

Edgar Filing: HCA Healthcare, Inc. - Form 10-Q

HCA Healthcare, Inc.

Form 10-Q

May 03, 2019

false2019Q1HCA0000860730--12-31Large Accelerated FilerfalseDec. 31, 2021Dec. 31, 2022falseUpon adoption of the new lease standard, discount rates used for existing leases were established at January 1, 2019. Expenses are included in "other operating expenses" in our condensed consolidated income statement. 0000860730 2019-01-01 2019-03-31 0000860730 2018-01-01 2018-03-31 0000860730 2019-03-31 0000860730 2018-12-31 0000860730 2018-04-01 2018-06-30 0000860730 2018-07-01 2018-09-30 0000860730 2018-10-01 2018-12-31 0000860730 2019-01-31 0000860730 2017-10-31 0000860730 2019-04-30 0000860730 2017-12-31 0000860730 2018-03-31 0000860730 2018-06-30 0000860730 2018-09-30 0000860730 hca:HospitalMember 2019-01-01 2019-03-31 0000860730 hca:HealthcareEntityMember 2019-01-01 2019-03-31 0000860730 srt:GuarantorSubsidiariesMember 2019-01-01 2019-03-31 0000860730 srt:NonGuarantorSubsidiariesMember 2019-01-01 2019-03-31 0000860730 hca:NationalGroupMember 2019-01-01 2019-03-31 0000860730 hca:AmericanGroupMember 2019-01-01 2019-03-31 0000860730 us-gaap:CorporateAndOtherMember 2019-01-01 2019-03-31 0000860730 srt:ParentCompanyMember 2019-01-01 2019-03-31 0000860730 srt:SubsidiariesMember 2019-01-01 2019-03-31 0000860730 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-01-01 2019-03-31 0000860730 us-gaap:RetainedEarningsMember 2019-01-01 2019-03-31 0000860730 us-gaap:NoncontrollingInterestMember 2019-01-01 2019-03-31 0000860730 us-gaap:InterestRateSwapMember 2019-01-01 2019-03-31 0000860730 us-gaap:InterestRateSwapMember us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember 2019-01-01 2019-03-31 0000860730 us-gaap:DiscontinuedOperationsDisposedOfBySaleMember hca:LouisianaMarketsMember 2019-01-01 2019-03-31 0000860730 hca:RealEstateAndOtherInvestmentsMember 2019-01-01 2019-03-31 0000860730 us-gaap:AdditionalPaidInCapitalMember 2019-01-01 2019-03-31 0000860730 us-gaap:CommonStockMember 2019-01-01 2019-03-31 0000860730 hca:InpatientServicesMember 2019-01-01 2019-03-31 0000860730 hca:OutpatientServicesMember srt:MaximumMember 2019-01-01 2019-03-31 0000860730 hca:LouisianaMarketsMember hca:RealEstateAndOtherInvestmentsMember 2019-01-01 2019-03-31 0000860730 us-gaap:FixedIncomeInterestRateMember hca:DerivativeInstrumentMaturityDateDecemberTwoThousandAndTwentyOneMember 2019-01-01 2019-03-31 0000860730 us-gaap:FixedIncomeInterestRateMember hca:DerivativeInstrumentMaturityDateDecemberTwoThousandAndTwentyTwoMember 2019-01-01 2019-03-31 0000860730 srt:ConsolidationEliminationsMember 2019-01-01 2019-03-31 0000860730 hca:InternationalMember 2019-01-01 2019-03-31 0000860730 hca:MedicareMember 2019-01-01 2019-03-31 0000860730 hca:ManagedMedicareMember 2019-01-01 2019-03-31 0000860730 hca:MedicaidMember 2019-01-01 2019-03-31 0000860730 hca:ManagedMedicaidMember 2019-01-01 2019-03-31 0000860730 hca:ManagedCareAndOtherInsurersMember 2019-01-01 2019-03-31 0000860730 us-gaap:ProductAndServiceOtherMember 2019-01-01 2019-03-31 0000860730 hca:OutOfNetworkServicesMember 2019-01-01 2019-03-31 0000860730 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-10-01 2018-12-31 0000860730 us-gaap:RetainedEarningsMember 2018-10-01 2018-12-31 0000860730 us-gaap:NoncontrollingInterestMember 2018-10-01 2018-12-31 0000860730 us-gaap:AdditionalPaidInCapitalMember 2018-10-01 2018-12-31 0000860730 us-gaap:CommonStockMember 2018-10-01 2018-12-31 0000860730 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-07-01 2018-09-30 0000860730 us-gaap:RetainedEarningsMember 2018-07-01 2018-09-30 0000860730 us-gaap:NoncontrollingInterestMember 2018-07-01 2018-09-30 0000860730 us-gaap:AdditionalPaidInCapitalMember 2018-07-01 2018-09-30 0000860730 us-gaap:CommonStockMember 2018-07-01 2018-09-30 0000860730 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-04-01 2018-06-30 0000860730 us-gaap:RetainedEarningsMember 2018-04-01 2018-06-30 0000860730 us-gaap:NoncontrollingInterestMember 2018-04-01 2018-06-30 0000860730 us-gaap:CommonStockMember 2018-04-01 2018-06-30 0000860730 us-gaap:AdditionalPaidInCapitalMember 2018-04-01 2018-06-30 0000860730 hca:HospitalMember 2018-01-01 2018-03-31 0000860730 hca:HealthcareEntityMember 2018-01-01 2018-03-31 0000860730 srt:GuarantorSubsidiariesMember 2018-01-01 2018-03-31 0000860730 srt:NonGuarantorSubsidiariesMember 2018-01-01 2018-03-31 0000860730 hca:NationalGroupMember 2018-01-01 2018-03-31 0000860730 hca:AmericanGroupMember 2018-01-01 2018-03-31 0000860730

