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COMPANY INTERVIEW

ALAN B. MILLER

Universal Health Services, Inc.

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Universal Health Services, Inc. (NYSE:UHS)

ALAN B. MILLER is Chairman and CEO of Universal Health Services, Inc., which he founded in 1979. UHS, a Fortune 500 company and one of the largest hospital management companies in the nation, owns and operates more than 350 facilities in 37 states, Washington, D.C., Puerto Rico and the United Kingdom. Mr. Miller also serves as Chairman and CEO of Universal Health Realty Income Trust (NYSE:UHT), a REIT that he founded that currently has investments in 65 properties located in 20 states. Prior to founding UHS, Mr. Miller was Chairman and CEO of American Medicorp Inc. Mr. Miller has received numerous awards for his business and charitable activities. He was named Entrepreneur of the Year in 1991 and *Financial World* named him CEO of the Year in hospital management. He has been named by *Modern Healthcare* as one of the "100 Most Influential People in Healthcare" for 16 years, 2003 to 2018. In 1992, he was awarded an honorary doctorate from the University of South Carolina and received the George Washington University President's Medal in 2002. He received the Chairman's Award from the United Negro College Fund, the Americanism Award of ADL and the Ellis Island Medal of Honor. In 1999, he was presented with the first Lifetime Achievement award of the Federation of American Hospitals, who honored him for his many years of industry leadership. In 2019, he received the Distinguished Citizen Award from the Freedoms Foundation of Valley Forge. At graduation from the College of William and Mary, Mr. Miller was commissioned in the U.S. Army and served in the 77th Infantry Division. He served as a trustee of the William and Mary Endowment Fund and is a life member of the school's President's Council. He has received high honors from the college, including the William and Mary Alumni Medallion, the college's highest alumni award, in 1999; the Clarke Medallion, the highest honor presented by the business school, in 2007; and was awarded an honorary degree of Doctor of Public Service from the college in 2014. Mr. Miller earned his MBA degree from the Wharton School of the University of Pennsylvania. He served on the board of overseers and on the school's executive board. Mr. Miller is a past trustee of the Penn Mutual Life Insurance Company, a director of the Philadelphia Regional Performing Arts Center — Kimmel — and Chairman Emeritus of the Opera Company of Philadelphia. He is also a Horatio Alger award recipient and a member of the Business Roundtable. Mr. Miller currently serves on the board of the Museum of the American Revolution.

SECTOR — HEALTH SERVICES

(BCA602) TWST: Let's start, if you would, by introducing our readers to Universal Health Services with some key points along the 40-year history of the company you founded.

Mr. Miller: The company was founded in 1979. This is our 40th year. The purpose, the mission of the company, was to take care of patients in an exceptionally excellent manner, and when we wrote out our mission, we talked about taking care of patients as if they were members of our family. So we view them that way, and we have dedicated the company to that proposition.

And that's the reason, I think, that we've been successful. People understand that they will get the best treatment available in our facilities. We have excellent facilities, and if in any way they are older or deficient, we renovate or we build new facilities. All of our equipment is the latest equipment possible, and all of our staff is excellent. And if people in any way disappoint us or disappoint others, they won't be with the organization in the future. We started with six people, and today we have over 87,000.

TWST: Tell us a bit more about what the business looks like today in terms of number and location of hospitals, other types of facilities, etc.?

Mr. Miller: We have built an excellent reputation, and therefore, our shareholders have done extraordinarily well. We also have a real estate trust that we founded. They are at all-time highs, the reason being that people trust us, and we have a number of opportunities to grow. We have 27 acute care hospitals. That includes George Washington University Hospital, our only university hospital that we own and manage.

And in fact, we just got an extraordinary exceptional quality award. The George Washington University Hospital was recognized as a High Performing Hospital in the *U.S. News & World Report* 2019 for the following categories: Nephrology, CHF, COPD and Lung Cancer; and also named Best Regional Hospital. So we're very proud of that. We get awards all the time, the facilities do, for what they do for patients.

In total, we have 300 behavioral health facilities, in addition to the 27 acute care. We have over 200 in the U.S. and 100 in the U.K. Our reputation in the U.K. is also excellent, and the business is growing. We are particularly interested in the armed services, serving veterans and their families should they need mental health support. They're in a very stressful situation, and we support them as well with a particular program designed for them.

"Fortunately, over years, if you've done what we've done, the banks are very happy to lend us more than we want. But we focus on the patients; we always have, and from that, we have generated a company that is good for employees, good for investors. And that's been the same strategy we've had for 40 years: We take care of patients."

Our revenues this year will be well over $11 billion. As I said, we have over 87,000 employees, the number of which is growing, and we provide care to 2.6 million patients every year.

TWST: The majority of your facilities are behavioral health facilities. Do you anticipate maintaining the current mix of facility types that you operate, or are you looking to grow any particular areas?

Mr. Miller: We are, I'd say for lack of a better word, opportunistic. If we have an area that people tell us needs a hospital or one that is not doing that well and they'd like us to come in, we do that. We did not lay out a number of facilities that we wanted to have in either acute or behavioral. This year, it just so happens on a revenue basis we're approaching $6 billion in each. As you can see, 27 acute hospitals generate over $5 billion in revenue, as do 200 in behavioral.

But we don't have any number. We just want to serve patients in areas where they have need, and that's how we go about building the company. We did want to have differing areas of revenue, just for safety's sake. Going forward, that's still our strategy, and now we have developed a third leg, or call it whatever you'd like to, so we have behavioral, acute and the U.K./international.

