October 16, 2020

Charles O. Holliday
Chairman, Audit & Compliance Committee
HCA Healthcare, Inc.
One Park Plaza
Nashville, TN 37203

Dear Mr. Holliday:

We urge you and the Audit & Compliance committee ("the committee") of HCA's board of directors ("the board") to immediately investigate the long-standing and continually growing level of excess Medicare emergency department admissions at HCA hospitals. As we document below, since 2010 HCA has seen its Medicare emergency department admissions grow far ahead of expectations based on patient mix and rural/urban status, and also well ahead of national trends in the hospital industry. We estimate that as a result of excessive emergency department admissions, HCA increased its earnings by over $200 million in each of the four most recent fiscal years available, equivalent to approximately 8% of HCA's average net income over these years. Moreover, as you will recall, close to a decade ago two of HCA's competitors – Community Health Systems and Health Management Associates – were each embroiled in federal investigations and private litigation focused precisely on excessive admissions and related claims of improper billing. These investigations ultimately resulted in substantial changes at each company, including large declines in shareholder value, multi-million dollar fines, and extensive corporate restructuring. In order to head off any similar fate for HCA, we urge the committee to promptly take the following steps:

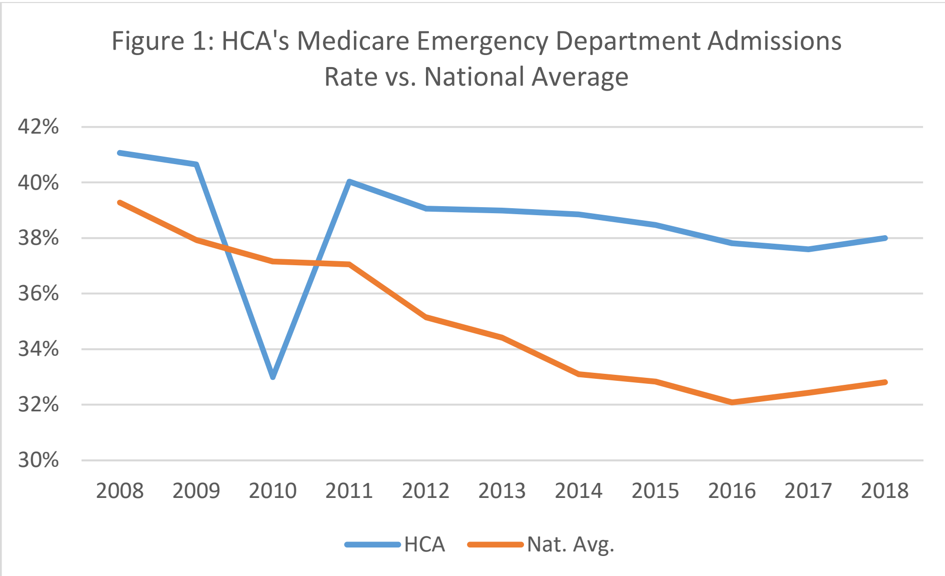
- Retain a credible, experienced, and independent health care billing expert to investigate the increase in HCA excess emergency department admissions since 2010, and to recommend changes in staffing, training, internal controls, and other aspects of company operations as pertinent;
- Undertake a board-level review of managerial compensation at the hospital and corporate level, to ensure that managers do not stand to financially benefit from aggressive admissions and billing practices, and incorporate regulatory compliance into managerial compensation programs going forward; and
- Disclose the results of this investigation and board review in report to shareholders no later than November 30, 2020.

The CtW Investment Group works with union-sponsored pension funds to enhance long-term stockholder value through active ownership. The funds the Investment Group works with have over $250 billion in assets under management, and are substantial HCA shareholders.

