BABSON COLLEGE Tenet Health

The Babson College Fund is initiating a BUY recommendation on Tenet Healthcare (THC) with a $106.30 Price 39.4% upside.

Stock Rating | Buy			*As of 1/25/22*
Price Target			$106
Current Price			$ 76.3
Upside			39%
Consensus			$93
Recommended Weight (of BCF)			7.0%
Benchmark Weight (SPY)			0.12%
Key Statistics			
52-Wk Range		$46.01	$83.69
Avg. Daily Vol (3M) in MM			0.88
Market Value (MM)			$8,388
Ent Value (MM)			$25,294
Shares Out (MM)			110.0
Beta 2y			2.50
% Short Interest of float			5.4%
Insider Buying			1.5%
Key Financials $MM	**2020E**	**2021E**	**2022E**
Sales	17,641	19,881	21,557
Y/Y Growth	*-4.5%*	*12.7%*	*8.4%*
EBIT	1,571	3,254	2,824
FCF	620	1,993	1,488
P/E FY2			11.6x
Share Price	**3M**	**1Y**	**5Y**
THC	7.6%	49.7%	315.4%
S&P 500	(3.2%)	14.5%	91.7%
XLV	11.1%	25.9%	17.4%

Company Overview:

Tenet Healthcare Corporation operates an expansive care network that includes 65 hospitals and more than 550 healthcare facilities that include ambulatory surgery centers, urgent care centers, imaging centers, surgical hospitals, off-campus emergency departments and micro-hospitals. Tenet Healthcare has been able to create this expansive network via subsidiaries, partnerships and joint ventures, such as USPI Holding Company. The hospitals that Tenet owns operate in nine states, with many of them located in both Florida and Texas. Within Tenet Healthcare's business there are three main segments:

1. Hospital operations segment
   This segment includes Tenet's 65 hospitals which mainly are located in urban and suburban communities within nine states. This segment also includes outpatient centers, provider-based diagnostic imaging centers, off-campus emergency departments, provider-based ASCs and micro-hospitals
2. Ambulatory care segment
   This segment includes the operations of United Surgical Partners International, USPI, which includes 308 ambulatory surgical centers, 40 uncompensated care for Medicare programs, 24 imaging centers and 24 surgical hospitals in 31 states. Also this segment is still growing via multiple acquisitions, this is a much higher margin segment and Tenet has made it clear that they are focusing on future growth opportunities within this segment.
3. Conifer segment
   All of the services under the Conifer segment are provided by Conifer Health Solutions which Tenet owns 76.2% of. Conifer provides end-to-end business process services, which includes hospital and physician revenue cycle management, patient communications, and value-based care solutions

Thesis 1: Tenet Healthcare is geographically optimized to outperform in a growing market driven by an aging population and an increase in commercialized health insurance plans.

Thesis 2: Tenet's USPI Segment is being heavily undervalued by the street and will lead to significant margin expansion.

Thesis 3: Despite COVID, THC's pricing gains have continued to be strong and will continue to help Tenent outperform in comparison to their largest competitors.

Industry Overview:

Health Care providers and services include managed Health Care. Within this space is Health Care Facilities which are primary hospitals. This industry has been heavily impacted by the pandemic as elective procedure volumes declined substantially as people stayed home in fear of being exposed to COVID. 2021 there was a clear shift in the negative industry trends and a pathway to further profitability. We are bullish on this sub-sector. As the pandemic continues to slow down the patient visit volumes in acute care will continue to rise. Acute care is very profitable and is a large reason why this sub-sector has a 10.5% YoY EPS growth. M&A activity is very important for these large healthcare facilities as they continue to expand and take on more real estate. This sub-sector is the second best performer YTD and has outperformed both the S&P and healthcare industry YTD.

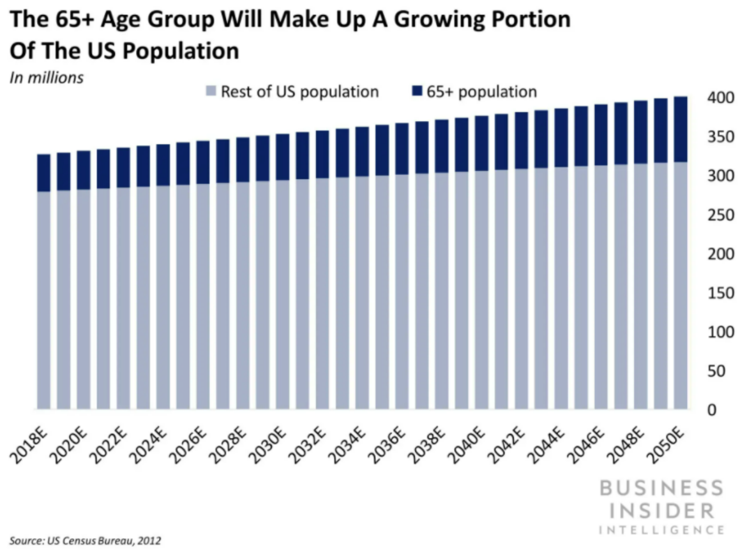
Thesis 1: Tenet Healthcare is positioned to outperform in a growing market

a. The growing industry that Tenet is taking advantage of: an aging population and growth in commercialized insurance plans

