



Figure 8: 2014 EBITDA Bridge (\$ in MM)

Base EBITDA Bridge	Low			Mid			High		
	Low	Mid	High	Low	Mid	High	Low	Mid	High
2013 Adjusted EBITDA Reported	\$6,574	\$6,574	\$6,574						
Net HITECH impact	(\$120)	(\$120)	(\$120)	-1.8%	-1.8%	-1.8%			
Increase in stock-based comp	(\$55)	(\$55)	(\$55)	-0.8%	-0.8%	-0.8%			
ACA benefit	\$66	\$102	\$137	1.0%	1.5%	2.1%			
2014 Adjusted EBITDA Guidance	\$6,600	\$6,725	\$6,850	0.4%	2.3%	4.2%			
2014 Organic EBITDA Growth (1)	\$135	\$225	\$314	2.1%	3.4%	4.8%			

Note: (1) Adjusted for headwinds / ACA.

Source: Deutsche Bank, Company reports

**Health Care Reform Framework.** HCA noted that the framework for its ACA analysis is still evolving, but highlighted 4 key variables that drove their estimated 2014 net benefit from health care reform of 1%-2% of adjusted EBITDA:

- (1) **Health Insurance Exchange (HIX) enrollment and Medicaid lives.** Management indicated that its model builds from the latest reported base of HIX enrollees (~3M as indicated by CMS on Jan 24th). It also takes into consideration HCA's exposure to states expanding Medicaid in 2014 (CA, CO, KY, and NV).
- (2) **The portion of HIX and Medicaid enrollees that was previously uninsured vs. insured;**
- (3) **HCA's HIX network participation, network design, and plan selection.** HCA disclosed that 97% of its facilities participate in an HIX product, with 64% of its facilities having access to the lowest priced Bronze plan and 54% having access to the lowest priced Silver plan; and
- (4) **out-of-network treatment and reimbursement levels;** HCA assumes it will not capture a portion of the population gaining coverage as a result of business getting directed away from its network

HCA said it would re-visit its key assumptions by mid-year at the earliest, but its high-level base case is for 7-9% reduction in uninsured, partially offset by declines in pricing/volume from exchange mix. Our sense is that the offsets built into HCA's model could prove conservative given the strength of its networks (i.e. less impact from narrow network if its access points such as ED are more convenient). Given the slow ramp of exchange enrollment in key markets (FL / TX) and HCA's lower exposure to Medicaid expansion states, we believe 7-9% reduction of uninsured patient mix seems like a reasonable starting point

**New estimates.** We are making modest adjustments to our estimates to reflect lower HITECH and slower ACA ramp. 2014 EBITDA and EPS move to \$7.05B / \$3.92 from \$7.145B / \$4.17, putting us above HCA guidance ranges (\$6.60B-\$6.85B EBITDA / \$3.45-\$3.75 EPS ) due to underlying growth and ACA. Our model now reflects higher S/O (+1% higher), slightly lower HITECH benefit