HCA Emergency Admissions Exceed Objective Benchmarks

The decision to admit a patient who has come to the emergency department to the hospital has an outsize impact on hospital finances, since we estimate that Medicare (and by extension private payers whose negotiated rate are a multiple of the Medicare rate) pays approximately $5,000 more per incident when an emergency room patient is admitted as compared to that same patient being treated on an outpatient basis.[1] Additionally, we focus on hospitals that measure at the 80th percentile or above nationally on the metrics we examine, which we believe to be a reasonable benchmark for outlier status that plausibly would attract regulatory scrutiny.[2]

As Figures 1 and 2 below illustrate, HCA has for several years experienced rates of Medicare emergency department admissions that are well-above the national average, growing over time, and not explained by patient case mix (age, sex, principal diagnosis, and urban/rural status).[3]



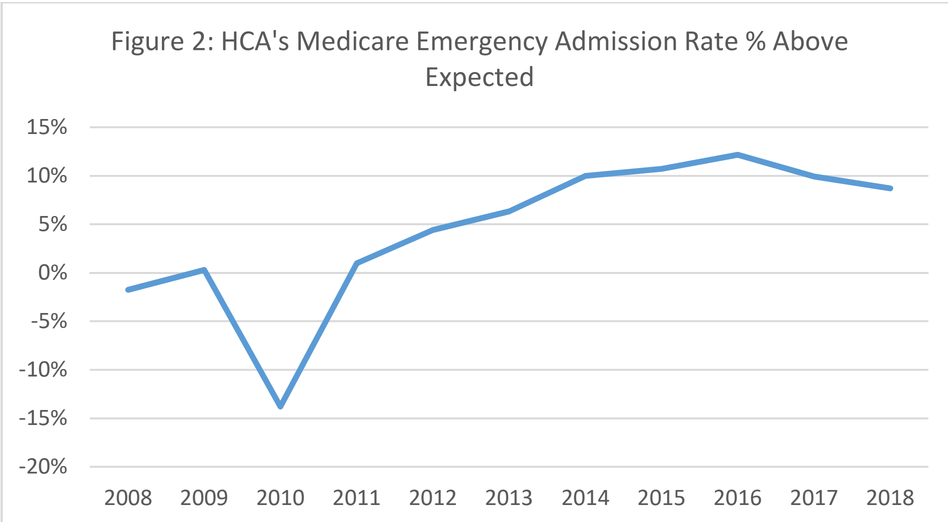
We can clearly see that, with the sole exception of 2010 when its Medicare emergency department admissions rate fell dramatically compared to prior and subsequent years, HCA's hospitals have routinely admitted a higher than average share of Medicare patients from its emergency rooms compared to the country as a whole. Moreover, this difference has clearly grown over time: in 2011, HCA's Medicare emergency department admission rate was only about 3 percentage points above the national average, but

[1] *Report on Medicare Compliance*, vol. 15 #37, October 23, 2006, pg. 1.

[2] We have chosen the 80th national percentile as a common benchmark because it has commonly been used as a benchmark for metric performance by the PEPPER reports, which are prepared by TMF Health Quality Institute and distributed to hospitals so they can see how they compare to their peers on certain metrics that are known to be areas of potential Medicare overpayment. TMF Health Quality Institute, *PEPPER Short-term Acute Care Program for Evaluating Payment Patterns Electronic Report: User's Guide First Edition*, pg. 3

