BLUEGRASS CAPITAL RESEARCH

Name | *Matteo G. Salinas*
Sector | *Healthcare*
April 29, 2026

HCA: Vital Signs Remain Strong

HCA Healthcare has sold off nearly 11% from its 52-week high following the publication of the company's disappointing Q1 2026 results. However, the company has accounted for both a 42% drop in respiratory admissions and a January winter storm disruption in its full-year guidance of $76.5B–$80.0B in revenue and $15.55B–$16.45B in EBITDA. At current levels, HCA represents a compelling entry point for investors seeking exposure to one of the highest-quality hospital operators in the United States, a company generating $12.6B in annual operating cash flow with 20%+ EBITDA margins and a $10B buyback program providing a structural floor on the stock. We rate HCA Healthcare BUY with a price target of $558, representing 28.4% upside from the current price of $435.

Thesis Point 1 - Capital Return Floor

HCA's capital return policy materially accelerates per-share earnings growth and puts a structural floor on valuation. In 2025, HCA repurchased 26.7 million shares and generated $12.6 billion of operating cash flow. The impact of share buybacks is already reflected in the Q4 2025 results, where diluted per-share earnings (EPS) increased by 44.6% ($8.14), significantly outpacing the 30.6% growth in net income. The new $10 billion buyback program, which the company has pledged to expand, will likely reduce the number of outstanding shares by mid-single-digit percentages annually. A lower share count provides significant downside protection. Besides mitigating valuation model risk, the buyback program accelerates per-share earnings growth.

Thesis Point 2 - Market Mispricing Structural Margin Improvement

The market has credited HCA's Q4 2025 margin outcome to one-off Medicaid supplemental payments while ignoring the structural nature of the underlying cost savings. That is a market misstep. HCA's contract labor is a permanent 4.2% of total labor spend, down from peak levels that added $1B+ in annual costs, and the formal Resiliency Program targeting $400M in 2026 savings is already embedded in operations, not a future promise. Consensus remains skeptical of margin sustainability, which means any quarter in which HCA demonstrates that 20%+ EBITDA margins are structural rather than fleeting will be a catalyst for upward estimate revisions not yet baked into the share price.

Thesis Point 3 - Network Density Compounding

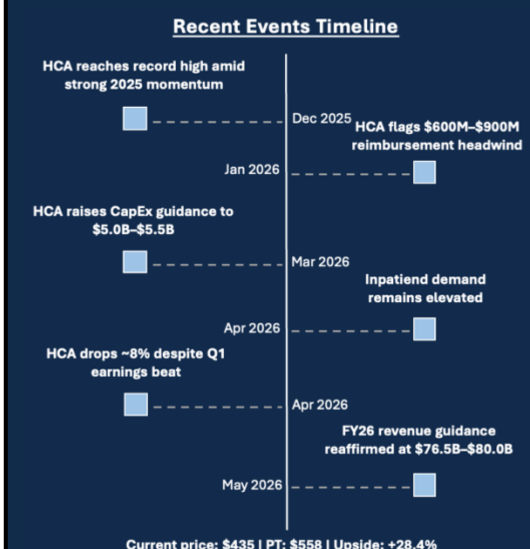
HCA's density-based network strategy secures a dominant market share, transforming the company from a cyclical operator into a stable healthcare compounder. HCA controls 27% of the U.S. hospital services market and aims to reach 29% by 2030. The company's management aims to reach 18 to 20 outpatient care sites per hospital by the end of the decade. By Q4 2025, outpatient care revenues comprised 39.7% of total patient care revenues, reflecting robust outpatient growth despite softening inpatient volumes. HCA increased its business unit footprint by roughly 100 in 2025 and guided 2026 capex to $5.0 billion to $5.5 billion. Greater network density enhances bargaining power with commercial payers and improves patient referral retention, thereby increasing asset productivity and driving low-to-mid single digit revenue growth, consistent with our modeled 5.0% near-term tapering to 3.0% by 2031.

