Q3 2022 Snapshot: A Look Inside the Earnings Calls of Public Healthcare Operators

VMG Health reviewed the earnings calls of publicly traded healthcare operators that reported earnings for the third quarter that ended on September 30, 2022. By focusing on the major players in select subsectors defined below, we analyzed the frequency of certain keywords including inflation, COVID-19, interest rates, premium labor, and others. We used these keywords to identify which topics commanded the room this earnings season. Highlights from the calls are summarized in this article.

Companies Reviewed:

- **Acute Care Hospitals:** Community Health Systems, Inc. (CYH), HCA Healthcare, Inc. (HCA), Tenet Healthcare Corporation (THC), Universal Health Services, Inc. (UHS)
- **Ambulatory Surgery Centers:** Surgery Partners, Inc. (SRGY)
- **Diagnostic Imaging:** RadNet, Inc. (RDNT)
- **Dialysis:** DaVita Inc. (DVA)
- **Diversified Managed Care:** Humana Inc. (HUM), UnitedHealth Group Incorporated (UNH)
- **Laboratory:** Quest Diagnostics Incorporated (DGX)
- **Physician Services and Other:** U.S. Physical Therapy, Inc. (USPH)
- **Post-Acute:** Acadia Healthcare Company, Inc. (ACHC), Amedisys, Inc. (AMED), Chemed Corporation (CHE), Enhabit, Inc. (EHAB), Encompass Health Corporation (EHC), Select Medical Holdings Corporation (SEM)
- **Risk-Bearing Organizations:** Agilon Health, Inc. (AGL), CareMax, Inc. (CMAX), Privia Health Group, Inc. (PRVA), The Oncology Institute, Inc. (TOI)

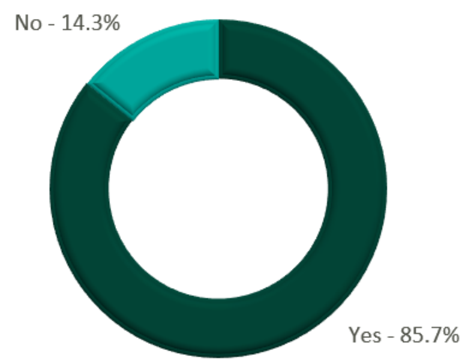
Key Takeaway: Volume

> **Volume:** *Although volume trends are unique to each industry sector nearly all operators remained focused on the impacts of COVID.*

Acute Care Hospitals

On a same-facility basis, admission volumes declined as much as 5.0% from the comparable prior year quarter (Q3 2021) for acute care hospital operators. Despite the weakening of COVID-19, the decline in volumes was attributed to higher-than-average cancellation rates (THC), the migration of certain procedures to outpatient status (CYH and HCA), and capacity constraints (HCA). Inpatient volumes generally remained at or below pre-pandemic levels.

Poll: Did the earnings call mention COVID-19?



Ambulatory Surgery Centers

Ambulatory surgery center (ASC) operators reaped the benefits of the migration to the outpatient setting and reported positive volume trends when compared to Q3 2021. Surgical volumes were reported as consistent with 2019 pre-pandemic levels (THC), and one operator claimed the business did not experience any material direct impact related to COVID-19 during Q3 2022 (SGRY).

Post-Acute

The post-acute sector reported mixed results in volume trends. One operator reported a year-over-year decline of 14.0% in hospice admissions, citing capacity constraints and reduced referrals from acute care hospitals (EHAB). However, another operator indicated that increases in admissions in the second half of the third quarter showed growth that they "haven't experienced since the start of the pandemic" (CHE).

All Other

Volume trends among other industry players including dialysis providers, risk-bearing organizations, and physician services were also affected by COVID-19 in Q3 2022. Headwinds in dialysis volumes are expected to persist for the foreseeable future (DVA), and inpatient volumes for risk-bearing organizations remain below pre-pandemic levels (AGL). Notably, AGL also reported a rebound in physician office visits and outpatient volumes were in line with pre-pandemic levels.

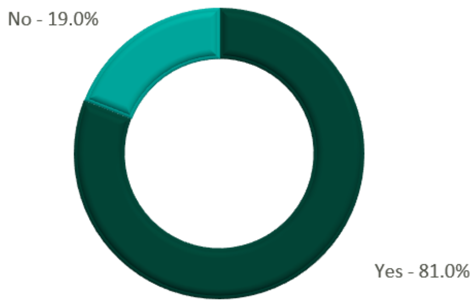
Key Takeaway: Reimbursement

- **Reimbursement:** *Declining COVID-19 volumes mean less incremental government revenue for certain industry players who also now contend with an uncertain inflationary environment.*

Acute Care Hospitals

Declining COVID-19 volumes resulted in lower acuity patients and reduced incremental government reimbursement. This softened the reimbursement per admission for the acute care hospital segment. Further exacerbated by inflation, these dynamics were evident in reported EBITDA margins which declined as much as 17.0% (CYH) over Q3 2021. In response, some acute care hospital operators are turning to commercial payor negotiations. Rate increases for the next year are anticipated to range from a minimum of 3.0% (THC) to upwards of 6.0% (CYH).