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form

10-Q

(Mark One)  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended  
March 31, 2019

Or  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number  
1-11239  
HCA Healthcare, Inc.  
(Exact name of registrant as specified in its charter)  
Delaware 27-3865930  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

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One Park Plaza  
Nashville, Tennessee 37203  
(Address of principal executive offices) (Zip Code)  
(615)  
344-9551

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation

S-T

during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated

filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule

12b-2

of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                  | Trading Symbol(s) | Name of each exchange on which registered |
|--------------------------------------|-------------------|---|
| Voting common stock, \$.01 par value | HCA               | New York Stock Exchange                   |

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

| Class of Common Stock                | Outstanding at April 30, 2019 |
|--------------------------------------|-------------------------------|
| Voting common stock, \$.01 par value | 342,307,400 shares            |

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 March 31, 2019

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HCA HEALTHCARE, INC.  
 CONDENSED CONSOLIDATED INCOME STATEMENTS  
 FOR THE QUARTERS ENDED MARCH 31, 2019 AND 2018  
 Unaudited  
 (Dollars in millions, except per share amounts)

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|   | 2019     | 2018     |
|---|----------|----------|
| Revenues  | \$12,517 | \$11,423 |
| Salaries and benefits   | 5,647    | 5,289    |
| Supplies  | 2,041    | 1,915    |
| Other operating expenses                                      | 2,299    | 2,110    |
| Equity in earnings of affiliates                              | (11 )    | (9 )     |
| Depreciation and amortization                                 | 619      | 553      |
| Interest expense  | 461      | 431      |
| Losses (gains) on sales of facilities                         | 1        | (405 )   |
|   | 11,057   | 9,884    |
| Income before income taxes                                    | 1,460    | 1,539    |
| Provision for income taxes                                    | 279      | 257      |
| Net income  | 1,181    | 1,282    |
| Net income attributable to noncontrolling interests           | 142      | 138      |
| Net income attributable to HCA Healthcare, Inc.               | \$1,039  | \$1,144  |
| Per share data:   |          |          |
| Basic earnings  | \$3.03   | \$3.26   |
| Diluted earnings  | \$2.97   | \$3.18   |
| Shares used in earnings per share calculations (in millions): |          |          |
| Basic   | 342.876  | 350.850  |
| Diluted   | 350.316  | 359.749  |

The accompanying notes are an integral part of the condensed consolidated financial statements.

