HCA Healthcare, Inc.
Form 10-Q
November 06, 2018

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 September 30, 2018

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 incorporation or organization)	**(I.R.S. Employer Identification No.)**
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

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 October 31, 2018
Voting common stock, $.01 par value	344,160,500 shares

HCA HEALTHCARE, INC.

Form 10-Q

September 30, 2018

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS

FOR THE QUARTERS AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

Unaudited

(Dollars in millions, except per share amounts)

	Quarter		Nine Months	
	2018	**2017**	**2018**	**2017**
Revenues	**$ 11,451**	$ 10,696	**$ 34,403**	$ 32,052
Salaries and benefits	**5,377**	5,081	**15,940**	14,878
Supplies	**1,890**	1,777	**5,722**	5,369
Other operating expenses	**2,097**	2,075	**6,325**	5,970
Equity in earnings of affiliates	**(9)**	(13)	**(25)**	(36)
Depreciation and amortization	**582**	539	**1,697**	1,581
Interest expense	**442**	427	**1,309**	1,257
Gains on sales of facilities	**(6)**	(7)	**(420)**	(10)
Losses on retirement of debt	**9**	39	**9**	39
	10,382	9,918	**30,557**	29,048
Income before income taxes	**1,069**	778	**3,846**	3,004
Provision for income taxes	**173**	248	**702**	902
Net income	**896**	530	**3,144**	2,102
Net income attributable to noncontrolling interests	**137**	104	**421**	360
Net income attributable to HCA Healthcare, Inc.	**$ 759**	$ 426	**$ 2,723**	$ 1,742
Per share data:				
Basic earnings	**$ 2.20**	$ 1.18	**$ 7.82**	$ 4.77
Diluted earnings	**$ 2.15**	$ 1.15	**$ 7.65**	$ 4.64
Shares used in earnings per share calculations (in millions):				
Basic	**345.823**	360.170	**348.411**	365.398
Diluted	**353.639**	369.834	**356.124**	375.013

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

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

FOR THE QUARTERS AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

Unaudited

(Dollars in millions)

	Quarter		Nine Months	
	2018	**2017**	**2018**	**2017**
Net income	**$ 896**	$ 530	**$ 3,144**	$ 2,102
Other comprehensive income (loss) before taxes:				
Foreign currency translation	**(13)**	32	**(35)**	87
Unrealized (losses) gains on available-for-sale securities	**(2)**		**(8)**	5
Defined benefit plans				
Pension costs included in salaries and benefits	**5**	5	**15**	14
	5	5	**15**	14
Change in fair value of derivative financial instruments	**10**	(1)	**60**	(9)
Interest (benefits) costs included in interest expense	**(3)**	4	**(5)**	17
	7	3	**55**	8
Other comprehensive (loss) income before taxes	**(3)**	40	**27**	114
Income taxes related to other comprehensive income items	**2**	15	**15**	44
Other comprehensive (loss) income	**(5)**	25	**12**	70
Comprehensive income	**891**	555	**3,156**	2,172
Comprehensive income attributable to noncontrolling interests	**137**	104	**421**	360
Comprehensive income attributable to HCA Healthcare, Inc.	**$ 754**	$ 451	**$ 2,735**	$ 1,812

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

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

(Dollars in millions)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 578**	$ 732
Accounts receivable	**6,532**	6,501
Inventories	**1,634**	1,573
Other	**1,266**	1,171
	10,010	9,977
Property and equipment, at cost	**41,978**	40,084
Accumulated depreciation	**(22,937)**	(22,189)
	19,041	17,895
Investments of insurance subsidiaries	**367**	418
Investments in and advances to affiliates	**238**	199
Goodwill and other intangible assets	**7,759**	7,394
Other	**629**	710
	$ 38,044	$ 36,593
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	**$ 2,414**	$ 2,606
Accrued salaries	**1,456**	1,369
Other accrued expenses	**2,170**	1,983
Long-term debt due within one year	**191**	200
	6,231	6,158
Long-term debt, less net debt issuance costs of $163 and $164	**32,916**	32,858
Professional liability risks	**1,239**	1,198
Income taxes and other liabilities	**1,388**	1,374
Stockholders deficit:		
Common stock $0.01 par; authorized 1,800,000,000 shares; outstanding 345,085,800 shares in 2018 and 350,091,600 shares in 2017	**3**	4
Accumulated other comprehensive loss	**(266)**	(278)
Retained deficit	**(5,342)**	(6,532)

