

Universal Health (UHS)

\$107.75 (As of 08/03/20)

Price Target (6-12 Months): **\$113.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/09/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

Summary

Universal Health's segments, namely Acute Care and Behavioral Health continue to deliver solid performances, which impresses. Acquisitions have played an instrumental role in building its growth trajectory by adding facilities, bed and hospital to its business portfolio. We believe that the company will continue making acquisitions that will help it expand its domestic and international presence. Its balance sheet strength with adequate solvency level is impressive. Its shares have underperformed its industry in a year's time. However, rising expenses are likely to drain margin going forward. It suspended 2020 guidance in the view of the current pandemic situation. Its earnings of \$2.93 per share outpaced the Zacks Consensus Estimate by 463.5% and also improved 6.2% year over year.

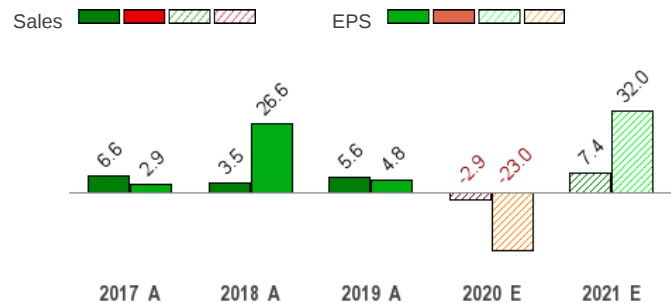
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$157.06 - \$65.20
20 Day Average Volume (sh)	710,634
Market Cap	\$9.2 B
YTD Price Change	-24.9%
Beta	1.11
Dividend / Div Yld	\$0.60 / 0.6%
Industry	Medical - Hospital
Zacks Industry Rank	Top 48% (123 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	463.5%
Last Sales Surprise	12.4%
EPS F1 Est- 4 week change	21.7%
Expected Report Date	10/22/2020
Earnings ESP	5.6%
P/E TTM	11.4
P/E F1	14.0
PEG F1	1.5
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,947 E	2,964 E	2,901 E	3,070 E	11,865 E
2020	2,830 A	2,730 A	2,660 E	2,923 E	11,050 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	\$2.41 E	\$2.74 E	\$2.24 E	\$2.96 E	\$10.15 E
2020	\$1.73 A	\$2.93 A	\$1.96 E	\$2.82 E	\$7.69 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 08/03/2020. The reports text is as of 08/04/2020.

Overview

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

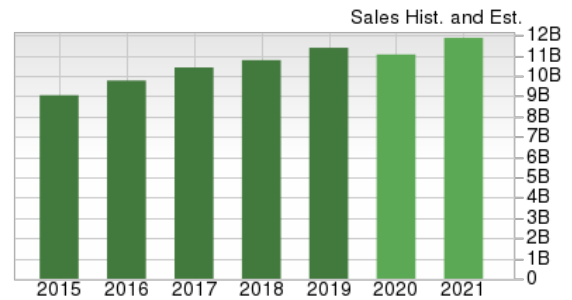
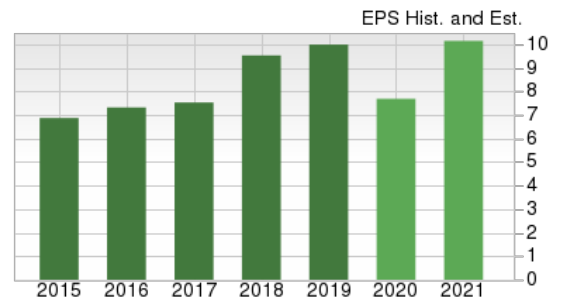
The company's range of services include general and specialty surgery, internal medicine, obstetrics, emergency room care, radiology, oncology, diagnostic care, coronary care, pediatric services, pharmacy services and/or behavioral health services.

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 six months of 2020, net revenues dipped 1.8% year over year to \$5.6 billion due to the COVID-19 outbreak. However, we are hopeful that the metric will bounce back post the pandemic.
- ▲ **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 six months of 2020, net revenues from this segment slipped 1.6% including the governmental stimulus revenues due to muted patient volumes, which tumbled significantly in April. However, the numbers witnessed an increase in both May and June. We are hopeful that the business will do well in the near future once things resume normalcy.
- ▲ **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 six months of 2020, the same dipped 0.8% including the governmental stimulus revenues on same-facility basis. However, behavioral patient days returned close to pre-COVID levels by the middle of June to the month-end when the second wave of COVID hit hard.
- ▲ **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.
- ▲ **Strong Capital Position:** The company's balance sheet position also remains a positive. Its net debt is 43.1% of capital, much lower than the industry's average of 96.1%. Also, its times interest earned stands at 7.9X, much higher than the industry's average of 2.7X. As of Jun 30, 2020, it had cash and cash equivalents of \$600 million and \$1.4 billion of aggregate available borrowing capacity, higher than the current portions of long-term debt of \$82 million. The company doesn't have to repay a huge portion of its total debt load within a year. Thus, its financial flexibility is impressive.