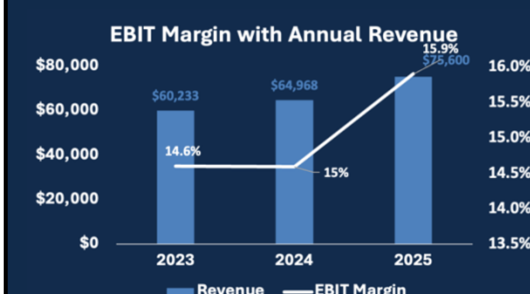
Company Overview

HCA Healthcare, Inc. (NYSE: HCA), founded in 1968 and headquartered in Nashville, Tennessee, is the largest for-profit hospital operator in the United States, with a market capitalization of approximately $96.6 billion as of April 2026. The company operates 191 hospitals and roughly 2,500 ambulatory care facilities across 20 U.S. states and the United Kingdom, totaling more than 50,000 licensed beds. HCA's primary revenue comes from inpatient and outpatient hospital services, including ambulatory surgery centers, freestanding emergency rooms, and other outpatient facilities. The company receives most of its revenue from government and commercial payers. During fiscal 2025, HCA facilitated 47 million patient encounters and maintained an inpatient occupancy rate of 73%, demonstrating strong asset utilization across its network. Compared with companies like Tenet Healthcare, Community Health Systems, and Universal Health Services, HCA is considerably larger, has better margins, and has a significant presence in several high-growth regions of the Sun Belt. HCA's hybrid model allows the company to centralize some of the more significant and scaled operations, such as supply chain and information technology, while decentralizing others to the market leaders in these areas. This model allows HCA to be cost-efficient and responsive to local market conditions. Strategically, HCA is focusing on adding more acute and specialty care departments, such as oncology through the Sarah Cannon Research Institute, cardiovascular care, and trauma services. These departments provide hospitals with higher reimbursement and typically generate stronger contribution margins due to case complexity and payer mix. HCA's competitive advantage comes from the scale, efficiency, capital, and density it controls, making it the dominant healthcare company in the U.S. hospital sector.

HCA Healthcare

TICKER:	$HCA
RATING:	BUY
PRICE:	$435.00
PRICE TARGET:	$558.00
MARKET CAP:	$96.6b
52-W RANGE:	$318 - $556
NTM P/E:	15x
IMPLIED UPSIDE:	+28.4%





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Risk 1 - Policy & Reimbursement Risk

HCA derives a significant portion of its revenue from Medicare and Medicaid reimbursements, making it exposed to federal and state healthcare policy decisions. Changes in federal or state healthcare policy could significantly impact reimbursement rates and overall revenue collection. Although HCA has strong pricing power with commercial insurance companies, government reimbursements are determined by a formula that HCA cannot control. If the government decides that the best way to reduce federal spending is to cut hospital reimbursements, or if site-neutral payment policies are enacted, HCA's revenues from this source will decrease materially. HCA has already guided to $600M–$900M in ACA subsidy headwinds in 2026 alone, demonstrating the tangible near-term impact of policy risk. With the high fixed costs HCA incurs, even a modest decrease in revenue from government programs could significantly pressure the company's operating margins and its ability to maintain EBITDA margins of 20%+.

Risk 2 - Labor Cost Inflation & Volume Sensitivity

HCA has successfully reduced its contract labor to 4.2% of total labor spend and improved operating margins, yet labor costs remain its largest expense. A resurgence of nursing shortages, wage inflation, or unionization efforts could threaten the recent productivity gains and reintroduce cost-inflation pressure. A return to 2022 peak contract labor levels would add approximately $1B+ in annual costs, directly compressing margins. Additionally, inpatient volumes are sensitive to trends in elective procedures and broader macroeconomic conditions. Should patient volume decline, patients migrate to outpatient departments, or employment-driven insurance losses occur, the company could experience slower revenue growth. Taken together, operating leverage, declining volume growth, and increased labor costs will challenge the earnings growth currently reflected in valuation expectations.