The onset of the pandemic has reiterated the need to invest in the hospital space as well as the overall healthcare space and Tenet Health is well positioned to capture growth in an industry that has multiple tailwinds propelling it forward. Between a growing aging population, as seen in figure 1, and Covid-19 accelerating businesses to move to more tax-friendly states such as Florida and Texas, there is more of a shift in focus towards hospital and outpatient care in which Tenet is perfectly poised to capture the growth. By 2035, there will be 78 million people that are 65 years or older which outnumbers those under the age of 18.[1] With the aging population within the United States poised to grow by about 35% over the next 15 years, the demand for healthcare will continue to increase. Furthermore, as the population continues to age, the demand for healthcare is on track to outpace supply and will thus increase the costs of healthcare. This can be seen in that total health expenditures in the United States were about 15% of GDP as of 2016, but are expected to reach 19.4% of an approximately $6 trillion GDP in 2027.[2] Between a growing aging population within the United States, as well as the costs of healthcare continuing to increase, companies within the hospital industry should see top line growth within the next few years.

Figure 1: Growing Aging Population

[1] US Aging Population Problems & Healthcare Issues (businessinsider.com)
[2] US Aging Population Problems & Healthcare Issues (businessinsider.com)



Alongside the growth in the aging population, there is also an increase in the costs of commercialized health insurance plans. In a survey done by Willis Towers Watson, 378 employees within the US were surveyed and the data showed that employers are projecting a 5.2% increase in premiums for health plans for 2022, which is significantly higher than the 2.1% increase the occured from 2019 to 2020.[3] Furthermore, the total average employer cost rose 6.87% in 2021 to $13,360 per employee. With commercialized health insurance plans poised to grow around 46% from 2020 to 2028,[4] hospitals that are located in states such as Florida and Texas which have an increasing number of employers migrating there, will see substantial revenue growth from an increase in both the number of commercialized health insurance plans as well as an increase in the cost per employee.

b. Tenet's geographic positioning will allow Tenet to capture higher revenue growth in an already growing industry

Tenet Healthcare is perfectly positioned to outperform its peers in the hospital industry due to its geographic positioning. With a rapidly growing aging population as mentioned above, much of the aging population is located in Florida. According to a study done by the Florida Assisted Living Federation of America, between 2010 and 2030, Florida's population is projected to grow by about 4.8 million and 56.9% of that growth will account for the older population, ages 60 and over.[5] Currently 12% of Tenet's operations are in Florida and that percentage is on track to grow with their most recent acquisition of ambulatory surgery centers, in November 2021, in which 15 of the new centers are located in Florida. Not only is Florida's aging population continuing to grow but Tenet is already benefiting from the fact that 21.3% of Florida's population is already over the age of 65[6] and on average 50% of an individual's

[3] Health Plan Cost Increases for 2022 Return to Pre-Pandemic Levels (shrm.org)
[4] National Health Expenditure Projections, 2019–28: Expected Rebound In Prices Drives Rising Spending Growth | Health Affairs
[5] Microsoft PowerPoint - FL ALFA-2014-v1.pptx [Read-Only] (state.fl.us)
[6] Which U.S. States Have the Oldest Populations? | PRB

medical expenditures occur after the age of 65.[7] Tenet is geographically optimized to benefit from this aging population in Florida as it has a solid portion of both its hospitals and outpatient facilities there. In addition, the aging population is one of the most profitable, consistent revenue streams for the healthcare industry.

Figure 2: Tenet's Hospital and Outpatient Center Locations

The Covid-19 pandemic has also expedited corporations and its employees to move to tax-friendlier states such as Florida and Texas. Companies such as Tesla and Oracle have moved from California to Texas while Charles Schwab and other financial institutions have moved from New York to Florida. For example, Tesla specifically announced that the manufacturing facility in Texas will be hiring around 10,000 workers. As we have seen, this trend is continuing and for a company like Tenet, these corporations bring in significantly higher revenue from commercialized insurance plans. With Tenet having 12% and 20% of their total operations in Florida and Texas respectively, the increase in commercialized insurance plans in these two states will bring significantly more revenue for Tenet. Not only will Tenet benefit from the increase in commercialized health insurance in Texas but they will also benefit from the overall population growth in both Texas and Florida. This can be seen in that from July 2020 to July 2021, Texas added the most residents of any state in the United States. Between the aging population as well as the growth in commercialized health insurance, we are projecting Tenet's revenue within the hospital segment to grow around 7% for FY21 and 6% for FY22.