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.

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. Although in the first six months, the metric slid 0.2%, we believe that escalating expenses can put a pressure on the margins.
- ▼ **Declining ROE:** The company's return on equity has been declining since 2015. The metric currently stands at 14.8%, much lower than its industry's average of 436.3%. 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.
- ▼ **Suspension of Capital Deployment:** The company stalled its share repurchase and quarterly dividend program due to the current unstable economic scenario.

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

Last Earnings Report

Universal Health Q2 Earnings Beat, Revenues Down Y/Y

Universal Health reported second-quarter 2020 adjusted earnings of \$2.93 per share, which outpaced the Zacks Consensus Estimate by 463.5%. The bottom line also improved 6.2% year over year.

Lower costs and net revenue recognition of around \$218 million related with various governmental stimulus programs benefited the results.

Quarter Ending 06/2020

Report Date	Jul 27, 2020
Sales Surprise	12.41%
EPS Surprise	463.46%
Quarterly EPS	2.93
Annual EPS (TTM)	9.44

Quarterly Operational Update

Net revenues declined 4.4% year over year to \$2.7 billion. The downside can primarily be attributable to significant reduction in patient volumes at the company's acute care and behavioural health care facilities in April on account of the COVID-19 pandemic. Nevertheless, patient volumes have somewhat recovered in May and June due to easing of stay-at-home restrictions. Moreover, net revenues outpaced the Zacks Consensus Estimate by 12.4%.

Total operating expenses of \$2.4 billion at the end of the second quarter declined 5.5% year over year, primarily due to lower salaries, wages and benefits, other operating expenses, and supplies expense.

Segment Update

Acute Care Hospitals

Adjusted admissions and adjusted patient days were down 24.8% and 18.1%, respectively, from the prior-year quarter. Net revenues (on a same facility basis) decreased 3.5% year over year, including government stimulus revenues of around \$157 million.

Behavioral Hospital

On same-facility basis, adjusted admissions and adjusted patient days were down 15.4% and 10.4%, respectively, on a year-over-year basis. Net revenues were down 3.8% during the quarter under review on same-facility basis, including government stimulus revenues of around \$61 million.

Financial Update

As of Jun 30, 2020, the company had cash and cash equivalents of nearly \$539.6 million, up 780.8% from the year-end 2019-level.

Total assets were \$12.1 billion as of Jun 30, 2020, up 4.1% from the figure as of 2019 end.

The company's long-term debt was \$ 3.4 billion, down 11.5% from the figure as of Dec 31, 2019.

In the first half of 2020, net cash provided by operating activities totaled \$1.5 billion, which soared 115.8% year over year. This can primarily be attributed to favourable change arising from the Medicare accelerated payments and deferred governmental stimulus grants, favorable change in accounts receivable and favorable change in accrued and deferred income taxes.

Recent News

Universal Health, Premier Tie-up to Aid Healthcare Workers Amid Coronavirus — May 26, 2020

Universal Health and Premier inked a deal to acquire minority stake in Prestige Ameritech. Along with other personal protective equipment (PPE), Universal Health intends to purchase N95 respirators and surgical masks from Prestige Ameritech. Since majority of the PPE products have to be outsourced, there is pressing need for domestic supply of such products. Prestige Ameritech serves this purpose. Further, this announcement comes at a time when the entire United States is grappling with health issues due to the COVID-19 outbreak. This deal will equip healthcare workers with necessary equipments for providing quality care and ensure personal safety.

Valuation

Universal Health shares are down 24.8% and 25% 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 17.4% and up 1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 3% and up 12%, respectively.

The S&P 500 index is up 2.7% in the year-to-date period and 17.6% in the past year.

The stock is currently trading at 11.79x forward 12-month earnings, which compares to 12.88x for the Zacks sub-industry, 22.54x for the Zacks sector and 22.62x for the S&P 500 index.

