

Universal Health (UHS)

\$99.15 (As of 05/01/20)

Price Target (6-12 Months): **\$104.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: D

Summary

Universal Health's first-quarter 2020 adjusted earnings of \$1.73 per share missed the Zacks Consensus Estimate by 33.2% and also deteriorated 29.4% year over year. Its top line has been improving since 2013, driven by robust inorganic growth and strong segmental performances from both Acute Care and Behavioral Health. Acquisitions have played an instrumental role in building its growth trajectory by adding facilities, bed and hospital to its business portfolio. It recently took cost-cutting measures to fight the erosion in revenues. Shares have underperformed its industry in a year's time. However, it is exposed to integration risks due to several buyouts and the rising expenses over time. Its lack of financial flexibility bothers. It scrapped its 2020 guidance due to the pandemic.

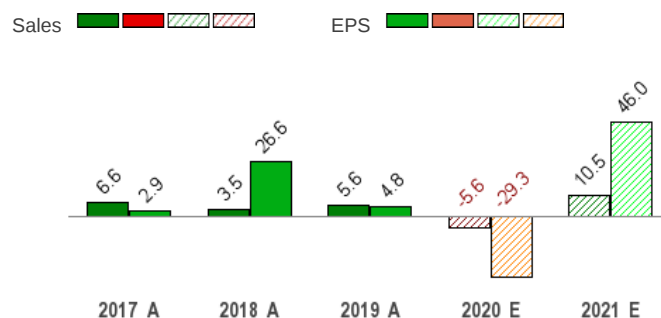
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$157.79 - \$65.20
20 Day Average Volume (sh)	662,921
Market Cap	\$8.6 B
YTD Price Change	-30.9%
Beta	1.05
Dividend / Div Yld	\$0.80 / 0.8%
Industry	Medical - Hospital
Zacks Industry Rank	Bottom 13% (220 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-33.2%
Last Sales Surprise	-2.8%
EPS F1 Est- 4 week change	-33.3%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	10.7
P/E F1	14.0
PEG F1	1.5
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,929 E	2,977 E	2,841 E	12,363 E	11,873 E
2020	2,830 A	2,390 E	2,604 E	2,920 E	10,744 E
2019	2,804 A	2,855 A	2,822 A	2,896 A	11,378 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.48 E	\$2.66 E	\$2.18 E	\$2.97 E	\$10.31 E
2020	\$1.73 A	\$0.60 E	\$1.37 E	\$2.71 E	\$7.06 E
2019	\$2.45 A	\$2.76 A	\$1.99 A	\$2.79 A	\$9.99 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/01/2020. The reports text is as of 05/04/2020.

Overview

King of Prussia, PA-based Universal Health Services Inc (UHS) owns and operates (through its subsidiaries) acute care hospitals, behavioral health centers, surgical hospitals, ambulatory surgery centers and radiation oncology centers.

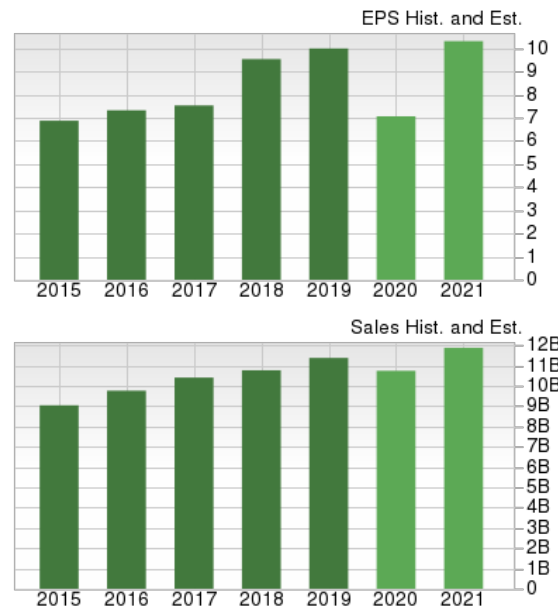
The company's range of services include general and specialty surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, pediatric services, pharmacy services and/or behavioral health services.

Universal Health's sources of revenue include payments from private insurers, including managed care plans, the federal government under the Medicare program, state governments under their respective Medicaid programs and patients.

The company through its subsidiaries operates 350 inpatient acute care hospitals and behavioral health facilities and 37 outpatient and other facilities located in 37 states, Washington, D.C., the United Kingdom, Puerto Rico and the U.S. Virgin Islands.

Acute Care (55% of total revenues in 2019): The segment includes 26 inpatient acute care hospitals, nine free-standing emergency departments, and six outpatient surgery/cancer care centers and one surgical hospital.