Risk 3 - Capital Structure & Leverage Risk

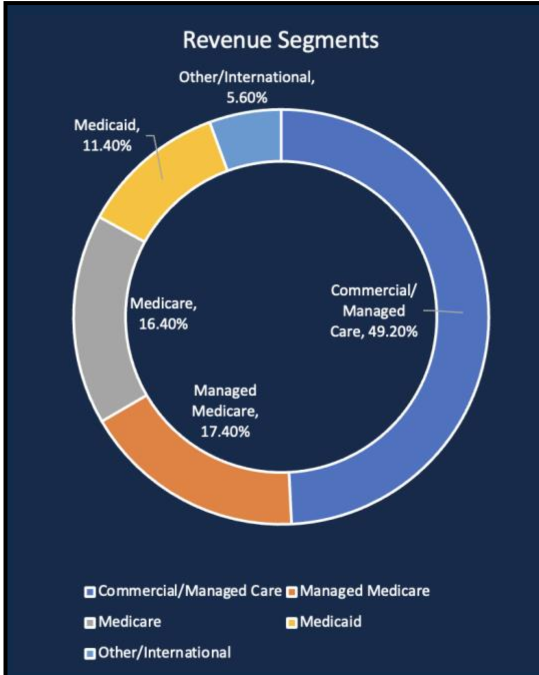
HCA has amassed significant debt of $46.5 billion. Despite the company's strong operating cash flow of $12.6 billion in 2025, factors such as sustained volume declines, margin compression, or elevated interest rates could pressure the company's ability to service its obligations. HCA's significant debt load limits financial flexibility in a downside scenario, reducing its capacity to pursue acquisitions or absorb reimbursement cuts without impacting its credit profile. A decline in the company's credit rating would increase borrowing costs and reduce free cash flow available for capital return, creating a compounding negative effect on shareholder value.

Valuation

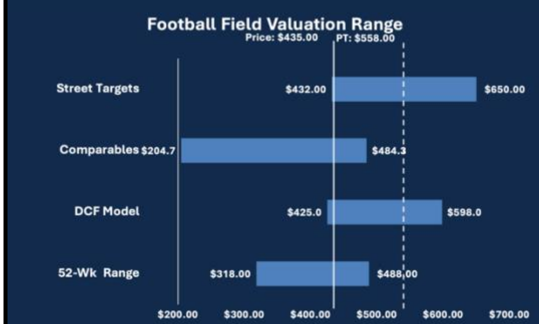
DCF Analysis ($mm)	FY2026 12/31/2026	FY2027 12/31/2027	FY2028 12/30/2028	FY2029 12/30/2029	FY2030 12/30/2030	FY2031 12/31/2031
Revenue	78,246	82,158	85,855	89,290	92,415	95,187
Revenue Growth	*4%*	*5%*	*5%*	*4%*	*3%*	*3%*
Healthcare Services	78,246	82,158	85,855	89,290	92,415	95,187
N/A	0	0	0	0	0	0
N/A	0	0	0	0	0	0
EBIT	12,519	13,392	14,080	14,733	15,341	15,896
EBIT Margin	*16%*	*16%*	*16%*	*17%*	*17%*	*17%*
Tax Expense	3,005	3,214	3,379	3,536	3,682	3,815
Effective Tax Rate	*24%*	*24%*	*24%*	*24%*	*24%*	*24%*
NOPAT	9,514.00	10,177.77	10,701.02	11,196.92	11,659.05	12,081.16
D&A	3,678	3,861	4,035	4,197	4,343	4,474
Capex	5,242	5,340	5,409	5,447	5,452	5,426
Changes in NWC	391	411	429	446	462	476
UFCF	7,559	8,288	8,898	9,500	10,088	10,653
PV of FCF	7,363	7,564	7,510	7,416	7,283	7,114

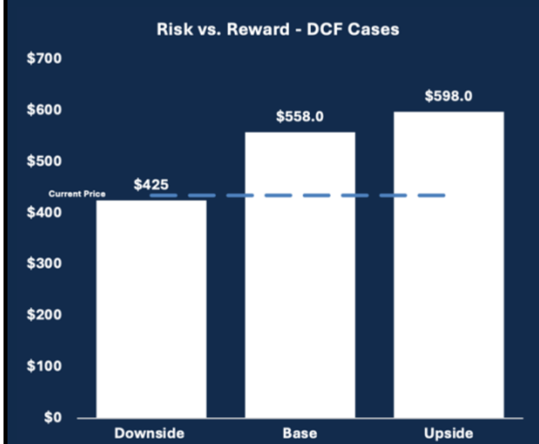
Catalysts 1 - Q2 Earnings Print

The Q2 2026 earnings release is the single most important near-term catalyst for the stock. A return to 2–3% same-facility admission growth with 20%+ EBITDA margins in a clean quarter will validate the volume recovery thesis and simultaneously disprove market skepticism about margin sustainability, both of which will force broad consensus estimate revisions.