Stockholders deficit attributable to HCA Healthcare, Inc.		**(5,605)**		(6,806)
Noncontrolling interests		**1,875**		1,811
		(3,730)		(4,995)
	$	**38,044**	$	36,593

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

HCA HEALTHCARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS DEFICIT

FOR THE QUARTERS AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

Unaudited

(Dollars in millions)

	Equity (Deficit) Attributable to HCA Healthcare, Inc.						
	Common Stock		Capital in Excess of	Accumulated Other		Equity Attributable to	
	Shares (in millions)	Par Value	Par Value	Comprehensive Loss	Retained Deficit	Noncontrolling Interests	Total
Balances, December 31, 2016	370.536	$ 4	$	$ (338)	$ (6,968)	$ 1,669	$ (5,633)
Comprehensive income				18	659	118	795
Repurchase of common stock	(5.121)		(32)		(392)		(424)
Share-based benefit plans	3.280		35				35
Distributions						(145)	(145)
Other			(3)			18	15
Balances, March 31, 2017	368.695	4		(320)	(6,701)	1,660	(5,357)
Comprehensive income				27	657	138	822
Repurchase of common stock	(6.404)		(83)		(459)		(542)
Share-based benefit plans	0.604		82				82
Distributions						(103)	(103)
Other			1			18	19
Balances, June 30, 2017	362.895	4		(293)	(6,503)	1,713	(5,079)
Comprehensive income				25	426	104	555
Repurchase of common stock	(6.322)		(70)		(439)		(509)
Share-based benefit plans	0.407		71				71
Distributions						(115)	(115)
Other			(1)			12	11
Balances, September 30, 2017	356.980	4		(268)	(6,516)	1,714	(5,066)
Comprehensive income				(10)	474	167	631
Repurchase of common stock	(7.245)		(86)		(490)		(576)
Share-based benefit plans	0.357		93				93
Distributions						(85)	(85)
Other			(7)			15	8
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)				(423)		(423)
Share-based benefit plans	5.265				(114)		(114)
					(126)		(126)

Cash dividends declared ($0.35 per share)							
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)**

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 NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

Unaudited

(Dollars in millions)

	2018	2017
Cash flows from operating activities:		
Net income	**$ 3,144**	$ 2,102
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase (decrease) in cash from operating assets and liabilities:		
Accounts receivable	**(161)**	(70)
Inventories and other assets	**(136)**	(50)
Accounts payable and accrued expenses	**150**	(169)
Depreciation and amortization	**1,697**	1,581
Income taxes		(9)
Gains on sales of facilities	**(420)**	(10)
Losses on retirement of debt	**9**	39
Amortization of debt issuance costs	**23**	23
Share-based compensation	**204**	195
Other	**76**	60
Net cash provided by operating activities	**4,586**	3,692
Cash flows from investing activities:		
Purchase of property and equipment	**(2,420)**	(2,033)
Acquisition of hospitals and health care entities	**(1,056)**	(1,142)
Disposal of hospitals and health care entities	**802**	24
Change in investments	**65**	(15)
Other	**(6)**	(6)
Net cash used in investing activities	**(2,615)**	(3,172)
Cash flows from financing activities:		
Issuances of long-term debt	**2,000**	1,502
Net change in revolving bank credit facilities	**(330)**	650
Repayment of long-term debt	**(1,652)**	(700)
Distributions to noncontrolling interests	**(315)**	(363)
Payment of debt issuance costs	**(24)**	(25)
Payment of cash dividends	**(366)**	
Repurchases of common stock	**(1,195)**	(1,475)
Other	**(232)**	(37)
Net cash used in financing activities	**(2,114)**	(448)

Effect of exchange rate changes on cash and cash equivalents	**(11)**	
Change in cash and cash equivalents	**(154)**	72
Cash and cash equivalents at beginning of period	**732**	646
Cash and cash equivalents at end of period	**$ 578**	$ 718
Interest payments	**$ 1,422**	$ 1,383
Income tax payments, net	**$ 702**	$ 911

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

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 September 30, 2018, these affiliates owned and operated 179 hospitals, 122 freestanding surgery centers and provided extensive outpatient and ancillary services. HCA Healthcare, Inc. s facilities are located in 20 states and England. The terms Company, HCA, we, our or us, as used he 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 $90 million and $83 million for the quarters ended September 30, 2018 and 2017, respectively, and $254 million and $247 million for the nine months ended September 30, 2018 and 2017, respectively. Operating results for the quarter and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. 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, 2017.