Behavioral Health Care (45%): The segment includes 188 inpatient behavioral healthcare facilities and 19 outpatient behavioral healthcare facilities located in the United States, 133 inpatient behavioral healthcare facilities and two outpatient behavioral healthcare facilities located in the United Kingdom, and three inpatient behavioral healthcare facilities in Puerto Rico.



Reasons To Buy:

▲ **Revenue Growth:** The company's revenues have been growing consistently since 2010. This upside was driven by solid inorganic growth and a strong performance from both its segments — Acute Care and Behavioral Health. The top line witnessed a 2010-2019 CAGR of 9.81%, led by solid segmental contributions, higher admissions and patient days. In 2019, the company opened 250 beds at some of the busiest acute care and behavioral health hospitals, which are expected to contribute to its top line going forward. In the first quarter of 2020, net revenues increased 0.9% year over year to \$2.8 billion. Although the company might suffer in the near term due to fall in admissions following the COVID-19 outbreak, we still think that the same might witness recovery when things get back to normalcy.

Growing demand for healthcare services, accretive acquisitions, solid acute care platform and share gains in behavioral market are key positives. Its solid capital position also impresses.

▲ **Accretive Acquisitions:** Over the years, acquisitions have played a key role in building Universal Health's growth trajectory, by adding facilities, bed and hospital to its business portfolio. In 2018 and 2019, the company spent a total of \$110 million and \$8 million on acquisitions. We believe that the company will continue making acquisitions that will help it expand its domestic and international presence along with positioning it better to weather the regulatory uncertainty in the healthcare sector.

▲ **Solid Acute-care Platform:** Acute care is a branch of secondary healthcare where a patient receives short-term treatment for urgent medical conditions. Since 2012, the average number of licensed beds in the acute care hospitals has been growing, pushing up the revenues. In 2018 and 2019, the same inched up 1.7% and 2.5%, respectively, year over year. In fact, global market sentiments for acute care treatments are quite upbeat with North America accounting for the largest share in the space. Net revenues from acute care hospitals (same facility) in 2018 improved 4.6% year over year followed by a 7.7% rise in 2019 owing to adjusted admissions. In the first quarter, the same increased 0.4%, offset by the substantial drop in non-COVID patients in the last two weeks of March. The decline in admissions and emergency room visits might dent revenues from this segment in the second quarter but we are still hopeful that the metric will rebound in the near future.

▲ **Strong Behavioral Platform:** Universal Health focuses on behavioral indications like eating disorders, sexual trauma, autism as well as disorderliness in the military through its patriot support program. New laws (2008 Mental Health Parity and Addiction Equity Act as well as Obamacare) have raised the insurance coverage for patients suffering from substance abuse as well as mental disorders, which is a major positive for Universal Health which boost admission rate thereby driving top-line growth over the long term. Since 2012, average licensed beds in the behavioral health centers have been growing, contributing to the top line. Segmental revenues inched up 2.6% and 3.4% year over year in 2018 and 2019, respectively. In the first quarter of 2020, the same inched up 2.2% on same-facility basis. The results were offset by a 25% decline in admissions in the last two weeks of the reported quarter. Since the patient volumes continued to contract in April, revenues from this segment might be under pressure during the current quarter. However, we expect the same to bounce back when the current environment gets better.

▲ **Capital Deployment:** The company also boasts a strong capital position. In July 2019, the company's board of directors increased its share buyback plan by \$1 billion. In July, the company also hiked its cash dividend by 50%, which was paid on Sep 16, 2019 to shareholders of record on Sep 3, 2019.

▲ **Price Performance:** Shares of Universal Health have underperformed its industry in the past year. However, its strong fundamentals like growing revenues and favorable segmental performances would likely help the stock bounce back going forward.

Reasons To Sell:

- ▼ **Rising Expenses:** Steep increase in operating expenses has also been a major concern for the company since 2013. In 2019, it rose 6% year over year to \$10 billion, accounting for 89.3% of the total revenue stream, which remains a major concern for the company. In the first quarter, expenses increased 7.1% year over year, accounting for 93.2% of total revenues. Rising expenses are likely to drain the company's margin going forward.
- ▼ **Weak Capital Position:** The company's long-term debt has been deteriorating since 2013. Times interest earned of the company, a ratio that measures its ability to pay its interest expenses, decreased from 11.1 in 2015 to 7.55 in 2019. The metric for the company currently stands at 7X, lower than the industry's average of 9.2X. As of Mar 31, 2020, the company has cash and cash equivalents of \$54.6 million, much lower than its long-term debt of \$3.7 billion. Although the company doesn't have to repay a huge portion of its total debt load within a year, we still have concerns about its solvency level. As of Mar 31, 2020, it had \$1.2 billion of aggregate available borrowing capacity.
- ▼ **Declining ROE:** The company's return on equity has been declining since 2015. The metric currently stands at 14.9%, much lower than its industry's average of 678%. This waning profitability measure also reflects the company's effectiveness in utilizing shareholders' money.
- ▼ **Withdrawal of Guidance:** The company withdrew its 2020 outlook given the current unprecedented environment. This remains a concern for investors. Moreover, it has suspended its share buyback program and dividend payout due to the current situation.