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HCA HEALTHCARE, INC.  
 CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS  
 FOR THE QUARTERS ENDED MARCH 31, 2019 AND 2018  
 Unaudited  
 (Dollars in millions)

|  | 2019    | 2018    |
|--|---------|---------|
| Net income   | \$1,181 | \$1,282 |
| Other comprehensive income (loss) before taxes:            |         |         |
| Foreign currency translation                               | 20      | 54      |
| Unrealized gains (losses) on available-for-sale securities | 8       | (5 )    |

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|   |         |         |
|---|---------|---------|
| Defined benefit plans   | —       | —       |
| Pension costs included in salaries and benefits               | 3       | 5       |
|   | 3       | 5       |
| Change in fair value of derivative financial instruments      | (18 )   | 35      |
| Interest benefits included in interest expense                | (5 )    | —       |
|   | (23 )   | 35      |
| Other comprehensive income before taxes                       | 8       | 89      |
| Income taxes related to other comprehensive income items      | 1       | 8       |
| Other comprehensive income                                    | 7       | 81      |
| Comprehensive income  | 1,188   | 1,363   |
| Comprehensive income attributable to noncontrolling interests | 142     | 138     |
| Comprehensive income attributable to HCA Healthcare, Inc.     | \$1,046 | \$1,225 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

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HCA HEALTHCARE, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 Unaudited  
 (Dollars in millions)

|                                       | March 31,<br>2019 | December 31,<br>2018 |
|---------------------------------------|-------------------|----------------------|
| <b>ASSETS</b>                         |                   |                      |
| Current assets:                       |                   |                      |
| Cash and cash equivalents             | \$531             | \$ 502               |
| Accounts receivable                   | 7,420             | 6,789                |
| Inventories                           | 1,778             | 1,732                |
| Other                                 | 1,379             | 1,190                |
|                                       | 11,108            | 10,213               |
| Property and equipment, at cost       | 44,583            | 42,965               |
| Accumulated depreciation              | (23,455 )         | (23,208 )            |
|                                       | 21,128            | 19,757               |
| Investments of insurance subsidiaries | 338               | 362                  |

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|   |           |           |
|---|-----------|-----------|
| Investments in and advances to affiliates   | 246       | 232       |
| Goodwill and other intangible assets  | 8,159     | 7,953     |
| Right-of-use operating lease assets   | 1,812     | —         |
| Other   | 588       | 690       |
|   | \$ 43,379 | \$ 39,207 |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  |           |           |
| Current liabilities:  |           |           |
| Accounts payable  | \$ 2,693  | \$ 2,577  |
| Accrued salaries  | 1,424     | 1,580     |
| Other accrued expenses  | 2,618     | 2,624     |
| Long-term debt due within one year  | 3,796     | 788       |
|   | 10,531    | 7,569     |
| Long-term debt, less net debt issuance costs of \$170 and \$157   | 31,019    | 32,033    |
| Professional liability risks  | 1,313     | 1,275     |
| Right-of-use operating lease obligations  | 1,494     | —         |
| Income taxes and other liabilities  | 1,277     | 1,248     |
| Stockholders' deficit:  |           |           |
| Common stock \$0.01 par; authorized 1,800,000,000 shares; outstanding 343,030,500 shares in 2019 and 342,895,200 shares in 2018 | 3         | 3         |
| Accumulated other comprehensive loss  | (374 )    | (381 )    |
| Retained deficit  | (3,983 )  | (4,572 )  |
| Stockholders' deficit attributable to HCA Healthcare, Inc.  | (4,354 )  | (4,950 )  |
| Noncontrolling interests  | 2,099     | 2,032     |
|   | (2,255 )  | (2,918 )  |
|   | \$ 43,379 | \$ 39,207 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

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HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
FOR THE QUARTERS ENDED MARCH 31, 2019 AND 2018