Revenues

In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard related to revenue recognition. We adopted the new standard effective January 1, 2018, using the full retrospective method. The adoption of the new standard did not have an impact on our recognition of net revenues for any periods prior to adoption. The most significant impact of adopting the new standard is to the presentation of our consolidated income statements, where we no longer present the Provision for doubtful accounts as a separate line item and our Revenues are presented net of estimated implicit price concession revenue deductions. We also have eliminated the related presentation of allowances for doubtful accounts on our consolidated balance sheets as a result of the adoption of the new standard.

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

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Revenues (continued)

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. 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.

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 and nine months ended September 30, 2018 and 2017 are summarized in the following table (dollars in millions):

	Quarter			
	2018	**Ratio**	**2017**	**Ratio**
Medicare	**$ 2,404**	**21.0%**	$ 2,298	21.5%
Managed Medicare	**1,344**	**11.7**	1,122	10.5
Medicaid	**338**	**3.0**	286	2.7
Managed Medicaid	**622**	**5.4**	537	5.0
Managed care and insurers	**6,026**	**52.6**	5,605	52.4
International (managed care and insurers)	**273**	**2.4**	276	2.6
Other	**444**	**3.9**	572	5.3
Revenues	**$ 11,451**	**100.0%**	$ 10,696	100.0%

	Nine Months			
	2018	**Ratio**	**2017**	**Ratio**
Medicare	**$ 7,353**	**21.4%**	$ 6,931	21.6%
Managed Medicare	**4,088**	**11.9**	3,463	10.8
Medicaid	**976**	**2.8**	956	3.0

Managed Medicaid	**1,769**	**5.1**	1,653	5.2
Managed care and insurers	**18,081**	**52.6**	16,957	52.9
International (managed care and insurers)	**873**	**2.5**	814	2.5
Other	**1,263**	**3.7**	1,278	4.0
Revenues	**$ 34,403**	**100.0%**	$ 32,052	100.0%

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Revenues (continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility recorded estimates will change by a material amount. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined (in relation to certain government programs, primarily Medicare, this is generally referred to as the cost report filing and settlement process).

The Emergency Medical Treatment and Labor Act (EMTALA) requires any hospital participating in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital s emergency room for treatment and, if the individual is suffering from an emergency medical condition, to either stabilize the condition or make an appropriate transfer of the individual to a facility able to handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of an individual s ability to pay for treatment. Federal and state laws and regulations require, and our commitment to providing quality patient care encourages, us to provide services to patients who are financially unable to pay for the health care services they receive. Prior to November 2017, patients treated at hospitals for non-elective care, who have income at or below 200% of the federal poverty level, were eligible for charity care. During November 2017, we expanded our charity policy to include patients who have income above 200%, but at or below 400%, of the federal poverty level and we will limit the patient responsibility amounts for these patients to a percentage of their annual household income, computed on a sliding scale based upon their annual income and the applicable percentage of the federal poverty level. The federal poverty level is established by the federal government and is based on income and family size. Because we do not pursue collection of amounts determined to qualify as charity care, they are not reported in revenues. We provide discounts to uninsured patients who do not qualify for Medicaid or charity care. In implementing the uninsured discount policy, we may first attempt to provide assistance to uninsured patients to help determine whether they may qualify for Medicaid, other federal or state assistance, or charity care. If an uninsured patient does not qualify for these programs, the uninsured discount is applied.

The collection of outstanding receivables for Medicare, Medicaid, managed care payers, other third-party payers and patients is our primary source of cash and is critical to our operating performance. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed.