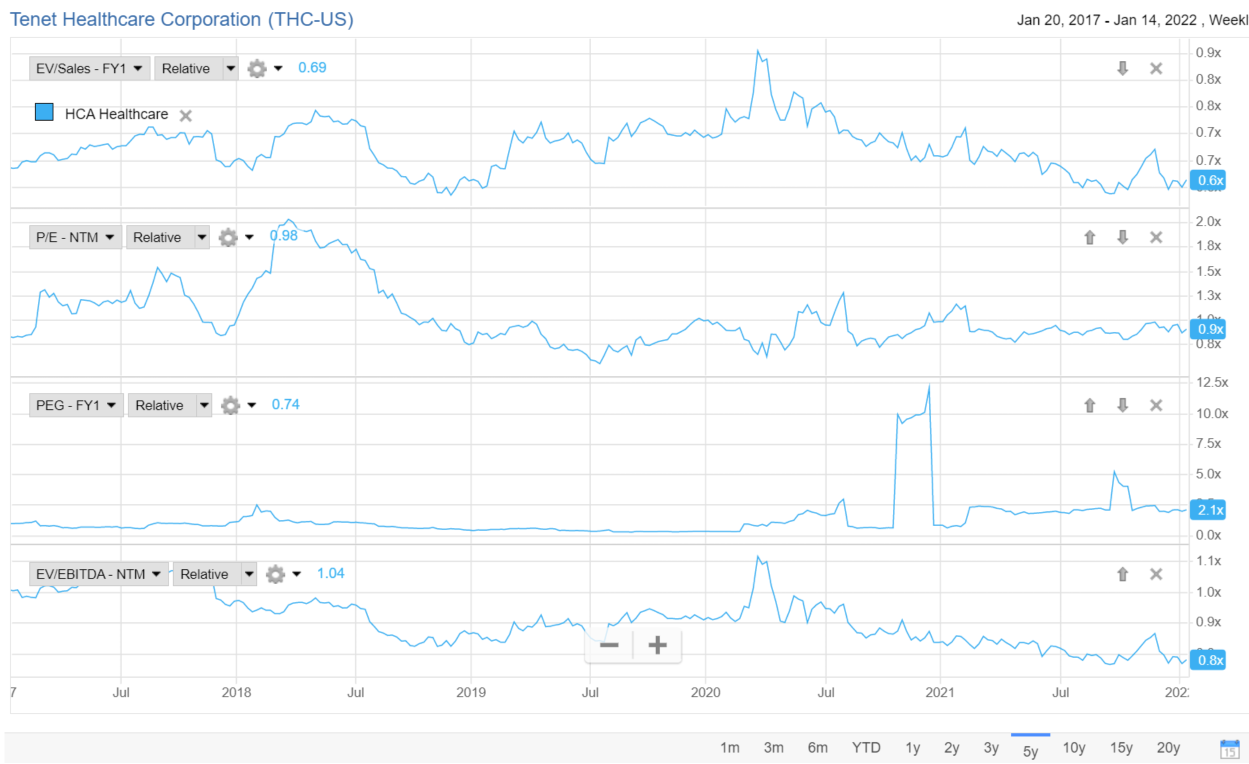
c. Not only is Tenet an attractive company in an attractive market, but we are also able to buy it at a discount

Not only is Tenet the most attractive player within the hospital space, but it is also trading at a discount both relative to itself and its peers. Its current P/E LTM is at 7.9, which is close to its 5 year low of 7 and well below its 5 year average of 17.0. Furthermore, its P/E NTM and EV/EBITDA are also below their 5 year averages. While Tenet is at a discount, it is important to evaluate why this is the right time to buy and why it will no longer remain at a discount. Beginning with the top line, while over the last 5 years, revenue has been mostly mainstream. However, we are projecting that revenue will grow at a CAGR of

[7] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1361028/

7.84% over the next 2 years due to Tenet's favorable geographic spread and an increase in revenue coming from the USPI segment. Furthermore, looking at Tenet compared to its main competitor in the space, HCA Healthcare, Tenet is currently trading at a discount relative to HCA on a EV/Sales FY1, P/E NTM, PEG FY1, and EV/EBITDA NTM basis as seen in figure 3 below. Despite the fact that Tenet is trading at a discount, Tenet has the highest within the hospital space with a ROE of 56.4%. Furthermore, Tenet has the largest cash balance of any of its competitors within the space, with a Free Cash Flow balance as of September 2021 of $1,137 million, while its closest peers HCA Healthcare and Universal Health Services have a Free Cash Flow Balance of -$200 million and -$147 million respectively.[8] While HCA has been the leader in the traditional hospital space, Tenet is in the process of remodeling its business to have about 50% of its EBITDA come from the USPI segment, which is significantly higher margin and will allow Tenet to grow its revenue much more quickly than HCA.

Figure 3: THC Relative to HCA - 5 Years



Thesis 2: Tenet's USPI Segment is being heavily undervalued by the street and will lead to significant margin expansion.

a. **Tenet's is transitioning its business model via acquisitions**

While Tenet has historically had a traditional hospital centric business model, the management has made a very conscious decision, via multiple acquisitions, to move Tenet away from this model. Via these acquisitions, Tenet has hugely increased its United Surgical Partners International segment which includes

[8] Note: ROE and Free Cash Flow numbers are taken from September 2021 LTM from Factset