Elevated debt level, weak return on equity and increase in operating expenses are the major headwinds faced by the company.

Last Earnings Report

Universal Health Q1 Earnings, Revenues Miss Estimates

Universal Health reported first-quarter 2020 adjusted earnings of \$1.73 per share, missing the Zacks Consensus Estimate by 33.2%. Moreover, the bottom line deteriorated 29.4% year over year.

Results were impacted by a pre-tax unrealized loss of \$4.3 million due to a decline in market value of shares of certain marketable securities.

Quarter Ending 03/2020

Report Date	Apr 27, 2020
Sales Surprise	-2.84%
EPS Surprise	-33.20%
Quarterly EPS	1.73
Annual EPS (TTM)	9.27

Quarterly Operational Update

Net revenues increased 0.9% year over year to \$2.8 billion. However, the metric lagged the Zacks Consensus Estimate by 2.8%.

Total operating expenses of \$2.6 billion at the end of the first quarter rose 5.2% year over year, mainly due to salaries, wages and benefits, other operating expense, supplies expenses along with depreciation and amortization plus lease and rental expense.

Segment Update

Acute Care Hospitals

Adjusted admissions and adjusted patient days were down 4% and 0.2%, respectively, from the prior-year quarter. Net revenues (on a same facility basis) climbed 0.4% year over year.

Behavioral Hospitals

On same-facility basis, adjusted admissions and adjusted patient days were down 2% and 1.3%, respectively, on a year-over-year basis. Net revenues were up 2.2% during the quarter under review on same-facility basis.

Financial Update

As of Mar 31, 2020, the company had cash and cash equivalents of nearly \$54.6 million, down 10.8% from the year-end 2019-level.

Total assets were \$11.6 billion as of Mar 31, 2020, down 0.4% from the figure as of 2019 end.

The company's long-term debt was \$ 3.7 billion, down 4.1% from the figure as of Dec 31, 2019.

In the first quarter, net cash provided by operating activities totaled \$502 million, up 16.3% year over year due a favorable change in accounts receivable, unfavorable change in other working capital accounts and a favorable change million in accrued insurance expense.

Buyback Program

During the first quarter, the company bought back shares worth \$196.6 million.

Recent News

Universal Health Declares Dividend — Jan 30, 2020

Universal Health recently announced that its board of directors has agreed to pay a cash dividend of 20 cents per share, payable Mar 16, 2020 to shareholders of record on Mar 2, 2020.

Universal Health Ties Up for Joint Venture — Dec 16, 2019

Universal Health along with Beaumont Health recently broke ground on new mental health hospital in Dearborn, which is expected to open in mid-2021. Construction of the same will commence early 2020 .

Universal Health Declares Dividend — Nov 20, 2019

Universal Health Services recently announced that its board of directors approved a cash dividend of 20 cents per share. The amount was paid out on Dec 19, 2019 to its shareholders of record on Dec 5, 2019.

Valuation

Universal Health shares are down 31% and 21% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 31.7% and 6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 23.5% and 3%, respectively.

The S&P 500 index is down 12.1% in the year-to-date period and 3.7% in the past year.

The stock is currently trading at 12.14x forward 12-month earnings, which compares to 14.96x for the Zacks sub-industry, 21.38x for the Zacks sector and 20.18x for the S&P 500 index.

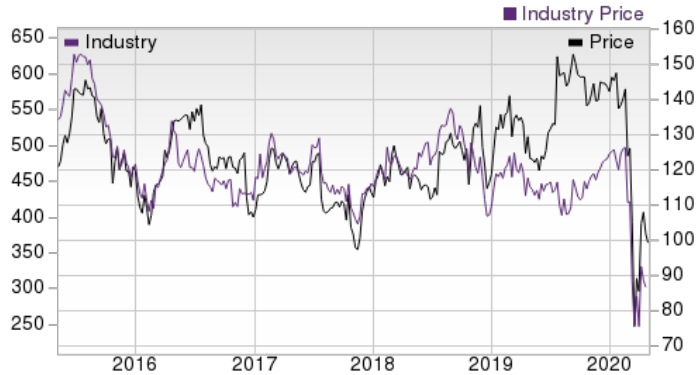
Over the past five years, the stock has traded as high as 20.83x and as low as 6.18x, with a 5-year median of 13.71x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$104 price target reflects 12.75x forward 12-month earnings.