The estimates for implicit price concessions are based upon management s assessment of historical writeoffs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical writeoffs and collections at facilities that represent a majority of our revenues and accounts receivable (the hindsight analysis) as a primary source of information in estimating the collectability of our accounts receivable. We perform the hindsight analysis quarterly, utilizing rolling twelve-months accounts receivable collection and writeoff data. We believe our quarterly updates to the estimated implicit price concession amounts at each of our hospital facilities provide reasonable estimates of our revenues and valuations of our accounts receivable. These routine, quarterly changes in estimates have not resulted in material adjustments to the valuations of our accounts receivable or period-to-period comparisons of our results of operations. At September 30, 2018 and December 31, 2017, estimated implicit price concessions of $5.781 billion and $5.488 billion, respectively, had been recorded as

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Revenues (continued)

reductions to our accounts receivable balances to enable us to record our revenues and accounts receivable at the estimated amounts we expect to collect.

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 and nine months ended September 30, 2018 and 2017 follows (dollars in millions):

	Quarter		Nine Months	
	2018	**2017**	**2018**	**2017**
Patient care costs (salaries and benefits, supplies, other operating expenses and depreciation and amortization)	**$ 9,946**	$ 9,472	**$ 29,684**	$ 27,798
Cost-to-charges ratio (patient care costs as percentage of gross patient charges)	**12.7%**	13.4%	**12.6%**	13.1%
Total uncompensated care	**$ 6,786**	$ 6,089	**$ 19,524**	$ 17,137
Multiply by the cost-to-charges ratio	**12.7%**	13.4%	**12.6%**	13.1%
Estimated cost of total uncompensated care	**$ 862**	$ 816	**$ 2,460**	$ 2,245

Total uncompensated care as a percentage of the sum of revenues and total uncompensated care was 37.2% and 36.3% for the quarters ended September 30, 2018 and 2017, respectively, and 36.2% and 34.8% for the nine months ended September 30, 2018 and 2017, respectively. The total uncompensated care amounts include charity care of $2.314 billion and $1.235 billion, and the related estimated costs of charity care were $295 million and $167 million for the quarters ended September 30, 2018 and 2017, respectively, and charity care of $6.170 billion and $3.494 billion, and the related estimated costs of charity care were $777 million and $458 million for the nine months ended September 30, 2018 and 2017, respectively.

Recent Pronouncements

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (ASU 2016-02), which requires lessees to recognize assets and liabilities for most leases. ASU 2016-02 is effective for public business entities for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. We are continuing to evaluate the provisions of ASU 2016-02 (and related developments) to determine how our financial statements will be affected, and we believe the primary effect of adopting the new standard will be to record right-of-use assets and obligations for our leases currently classified as operating leases.

During October 2018, the SEC adopted a final rule affecting interim financial statements which requires a reconciliation of changes in stockholders equity in the notes to the financial statements or as a separate statement. We have included a single statement presentation of our condensed consolidated statements of stockholders deficit for the quarters and nine months ended September 30, 2018 and 2017.

Reclassifications

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

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 ACQUISITIONS AND DISPOSITIONS

During the nine months ended September 30, 2018, we paid $788 million to acquire two hospital facilities and $268 million to acquire other nonhospital health care entities. During the nine months ended September 30, 2017, we paid $1.000 billion to acquire seven hospital facilities and $142 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 $433 million and $655 million for the nine months ended September 30, 2018 and 2017, respectively. 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 nine months ended September 30, 2018, we received proceeds of $758 million and recognized a net pretax gain of $372 million related to the sale of the two hospital facilities in our Oklahoma market. During the nine months ended September 30, 2018, we also received proceeds of $44 million and recognized a net pretax gain of $48 million related to sales of real estate and other investments. During the nine months ended September 30, 2017, we received proceeds of $24 million and recognized a net pretax gain of $10 million related to sales of real estate and other investments.

NOTE 3 INCOME TAXES

Our provision for income taxes for the quarters ended September 30, 2018 and 2017, was $173 million and $248 million, respectively, and the effective tax rates were 18.6% and 36.7%, respectively. Our provision for income taxes for the nine months ended September 30, 2018 and 2017, was $702 million and $902 million, respectively, and the effective tax rates were 20.5% and 34.1%, respectively. The reductions in the effective tax rates for 2018 periods were primarily related to the estimated impact of tax rate changes under the 2017 Tax Cuts and Jobs Act (the Tax Act). Our provision for income taxes for the quarter and nine months ended September 30, 2018 included tax benefits, of $132 million and $377 million, respectively, related to the reduction in our effective tax rate associated with the impact of the Tax Act. Our provision for income taxes also included tax benefits related to the settlement of employee equity awards of $23 million and $4 million for the quarters ended September 30, 2018 and 2017, respectively, and $119 million and $80 million for the nine months ended September 30, 2018 and 2017, respectively. We also recorded a reduction to the provision for income taxes of $28 million during the quarter ended September 30, 2018 for tax credits related to certain 2017 hurricane-related expenses.