Unaudited

(Dollars in millions)

| Equity (Deficit) Attributable to HCA Healthcare, Inc. |              |   |   |                     | Equity<br>Attributable to<br>Noncontrolling<br>Interests | Total |
|---|--------------|---|---|---------------------|--|-------|
| Common Stock<br>Shares<br>(in millions)               | Par<br>Value | Capital in<br>Excess of<br>Par<br>Value | Accumulated<br>Other<br>Comprehensive<br>Loss | Retained<br>Deficit |  |       |



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|  |          |      |        |           |             |          |            |
|--|----------|------|--------|-----------|-------------|----------|------------|
| Balances, December 31, 2017                | 350.092  | \$ 4 | \$ —   | \$ (278 ) | \$ (6,532 ) | \$ 1,811 | \$(4,995 ) |
| Comprehensive income                       |          |      |        | 81        | 1,144       | 138      | 1,363      |
| Repurchase of common stock                 | (4.370 ) |      | 114    |           | (537 )      |          | (423 )     |
| Share-based benefit plans                  | 5.265    |      | (114 ) |           |             |          | (114 )     |
| Cash dividends declared (\$0.35 per share) |          |      |        |           | (126 )      |          | (126 )     |
| Distributions                              |          |      |        |           |             | (92 )    | (92 )      |
| Other                                      |          |      |        |           |             | (47 )    | (47 )      |
| Balances, March 31, 2018                   | 350.987  | 4    | —      | (197 )    | (6,051 )    | 1,810    | (4,434 )   |
| Comprehensive income                       |          |      |        | (64 )     | 820         | 146      | 902        |
| Repurchase of common stock                 | (4.670 ) | (1 ) | (93 )  |           | (376 )      |          | (470 )     |
| Share-based benefit plans                  | 0.443    |      | 96     |           |             |          | 96         |
| Cash dividends declared (\$0.35 per share) |          |      |        |           | (124 )      |          | (124 )     |
| Distributions                              |          |      |        |           |             | (93 )    | (93 )      |
| Other                                      |          |      | (3 )   |           |             | 1        | (2 )       |
| Balances, June 30, 2018                    | 346.760  | 3    | —      | (261 )    | (5,731 )    | 1,864    | (4,125 )   |
| Comprehensive income                       |          |      |        | (5 )      | 759         | 137      | 891        |
| Repurchase of common stock                 | (2.518 ) |      | (55 )  |           | (247 )      |          | (302 )     |
| Share-based benefit plans                  | 0.844    |      | 54     |           |             |          | 54         |
| Cash dividends declared (\$0.35 per share) |          |      |        |           | (123 )      |          | (123 )     |
| Distributions                              |          |      |        |           |             | (130 )   | (130 )     |
| Other                                      |          |      | 1      |           |             | 4        | 5          |
| Balances, September 30, 2018               | 345.086  | 3    | —      | (266 )    | (5,342 )    | 1,875    | (3,730 )   |
| Comprehensive income                       |          |      |        | (20 )     | 1,064       | 181      | 1,225      |
| Repurchase of common stock                 | (2.512 ) |      | (69 )  |           | (266 )      |          | (335 )     |
| Share-based benefit plans                  | 0.321    |      | 79     |           |             |          | 79         |
| Cash dividends declared (\$0.35 per share) |          |      |        |           | (123 )      |          | (123 )     |
| Distributions                              |          |      |        |           |             | (126 )   | (126 )     |
| Reclassification of stranded tax effects   |          |      |        | (95 )     | 95          |          | —          |
| Other                                      |          |      | (10 )  |           |             | 102      | 92         |
| Balances, December 31, 2018                | 342.895  | 3    | —      | (381 )    | (4,572 )    | 2,032    | (2,918 )   |
| Comprehensive income                       |          |      |        | 7         | 1,039       | 142      | 1,188      |
| Repurchase of common stock                 | (2.106 ) |      | 32     |           | (310 )      |          | (278 )     |
| Share-based benefit plans                  | 2.242    |      | (29 )  |           |             |          | (29 )      |
| Cash dividends declared (\$0.40 per share) |          |      |        |           | (140 )      |          | (140 )     |
| Distributions                              |          |      |        |           |             | (136 )   | (136 )     |
| Other                                      |          |      | (3 )   |           |             | 61       | 58         |
| Balances, March 31, 2019                   | 343.031  | \$ 3 | \$ —   | \$ (374 ) | \$ (3,983 ) | \$ 2,099 | \$(2,255 ) |

The accompanying notes are an integral part of the condensed consolidated financial statements.

