



July 2026

Q2 2026 Right Tail Capital Investor Letter

We are living in an idea-rich environment. The market is giving us a lot to look at, and many businesses are becoming more attractively valued — whether because they're a perceived AI loser, because of where they sit in the cycle, or for some other reason entirely. I'm researching as many of these opportunities as possible. They span a broad range of sectors, and I remain optimistic about both our current portfolio and the ideas I'm working through.

One such name where Right Tail has established a position is HCA Healthcare (HCA). It is a high-quality hospital operator that combines dominant local market positions, outstanding operational execution, disciplined capital allocation, and resilient demand. It also trades at a reasonable valuation.

The company is the largest for-profit hospital operator in the United States with 190 hospitals and more than 2,500 outpatient sites across 19 states and the U.K., serving 47 million patients annually. It generates more than \$70 billion in annual revenue, has a market capitalization exceeding \$100 billion, and has a long runway to compound value. The founding Frist family remains on the board and still owns ~30% of the stock.

Hospitals are fundamentally local businesses. Unlike many industries, hospitals do not compete nationally. They compete neighborhood by neighborhood, and HCA has spent decades building these dense regional networks. Today, it holds the #1 or #2 market share position (averaging 25-30% of each market) in ~80% of its markets, primarily in attractive Sunbelt states such as Florida and Texas where population growth remains well above the national average. That density creates a powerful flywheel. Larger networks attract physicians and patients, improve negotiating leverage with insurers, spread fixed costs over more admissions, and generate the cash flow needed to reinvest in facilities and technology.

HCA has strengthened its network by deliberately growing its outpatient services over time. While hospitals remain the core of the franchise, outpatient services now represent 38% of revenue and continue to grow faster than inpatient care. The company currently operates an ever-increasing number of outpatient access points for every hospital (14 per hospital) and ultimately expects that ratio can approach twenty-to-one. Critically, these facilities strengthen the hospital system rather than compete with it: roughly 75% of hospital admissions originate through the emergency room, and about half of inpatient surgeries — one of the more profitable hospital services — begin with an ER visit. They allow HCA to meet patients earlier in their healthcare journey while funneling higher-acuity care into its hospital network. The result is a system where each additional access point makes the broader network more valuable.

HCA's operational excellence is reflected in its financial performance. While for-profit hospitals account for only about one-quarter of U.S. hospitals, HCA consistently earns attractive EBITDA



July 2026

margins of ~20%. Scale, standardized operating practices, and decades of accumulated experience allow HCA to deliver better financial results while continuing to invest heavily in its facilities and people. For-profit hospitals represent only about one-quarter of U.S. hospitals. Other for-profit hospitals don't have HCA's scale. Well-run academic hospitals have additional areas to focus on such as medical research. Other non-profit and government-owned hospitals on average are likely not as well managed.

The company's excellent margins have proven resilient during tougher economic times. Consumers still need access to healthcare regardless of the economy. A prolonged recession could reduce certain elective procedures, although emergency and acute care demand have historically remained resilient. In 2009, the company maintained high teens margins. During covid, margins only declined slightly as the company was able to manage its variable costs to mostly offset its revenue decline. This financial stability has allowed the company to at times have up to 6 turns of leverage (vs 3x currently) during its previous private equity ownership.

HCA is adept at turning industry problems into competitive advantages. One industry challenge in recent years has been nursing. Rather than simply competing for scarce nurses, HCA invested in expanding nursing schools, training programs, and internal career development. Decisions like these are expensive in the short run but create meaningful competitive advantages over time.

Management's capital allocation has also impressed me. HCA has historically preferred to own the land beneath its hospitals, giving it greater flexibility to expand, modernize, and operate facilities without negotiating with landlords. While this requires more upfront capital, it demonstrates long-term decision making and reflects management's willingness to optimize for decades rather than quarters. The company also develops leaders internally, creating a deep bench of experienced operators across its hospital network. None of these decisions maximize next quarter's earnings. They maximize long-term value.

While reinvesting in the business is management's preferred use of capital, the company has also returned quite a bit of capital to shareholders through repurchases. Since coming public again in 2011, the company has retired ~50% of its shares outstanding often at a pretty reasonable valuation sometimes as low as 10x P/E.

Healthcare reimbursement remains the primary risk. Potential reductions in Medicaid funding and efforts to curb fraud within the exchanges are likely headwinds over the coming years. That said, HCA is better positioned than most hospital operators. Its superior margins, strong balance sheet, and relentless focus on efficiency should allow it to navigate a more difficult reimbursement environment better than weaker competitors. As I've found with other great businesses, periods of industry stress often strengthen the competitive position of the best operators.



July 2026

It's also not easy to start a hospital company from scratch. A new company would require significant capital, navigating regulations, attracting providers and negotiating with payers. Because HCA operates from a position of financial strength while delivering high-quality care, it is likely to continue taking market share regardless of modest reimbursement changes. This is an end game that seems pretty likely to me. In many markets, weaker competitors simply have less capacity to absorb additional financial pressure.

As a tertiary benefit, HCA also provides diversification to our portfolio. Healthcare has been one of the weaker-performing sectors in recent years, and demand for hospital care is considerably less sensitive to economic cycles than many industries.

Looking ahead, HCA can grow revenue in the mid-single digits annually through a combination of pricing and volume growth. Given the company's operating leverage, disciplined capital allocation, and continued share repurchases, earnings should grow meaningfully faster (10-15% most years). Historically, HCA has exceeded those expectations, compounding revenue at roughly 7% annually while growing earnings per share closer to 17%. Purchasing a business of this quality at approximately 12 times earnings provides the potential for attractive returns through both earnings growth and modest multiple expansion. While no investment is without risk, HCA possesses many of the characteristics we seek at Right Tail: a durable competitive advantage, shareholder-oriented management, resilient economics, and a long runway for value creation.

Best wishes for an amazing summer,

Jeremy Kokemor



July 2026

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