Poll: Did the earnings call mention inflation?



Post-Acute

The post-acute sector did not release specific figures regarding contract rate hikes. However, the sector is optimistically looking for high single-digit rate increases (SEM) to provide relief in the current inflationary environment.

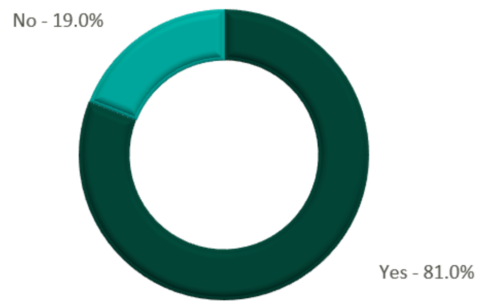
Key Takeaway: Labor

- **Labor:** *Unsurprisingly, management teams across the sector were faced with questions about labor trends and management techniques during their earnings calls. Contract labor remained pivotal for the operations of some, but premium labor appears to have softened during the quarter.*

Acute Care Hospitals

The reliance on contract labor continued its downward trend in Q3 helping moderate expenses. HCA even indicated overall labor costs were stable due to targeted market adjustments. However, contract labor and premium pay remain at uncomfortably high levels for most acute care hospital operators. UHS revealed during their call it will be unlikely to reach pre-pandemic levels in the near future.

Poll: Did the earnings call mention inflation?



Post-Acute

Staffing challenges persisted among the post-acute operators and directly impacted volume by as much as 60.0% (AMED). Increased indirect labor costs including orientation, training, and sign-on bonuses were the leading drivers of decreased EBITDA (AMED). Wage inflation, particularly for nursing positions, is expected to rise as much as 5.0% next year (SEM). However, several management teams are optimistic wages will stabilize to historical levels (SEM, EHC) in the near future.

All Other

Other industry players, including dialysis and physical therapy providers, also faced challenges with contract labor during the quarter. USPH reported labor costs were approximately 200 basis points higher than Q3 2021 levels, and DVA indicated such costs showed no improvement.

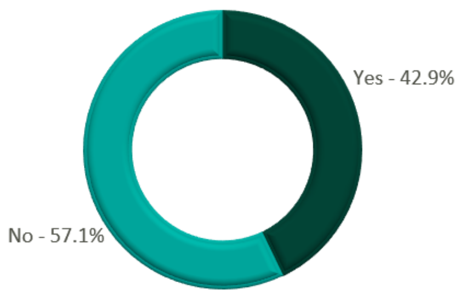
Key Takeaway: Go-Forward Expectations and Guidance

- **Go-Forward Expectations and Guidance:** *Considering the quarter's performance, the companies we reviewed were divided relatively evenly in terms of revised FY 2022 revenue guidance, (i.e., raised, lowered, unchanged). In general, the quarter brought about a more pessimistic view of FY 2022 EBITDA, and the majority of public companies lowered their guidance for the year. Further, most stakeholders were left with no guidance for FY 2023.*

Acute Care Hospitals

FY 2022 revenue and EBITDA guidance among the acute care hospital operators was generally left unchanged except for THC which lowered EBITDA guidance. However, all companies that were reviewed declined to provide FY 2023 guidance during the call, and primarily cited economic uncertainty (HCA).

Poll: Did the earnings call mention a recession?



Post-Acute

The post-acute sector appeared nearly unanimous in the outlook for the rest of 2022, and most operators lowered their revenue and EBITDA guidance. Unsurprisingly, no one offered FY 2023 guidance during the earnings calls.

Risk-Bearing Organizations

Interestingly, risk-bearing organizations mostly raised their revenue guidance for FY 2022 (AGL, CMAX, PRVA). However, EBITDA guidance was less predictable and was lowered (AGL, TOI), raised (PRVA), and unchanged (CMAX).

All Other

Most other healthcare operators followed similar patterns in terms of providing guidance for FY 2023. Of the companies we reviewed, only DVA revealed an outlook for the next year. The company anticipates revenue to be flat (driven by unfavorable volume trends) and margins to continue to feel the impact of labor market pressures.

Authors

Madi Whyde
Manager
Valuation & Transaction Advisory
972-616-5909
madison.whyde@vmghealth.com

Savanna Ganyard, CFA
Manager
Valuation & Transaction Advisory
972-616-5866
savanna.ganyard@vmghealth.com

Jordan Tussy
Manager
Valuation & Transaction Advisory
972-616-7820
jordan.tussy@vmghealth.com

Madison Higgins
Senior Analyst
Valuation & Transaction Advisory
972-616-5923
madison.higgins@vmghealth.com

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