The Tax Act was enacted on December 22, 2017, and it significantly revised U.S. corporate income taxes, including lowering the federal statutory corporate tax rate from 35% to 21% beginning in 2018. Due to the complexity and uncertainty regarding numerous provisions of the Tax Act, we have not completed our accounting for its effects. However, we have made reasonable estimates and recorded provisional amounts in our financial statements as of September 30, 2018. As we complete our analysis of the Tax Act, we may make adjustments to the provisional amounts and record additional amounts for those federal, state, and foreign tax assets and liabilities for which we were unable to make reasonable estimates as of September 30, 2018. Any adjustments or additional amounts recorded may materially impact our provision for income taxes and effective tax rate in the periods in which they are made.

Our liability for unrecognized tax benefits was $440 million, including accrued interest of $45 million, as of September 30, 2018 ($439 million and $44 million, respectively, as of December 31, 2017). Unrecognized tax benefits of $145 million ($145 million as of December 31, 2017) would affect the effective rate, if recognized.

We are subject to examination by federal, 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

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 INCOME TAXES (continued)

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.

The following table sets forth the computation of basic and diluted earnings per share for the quarters and nine months ended September 30, 2018 and 2017 (dollars and shares in millions, except per share amounts):

	Quarter		Nine Months	
	2018	**2017**	**2018**	**2017**
Net income attributable to HCA Healthcare, Inc.	**$ 759**	$ 426	**$ 2,723**	$ 1,742
Weighted average common shares outstanding	**345.823**	360.170	**348.411**	365.398
Effect of dilutive incremental shares	**7.816**	9.664	**7.713**	9.615
Shares used for diluted earnings per share	**353.639**	369.834	**356.124**	375.013
Earnings per share:				
Basic earnings	**$ 2.20**	$ 1.18	**$ 7.82**	$ 4.77
Diluted earnings	**$ 2.15**	$ 1.15	**$ 7.65**	$ 4.64

NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES

A summary of our insurance subsidiaries investments at September 30, 2018 and December 31, 2017 follows (dollars in millions):

	September 30, 2018			
		Unrealized		
	Amortized	Amounts		Fair
	Cost	Gains	Losses	Value
Debt securities	**$ 343**	**$ 4**	**$ (2)**	**$ 345**
Money market funds and other	**68**			**68**

	$ 411	**$ 4**	**$ (2)**	**413**
Amounts classified as current assets				**(46)**
Investment carrying value				**$ 367**

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 INVESTMENTS OF INSURANCE SUBSIDIARIES (continued)

	December 31, 2017			
		Unrealized Amounts		
	Amortized Cost	Gains	Losses	Fair Value
Debt securities	$ 361	$ 10	$	$ 371
Money market funds and other	101			101
	$ 462	$ 10	$	472
Amounts classified as current assets				(54)
Investment carrying value				$ 418

At September 30, 2018 and December 31, 2017, the investments of our insurance subsidiaries were classified as available-for-sale. Changes in temporary unrealized gains and losses are recorded as adjustments to other comprehensive income (loss).

Scheduled maturities of investments in debt securities at September 30, 2018 were as follows (dollars in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 9	$ 9
Due after one year through five years	57	58
Due after five years through ten years	210	212
Due after ten years	67	66
	$ 343	$ 345

The average expected maturity of the investments in debt securities at September 30, 2018 was 5.7 years, compared to the average scheduled maturity of 10.1 years. Expected and scheduled maturities may differ because the issuers of certain securities have the right to call, prepay or otherwise redeem such obligations prior to their scheduled maturity date.