TWST: You mentioned earlier the real estate investment trust. For our readers, could you add a little info about that? Universal Health Realty Income Trust is a separate publicly traded company?

Mr. Miller: Yes. That was founded almost the same time or a little after UHS. The problem I had in those days, which is now 40 years ago, was for-profit hospitals were not understood and were not appreciated as they are today, and so we had difficulty in gaining financial support to grow. So what we did was we sold 10 of our hospitals to the real estate trust, and then we in essence leased them back. Over the years, we have bought them back, and the real estate trust today has a few hospitals — a few meaning two — and primarily is made up of medical office buildings.

It's extremely successful. We're hitting all-time highs in the stock market, reason being that we have increased our dividend every year for almost 40 years. Every year we've been in business we have never defaulted, we have never missed a payment, and people trust us, and they're very comfortable with us. I'm very pleased to see we're up to $90.

Really, when we started the trust it was for people who were looking for income, and we split them out from UHS. The idea was if people wanted to have an equity stake in a company that would grow, that would be UHS. We didn't pay a dividend then, and we don't pay much of a dividend anyway now. So we decided to do what investors would want: People who want an income could go into UHT, and others who were looking at equity growth, UHS. It has worked out extremely well, as you can see.

TWST: For UHS, how would you describe your overall growth strategy and any particular goals you may have? And would you talk a bit about how you balance the primary mission you talked about — exceptional care for patients — with growing a publicly traded business?

Mr. Miller: We don't balance it. I mean, our top priority is the patients. We take care of the patients, we focus on the patients, as I said at the outset. And everything else follows from that. If the shareholders want to invest, that's fine. We have plenty of investors and people who want to invest. If the banks want to lend us money, that's fine. Fortunately, over years, if you've done what we've done, the banks are very happy to lend us more than we want. But we focus on the patients; we always have, and from that, we have generated a company that is good for employees, good for investors. And that's been the same strategy we've had for 40 years: We take care of patients. That's our mission; that's what we focus on.

TWST: Could you tell us about one or two facilities that you've recently built or recently purchased? Tell us a little bit about them and how they illustrate the types of facilities and markets you focus on.

Mr. Miller: We just had a meeting yesterday; we're going to double the size of a hospital we built in Texas a few years ago. We opened Henderson in Las Vegas — Henderson considers itself an independent town that is very close to Las Vegas, let me put it that way — and we're expanding that for the second time.

And we do a number of joint ventures, where people seek us out because they know of our expertise. We've had a lot of behavioral health joint ventures now, based on our ability in the behavioral sector. As you know, we're the largest, actually in the world; I hate to put it that way. We have a joint venture with Penn Medicine Lancaster General Hospital in Pennsylvania and with Providence Health Care in Spokane, Washington, and we have at least 40 opportunities in the pipeline.

TWST: How do you typically finance the company's growth, whether it's buying new facilities or, as you mentioned earlier, sometimes needing to rebuild facilities and make ongoing investments?

Mr. Miller: As I mentioned, with a record of success and reliability, we have more capabilities in terms of outside banks than we can deal with. We have a very substantial bank line. We generate almost $750 million a year in free cash. So we have no problem financing. And we are extremely conservative, debt/equity ratio below 40, so we're very low levered. And it leaves us in a situation where we can build, for example, Henderson Hospital or Palmdale — over $200 million to build a first-rate acute care hospital — and we have no problem financing those.

TWST: In terms of revenues, how do you successfully manage what seems to be inevitable uncertainty in the health care sector, such as reimbursements, government policies, uninsured, etc.?

Mr. Miller: We've been in the business a very long time. I want to mention that we have an excellent, excellent team. The company has gone forward because we've been able to attract and keep very capable, excellent people who share our interest and our mission in taking care of patients.

But the health care industry has evolved. It will continue to evolve. And we are certainly in an excellent position to be successful in the future because we understand the business. We have moved into outpatient. We are in behavioral. We're in acute. We have free-standing emergency rooms, ambulatory surgery centers, telehealth. We're in every facet, and we understand them, and going forward, we're in a good position to take advantage of our knowledge.

TWST: To wrap up, is there anything else that you would want readers in the investment community to know about the company, anything that you feel differentiates UHS from your peers?

Mr. Miller: The company gratifyingly has been called one of the World's Most Admired Companies by *Fortune* magazine. We have attracted extraordinarily capable people who share our mission. And as I said, we've been growing substantially for 40 years. So we intend to keep on our strategy and keep on our mission.

And I really want to tell you that we have all these opportunities because people trust us to do what we say we're going to do. They visit our facilities, they visit the cities that we're in, the communities, and they see what we have produced and who we are, and it's attractive. We're all looking for people and companies that we can rely on and have confidence in. And people have confidence in us. They know we're going to do the right thing and we're going to provide a facility and a group of people in their community that they can be happy with, proud of, and that provides a very important service. So we have more opportunities than we can deal with.

TWST: That's a good problem to have.

Mr. Miller: It certainly is. But it's nothing that you can invent. We're talking 40 years later. So if you have a 40-year record that is unblemished and your reputation has grown, that's how you get opportunities. You don't get them in the first year. As I told you, we couldn't even finance at the beginning. It was very difficult; that was the reason for the REIT. At this point, it's the opposite. We fortunately have financial people saying, "Take the money. Interest rates are low. Take the money. Take the money." And we say, "Thank you very much."

TWST: Thank you. (MN)

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