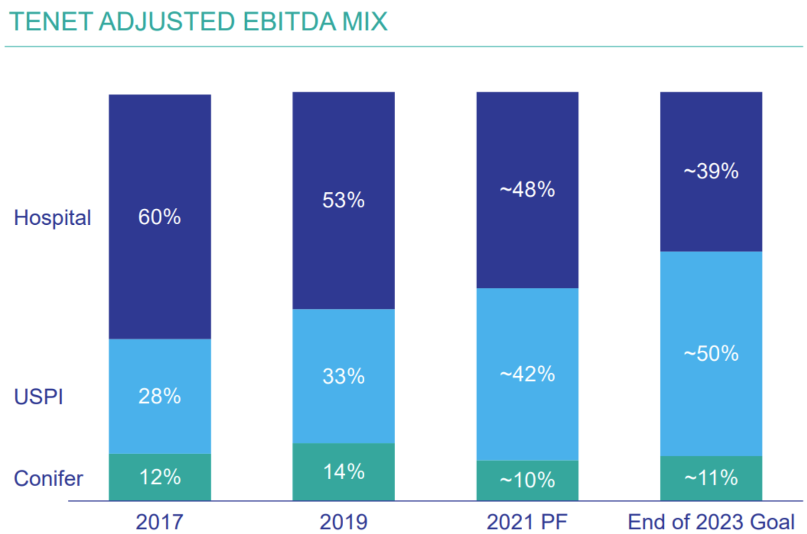
higher margin ambulatory surgical centers. Most recently, Tenet made two large acquisitions to acquire nearly all of SurgCenter Development (SCD) which are estimated to have synergies that are about 16% of adjusted EBITDA. The first acquisition that was done on November 8, 2021 was a $1.2 billion acquisition that acquired 100% of SCD's mature and development centers which included 92 centers and ambulatory support services. These new centers that were acquired in this acquisition have significantly higher margins of 38% compared to the hospital segment and 15 of the new centers are in Florida. Furthermore, these centers are expected to add about $175 million to EBITDA by the end of year one. The second acquisition was a $1.1 billion acquisition that was done on December 10, 2021 in which Tenet acquired 45 ambulatory surgical centers from SCD. This acquisition also expanded further into the Floridian and Texan market and by the end of year one, this acquisition is poised to generate $210 million in EBITDA and the synergies are expected to be around 20-25% of EBITDA. This second acquisition also had a higher focus on acquiring centers that have a musculoskeletal services which are expected to have a 5 year CAGR of 5.5%.[9] These most recent acquisitions are a demonstration of Tenet's effort to remodel their business and create a business that is set up to have much higher margins and significantly more growth.

b. Despite Tenet's most recent acquisitions that will lead to significant margin expansion, the street's is highly undervaluing Tenet as it values it as a "traditional" hospital stock

Despite Tenet's clear development of its business model and its move to higher margin businesses, the street is highly undervaluing Tenet as it continues to value it as a traditional hospital stock. Looking at Tenet's most recent Q3 earnings, despite the ambulatory USPI segment still being a growing segment and only currently making up about 13% of revenue, this segment already makes up 32% of EBITDA. However, looking at the hospital segment, despite being 80% of revenue, it only makes up about 58% of EBITDA. Furthermore, when evaluating the EBITDA percentage of respective revenue by segment, the hospital segment only has an EBITDA percentage of respective revenue of 12% whie the USPI segment has 41%. While this segment is only a small portion of the current revenue mix, it is already making up a large portion of EBITDA and is clearly a significantly higher margin business. Despite the most recent acquisitions that should start to bring in revenue starting in 2022 and the management plans to continue the expansion of the USPI segment as seen in figure 4, the street continues to value Tenet as a traditional hospital stock. Typically traditional hospital stocks trade at around 5-7x EBITDA, while the USPI segment alone currently trades around 12x EBITDA. As the USPI segment continues to expand to around 50% of Adjusted EBITDA, as seen in figure 4, margins should expand in tandem as Tenet is gaining exposure to a higher margin segment. This creates the perfect buying opportunity as investors have not realized the growth potential for Tenet. Furthermore, as the EBITDA margins expand and free cash flow strengthens from these acquisitions, investors will be willing to pay more for it and will thus push Tenet to trade at higher multiples.

Figure 4: Tenet's Developing Business Model

[9] https://www.researchandmarkets.com/reports/3973843/musculoskeletal-diseases-market-forecast-2020

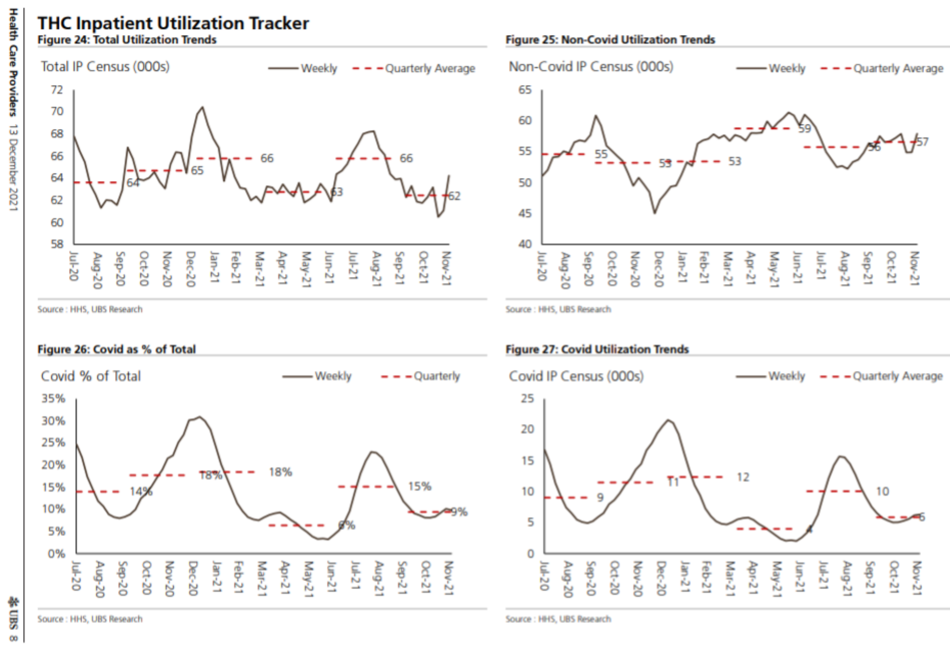


Thesis 3: Despite COVID, THC's pricing gains have continued to be strong and will continue to help Tenent outperform in comparison to their largest competitors.

