



# Graduate Student Managed Investment Fund (SMIF) December 2019 Update

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- Overview of Class Structure
- Investment Methodology
- Portfolio Performance
- HCA Healthcare, Inc. Pitch and Analysis
- Q&A



- The entire Masters of Science in Finance (MSF) program, approximately 55 students, participates in the SMIF class (FIN 685) which is a two-semester class.
- Students have a wide range of previous investment experience, from students with no prior academic finance education or experience (e.g., Biology majors) to Finance majors and experienced finance professionals.
- The Student Portfolio Management Committee (SPMC) composed of five to seven select students makes final investment decisions for the class.
- Portfolio turnover decisions are made halfway through the fall semester.
- In December, students will make pitches on potential investment targets.
- In the spring semester, students and the SPMC will continue to monitor the portfolio and focus on portfolio management; optimizing the portfolio.



- The MSF portfolio's investment methodology is premised on value investing.
- Under the guidelines established for the endowment, the SPMC focuses on large cap companies with limited exceptions.
- The SPMC began using a factor analysis to manage the portfolio, focusing on reducing the portfolio's beta, with a goal of a portfolio beta in the range of .8 - .95.
- The SPMC uses Python software to help guide allocation decisions.



## Buy Low

- Based on relative P/E, P/Sales, EV/EBITDA compared to the market (S&P 500) or sector\*

## Stable Earnings

- Consistency of earnings growth over a period of time

## Out of Favor

- Key Question: What is the market missing?
- Why is this stock undervalued in view of market efficiency?

\*P/E = Price to Earnings ratio, P/Sales = Price to Sales ratio, EV/EBITDA = Enterprise Value to Earnings Before Interest, Taxes, Depreciation, and Amortization ratio



	Portfolio	S&P 500	Russell 2000
Year-to-Date	23.91%	26.31%	17.64%
Trailing-Twelve-Months	21.21%	14.28%	6.31%
Aug. 2019 - Nov. 2019	6.14%	4.68%	2.86%

	March 19	Current
Portfolio Beta	1.19	1.01



# HCA Healthcare<sup>SM</sup>



Data is obtained from Company reports, websites, and SEC documents where indicated

