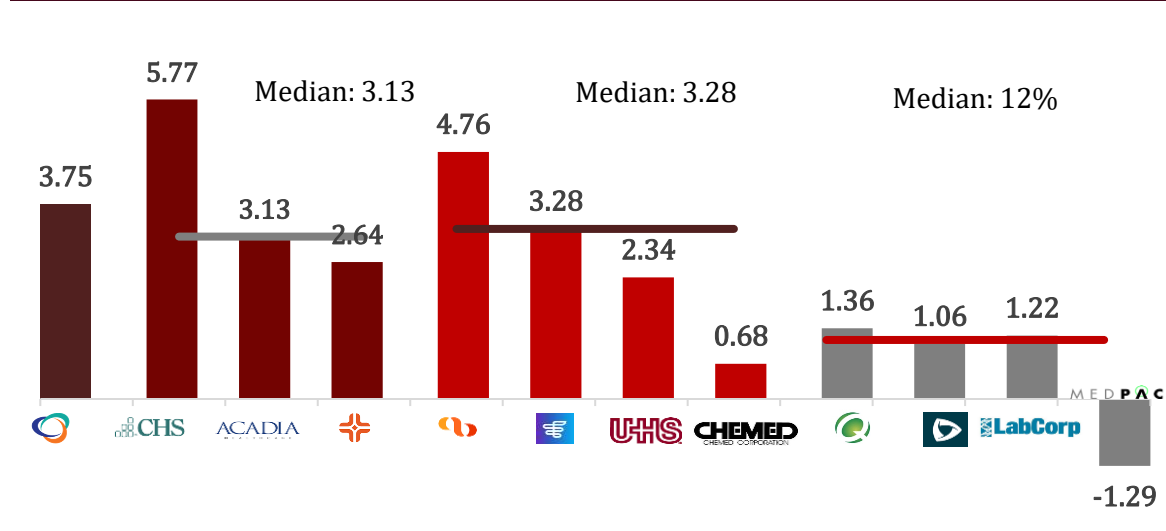
Operating Margin



EV/EBITDA



Net Debt/EBITDA



Valuation

Free Cash Flow Buildup	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23	12/30/24	12/30/25	12/30/26
EBIT	1,113	1,637	1,537	1,989	2,871	2,315	2,409	2,501	2,654	2,828
Income Tax Expense	(219)	(173)	(160)	97	(411)	231	250	267	297	329
EBIAT	1,332	1,810	1,697	1,892	3,282	2,084	2,160	2,234	2,358	2,499
Add: Depreciation and Amortization	870	802	850	857	855	823	813	824	793	754
Less: Changes in Working Capital	(375)	231	147	10	(425)	23	18	43	71	77
Less: Capital Expenditures	707	617	670	540	658	735	755	779	808	839
Unlevered Free Cash Flow	1,870	1,764	1,730	2,199	3,904	2,149	2,199	2,236	2,272	2,336
Time Until Cash Flow						0.79	1.79	2.79	3.79	4.79
Present Value of FCF						1,988	1,845	1,701	1,568	1,462

Exit EBITDA multiple approach	
Terminal year EBITDA	3,581
Terminal year EBITDA multiple	7.7
Terminal Value	27,577
Present value of terminal value	17,255
Present value stage 1 cash flows	8,564
Enterprise value	25,819

Valuation	
Enterprise Value	25,819
Less: Net Debt	13,147
Equity Value	12,672
Diluted Shares Outstanding	109
Equity Value per Share	\$ 116.71
<i>Implied Upside</i>	33.40%

WACC	
Beta	2.4
Risk Free Rate	2.1%
ERM	10%
Market Value of Equity	9,499
Weight of Equity	38%
Cost of Equity	20%
WA Interest Rate	5.44%
Tax Rate	21%
Value of Debt	15,511
Weight of Debt	62%
Cost of Debt	4.3%
Calculated WACC	10.3%

Sensitivity Table

EV Multiple Approach

	5.3x	5.7x	6.1x	6.5x	6.9x	7.3x	7.7x	8.1x	8.5x	8.9x	9.3x	9.7x	10.1x
8.3%	-7%	3%	13%	23%	34%	44%	54%	65%	75%	85%	95%	106%	116%
8.8%	-12%	-1%	9%	19%	29%	39%	49%	59%	69%	79%	89%	99%	109%
9.3%	-16%	-6%	4%	14%	24%	34%	43%	53%	63%	73%	83%	93%	103%
9.8%	-20%	-10%	0%	9%	19%	29%	38%	48%	58%	67%	77%	86%	96%
10.3%	-23%	-14%	-5%	5%	14%	24%	33%	43%	52%	61%	71%	80%	90%
10.8%	-27%	-18%	-9%	1%	10%	19%	28%	37%	47%	56%	65%	74%	84%
11.2%	-30%	-21%	-12%	-3%	6%	15%	24%	33%	43%	52%	61%	70%	79%
11.7%	-34%	-25%	-16%	-7%	2%	11%	20%	28%	37%	46%	55%	64%	73%
12.2%	-37%	-28%	-20%	-11%	-2%	6%	15%	24%	32%	41%	50%	58%	67%

