LifePoint Hospitals: A Bet On The Leading Rural Hospital Operator

By Seeking Alpha on July 8, 2013

LifePoint Hospitals (LPNT) operates general acute care hospitals in non-urban communities in the U.S., with the operative word being "non-urban", where LifePoint avoids the highly competitive metro markets. This gives the hospital operator the largest and best positioned hospitals in its respective markets and allows LifePoint to develop its own regional network.

Company snapshot

LifePoint provides a range of medical/surgical services. These services include surgery, internal medicine, obstetrics, emergency room care, oncology and pediatric services. As well, in many of its key markets LifePoint also provides outpatient services, i.e. same day surgery, X-ray and respiratory therapy. Its revenue breakdown includes 35% from Medicare, 14% from Medicaid and 49% from private insurers.

Industry tailwinds

One of the real beauties about the well talked about healthcare reform is that it will increase the number of insured individuals — the government expects that the number of new people becoming insured could be upwards of 27 million.

The other tailwind will be rising reimbursement rates from Medicare and Medicaid. This goes hand in hand with a key function for hospitals — being able to collect revenue for services performed, ultimately leading to less write-offs.

Company tailwinds

Outlined below are what we see as some of the key tailwinds for LifePoint over the interim.

- Higher inpatient admissions

- Greater amount of surgeries
- Targeted acquisitions to gain exposure to higher-growth population markets
- Increasing operating leverage to boost margins further
- Opportunities for impressive expansion in the U.S.

Company headwinds

Like any healthcare provider, there are challenges. Among the most concerning are changes in the regulatory environment and difficulties in getting reimbursements. Any changes in either could have negative effects on both the top and bottom lines. A second significant challenge for LifePoint is hospital staffing. Hiring and retaining good physicians in non-urban communities tends to be more of a challenge than in urban areas.

Growth strategy

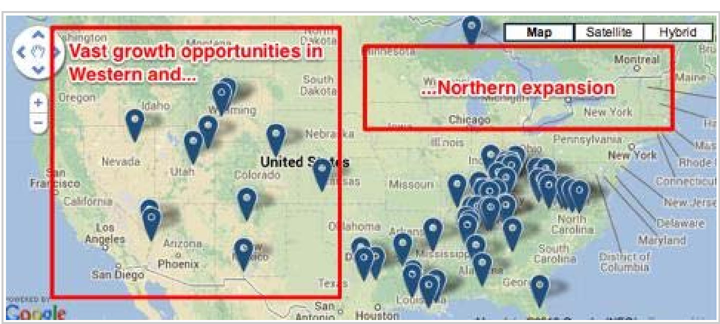
LifePoint has a joint-venture with the Duke University Health System for operating community hospitals in North Carolina. Back in 2010, LifePoint acquired Clark Regional Medical Center and Sumner Regional Health Systems. Clark is a 100-bed facility that generates in excess of $60 million in revenue per year, while Sumner is a 268-bed hospital system generating $145 million. One of the key initiatives includes revamping the acquisition campaign to stimulate future growth.

Last September, LifePoint entered the Upper Peninsula of Michigan with the acquisition of Marquette General Health System by Duke LifePoint Healthcare. Marquette is an ideal fit since it's a tertiary hospital and regional referral center that benefits Duke's clinical programs and LifePoint's operational expertise and resources. Since the completion of the Marquette acquisition, LifePoint has executed two letters of intent to acquire Portage Health in Hancock, Michigan and Bell Hospital in Ishpeming, Michigan.

The terms of the Bell Hospital acquisition are for LifePoint to provide $5 million in capital investment at the hospital across the next 10 years and retire its debt. Bell Hospital has over 350 employees and 90 physicians. This brings LifePoint's total hospital portfolio to 57 facilities across 20 states.

These hospitals will strengthen the health care system in the Upper Peninsula of Michigan. The acquisitions allow for enhanced patient care and ensure that health care services continue to be available locally to be people in these communities. LifePoint sees continued expansion in the Upper Peninsula either through acquisition or collaboration with other healthcare providers.

In March, LifePoint signed a letter of intent to form a joint venture with Fauquier Health in Warrenton, Virginia. Fauquier would be LifePoint's sixth hospital in Virginia and would enhance LifePoint's presence statewide with a location in Northern Virginia.