 **270K+** colleagues

 **186** hospitals

 **94K** nurses

 **124** surgery centers

 **38K** active physicians

 **136** urgent care centers

 **30M** approximate patient encounters annually

 **84** freestanding ERs

 **8.8M** ER visits annually

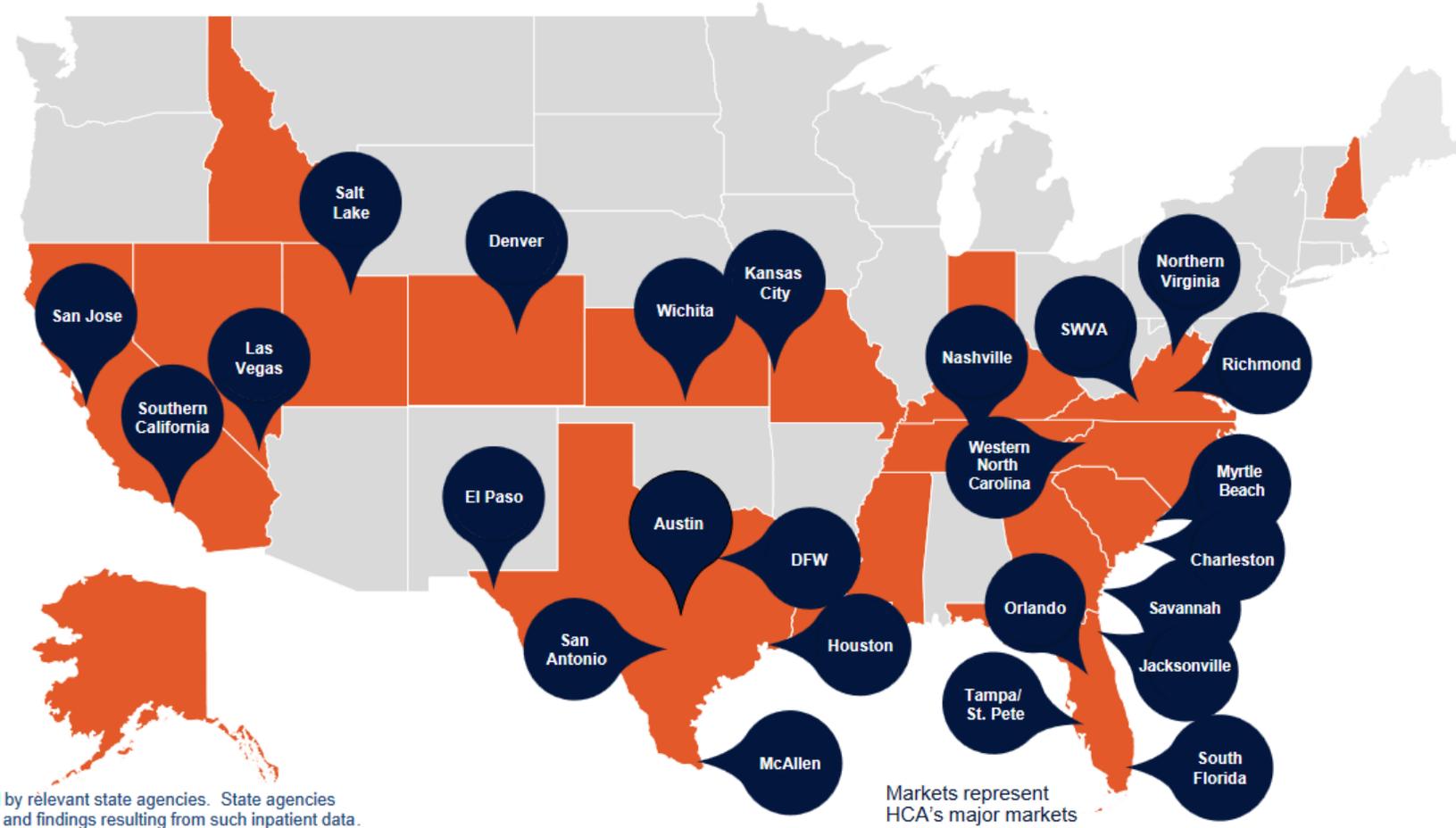
 **1,120** physician practices

 **359** telehealth facilities





HCA Healthcare market share ranks 1st or 2nd in 28 of 37 studied markets  
**HCA Healthcare's Enterprise Market Share: 25.1%**