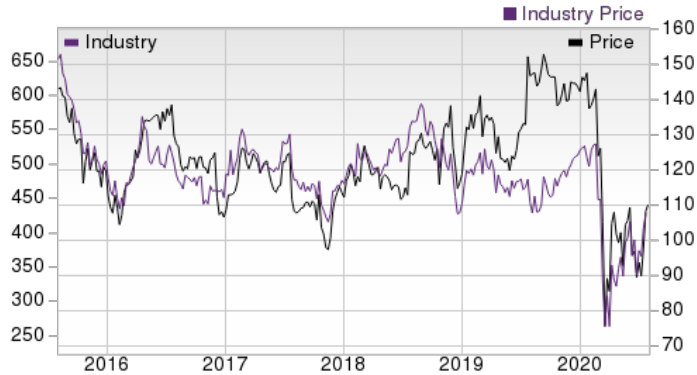
Over the past five years, the stock has traded as high as 20.24x and as low as 6.18x, with a 5-year median of 13.52x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$113 price target reflects 12.36x forward earnings.

The table below shows summary valuation data for UHS

Valuation Multiples - UHS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.79	12.88	22.54	22.62
	5-Year High	20.24	16.67	23.17	22.62
	5-Year Low	6.18	7.8	15.89	15.25
	5-Year Median	13.52	12.49	18.9	17.55
P/S F12M	Current	0.79	0.52	2.79	3.59
	5-Year High	1.58	0.79	3.41	3.59
	5-Year Low	0.49	0.36	2.22	2.53
	5-Year Median	1.05	0.55	2.9	3.04

As of 08/03/2020

Industry Analysis Zacks Industry Rank: Top 48% (123 out of 254)



Top Peers

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

Industry Comparison Industry: Medical - Hospital				Industry Peers		
	UHS	X Industry	S&P 500	CYH	MD	THC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	2	-	-	3	5	3
VGM Score	A	-	-	A	A	C
Market Cap	9.15 B	1.69 B	22.67 B	618.43 M	1.69 B	2.77 B
# of Analysts	6	6	13.5	6	4	10
Dividend Yield	0.56%	0.00%	1.77%	0.00%	0.00%	0.00%
Value Score	A	-	-	A	A	C
Cash/Price	0.06	0.13	0.07	2.61	0.13	0.22
EV/EBITDA	7.18	7.56	13.08	9.99	7.94	7.96
PEG Ratio	1.49	1.75	2.94	NA	1.60	15.58
Price/Book (P/B)	1.59	2.05	3.10	NA	2.05	5.49
Price/Cash Flow (P/CF)	6.76	4.56	12.34	1.20	0.93	2.35
P/E (F1)	14.01	15.98	21.71	NA	15.98	34.12
Price/Sales (P/S)	0.81	0.68	2.46	0.05	0.54	0.16
Earnings Yield	7.14%	6.15%	4.38%	-37.72%	6.26%	2.92%
Debt/Equity	0.65	0.65	0.75	-6.39	2.17	29.98
Cash Flow (\$/share)	15.94	4.31	6.94	4.31	21.32	11.22
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	9.30%	7.97%	10.46%	NA	-7.49%	7.97%
Proj. EPS Growth (F1/F0)	-23.04%	-9.71%	-7.08%	-118.54%	-63.31%	-71.12%
Curr. Cash Flow Growth	2.58%	8.67%	5.47%	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	1.02	1.29	1.32	1.29	1.79	1.32
Debt/Capital	39.32%	58.36%	44.21%	NA	68.46%	97.06%
Net Margin	6.53%	-1.39%	10.25%	-2.50%	-61.53%	-0.28%
Return on Equity	14.75%	10.63%	14.72%	NA	13.86%	88.27%
Sales/Assets	0.96	0.77	0.52	0.76	0.78	0.75
Proj. Sales Growth (F1/F0)	-2.88%	-2.93%	-1.79%	-12.28%	-28.25%	-4.45%
Momentum Score	A	-	-	A	B	F
Daily Price Chg	-1.96%	-0.06%	0.27%	3.82%	-0.85%	-0.11%
1 Week Price Chg	1.68%	1.86%	0.14%	27.69%	3.52%	6.31%
4 Week Price Chg	13.64%	11.69%	2.96%	56.19%	9.75%	41.91%
12 Week Price Chg	9.42%	17.05%	10.90%	74.07%	40.30%	41.15%
52 Week Price Chg	-24.83%	3.81%	2.35%	170.68%	-6.69%	19.50%
20 Day Average Volume	710,634	612,964	2,043,624	1,905,571	740,544	1,739,264
(F1) EPS Est 1 week change	22.48%	0.00%	0.00%	46.10%	0.00%	0.00%
(F1) EPS Est 4 week change	21.68%	0.00%	0.82%	46.10%	0.00%	-16.51%
(F1) EPS Est 12 week change	8.87%	-0.13%	0.59%	39.38%	-45.65%	-51.04%
(Q1) EPS Est Mthly Chg	43.21%	21.61%	0.25%	64.97%	-3.97%	-32.32%

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	A
Growth Score	A
Momentum Score	A
VGM Score	A

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.

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