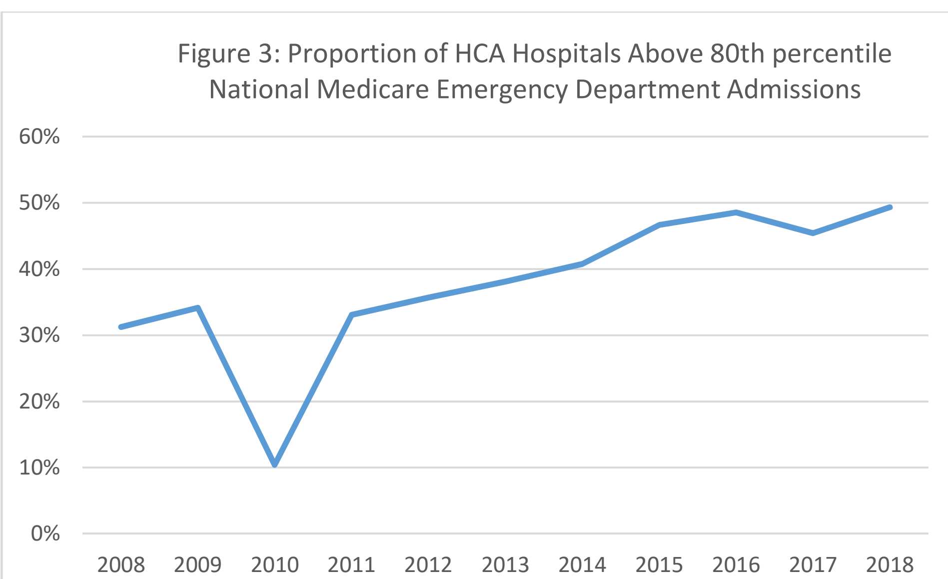
[3] Medicare data and analysis, including the construction of the patient mix benchmark, has been provided to us by our affiliate, the Service Employees International Union (SEIU). SEIU analysis performed using claims data for short-term general acute care hospitals from the Medicare Inpatient and Outpatient Standard Analytical Files. To calculate hospitals' expected ED admission rates, a national average ED admission rate was first calculated by federal fiscal year ("FFY") for each combination of the following patient- and hospital-based characteristics: patient age, patient sex, patient principal diagnosis, and hospital rural/urban designation. Upon finding these national rates, they were then multiplied by the corresponding number of ED encounters at each qualifying hospital within that given characteristic combination group; this provides the hospital's expected number of ED admissions for that group. To determine the overall number of expected ED admissions at a hospital, the expected ED admissions totals for all applicable groups are aggregated for the given FFY. A hospital's total number of potentially excess ED admissions is then calculated by subtracting the "expected" ED admissions total for that hospital from the actual number of inpatient ED admissions reported for that hospital. Further methodology may be provided upon request.

by 2016 this gap had doubled. Plainly, while both HCA and the country as a whole saw declining Medicare emergency department admissions over this decade, HCA's rate fell by far less.

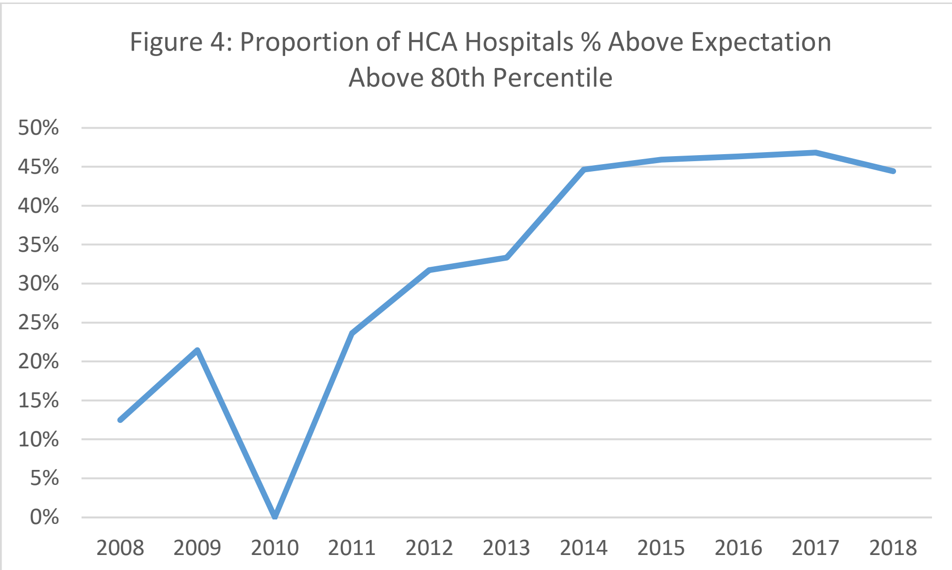


For Figure 2 and subsequent graphs that refer to expected Medicare emergency department admissions, the expected level of admissions is based on national trends in admission rates based on patient (age, sex, principal diagnosis) and hospital (rural/urban status) characteristics. Figure 2 strongly implies that HCA's higher rate of emergency department admissions was not a product of the mix of patients seeking care in its emergency departments, nor of the urban or rural status of its hospital locations. Additionally, and at the same time that the gap between HCA's Medicare emergency department admissions rate and the national average was growing, HCA's excess Medicare emergency admissions relative to expectations also grew, and indeed reached its peak in 2016 (the year of the maximum gap between HCA's Medicare emergency department admission rate and the national average).