Blended Share Price	
Perpetuity Growth Method	0%
Exit Multiple Method	100%
Blended Share Price	**$558.33**
Upside/Downside	28.40%





Catalysts 2 - Resiliency Program Progress Update

Management will provide an update on the $400M Resiliency Program and AI initiatives at the Q2 earnings call. Hard data on realized savings or efficiency improvements will allow the market to begin modeling permanent margin improvement independent of revenue trends.

Catalysts 3 - Accelerated Buyback Execution

At $435, HCA is trading at a significant discount to its $558 intrinsic value. Executing the $10B buyback authorization at current prices would retire shares at maximum accretion to remaining shareholders. Any announcement of an accelerated pace in the Q2 release would signal management's conviction that the stock is undervalued, historically one of the strongest re-rating indicators in large-cap healthcare.

HCA Healthcare Key Executives

Name & Title	Bio
Samuel N. Hazen CEO / President	A 36-year veteran of HCA Healthcare, Hazen was appointed CEO in 2019 after serving as president and chief operating...
Tina Hogeman CFO Physician Services Group	Tina Hogeman serves as the CFO Physician Services Group of HCA. Tina started at HCA in Jul of 2018. Tina currently...
Will Morrow Senior Vice President - Finance & Treasurer	Will Morrow serves as the Senior Vice President - Finance & Treasurer of HCA Healthcare.
Jane Englebright Senior Vice President & Chief Nurse Executive	Jane Englebright serves as the Senior Vice President & Chief Nurse Executive of HCA. Jane started at HCA in Apr of 1997....
Lee Adams Vice President Field Operations	Lee Adams serves as the Vice President Field Operations of HCA. Lee started at HCA in Mar of 2010. Lee currently resides...

Terminal Value	
Perpetuity Growth Method	
2034 FCF	$10,292
Growth	2.00%
Terminal Value	$168,079
PV of Terminal Value	$112,231
PV of Projection Period	$43,205
PV of Terminal Value	$112,231
Implied TEV	$155,436
(-) Debt	$46,492
(+) Cash	$1,040
Implied Equity Value	$109,984
Basic Shares Outstanding	222
Implied Share Price	$495.42
Upside/Downside	13.89%
Implied Exit BF EV/EBITDA	10.1x

Terminal Value	
Exit Multiple Method	
2034 EBITDA	$19,894
EV/EBITDA Exit Multiple	9.5x
Terminal Value	$188,994
PV of Terminal Value	$126,197
PV of Projection Period	$43,205
PV of Terminal Value	$126,197
Implied TEV	$169,402
(-) Debt	$46,492
(+) Cash	$1,040
Implied Equity Value	$123,950
Diluted Shares Outstanding	222
Implied Share Price	$558.33
Upside/Downside	28.4%
Implied PGR	0.0%

Conclusion

HCA is a buy opportunity at current prices. The stock has been punished for a transient quarter due to respiratory admission declines and winter storm disruptions, while ignoring the many positives the company offers as the leading hospital operator in the United States. HCA has reiterated its revenue and EBITDA guidance for this year, showing that the Q1 numbers were an anomaly in the context of the company's broader operational trajectory.

The company's $10 billion buyback program, its focus on the Resiliency Program with AI-enabled digital transformation to improve efficiency, and the best use of its geographic density to improve operational efficiencies all play critical roles in HCA's future. These have already shown up in the company's results for the fourth quarter of 2025, as earnings per share increased 44.6% while net income increased only 30.6%.

HCA stock at $435 represents a 28.4% discount to our intrinsic value of $558. While there are risks to the company's growth, they are manageable. Based on all the information presented, we rate HCA Healthcare a BUY with a price target of $558, suggesting the stock could rise 28.4% from current levels.