	5.3x	5.7x	6.1x	6.5x	6.9x	7.3x	7.7x	8.1x	8.5x	8.9x	9.3x	9.7x	10.1x
8.3%	\$ 80.99	\$ 89.99	\$ 99.00	\$ 108.00	\$ 117.01	\$ 126.01	\$ 135.02	\$ 144.02	\$ 153.03	\$ 162.03	\$ 171.04	\$ 180.04	\$ 189.05
8.8%	\$ 77.37	\$ 86.18	\$ 94.99	\$ 103.80	\$ 112.60	\$ 121.41	\$ 130.22	\$ 139.03	\$ 147.84	\$ 156.65	\$ 165.45	\$ 174.26	\$ 183.07
9.3%	\$ 73.84	\$ 82.46	\$ 91.08	\$ 99.69	\$ 108.31	\$ 116.93	\$ 125.55	\$ 134.16	\$ 142.78	\$ 151.40	\$ 160.01	\$ 168.63	\$ 177.25
9.8%	\$ 70.40	\$ 78.83	\$ 87.26	\$ 95.69	\$ 104.12	\$ 112.56	\$ 120.99	\$ 129.42	\$ 137.85	\$ 146.28	\$ 154.71	\$ 163.14	\$ 171.57
10.3%	\$ 67.05	\$ 75.29	\$ 83.54	\$ 91.79	\$ 100.04	\$ 108.29	\$ 116.54	\$ 124.79	\$ 133.04	\$ 141.29	\$ 149.53	\$ 157.78	\$ 166.03
10.8%	\$ 63.77	\$ 71.84	\$ 79.91	\$ 87.99	\$ 96.06	\$ 104.13	\$ 112.20	\$ 120.27	\$ 128.35	\$ 136.42	\$ 144.49	\$ 152.56	\$ 160.63
11.2%	\$ 61.20	\$ 69.14	\$ 77.07	\$ 85.01	\$ 92.94	\$ 100.87	\$ 108.81	\$ 116.74	\$ 124.68	\$ 132.61	\$ 140.54	\$ 148.48	\$ 156.41
11.7%	\$ 58.07	\$ 65.83	\$ 73.60	\$ 81.36	\$ 89.13	\$ 96.89	\$ 104.66	\$ 112.42	\$ 120.19	\$ 127.95	\$ 135.72	\$ 143.49	\$ 151.25
12.2%	\$ 55.01	\$ 62.61	\$ 70.21	\$ 77.81	\$ 85.41	\$ 93.01	\$ 100.61	\$ 108.21	\$ 115.81	\$ 123.41	\$ 131.01	\$ 138.61	\$ 146.22

Comparable Company Analysis

Ticker	Market Cap	P/E	EV/EBITDA	ROIC	FCF	Net Debt/EBITDA	Operating Margin
THC	9.64B	13.95	8.27	10.16%	910	3.75	14.00%
Tier 1							
HCA	81.09B	15.27	9.42	18.51%	5380	2.64	16.00%
CYH	1.58B	8.44	7.09	4.03%	-600	5.77	13.00%
CANO	3.04 B	29.07	128.43	-3.61%	-115.	-	-2.00%
ACHC	5.79 B	23.13	14.05	5.69%	130	3.13	17.00%
Tier 2							
CHE	7.07 B	28.48	16.24	26.38%	159	0.68	18.00%
SYNH	8.00B	27.05	15.88	4.51%	393	4.76	10.00%
UHS	11.25B	12.69	8.33	9.61%	28	2.34	10.00%
EHC	6.76B	15.99	9.98	11%	250	3.28	14.00%
Tier 3							
PINC	4.26B	18.00	10.92	10.06%	402	1.06	21.00%
LH	24.86B	10.60	7.15	14.15%	2,650	1.22	18.00%
MEDP	5.22B	30.81	20.64	17.66%	235	-1.29	18.00%
DGX	16.24B	9.69	7.99	16.80%	2,650	1.36	20.00%