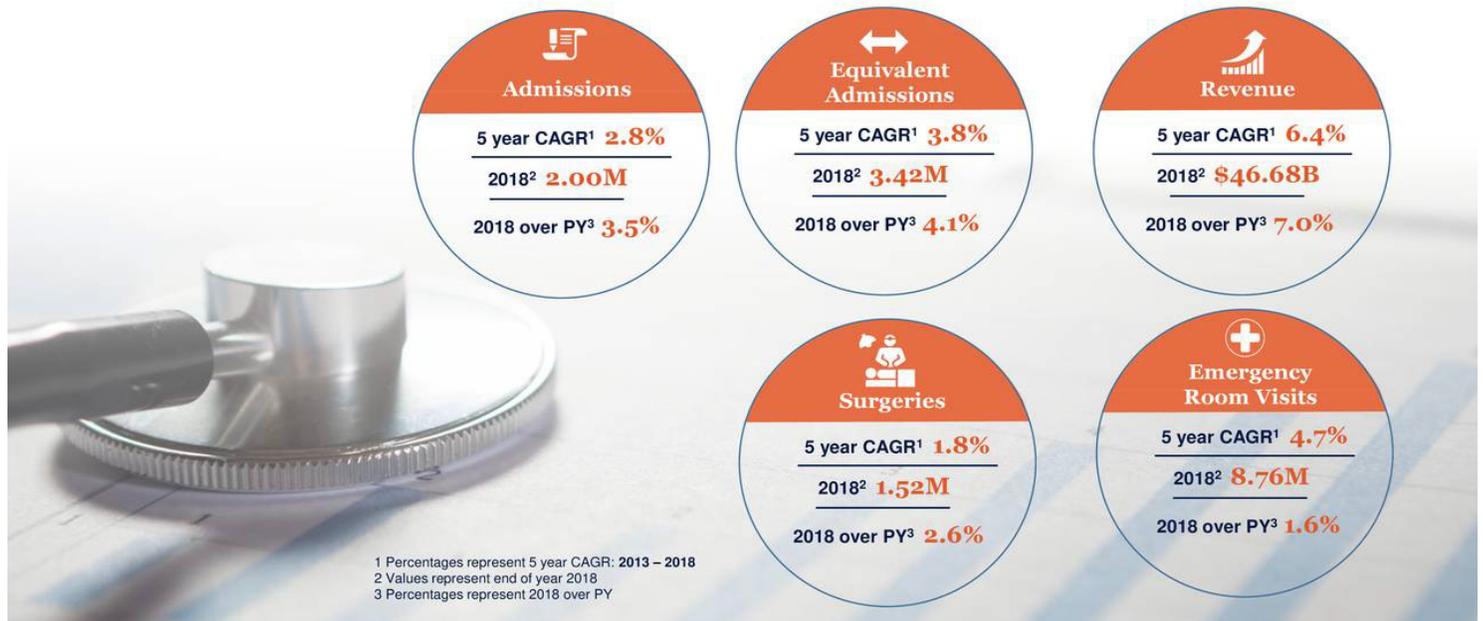
Markets represent HCA's major markets

- Statistics are derived by analyzing inpatient data supplied by relevant state agencies. State agencies supplying inpatient data specifically disclaim the statistics and findings resulting from such inpatient data.
- Recently acquired markets, Western North Carolina and Savannah, are not yet included in HCA's same store enterprise market share definition and are not included in the current enterprise market share calculations

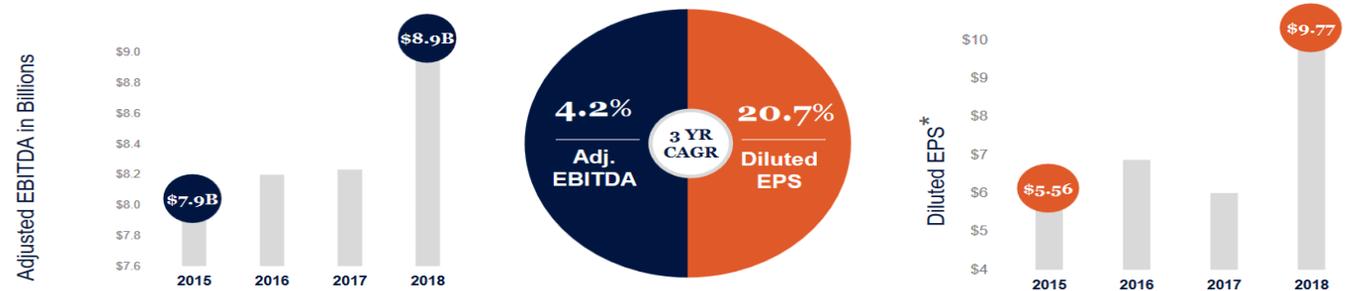


- Maintained consistent growth year-over-year in key metrics
- Attributed to key acquisitions, strategic capital expenditures, and efficient deployment of managerial strategies

## Consistent Top Line Growth



- Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA):  
\$9.35 – \$9.75B
- Diluted Earnings Per Share (EPS):  
\$9.60 - \$10.20



- Q2 2019 - for the six months ended June 30, 2019, Adjusted EBITDA was \$4.834 B compared to \$4.345 B for the same period of 2018; diluted earnings per share was \$5.22 compared to \$5.50 for the first six months of 2018.
- Diluted earnings per share for the six months ended June 30, 2019 includes gains on sales of facilities of \$17 million, or \$0.04 per diluted share; diluted earnings per share for the six months ended June 30, 2018 includes gains on sales of facilities of \$414 million, or \$0.88 per diluted share.