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Income Statement ($mm)	2025A	2026E	2027E	2028E	2029E	CAGR%
Revenue	75,600	78,246	82,158	85,855	89,290	4.2%
EBITDA	15,566	16,197	17,007	17,815	18,572	4.5%
EBIT	12,043	12,519	13,145	13,780	14,376	4.5%
NOPAT	9,153	9,514	9,990	10,473	10,925	4.5%

Margin & Growth Data	2025A	2026E	2027E	2028E	2029E	AVG%
EBITDA Margin	20.6%	20.7%	20.7%	20.8%	20.8%	20.7%
EBIT Margin	15.9%	16.0%	16.0%	16.1%	16.1%	16.0%
Revenue Growth	7.1%	3.5%	5.0%	4.5%	4.0%	4.8%
EBIT Growth	13.9%	4.0%	5.0%	4.8%	4.3%	6.4%

Valuation Metrics	2025A	2026E	2027E	2028E	2029E	AVG%
P/FCF	13.1x	12.8x	11.9x	11.1x	10.5x	11.9x
EV/Sales	1.9x	1.8x	1.7x	1.7x	1.6x	1.7x
EV/EBITDA	9.1x	8.8x	8.4x	8.0x	7.6x	8.4x
FCF Yield	7.7%	7.8%	8.4%	9.0%	9.6%	8.5%

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
THC	16,371	26,661	10.64	21,310	4,566
UHS	11,060	15,763	7.58	17,365	2,590
EHC	10,461	12,461	20.13	5,935	1,268
ARDT	1,260	1,650	5.95	6,320	545
HCA Healthcare, Inc.	96,570	153,788	17.23	75,600	15,566

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margi	EBIT Margin	1 Yr Rev Growth Rate LF
THC	5.8x	20.0%	21.4%	10.7%	2.8%
UHS	6.1x	18.0%	14.9%	8.4%	7.1%
EHC	9.8x	32.0%	21.4%	15.7%	8.0%
ARDT	3.0x	10.0%	8.6%	2.0%	6.2%
HCA Healthcare, Inc.	9.9x	18.0%	20.6%	15.9%	7.1%
High	9.88x	32.0%	21.4%	15.9%	8.0%
75th Percentile	9.83x	20.0%	21.4%	15.7%	7.1%
Average	6.93x	19.6%	17.4%	10.5%	6.2%
Median	6.09x	18.0%	10.7%	10.7%	7.1%
25th Percentile	5.84x	18.0%	14.9%	8.4%	6.2%
Low	3.03x	10.0%	8.6%	2.0%	2.8%

HCA Healthcare, Inc.		
Implied Enterprise Value (25th Percentile)	$	90,890
Implied Enterprise Value (Median)	**$**	**94,736**
Implied Enterprise Value (75th Percentile)	$	152,976
Implied Share Price (25th Percentile)	$	204.67
Implied Share Price (Median)	**$**	**222.00**
Implied Share Price (75th Percentile)	$	484.34

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	5.50%
Beta	1.00
Risk Free Rate	4.31%
Cost of Equity	9.81%
Weighted Average Cost of Debt	5.50%
Tax Rate	24.00%
Cost of Debt	4.18%
Total Equity	$96,570
Total Debt	$45,452
Equity/Total Capitalization	70.00%
Debt/Total Capitalization	30.00%
WACC	8.12%

Downside Case: In the downside scenario, each of these factors adversely impacts the business. Volume softness, Medicaid reimbursement cuts, and labor cost inflation impact the company's revenue and profitability. Revenue is projected to grow at 3.5% in 2026 and decline to 2.0% by 2031. Additionally, EBIT margins are projected to decline to 15.5% near-term and through 2031 as the inflation of labor costs erodes the benefits of the Resiliency Program. Lastly, the company is projected to trade at an EV/EBITDA multiple of 8.5x, reflecting a scenario where HCA trades below its historical premium multiple due to margin pressure and policy uncertainty. Based on these factors, HCA is projected to trade at $425, indicating a -2.3% return from the current share price, reflecting the market's concerns about HCA's Q1 volume results.

Upside Case: In the upside scenario, 5.5% revenue growth is projected for 2027, with a reduction to 3.5% growth by 2031. HCA's growing network density and the aging U.S. population will fuel revenue growth. EBIT margins are projected to expand to 16.5% near-term and 16.8% by 2031 as $600M–$800M in AI-driven permanent efficiency improvements flow through to the bottom line. The exit multiple for the company is 9.5x EV/EBITDA, reflecting HCA's re-rating toward the higher end of its historical trading range on improving volume trends and positive earnings revisions. Based on these projections, HCA's share price is $598, representing a 37.4% increase from its current level, a scenario in which Q2 volume normalization reverses the current negative sentiment surrounding the stock.

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