NOTE 6 FINANCIAL INSTRUMENTS

Interest Rate Swap Agreements

We have entered into interest rate swap agreements to manage our exposure to fluctuations in interest rates. These swap agreements involve the exchange of fixed and variable rate interest payments between two parties based on common notional principal amounts and maturity dates. Pay-fixed interest rate swaps effectively convert variable rate obligations to fixed interest rate obligations. The interest payments under these agreements are settled on a net basis. The net interest payments, based on the notional amounts in these agreements, generally match the timing of the related liabilities for the interest rate swap agreements which have been designated as cash flow hedges. The notional amounts of the swap agreements represent amounts used to calculate the exchange of cash flows and are not our assets or liabilities. Our credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions.

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FINANCIAL INSTRUMENTS (continued)

Interest Rate Swap Agreements (continued)

The following table sets forth our interest rate swap agreements, which have been designated as cash flow hedges, at September 30, 2018 (dollars in millions):

	Notional Amount	Maturity Date	Fair Value
Pay-fixed interest rate swaps	$ 2,000	December 2021	$ 88
Pay-fixed interest rate swaps	500	December 2022	17

During the next 12 months, we estimate $26 million will be reclassified from other comprehensive income (OCI) and will reduce interest expense.

Derivatives Results of Operations

The following table presents the effect of our interest rate swaps on our results of operations for the nine months ended September 30, 2018 (dollars in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivatives, Net of Tax	Location of Gain Reclassified from Accumulated OCI into Operations	Amount of Gain Reclassified from Accumulated OCI into Operations
Interest rate swaps	$ 46	Interest expense	$ 5

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (ASC 820) emphasizes fair value is a market-based measurement, and fair value measurements should be determined based on the assumptions market participants would use in pricing assets or liabilities. ASC 820 utilizes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment.

Cash Traded Investments

Our cash traded investments are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

Derivative Financial Instruments

We have entered into interest rate swap agreements to manage our exposure to fluctuations in interest rates. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. We incorporate credit valuation adjustments to reflect both our own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements of these instruments.

Although we determined the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. We assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions, and at September 30, 2018 and December 31, 2017, we determined the credit valuation adjustments were not significant to the overall valuation of our derivatives.

The following tables summarize our assets measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017, aggregated by the level in the fair value hierarchy within which those measurements fall (dollars in millions):

		September 30, 2018 Fair Value Measurements Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Investments of insurance subsidiaries:				
Debt securities	**$ 345**	**$**	**$ 345**	**$**
Money market funds and other	**68**	**68**		
Investments of insurance subsidiaries	**413**	**68**	**345**	
Less amounts classified as current assets	**(46)**	**(46)**		
	$ 367	**22**	**$ 345**	**$**
Interest rate swaps (Other)	**$ 105**	**$**	**$ 105**	**$**

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (continued)

	December 31, 2017 Fair Value Measurements Using			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Investments of insurance subsidiaries:				
Debt securities	$ 371	$	$ 371	$
Money market funds and other	101	101		
Investments of insurance subsidiaries	472	101	371	
Less amounts classified as current assets	(54)	(54)		
	$ 418	$ 47	$ 371	$
Interest rate swaps (Other)	$ 50	$	$ 50	$

The estimated fair value of our long-term debt was $34.125 billion and $34.689 billion at September 30, 2018 and December 31, 2017, respectively, compared to carrying amounts, excluding net debt issuance costs, aggregating $33.270 billion and $33.222 billion, respectively. The estimates of fair value are generally based upon the quoted market prices or quoted market prices for similar issues of long-term debt with the same maturities.

NOTE 8 LONG-TERM DEBT

A summary of long-term debt at September 30, 2018 and December 31, 2017, including related interest rates at September 30, 2018, follows (dollars in millions):

	September 30, 2018	**December 31, 2017**
Senior secured asset-based revolving credit facility (effective interest rate of 3.7%)	**$ 3,350**	$ 3,680
Senior secured revolving credit facility		
Senior secured term loan facilities (effective interest rate of 3.6%)	**3,825**	3,891

Senior secured notes (effective interest rate of 5.6%)		**13,800**		15,300
Other senior secured debt (effective interest rate of 5.8%)		**543**		599
Senior secured debt		**21,518**		23,470
Senior unsecured notes (effective interest rate of 6.3%)		**11,752**		9,752
Net debt issuance costs		**(163)**		(164)
Total debt (average life of 6.6 years, rates averaging 5.4%)		**33,107**		33,058
Less amounts due within one year		**191**		200
	$	**32,916**	$	32,858