a. Hospital volumes are still well below pre-pandemic levels

Hospitals have been fully focused on the pandemic and carrying for those patients. The industry is expected to see a continued recovery in inpatient volumes through 2022 with inpatient surgeries. COVID is expected to be 3-5% of total volumes in 2022 vs. being 9% of total volumes in 2021. Acute care has greatly decreased during COVID and can be very profitable for THC. The mix of inpatient surgeries and acute care tends to be as profitable as COVID if not more sustainable due to the additional costs incurred while treating COVID patients. We see this as an advantage for THC as they will continue to perform well even with unexpected changes in the pandemic. Despite COVID census being up q/q in Q4 (~2,000 vs. ~700 in October), COVID admissions as a percent of total were down to 7% from 10% in Q3.As seen in Figure 5 the non-COVID utilization trends are on the rise and continue to increase with more elective surgeries. While the disruption on the business doesn't go unnoticed, Tenet has "managed through that every quarter" by adjusting capacity, staffing levels, productivity, and length of stay and thinks the current surge is no different. Management has expressed that they will continue their commitment to expanding high-acuity, procedure based and outstanding capabilities in intensive care. THC is expanding new trauma and stroke centers which will help lead to a sustainable path out of the pandemic. They are on track to open more high acuity centers in favorable markets across the country and highlighted a trio of projects in Fort Mill, South Carolina; Westover, Texas; and Buckeye, Arizona.

Figure 5: Inpatient Utilization



b. Pricing gains are continuing to be strong

Despite COVID taking up a large portion of visit volumes there is increased reimbursements for treating these patients and this keeps THC in great financial standing. THC expects 2022 commercial mix to continue to be strong with Medicare cases continuing to recover at a slower rate. The company saw an increase in revenues primarily due to significantly higher volumes than in Q3'20, as well as higher patient acuity, favorable payer mix and pricing yield. THC set themselves up to properly invest even throughout the pandemic especially in acute services. The labor shortages have not even slowed the company down as they had 17.5% consolidated EBITDA margins for the quarter, even in a challenging labor and supplies environment, where contract labor accounted for mid-single digits vs historical utilization of 2-3%. THC will invest incremental $250MM to acquire additional ownership interest. This allows the company to consolidate the portfolio. THC continues to stay competitive and they are in the best position financially in comparison to competitors.

A Note on Valuation and Portfolio Management:

This holding is in the provider and services sub-sector. However, this is a healthcare facilities company or better known as a hospital stock. We do not have any exposure to this part of the sub-sector. We are planning on taking a 7% position in our portfolio.

Catalysts

a. Q4 earnings on February 7th
    i. We expect to enter a small position before earnings are released.
b. Increase in commercialized health insurance
c. COVID-19 reimbursements for hospitals

Risks

d. Nursing shortage resulting in increasing labor costs
    i. Tenet as one of the highest employee retention rates in the hospital space
    ii. THC has a real-time analytics program that helps to ensure staffing is matched appropriately with the acuity level of patients, which allows for better patient care and strong length-of-stay management
e. Volatility with respect to volume and pricing
f. Margin pressure/integration issues at recently acquired assets

Valuation Explanation and Assumptions:

Our target price of $106.30 is derived from a 5-year forecasting period DCF with a base, bull, and bear case based on revenue growth projections and margin expansion via Tenet's most recent acquisitions. Each case uses a WACC of 8.61% and a 2.50% long term growth rate. The target price is also derived from a comparable company analysis using a FY22 EV/EBITDA and P/E as well as a sum of parts that uses the mean EV/EBITDA multiple. Refer to figure 6.

Case Drivers

In the base case, we expect THC's Ambulatory care segment to outperform expectations. This will occur from their most recent acquisitions from SurgCenter Development in which they acquired higher margin outpatient care centers. We also expect their hospital segment to outpace expectations due Tenet's favorable geographic position that exposes them to the aging population as well as growth in the commercialized health insurance space.

In the bear case, we assume slower growth across all segments, decreasing total revenue. This could stem from higher costs associated with the labor shortage or any possible delays in the implementation of the acquisitions. We believe THC will experience strong growth throughout the pandemic and is able to benefit from a sustainable pair mix between COVID-19 reimbursement and outpatient centers.

In the bull case, we maintain our original thesis points but project higher than anticipated growth across all segments. This could be driven by quicker implementation of the USPI acquisitions, higher than expected COVID-19 reimbursements or further M&A activity.

Comparable Company Analysis

For our comparable company analysis, we chose to use the closest competitors to Tenet in both their hospital segment and their ambulatory care segment as seen in figure 7. We chose to use the mean 50th percentile EV/EBITDA NTM which is 8.56x. We also used the mean 50th percentile P/E NTM which is 13.09x. Tenet's main competitor within the hospital space is HCA Healthcare, who is the current leader in that segment. However, Tenet's closest competitor within their USPI segment is Surgical Partners. We chose to weigh the CompCo only 25% as we believe that the CompCo should be used as it is important to value Tenet against its direct competitors**.** Our CompCo led to a price target of $116.23 which represents an upside of 52%.

Sum of the Parts

For our sum of the parts analysis we chose to use FY'22 sales for each of the respective segments (hospital, ambulatory care, and conifer). We then took the 33rd percentile of the EV/Sales multiple of both the hospital and ambulatory care segment to be conservative as the ambulatory care segment has not been fully integrated yet. For the conifer segment we took the 25th percentile of the EV/Sales multiple of both the hospital and ambulatory care segments.