The table below shows summary valuation data for UHS

Valuation Multiples - UHS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.14	14.96	21.38	20.18
	5-Year High	20.83	17.79	21.38	20.18
	5-Year Low	6.18	7.05	15.81	15.19
	5-Year Median	13.71	11.86	18.73	17.45
P/S F12M	Current	0.77	0.43	2.66	3.19
	5-Year High	1.58	0.84	3.84	3.44
	5-Year Low	0.49	0.33	2.26	2.55
	5-Year Median	1.07	0.53	2.96	3

As of 05/01/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (220 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Acadia Healthcare Company, Inc. (ACHC)	Neutral	3
Brookdale Senior Living Inc. (BKD)	Neutral	3
Community Health Systems, Inc. (CYH)	Neutral	3
Encompass Health Corporation (EHC)	Neutral	3
MEDNAX, Inc. (MD)	Neutral	3
Magellan Health, Inc. (MGLN)	Neutral	3
Tenet Healthcare Corporation (THC)	Neutral	4
HCA Healthcare, Inc. (HCA)	Underperform	5

Industry Comparison Industry: Medical - Hospital				Industry Peers		
	UHS	X Industry	S&P 500	CYH	MD	THC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	4
VGM Score	B	-	-	B	A	A
Market Cap	8.60 B	1.24 B	20.61 B	335.06 M	1.17 B	1.83 B
# of Analysts	6	7	14	7	5	10
Dividend Yield	0.81%	0.00%	2.11%	0.00%	0.00%	0.00%
Value Score	C	-	-	A	A	A
Cash/Price	0.01	0.13	0.06	0.51	0.18	0.13
EV/EBITDA	7.72	7.46	11.87	11.10	6.93	7.58
PEG Ratio	1.49	2.24	2.47	NA	0.46	7.17
Price/Book (P/B)	1.54	1.25	2.67	NA	0.77	3.76
Price/Cash Flow (P/CF)	6.63	3.87	10.66	0.70	0.68	1.80
P/E (F1)	14.01	12.03	19.01	NA	4.62	9.68
Price/Sales (P/S)	0.75	0.52	2.10	0.03	0.33	0.10
Earnings Yield	7.12%	6.68%	5.05%	-62.50%	21.64%	10.35%
Debt/Equity	0.75	0.06	0.72	-6.25	1.20	30.19
Cash Flow (\$/share)	15.94	4.31	7.01	4.31	21.32	11.22
Growth Score	A	-	-	D	A	A
Hist. EPS Growth (3-5 yrs)	10.40%	1.97%	10.88%	NA	-3.50%	1.97%
Proj. EPS Growth (F1/F0)	-29.31%	-19.74%	-7.32%	-96.30%	-12.43%	-32.61%
Curr. Cash Flow Growth	2.58%	8.67%	5.92%	5.15%	338.26%	12.12%
Hist. Cash Flow Growth (3-5 yrs)	23.60%	16.58%	8.55%	-20.09%	37.59%	2.67%
Current Ratio	1.23	1.35	1.23	1.50	1.35	1.21
Debt/Capital	42.78%	48.65%	43.84%	NA	54.53%	97.08%
Net Margin	6.34%	-2.19%	11.08%	-4.19%	-42.63%	-1.26%
Return on Equity	14.88%	9.79%	16.44%	NA	12.22%	47.57%
Sales/Assets	0.98	0.80	0.54	0.81	0.71	0.79
Proj. Sales Growth (F1/F0)	-5.58%	0.00%	-1.42%	-6.12%	-0.50%	0.80%
Momentum Score	D	-	-	C	D	D
Daily Price Chg	-4.38%	-0.78%	-2.39%	-9.82%	0.07%	-1.56%
1 Week Price Chg	-5.70%	-4.89%	-1.74%	-4.09%	-1.53%	-13.74%
4 Week Price Chg	19.14%	18.39%	17.07%	-2.57%	38.95%	52.99%
12 Week Price Chg	-25.09%	-30.67%	-18.53%	-35.39%	-43.24%	-39.44%
52 Week Price Chg	-14.77%	-13.61%	-9.82%	-4.72%	-49.14%	-4.68%
20 Day Average Volume	662,921	840,604	2,641,413	2,350,654	1,155,865	2,712,150
(F1) EPS Est 1 week change	-28.30%	0.00%	0.00%	-10.78%	0.00%	0.00%
(F1) EPS Est 4 week change	-33.30%	-33.30%	-6.62%	-35.44%	-4.10%	-34.42%
(F1) EPS Est 12 week change	-33.70%	-31.48%	-13.28%	-16.14%	-11.85%	-35.68%
(Q1) EPS Est Mthly Chg	-78.31%	-102.58%	-11.97%	-148.26%	-10.82%	-154.35%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.