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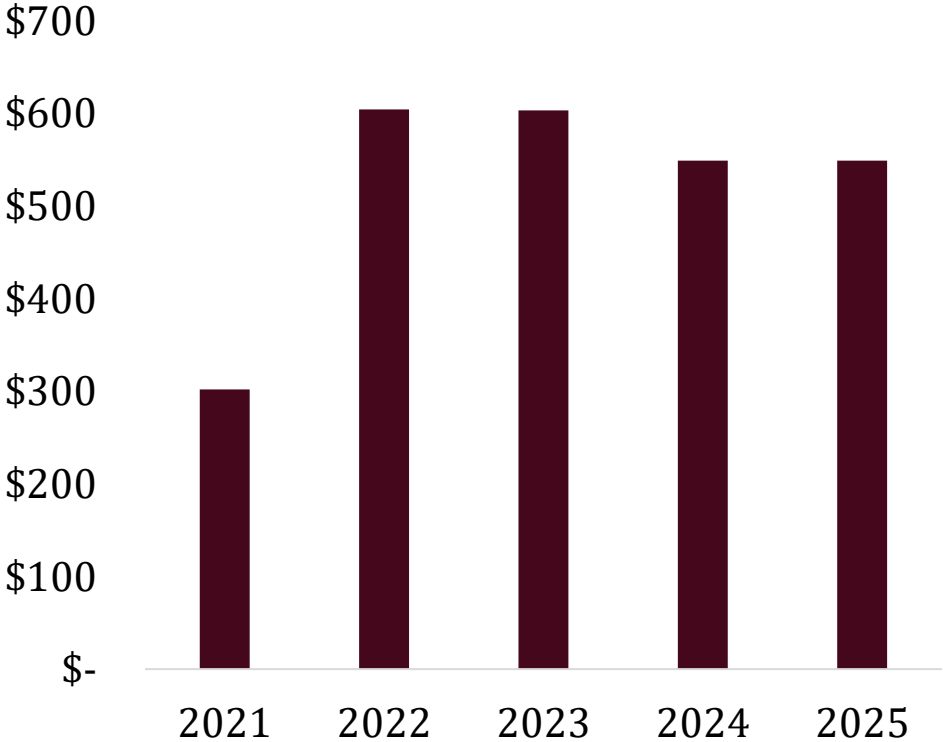
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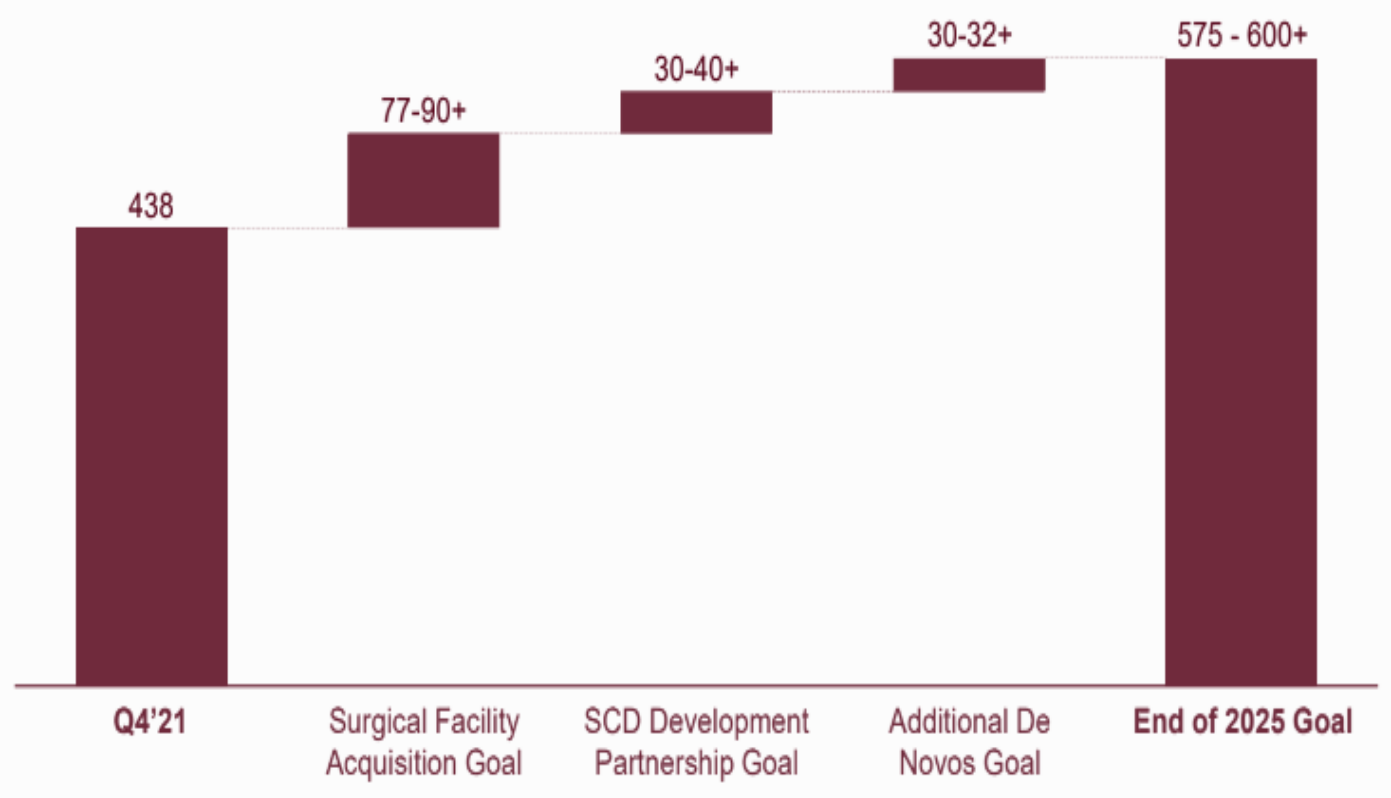
Thank You For Your Consideration

Appendix

Fixed-Fee Revenue Related to Performance Obligations



Illustrative USPI Portfolio Pathway



Appendix