DCF

We conducted a Discounted Cash Flow analysis to value Tenet in which our base case yielded an EV of $29,533M. We used a WACC of 8.61% (Market risk premium of 10.36%, Risk free rate of 1.78%, both via Bloomberg), and an effective tax rate of 21%. Our DCF provides an EV of $29,533M, with 110 shares outstanding, resulting in a base case target price of $108.71 per share and an upside of 43%. We provide a snapshot of our DCF in figure 8.

Revenue Model Build

We forecasted revenue by projecting performance across Tenet's three segments which include Hospital operations, Ambulatory care, and Conifer. We expect Tenet's ambulatory care segment to outpace expectations and lead to overall revenue to grow at a 2 year CAGR of 7.84%. Despite this segment being a relatively small portion of revenue currently, with Tenet's most recent acquisitions, we expect this higher margin segment to contribute significantly to revenue growth moving forward with a 2 year CAGR of 22.47%. Beyond this ambulatory care segment, we expect that due to favorable market conditions the hospital segment will also grow at a 2 year CAGR of 5.50%. Our expectations for the conifer segment are in line with expectations with a 2 year CAGR of 2.50%. See figure 9.

EPS

We forecast non-GAAP EPS of $6.21, $5.41, $7.50, $9.23 and $10.05 for '21, '22, '23, '24 and '25 respectively.

We are more bullish than the street, as the street has continued to show evidence of underestimating THC, which we believe is an advantage for BCF.

WACC

We used Bloomberg to calculate a 8.61% WACC. The cost of debt used in this calculation is 2.52%. We have also included a sensitivity analysis below in figure 10.

Target Price

Our analysis implies a target price of $106.30, representing a 39.4% upside. See figure 6.

Sensitivity Analysis

We conducted a sensitivity analysis utilizing our 8.61% WACC with a delta of .5% and LT Growth Rate of 2.50%. See figure 11.

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Appendix

Figure 6: Valuation Summary

Company Name	Tenet Healthcare	
Ticker	THC	
Date	1/24/2022	
Currency	USD	
Share Price	$76.25	
Shares Outstanding	110	
Total Debt	16906	
Preferred Stock	0	
Noncontrolling Interest	2961	
Cash and Cash equivalents	2292	
EV	25293.5	
Market Cap	$8,387.50	
Total capital	25,294	
Debt / Total Cap	66.84%	
Valuation Summary		
	Implied Equity Value/Share	Weight
Compco	$116.2	25.0%
DCF perpetuity - 5 year	$108.7	50.0%
SOTP	$91.6	25.0%
Price Target		$106.30
Upside		39.4%

Figure 7: CompCo Analysis

Company Name	Fiscal Period	Price	Shares Out Basic	Market Value	Enterprise Value	Total Debt	Cash & ST Inv	Price to Sales NTM	EV/ SALES NTM	EV/ EBITDA NTM	Price to Book Value NTM	Price to Cash Flow NTM	Price to Earnings NTM	Sales 1 Year Growth	EBITDA 1 Yr Growth	Total Equity	Net Operating Cash Flow	EPS (Diluted) 1 Yr Growth	Net Income 1 Yr Growth
Tenet Healthcare	09/30/2021	75.97	106.26	8,138.35	22,941.35	16,906.0	2,292.0	0.39x	1.00x	6.87x	6.38x	5.83x	11.89x	11.5	48.6	3,683.0	1,657.0	-	-
Average						9,034.6		1.08x	1.65x	9.91x	45.41x	8.27x	38.71x	14.0	30.1	1,959.0	1,019.4	50.37	47.3
Median						3,481.1		1.10x	1.64x	8.04x	3.72x	7.40x	12.61x	11.9	31.4	1,843.7	703.7	51.91	52.9
HCA Healthcare	09/30/2021	225.59	318.1	70,163.6	105,586.0	32,299.0	1,139.0	1.14x	1.67x	8.56x	213.02x	7.75x	13.09x	14.2	30.7	1,825.0	2,933.0	98.72	93.2
Universal Health Services B	09/30/2021	118.73	82.3	9,542.9	13,517.7	3,754.3	189.7	0.74x	1.05x	7.44x	1.44x	6.29x	10.72x	9.5	11.6	6,372.7	703.7	21.71	20.6
Surgery Partners	09/30/2021	44.36	80.7	3,923.1	7,904.4	2,852.7	330.4	1.61x	2.69x	22.20x	6.51x	17.65x	404.71x	18.3	32.2	1,862.4	76.3	63.36	53.3
Community Health Systems	09/30/2021	12.03	127.1	1,589.3	13,562.3	12,011.0	1,294.0	0.13x	1.06x	7.24x	-	2.24x	8.75x	2.5	46.6	-1,000.0	476.0	-	-
Encompass Health	09/30/2021	57.62	99.0	5,732.8	9,469.9	3,207.9	170.7	1.05x	1.60x	9.53x	2.37x	7.40x	14.43x	8.7	25.2	2,293.5	907.8	51.91	52.9
						0%	Minimum	.13x	1.05x	7.24x	1.44x	2.24x	8.75x					EV/EBITDA	
						25%	25th Percentile	.74x	1.06x	7.44x	2.13x	6.29x	10.72x		0%	Minimum		7.24x	
						50%	50th Percentile	1.05x	1.6x	8.56x	4.44x	7.4x	13.09x		25%	25th Percentile		7.44x	
						75%	75th Percentile	1.14x	1.67x	9.53x	58.14x	7.75x	14.43x		50%	50th Percentile		8.56x	
						100%	Maximum Percentile	1.61x	2.69x	22.2x	213.02x	17.65x	404.71x		75%	75th Percentile		9.53x	
															100%	Maximum Percentile		22.2x	