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HCA HEALTHCARE, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE QUARTERS ENDED MARCH 31, 2019 AND 2018

Unaudited

(Dollars in millions)

|   | 2019     | 2018    |
|---|----------|---------|
| Cash flows from operating activities:   |          |         |
| Net income  | \$1,181  | \$1,282 |
| Adjustments to reconcile net income to net cash provided by operating activities: |          |         |
| Decrease in cash from operating assets and liabilities:                           |          |         |
| Accounts receivable   | (369 )   | (4 )    |
| Inventories and other assets  | (174 )   | (218 )  |
| Accounts payable and accrued expenses   | (651 )   | (263 )  |
| Depreciation and amortization   | 619      | 553     |
| Income taxes  | 269      | 246     |
| Losses (gains) on sales of facilities   | 1        | (405 )  |
| Amortization of debt issuance costs   | 8        | 8       |
| Share-based compensation  | 62       | 60      |
| Other   | 28       | 24      |
| Net cash provided by operating activities   | 974      | 1,283   |
| Cash flows from investing activities:   |          |         |
| Purchase of property and equipment  | (781 )   | (694 )  |
| Acquisition of hospitals and health care entities                                 | (1,474 ) | (379 )  |
| Disposal of hospitals and health care entities                                    | 30       | 767     |
| Change in investments   | 36       | 11      |
| Other   | 24       | (40 )   |
| Net cash used in investing activities   | (2,165 ) | (335 )  |
| Cash flows from financing activities:   |          |         |
| Issuances of long-term debt   | 1,500    | —       |
| Net change in revolving bank credit facilities                                    | 460      | 270     |
| Repayment of long-term debt   | (49 )    | (50 )   |
| Distributions to noncontrolling interests   | (136 )   | (92 )   |
| Payment of debt issuance costs  | (22 )    | (2 )    |
| Payment of cash dividends   | (141 )   | (123 )  |
| Repurchases of common stock   | (278 )   | (423 )  |
| Other   | (118 )   | (191 )  |
| Net cash provided by (used in) financing activities                               | 1,216    | (611 )  |

|  |       |         |
|--|-------|---------|
| Effect of exchange rate changes on cash and cash equivalents | 4     | 17      |
| Change in cash and cash equivalents                          | 29    | 354     |
| Cash and cash equivalents at beginning of period             | 502   | 732     |
| Cash and cash equivalents at end of period                   | \$531 | \$1,086 |
| Interest payments  | \$580 | \$549   |
| Income tax payments, net                                     | \$10  | \$11    |

The accompanying notes are an integral part of the condensed consolidated financial statements.

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HCA HEALTHCARE, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 — BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

## Reporting Entity

HCA Healthcare, Inc. is a holding company whose affiliates own and operate hospitals and related health care entities. The term “affiliates” includes direct and indirect subsidiaries of HCA Healthcare, Inc. and partnerships and joint ventures in which such subsidiaries are partners. At March 31, 2019, these affiliates owned and operated 185 hospitals, 124 freestanding surgery centers and provided extensive outpatient and ancillary services. HCA Healthcare, Inc.’s facilities are located in 21 states and England. The terms “Company,” “HCA,” “we,” “our” or “us,” as used herein and unless otherwise stated or indicated by context, refer to HCA Healthcare, Inc. and its affiliates. The terms “facilities” or “hospitals” refer to entities owned and operated by affiliates of HCA and the term “employees” refers to employees of affiliates of HCA.

## Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q

and Article 10 of Regulation

S-X.

Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature.

The majority of our expenses are “costs of revenues” items. Costs that could be classified as general and administrative would include our corporate office costs, which were \$86 million and \$81 million for the quarters ended March 31, 2019 and 2018, respectively. Operating results for the quarter ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form

10-K

for the year ended December 31, 2018.

