Third Quarter, 2016 Conference Call

October 27, 2016

Good morning, I'm Steve Filton. Alan Miller, our CEO is also joining us this morning. Welcome to this review of Universal Health Services' results for the third quarter ended September 30, 2016. During this conference call, Alan and I will be using words such as "believes", "expects", "anticipates", "estimates" and similar words that represent forecasts, projections and forward-looking statements. For anyone not familiar with the risks and uncertainties inherent in these forward-looking statements, I recommend a careful reading of the section on "Risk Factors" and "Forward-Looking Statements and Risk Factors" in our Form 10-K for the year ended December 31, 2015, and our Form 10-Q for the quarter ended June 30, 2016. We would like to highlight just a couple of developments and business trends before opening the call up to questions.

As discussed in our press release last night, the Company reported net income attributable to UHS of $1.54 per diluted share for the third quarter of 2016. After adjusting each quarter's reported results for the incentive income and expenses recorded in connection with the implementation of electronic health records applications at our acute care hospitals, as disclosed on the Supplemental Schedule included with last night's earnings release, adjusted net income attributable to UHS was $157.2 million, or $1.60 per diluted share, during the third quarter of 2016, as compared to $155.3 million, or $1.53 per diluted share, during the third quarter of 2015.

On a same facility basis in our acute care division, net revenues during the third quarter of 2016 increased 9.0% over last year's comparable quarter. The increase resulted primarily from a 4.6% increase in adjusted admissions to our hospitals owned for more than a year and a 3.2% increase in revenue per adjusted admission. On a same facility basis, operating margins for our acute care hospitals decreased to 14.7% during the third quarter of 2016 from 15.3% during the third quarter of 2015.

On a same facility basis, net revenues in our behavioral health division increased 2.7% during the third quarter of 2016 as compared to the third quarter of 2015. During this year's third quarter, adjusted patient days to our behavioral health facilities increased 1.1%, and revenue per adjusted patient day increased 1.5%, as compared to last year's third quarter. Operating margins for our behavioral health hospitals owned for more than a year were 26.0% and 27.4% during the quarters ended September 30, 2016 and 2015, respectively.

For the nine months ended September 30, 2016, our net cash provided by operating activities increased approximately 38% to $1.1 billion over the $796 million generated during the comparable nine-month period of 2015. Our accounts receivable days outstanding decreased to 50 days during the third quarter of 2016 as compared to 55 days during the third quarter of 2015. At September 30, 2016, our ratio of debt to total capitalization was 45.3%

We spent $148 million on capital expenditures during the third quarter of 2016 and $396 million during the first nine months of 2016. Included in our capital expenditures were the construction costs related to the newly-built Henderson Hospital, a 142-bed acute care facility located in Henderson, Nevada, which has been completed and is scheduled to open next week. We have also completed construction on a new 55-bed, four story patient tower at Spring Valley Hospital Medical Center in Las Vegas, Nevada, which was opened during the third quarter of this year. As previously announced, in August of this year, we purchased Desert View Hospital, a 25-bed facility located in Pahrump, Nevada. Together with our 5 existing acute care hospitals in the market, Henderson Hospital and Desert View Hospital further complement our ability to provide a wide array of comprehensive medical services to patients in the Las Vegas, Nevada, area.

Within our behavioral health division, we have opened a total of 373 new beds at some of our busiest facilities during the first nine months of 2016. In addition, we have been working on joint-venture, behavioral health integration projects with industry leaders throughout the country. We are excited about these partnerships that help address the growing demand for inpatient and outpatient mental health services. We are proud to be partnering with Lancaster General Health and Penn Medicine to build and operate a 126-bed behavioral health hospital in Lancaster, Pennsylvania. Groundbreaking of the facility is slated for the spring of 2017 and the hospital is projected to open during the summer of 2018. In addition, we have formed a joint-venture with Providence Health Care to build a 100-bed freestanding behavioral health hospital in Spokane, Washington.

In connection with our previously announced $800 million stock repurchase program, we have repurchased approximately 458,000 shares at an aggregate cost of approximately $57 million during the third quarter of this year. Since inception of the program through September 30, 2016, we have repurchased approximately 3.9 million shares at an aggregate cost of approximately $462 million and had a remaining share repurchase authorization of approximately $338 million as of the end of the third quarter.

Based upon the operating trends and financial results experienced during the first nine months of 2016, we are narrowing our estimated range of adjusted net income attributable to UHS, for the year ended December 31, 2016, to $7.16 to $7.43 per diluted share from the previously provided range of $7.12 to $7.58 per diluted share. This narrowed guidance, which excludes the expected electronic health records impact for the year, increases the lower end of the previously provided range by approximately 1% and decreases the upper end of the range by approximately 2%.

We are pleased to answer questions at this time.