\* 2015-2018 Diluted EPS excludes gains/losses on sales of facilities, losses on retirement of debt and legal claim costs/benefits. 2016-2018 includes tax benefits for employee equity award settlements (\$0.41, \$0.22, and \$0.35 per diluted share, respectively). 2017 and 2018 include impacts of Tax Reform (-\$0.81 and \$1.55, respectively).



- February 1, 2019 – HCA completes the acquisition of Mission Health in Asheville and western North Carolina
  - Purchase Price: \$1.5 Billion
  - Mission Health has been recognized as one of the nation's top 15 health systems
  - Six hospitals in the region and the only Level II Trauma Center in the region.



- Patient Expectations:
  - Safe, compassionate, convenient, integration of specialties, and cost effective
- Physicians:
  - Integration with other care providers, both upstream and downstream
  - Reduce administrative burden
  - Stable compensation structure
- Payers:
  - Clinical outcomes that are measurable and consistent



WACC	7.14%
CFO Growth (2019-2022)	2.50%
Capital Expenditure Growth (2019-2022)	3.00%
Terminal Growth Rate	1.00%

WACC	7.14%
CFO Growth (2019-2022)	5.00%
Capital Expenditure Growth (2019-2022)	3.50%
Terminal Growth Rate	2.00%

NPV of FCFs	\$52,277.88
Shares Outstanding	349.9037
Price per Share	\$149.41
Premium to current share price	7.22%

NPV of FCFs	\$70,032.10
Shares Outstanding	349.9037
Price per Share	\$200.15
Premium to current share price	43.64%

## Glossary:

WACC: Weighted Average Cost of Capital

CFO: Cash Flow from Operations

NPV: Net Present Value; FCFs: Free Cash Flows



- \$84-\$88B Enterprise Value (EV) range
- Large premium over current EV
- Industry – Health Care Providers

	# of Firms	EV/EBITDA	EV/EBIT
Hospitals/Healthcare Facilities	34	10.34	14.63
HCA Healthcare Inc		\$84,663.92	\$88,613.91



**Investing in Growth**

**\$20.8B**

Capital Expenditures

**\$8.1B**

Acquisition Capital



**Delivering Shareholder Value**

**\$3.2B**

Special Dividends

**\$765M**

Quarterly Dividends

**\$13.0B**

Share Repurchases



- Provided returns higher than broad market and market benchmarks over a longer time horizon
- Rebounded from “Medicare for All” market reaction



Government Legislation/Future  
of Payer Mix

Transparency Regulations

“Medicare for All” Movement





Large player in health care facility industry



Committed to investing in growth and growth opportunities



Undervalued based on Discounted Cash Flow and Market Comparable valuation methods



Has consistently delivered on performance; underappreciated at the present time



Positive 2019 revenue guidance



- We purchased HCA in our portfolio in December 2018. Since the purchase, the stock price is up 2.74 percent (as of November 19, 2019).
- In addition to the thesis presented above, it was designed to be somewhat of a defensive addition – a company that was not directly tied to the economic cycle.
- We did not expect the “Medicare for All” movement would have such a large impact on the stock price.
- We are re-evaluating whether to retain HCA in the portfolio (as with all stocks in the portfolio). There are obvious political questions surrounding “Medicare for All”, but the investment question is whether this is going to create a medium headwind or whether the risk-adjusted return for this investment is appropriate.



# Q & A