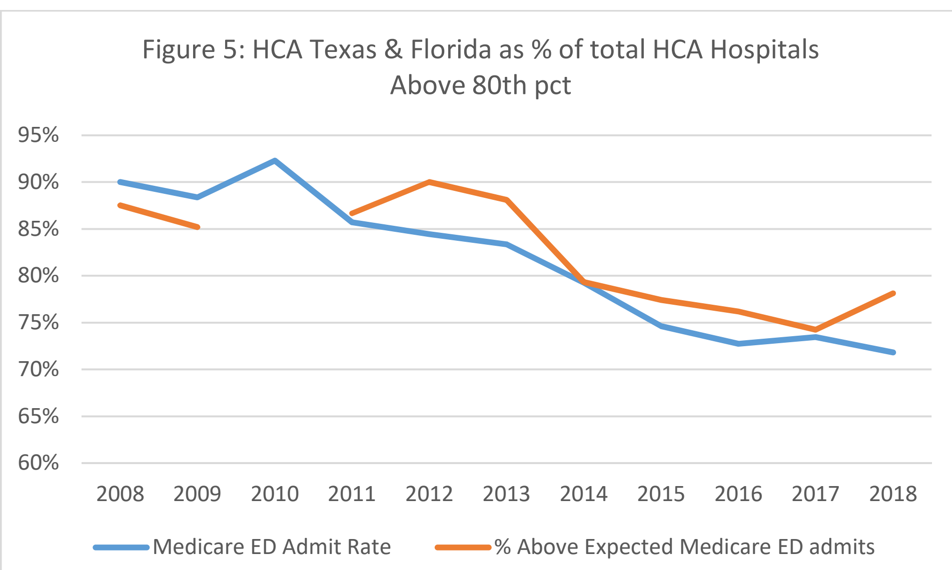
As noted above, we believe that outlier rates of Medicare emergency department admissions (those above the 80th percentile nationally) are a potential indicator of aggressive or improper admissions and billing practices. Figure 3 makes it clear that a large and growing proportion of HCA's hospitals have such emergency department admission rates above this threshold:



Indeed, as of the most recent available data, nearly half of HCA's hospitals had Medicare emergency department admission rates above the 80th percentile nationally, in contrast to a rate closer to one third between 2008 and 2011. However, this is not the only way to assess the possible outlier status (and hence potential vulnerability to regulatory enforcement actions); we can also look at the Medicare emergency department admission rates above (or below) expectation based on patient case mix, and then look to see what proportion of HCA hospitals rank in the 80th percentile or higher on this metric. Figure 4 shows that, again, nearly half of HCA hospitals appear to be outliers in terms of their Medicare emergency department admission rates:

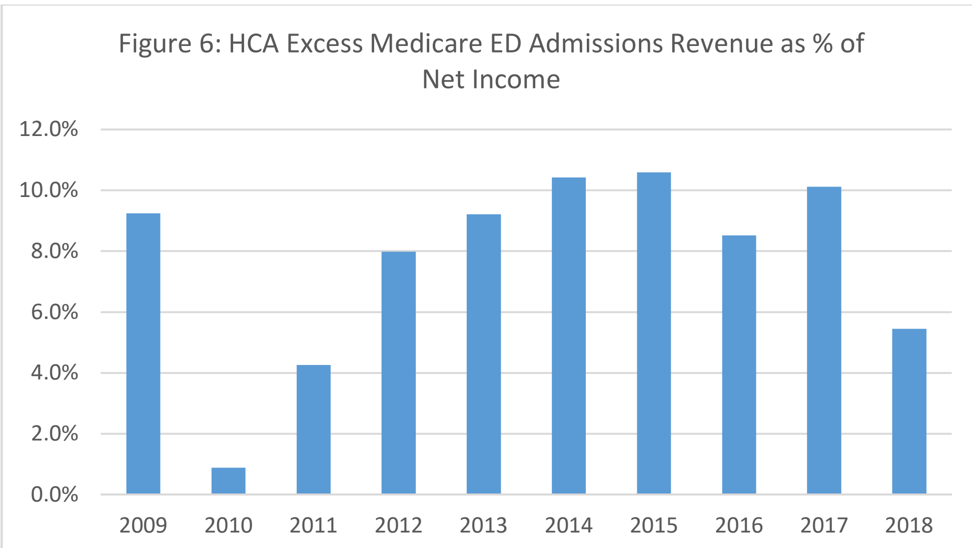


It is worth noting that HCA's excess emergency admissions appear to be concentrated in the two states in which HCA has its largest concentration of hospitals – Texas and Florida. As Figure 5 illustrates, throughout the period of high and growing Medicare emergency department admission rates, whether measured on actual admission rates or percentage above expectations, HCA hospitals in Florida and Texas accounted for at least 70% of outlier hospitals in the HCA system nationally.



That said, it is clear that Texas and Florida's share of total HCA outlier hospitals on each metric has been declining since at least 2012, though they are both still very high. While we believe that the independent investigation of HCA's emergency admission practices should pay careful attention to Texas and Florida, at this point the risk of compliance failure and resulting enforcement actions has likely spread beyond these two states.

Finally, the high level of emergency room admissions appears to have had a significant impact on HCA's earnings. As noted above, we believe that the difference in Medicare compensation received by a hospital for an emergency department admission versus treating that same patient on an outpatient basis is approximately $5,000. Figure 6 shows the year-by-year financial impact of these excess admissions and resulting excess revenue on HCA's net income.



Using our estimate of HCA's system-wide excess admissions, we calculate that since 2009, these excess admissions would have yielded HCA approximately $1.6 billion in excess Medicare payments, equivalent to 7.6% of its reported net income from 2009 to 2018. Over just the past five years, we calculate that HCA received excess Medicare payments of $1.1 billion, or about 8.5% of net income. Plainly, this level of excess payment is sufficiently large that it creates a material risk of regulatory enforcement actions as well as private litigation. We now turn our attention to other publicly-traded hospital systems that in the past presented similar levels of excess admissions.

Disturbing Similarities to Community Health Systems and HMA

Close to a decade ago, two major publicly traded hospital systems – Community Health Systems ("CHS") and Health Management Associates ("HMA") – came under scrutiny for their Medicare emergency admissions practices, and in particular evidence that they were accumulating excessive payments from Medicare as a result of these admissions practices. Figures 7 and 8 show each company's Medicare emergency admission rate above expectations from 2004 on[4]:

[4] With respect to figures that show ED admissions results for HCA, CHS, and HMA across time, hospitals are only included as part of their respective system lines after they have been acquired by that system.

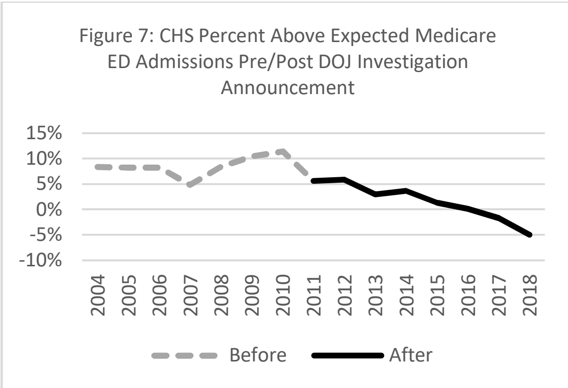


Figure 7: CHS Percent Above Expected Medicare ED Admissions Pre/Post DOJ Investigation Announcement

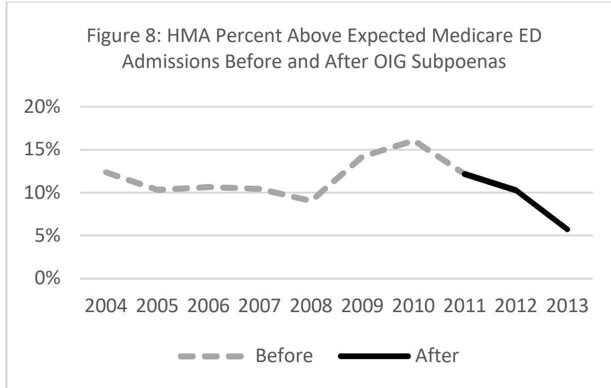


Figure 8: HMA Percent Above Expected Medicare ED Admissions Before and After OIG Subpoenas

In 2011 and 2012, respectively, the companies received notice of federal investigations into their admissions practices,[5] and we also sought unsuccessfully to engage each company prior to the revelation of these investigations.[6] In 2013-2014, HMA was subject to an even more forceful challenge from hedge fund Glenview Capital Management, which successfully displaced HMA's incumbent board and completed a merger with CHS.[7] Figure 9 below compares HCA's emergency admissions above expectation to those of CHS and HMA from 2004 on.