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 LONG-TERM DEBT (continued)

During August 2018, we issued $2.000 billion aggregate principal amount of senior notes comprised of $1.000 billion aggregate principal amount of 5.375% notes due 2026 and $1.000 billion aggregate principal amount of 5.625% notes due 2028. We used the net proceeds for general corporate purposes, including funding the purchase of a hospital, and the redemption of all $1.500 billion aggregate principal amount of our existing 3.750% senior secured notes maturing in March 2019. The pretax loss on retirement of debt was $9 million.

NOTE 9 CONTINGENCIES

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. We are also subject to claims and suits arising in the ordinary course of business, including claims for personal injuries or wrongful restriction of, or interference with, physicians staff privileges. In certain of these actions the claimants may seek punitive damages against us which may not be covered by insurance. We are also subject to claims by various taxing authorities for additional taxes and related interest and penalties. The resolution of any such lawsuits, claims or legal and regulatory proceedings could have a material, adverse effect on our results of operations, financial position or liquidity.

Health care companies are subject to numerous investigations by various governmental agencies. Under the federal False Claims Act, private parties have the right to bring *qui tam*, or whistleblower, suits against companies that submit false claims for payments to, or improperly retain overpayments from, the government. Some states have adopted similar state whistleblower and false claims provisions. Certain of our individual facilities have received, and from time to time, other facilities may receive, government inquiries from, and may be subject to investigation by, federal and state agencies. Depending on whether the underlying conduct in these or future inquiries or investigations could be considered systemic, their resolution could have a material, adverse effect on our results of operations, financial position or liquidity.

NOTE 10 SHARE REPURCHASES TRANSACTIONS AND OTHER COMPREHENSIVE LOSS

During the nine months ended September 30, 2018, we repurchased 11.558 million shares of our common stock at an average price of $103.42 per share through market purchases pursuant to the $2.0 billion share repurchase program authorized during October 2017. At September 30, 2018, we had $607 million of repurchase authorization available under the October 2017 authorization.

The components of accumulated other comprehensive loss are as follows (dollars in millions):

	Unrealized Gains on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Benefit Plans	Change in Fair Value of Derivative Instruments	Total
Balances at December 31, 2017	$ 7	$ (149)	$ (168)	$ 32	$ (278)

Unrealized losses on available-for-sale securities, net of $1 income tax benefit	(7)				(7)
Foreign currency translation adjustments		(35)			(35)
Change in fair value of derivative instruments, net of $14 of income taxes				46	46
Expense (income) reclassified into operations from other comprehensive income, net of $3 income tax benefit and $1 of income taxes, respectively			12	(4)	8
Balances at September 30, 2018	$	$ (184)	$ (156)	$ 74	$ (266)

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HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION

We operate in one line of business, which is operating hospitals and related health care entities. We operate in two geographically organized groups: the National and American Groups. The National Group includes 88 hospitals located in Alaska, California, Florida, southern Georgia, Idaho, Indiana, northern Kentucky, Nevada, New Hampshire, South Carolina, Utah and Virginia, and the American Group includes 85 hospitals located in Colorado, northern Georgia, Kansas, southern Kentucky, Louisiana, Mississippi, Missouri, Tennessee and Texas. We also operate six hospitals in England, and these facilities are included in the Corporate and other group.

HCA HEALTHCARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION (continued)

Adjusted segment EBITDA is defined as income before depreciation and amortization, interest expense, gains on sales of facilities, losses on retirement of debt, income taxes and net income attributable to noncontrolling interests. We use adjusted segment EBITDA as an analytical indicator for purposes of allocating resources to geographic areas and assessing their performance. Adjusted segment EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Adjusted segment EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from adjusted segment EBITDA are significant components in understanding and assessing financial performance. Because adjusted segment EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, adjusted segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. The geographic distributions of our revenues, equity in earnings of affiliates, adjusted segment EBITDA and depreciation and amortization for the quarters and nine months ended September 30, 2018 and 2017 are summarized in the following table (dollars in millions):

	Quarter		Nine Months	
	2018	**2017**	**2018**	**2017**
Revenues:				