## Revenues

Our revenues generally relate to contracts with patients in which our performance obligations are to provide health care services to the patients. Revenues are recorded during the period our obligations to provide health care services

are satisfied.

Our performance obligations for inpatient services are generally satisfied over periods that average approximately five days

, and revenues are recognized based on charges incurred in relation to total expected charges.

Our performance obligations for outpatient services are generally satisfied over a period of less than one day

. The contractual relationships with patients, in most cases, also involve a third-party payer (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payers. The payment arrangements with third-party payers for the services we provide to the related patients typically specify payments at amounts less than our standard charges. Medicare generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic and other factors. Services provided to patients having Medicaid coverage are generally paid at prospectively determined rates per discharge, per identified service or per covered member. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based upon predetermined rates per diagnosis, per diem rates or discounted

fee-for-service

rates. Our revenues for the quarter ended March 31, 2019 include \$86 million related to the resolution of transaction price differences regarding certain out-of-network services performed in prior periods. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 — BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues (continued)

Our revenues are based upon the estimated amounts we expect to be entitled to receive from patients and third-party payers. Estimates of contractual allowances under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). We also record estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record

self-pay

revenues at the estimated amounts we expect to collect. Our revenues from third-party payers and others (including uninsured patients) for the quarters ended March 31, 2019 and 2018 are summarized in the following table (dollars in millions):

|   | 2019    | Ratio  | 2018    | Ratio  |
|---|---------|--------|---------|--------|
| Medicare                                  | \$2,770 | 22.1 % | \$2,524 | 22.1 % |
| Managed Medicare                          | 1,589   | 12.7   | 1,399   | 12.3   |
| Medicaid                                  | 347     | 2.8    | 281     | 2.5    |
| Managed Medicaid                          | 613     | 4.9    | 561     | 4.9    |
| Managed care and insurers                 | 6,426   | 51.4   | 6,062   | 53.1   |
| International (managed care and insurers) | 297     | 2.4    | 305     | 2.7    |
| Other                                     | 475     | 3.7    | 291     | 2.4    |

|          |          |        |          |        |
|----------|----------|--------|----------|--------|
| Revenues | \$12,517 | 100.0% | \$11,423 | 100.0% |
|----------|----------|--------|----------|--------|

To quantify the total impact of the trends related to uninsured accounts, we believe it is beneficial to view total uncompensated care, which is comprised of charity care, uninsured discounts and implicit price concessions. A summary of the estimated cost of total uncompensated care for the quarters ended March 31, 2019 and 2018 follows (dollars in millions):

|  | 2019     | 2018    |
|--|----------|---------|
| Patient care costs (salaries and benefits, supplies, other operating expenses and depreciation and amortization) | \$10,606 | \$9,867 |
| Cost-to-charges ratio (patient care costs as percentage of gross patient charges)                                | 11.8 %   | 12.4 %  |
| Total uncompensated care   | \$7,085  | \$6,252 |
| Multiply by the cost-to-charges ratio  | 11.8 %   | 12.4 %  |
| Estimated cost of total uncompensated care   | \$836    | \$775   |

Total uncompensated care as a percentage of the sum of revenues and total uncompensated care was 36.1% and 35.4% for the quarters ended March 31, 2019 and 2018, respectively. The total uncompensated care amounts include charity care of \$2.905 billion and \$1.879 billion, and the related estimated costs of charity care were \$343 million and \$233 million for the quarters ended March 31, 2019 and 2018, respectively.

#### Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

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## HCA HEALTHCARE, INC.

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2 — ACQUISITIONS AND DISPOSITIONS

During the quarter ended March 31, 2019, we paid \$1.398 billion to acquire a seven

-hospital health system in North Carolina and \$76 million to acquire other nonhospital health care entities. During the quarter ended March 31, 2018, we paid \$360 million to acquire a hospital facility and \$19 million to acquire other nonhospital health care entities. Purchase price amounts have been allocated to the related assets acquired and liabilities assumed based upon their respective fair values. The purchase price paid in excess of the fair value of identifiable net assets of these acquired entities aggregated \$207 million for the quarter ended March 31, 2019. The consolidated financial statements include the accounts and operations of the acquired entities subsequent to the respective acquisition dates. The pro forma effects of these acquired entities on our results of operations for periods prior to the respective acquisition dates were not significant.