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As noted, acquisitions should continue to be a key part of the hospital's strategy going forward. LifePoint CFO Jeff Sherman notes that the merger and acquisition market should pick up even more in the future, he notes that…

> *As we view it, there will continue to be a lot of activity going forward, especially for small community hospitals that aren't affiliated with a bigger system. As we think about hospitals and what are their reasons for looking to partner, there are a couple that stand out: accessing capital for growth and expansion and the ability to recruit physicians. LifePoint is recruiting more than 200 physicians per year, and the centralization of our resources for physician recruiting makes it easier for us. We have built the infrastructure to help do that, too.*

Hospital acquisitions have been one of LifePoint's top uses of cash, consuming 52% of 2012 cash flow from operations and 45% of the trailing twelve months CFO. Fitch Ratings believes that the company's recent string of acquisitions will contribute about $220 million of revenue in 2013, or about 5.5% of the company's 2012 revenue.

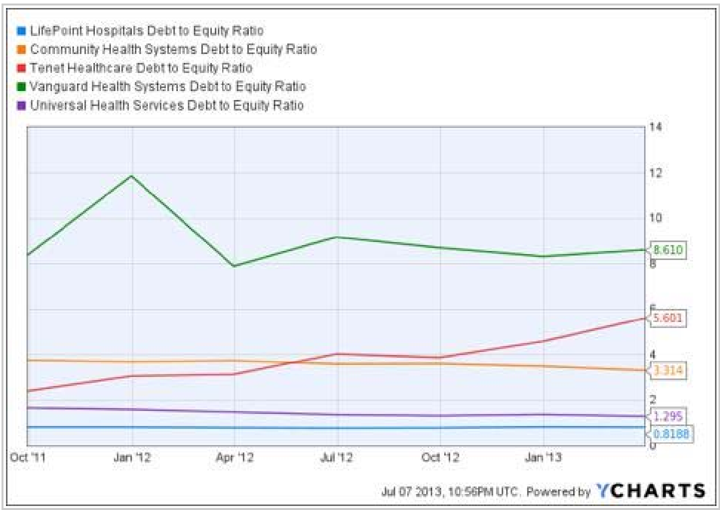
Recent strength

First quarter results proved impressive for the company, with net revenues up 13.8% year over year, and same-facility revenues up 1.3%. Revenues grew 9.4% to $931 million, EBITDA to $137 million, and earnings per share of $0.69. One of the key drivers was the acquisition of three hospitals during the quarter.

Other keys for last quarter was the increased number of flu-related visits, which was fueled by 8% growth in emergency room visits for the quarter. On the back of this, LifePoint managed to report 1Q EPS of $0.79 — in line with consensus.

Financial overview

LifePoint has the lowest debt to equity ratio among all the major hospital operators…



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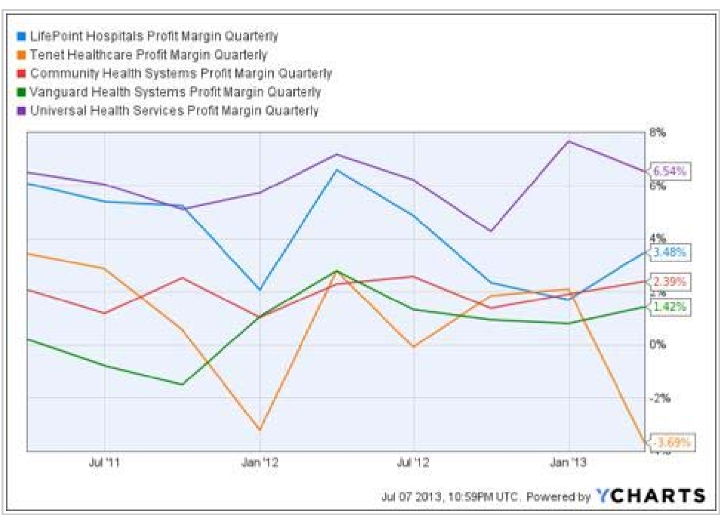
Even with the least leveraged balance sheets, LifePoint still has one of the top profit margins in the industry…



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LifePoint's impressive balance sheet leaves tons of room for the company to boost M&A activity and expand margins via operating leverage.

Over the past 10 years the hospital operator managed to integrate acquisitions and tap the under-served rural markets — translating into impressive EPS and FCF per share growth over the past 10 years.