Percentile Used	50th Percentile	
Multiple	**EV/EBITDA**	**Price to Earnings**
Multiple	8.56x	13.09x
Company Metrics	3815.602013	5.405770005
Median Enterprise Value	32665.34878	22,133.3
Cash	2,292.0	2,292.0
Debt	16,906.0	16,906.0
Median Equity Value	18,051.3	7519.320228
Shares Out.	110.0	110.0
Fair Value Current Stock Price	164.1031707	68.35745662
Muliple Weight	50%	50%
Fair Value Current Stock Price	$ 116.23	
Current Stock Price	$76.25	
Up/Downside Potential	52%	

Figure 8: Discounted Cash Flow

		Actual Company Reported					BCF Projections	
	in millions	2019A	2020A	2021E	2022E	2023E	2024E	2025E
	Revenue	$18,479.44	$17,640.60	$19,881.42	$21,557.07	$23,122.74	$24,661.76	$26,099.88
	COGS	$11,778.00	$11,408.00	$11,794.59	$13,473.17	$14,451.71	$15,290.29	$16,181.93
	Gross Margin	*36.3%*	*35.3%*	*40.7%*	*37.5%*	*37.5%*	*38.0%*	*38.0%*
	SG&A	$344.00	$403.00	$260.04	$280.24	$231.23	$246.62	$261.00
	Depreciation & Amortization	$850.00	$857.00	$894.66	$991.63	$1,063.65	$1,134.44	$1,200.59
	Other Operating Expense	$3,471.00	$3,402.00	$3,678.06	$3,988.06	$4,277.71	$4,562.43	$4,828.48
	Interest Expense	$ (985.00)	$ (1,003.00)	$ (1,000.00)	$ (1,100.00)	$ (1,150.00)	$ (1,200.00)	$ (1,250.00)
	Operating Income/EBIT	$2,036.44	$1,570.60	$3,254.07	$2,823.98	$3,098.45	$3,427.98	$3,627.88
	% Sales	*11.0%*	*8.9%*	*16.4%*	*13.1%*	*13.4%*	*13.9%*	*13.9%*
	Tax Rate	21.3%	21.3%	21.0%	21.0%	21.0%	21.0%	21.0%
	Adjusted NOPAT	$827.48	$446.70	$1,780.72	$1,361.94	$1,539.27	$1,760.11	$1,878.53
	Depreciation & Amortization	$850.00	$857.00	$894.66	$991.63	$1,063.65	$1,134.44	$1,200.59
Plus	**Capex**	-$665.26	-$543.33	-$675.97	-$732.94	-$809.30	-$863.16	-$939.60
Less	**Δ NWC**	$181.66	$139.96	$5.92	$132.75	$89.55	$192.50	$171.00
Less: ΔNW	**Unlevered FCF**	**$830.56**	**$620.41**	**$1,993.49**	**$1,487.87**	**$1,704.08**	**$1,838.89**	**$1,968.53**
	% of Sales	*4.5%*	*3.5%*	*10.0%*	*6.9%*	*7.4%*	*7.5%*	*7.5%*

BABSON COLLEGE Tenet Health

Perpetuity Growth Method	
unlevered FCF in last forcast period	1,969
FCF t+1	2,018
Long-term growth rate	2.5%
Terminal Value	32,997
Discounted Terminal Value	23,838
Present Value of stage 1 cash flows	5,695
Enterprise Value	**29,533**
Less: Total Debt	16,906
Less: Preferred Stock	0
Less: Minority Interest	2,961
Plus: Cash and Cash Equivalents	2,292
Implied Equity Value	**11,958**
Shares Outstanding	110
Implied Share Price	**$109**
Current Price	$76.25
Upside	42.6%
Implied 2025E EV/SALES Multiple	1.1x

Target Price Calculation

	Price	% Weight
DCF (PGR)	$109	100%
Target Price		**$108.71**
Current Share Price		$76
Upside		43%