During the quarter ended March 31, 2019, we received proceeds of \$25 million and recognized a net pretax loss of \$ 1

million related to a sale of a hospital facility in one of our Louisiana markets. During the quarter ended March 31, 2019, we also received proceeds of \$5 million related to sales of real estate and other investments. During the quarter ended March 31, 2018, we received proceeds of \$758 million and recognized a net pretax gain of \$376 million related to the sale of the two hospital facilities in our Oklahoma market. During the quarter ended March 31, 2018, we also received proceeds of \$9 million and recognized a net pretax gain of \$29 million related to sales of real estate and other investments.

#### NOTE 3 — INCOME TAXES

Our provision for income taxes for the quarters ended March 31, 2019 and 2018 was \$279 million and \$257 million, respectively, and the effective tax rates were 21.2% and 18.4%, respectively. Our provision for income taxes included tax benefits related to the settlement of employee equity awards of \$49 million and \$92 million for the quarters ended March 31, 2019 and 2018, respectively.

Our liability for unrecognized tax benefits was \$457 million, including accrued interest of \$53 million, as of March 31, 2019 (\$435 million and \$48 million, respectively, as of December 31, 2018). Unrecognized tax benefits of \$143 million (\$137 million as of December 31, 2018) would affect the effective rate, if recognized.

The Internal Revenue Service began an examination of the Company's 2016 and 2017 federal income tax returns during 2019. We are also subject to examination by state and foreign taxing authorities. Depending on the resolution of any federal, state and foreign tax disputes, the completion of examinations by federal, state or foreign taxing authorities, or the expiration of statutes of limitation for specific taxing jurisdictions, we believe it is reasonably possible that our liability for unrecognized tax benefits may significantly increase or decrease within the next 12 months. However, we are currently unable to estimate the range of any possible change.

#### NOTE 4 — EARNINGS PER SHARE

We compute basic earnings per share using the weighted average number of common shares outstanding. We compute diluted earnings per share using the weighted average number of common shares outstanding, plus the dilutive effect of outstanding equity awards and potential shares, computed using the treasury stock method.

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 — EARNINGS PER SHARE (continued)

The following table sets forth the computation of basic and diluted earnings per share for the quarters ended March 31, 2019 and 2018 (dollars and shares in millions, except per share amounts):

|   |         |         |
|---|---------|---------|
|   | 2019    | 2018    |
| Net income attributable to HCA Healthcare, Inc. | \$1,039 | \$1,144 |
| Weighted average common shares outstanding      | 342.876 | 350.850 |
| Effect of dilutive incremental shares           | 7.440   | 8.899   |
| Shares used for diluted earnings per share      | 350.316 | 359.749 |
| Earnings per share:                             |         |         |
| Basic earnings                                  | \$3.03  | \$3.26  |
| Diluted earnings                                | \$2.97  | \$3.18  |

NOTE 5 — INVESTMENTS OF INSURANCE SUBSIDIARIES

A summary of our insurance subsidiaries' investments at March 31, 2019 and December 31, 2018 follows (dollars in millions):

|                              | March 31, 2019    |                                |        | Fair<br>Value |
|------------------------------|-------------------|--------------------------------|--------|---------------|
|                              | Amortized<br>Cost | Unrealized<br>Amounts<br>Gains | Losses |               |
| Debt securities              | \$336             | \$ 11                          | \$ —   | \$ 347        |
| Money market funds and other | 81                | —                              | —      | 81            |

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Amounts classified as current assets (90 )

Investment carrying value \$ 338

|                              | December 31, 2018 |            |         |        |
|------------------------------|-------------------|------------|---------|--------|
|                              | Amortized         | Unrealized |         | Fair   |
|                              | Cost              | Gains      | Losses  | Value  |
| Debt securities              | \$338             | \$ 5       | \$ (2 ) | \$ 341 |
| Money market funds and other | 68                | —          | —       | 68     |
|                              | \$406             | \$ 5       |         |        |