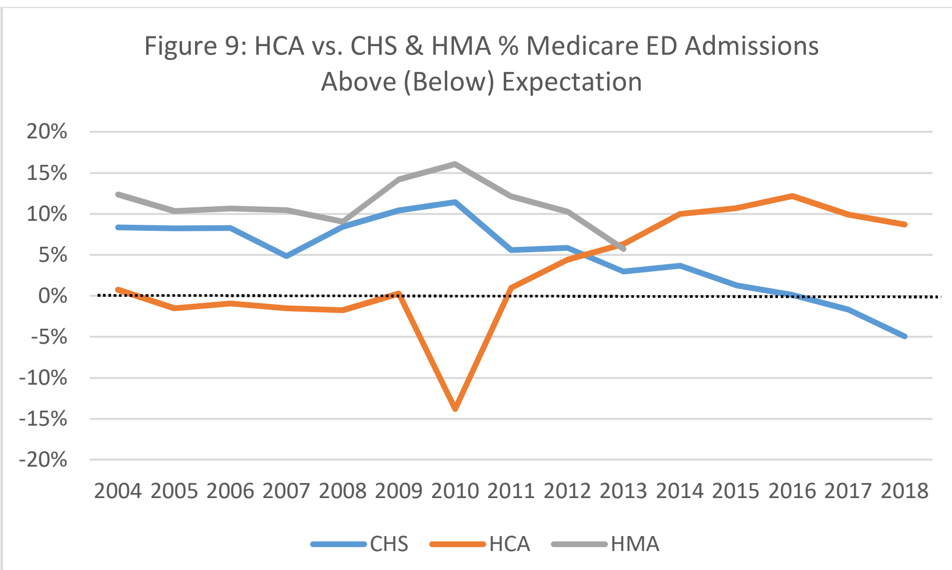


Figure 9: HCA vs. CHS & HMA % Medicare ED Admissions Above (Below) Expectation

HCA's rate of excess Medicare emergency admissions has clearly reached the level at which CHS and HMA began to receive regulatory scrutiny. Moreover, while both CHS and HMA argued initially in response to data indicating a high-level of excess emergencies admissions that these rates were not excessive, problematic, or even under the control of management, nevertheless the two hospital systems (one system since their merger in 2014) have experienced steadily falling rates of excess Medicare emergency admissions, and have been below expectations for at least the last two available federal fiscal years.

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[5] Community Health Systems Annual Report Filed on Form 10K, February 23, 2012, pg. 39.; Health Management Associates Annual Report Filed on Form 10K, February 27, 2013, pg. 38.

[6] https://www.sec.gov/Archives/edgar/data/1108109/000095012311036243/g26886exv99w1.htm; https://sec.report/Document/0001377739-12-000016/

[7] https://www.healthleadersmedia.com/strategy/hma-board-ousted-glenview-capital

Conclusion
Over the past decade, the CtW Investment Group has identified other circumstances where a publicly-traded hospital company has exhibited Medicare admissions rates out of their emergency departments that exceeded the national average, that were growing over time, and that could not be explained by factors such as patient age, acuity, or geography. In each of these cases, we communicated our analysis and concerns to the company's board of directors. Unfortunately, it took a combination of federal investigations, private litigation, and action by shareholders for these companies to make significant changes. Given the parallels between these previous engagements and our analysis of HCA's recent practices, we sincerely hope that you and your fellow directors will recognize the gravity of the situation and respond accordingly.

When you and your fellow directors have reviewed this letter and wish to discuss these matters, please contact our Research Director, Richard Clayton, at richard.clayton@ctwinvestmentgroup.com.

Sincerely,

Dieter Waizenegger

Executive Director