Figure 9: Revenue Build

		Historical Financials					Estimated Financials					
Fiscal Year		**2016A**	**2017A**	**2018A**	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	2 year CAGRS (2021-2023)
For year ended on		**12/31/2016**	**12/31/2017**	**12/31/2018**	**12/31/2019**	**12/31/2020**	**12/31/2021**	**12/31/2022**	**12/31/2023**	**12/31/2024**	**12/31/2025**	Total Revenue
Total Revenue (in millions)		**$19,627.02**	**$19,179.90**	**$18,312.48**	**$18,479.44**	**$17,640.60**	**$19,881.42**	**$21,557.07**	**$23,122.74**	**$24,661.76**	**$26,099.88**	7.84%
% Growth			-2.28%	-4.52%	0.91%	-4.54%	12.70%	8.43%	7.26%	6.66%	5.83%	
Percent of Revenue		*86.13%*	*84.77%*	*83.47%*	*84.00%*	*83.84%*	*79.60%*	*77.82%*	*76.18%*	*74.99%*	*74.41%*	
Hospital operations total	**Base**	**$16,904.30**	**$16,258.66**	**$15,285.31**	**$15,522.08**	**$14,790.60**	**$15,825.94**	**$16,775.50**	**$17,614.27**	**$18,494.99**	**$19,419.74**	Hospital operations
($ in mm)	Base	$16,904.30	$16,258.66	$15,285.31	$15,522.08	$14,790.60	$15,825.94	$16,775.50	$17,614.27	$18,494.99	$19,419.74	5.50%
	Bear	$16,904.30	$16,258.66	$15,285.31	$15,522.08	$14,790.60	$15,351.16	$16,272.23	$17,085.85	$17,940.14	$18,837.14	
	Bull	$16,904.30	$16,258.66	$15,285.31	$15,522.08	$14,790.60	$16,300.72	$17,278.76	$18,142.70	$19,049.84	$20,002.33	
					$0.02							
Percent of Revenue		*9.18%*	*10.13%*	*11.38%*	*11.68%*	*11.75%*	*13.97%*	*16.10%*	*18.01%*	*19.42%*	*20.19%*	
Ambulatory Care	**Base**	**$1,802.72**	**$1,942.24**	**$2,084.17**	**$2,158.36**	**$2,072.00**	**$2,776.48**	**$3,470.60**	**$4,164.72**	**$4,789.43**	**$5,268.37**	Ambulatory Care
(# in mm)	Base	$1,802.72	$1,942.24	$2,084.17	$2,158.36	$2,072.00	$2,776.48	$3,470.60	$4,164.72	$4,789.43	$5,268.37	22.47%
	Bear	$1,802.72	$1,942.24	$2,084.17	$2,158.36	$2,072.00	$2,693.19	$3,366.48	$4,039.78	$4,645.75	$5,110.32	
	Bull	$1,802.72	$1,942.24	$2,084.17	$2,158.36	$2,072.00	$2,859.77	$3,574.72	$4,289.66	$4,933.11	$5,426.42	
Percent of Revenue		*8.00%*	*8.33%*	*8.37%*	*7.42%*	*7.40%*	*6.43%*	*6.08%*	*5.81%*	*5.58%*	*5.41%*	
Conifer	**Base**	**$1,571.00**	**$1,597.00**	**$1,533.00**	**$1,372.00**	**$1,306.00**	**$1,279.00**	**$1,310.98**	**$1,343.75**	**$1,377.34**	**$1,411.78**	Conifer
(# in mm)	Base	$1,571.00	$1,597.00	$1,533.00	$1,372.00	$1,306.00	$1,279.00	$1,310.98	$1,343.75	$1,377.34	$1,411.78	2.50%
	Bear	$1,571.00	$1,597.00	$1,533.00	$1,372.00	$1,306.00	$1,240.63	$1,271.65	$1,303.44	$1,336.02	$1,369.42	
	Bull	$1,571.00	$1,597.00	$1,533.00	$1,372.00	$1,306.00	$1,317.37	$1,350.30	$1,384.06	$1,418.66	$1,454.13	

Figure 10: WACC

Cost of capital assumptions			Source
cost of debt		2.52%	Bloomberg
tax rate		21.00%	Bloomberg
after-tax cost of debt		2.0%	Bloomberg
risk free rate		1.78%	Bloomberg
beta		2.24	Bloomberg
market risk premium		10.36%	Bloomberg
cost of equity		20.90%	Bloomberg
Capital Weights	Amount	% of total	
market value of equity	$8,387.5	33.2%	Bloomberg
total debt	$16,906.0	66.8%	Company Filings
Cost of capital WACC		8.61%	

Figure 11: Sensitivity Analysis

Sensitivity Analysis

Equity Value Per Share

Long term Growth Rate

WACC	$109	1.7%	1.8%	1.9%	**2.0%**	2.1%	2.2%	2.3%
	7.91%	109.0	112.8	116.7	120.7	124.8	129.2	133.6
	8.01%	104.8	108.4	112.2	116.1	120.1	124.2	128.5
	8.11%	100.7	104.2	107.9	111.6	115.5	119.5	123.6
	8.61%	82.1	85.1	88.2	91.4	94.6	98.0	101.4
	9.11%	66.1	68.7	71.3	74.0	76.8	79.7	82.6
	9.21%	63.2	65.7	68.2	70.9	73.5	76.3	79.2
	9.31%	60.4	62.8	65.2	67.8	70.4	73.1	75.8

Equity Value Per Share

EXIT MULTIPLE

WACC	108.7	0.8x	0.9x	1.0x	**1.1x**	1.2x	1.3x	1.4x
	7.91%	139.6	139.6	139.6	139.6	139.6	139.6	139.6
	8.01%	151.2	151.2	151.2	151.2	151.2	151.2	151.2
	8.11%	162.5	162.5	162.5	162.5	162.5	162.5	162.5
	8.61%	162.5	162.5	162.5	162.5	162.5	162.5	162.5
	9.11%	151.2	151.2	151.2	151.2	151.2	151.2	151.2
	9.21%	139.6	139.6	139.6	139.6	139.6	139.6	139.6
	9.31%	128.0	128.0	128.0	128.0	128.0	128.0	128.0

Disclosures

Babson College Fund

The Babson College Fund (BCF) is an academic program in which selected students manage a portion of the Babson College endowment. The program seeks to provide a rich educational experience through the development of investment research skills and the acquisition of equity analysis and portfolio management experience. Please visit http://cutler.babson.edu for more information.

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Definition of Ratings

BUY: Expected to outperform the S&P 500 producing above average returns.

HOLD: Expected to perform in line with the S&P 500 producing average returns.

SELL: Expected to underperform the S&P 500 producing below average returns.

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