

Hospitals boost their profit expectations for 2025 as health insurers stumble

Major hospital chains HCA and Tenet increased their outlooks, though their stocks still stumbled

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Two major investor-owned hospital chains upped their 2025 revenue and profit forecasts this week, in stark contrast to health insurers, who've been doing the opposite.

HCA Healthcare and Tenet Healthcare, for-profit chains that collectively own 240 hospitals, both said their revenue and profit came in stronger than expected in the second quarter, which ended June 30, prompting them to issue more optimistic financial forecasts for the year.

Centene on Friday became the sixth insurer to offer up a gloomier financial outlook for the year than it had previously, after Elevance did the same last week.

Hospitals' finances are strongly influenced by two factors: the prices they negotiate with insurers and how many patients they treat in their facilities. Right now, the latter does not appear to be the main driver of their strong profits. Inpatient and outpatient surgeries, which tend to be hospitals' profit centers, were down slightly at both companies. Admissions barely budged. Another hospital chain, Community Health Systems, reported similarly underwhelming patient numbers this week.

It's a different story among insurers, who say they're being forced to shell out more money than usual for their members' medical costs, particularly those who rely on Medicaid and Affordable Care Act plans. Elevance's finance chief described what's happening as a "market-wide morbidity shift," meaning patients are sicker than the companies had expected when they priced their policies.

One number may help explain why hospitals are faring well as insurers struggle: the amount of money hospitals make on each patient. In Tenet's outpatient surgery business, revenue per case was up 8.3% year-over-year on a same-facility basis. In its hospital segment, that metric grew 5.2%. Tenet chalked that up to charging insurers higher prices — framed as patients having better-paying insurance — and its focus on offering higher-acuity services like cardiac care and orthopedics. At HCA, revenue per admission grew 4% year-over-year on a same-facility basis.

And consider which services are at issue for insurers. On the Medicaid front, Elevance said its members are using more home health, transportation, adult day care, and services to help them with daily activities like bathing and dressing. They're also getting more behavioral health services and inpatient surgeries. As for people on ACA plans, the increase in care is concentrated among emergency room visits, behavioral health services, and high-cost drugs.

But on Friday, HCA said it's seeing less demand for services among Medicaid patients. That category was down 1.2% in the quarter year-over-year. The story was different for patients with ACA plans. In that category, HCA said its admissions were up almost 16% year-over-year. Tenet similarly said its ACA admissions were up 23% year-over-year, and currently represent 7% of the company's total revenue.

Treating more patients insured under ACA plans may be viewed as a vulnerability right now, given the enhanced premium tax credits supporting those plans are set to expire at the end of the year.

Despite its raised outlook, Tenet's stock was down almost 11% Tuesday, the day it announced earnings. HCA slid 2.6% on Friday.

Analysts who study the sector said that's in part because hospitals risk losing a significant share of their insured patients once the subsidies go away.

"I think what's happened is the market has decided to squarely focus 100% of their attention on the pending expiration of the subsidies within the exchanges," Whit Mayo, senior managing director of equity research at Leerink Partners, said of Tenet's stock dip. He called it "extreme and exaggerated" relative to the company's strong results.

Another point of weakness for Tenet was the fact that it expects a lower increase in patient visits for the full year. In February, the company said it expected adjusted admissions in its hospital segment, which includes outpatient visits, to grow between 2% and 3% for the full year. That changed to 1.5% to 2.5% in the updated outlook. The company's inpatient admissions outlook was unchanged.

Sam Hazen, HCA's CEO, stressed that while the company's admissions grew just 1.7% on a same-facility basis, that growth was higher among more expensive service lines. Cardiac procedures were up 5% and neonatal services were up 13%, he said.

"We've had 16 consecutive quarters of volume growth," Hazen said. "That consistency tells us that the network model that we're investing in very heavily and focused on execution around, it allows us to compete effectively, sustain market share gains, and we think it adds value for our patients, it adds value for our physicians, and it adds value for our shareholders."

Tenet's CEO, Saum Sutaria, has reoriented the company toward more expensive service lines like cardiology and orthopedics, especially procedures performed in outpatient surgery centers.

"At the end of the day, that's the most notable and important trend in the second quarter, which is that that strategy continues to deliver results," Sutaria said.

Both hospital chains' upward revisions were small on the revenue front and higher on the profit front. HCA now expects revenue to come in just 0.3% higher, or \$76 billion, at the high end and profit to be 6% higher at

the high end, or \$15.3 billion. Tenet now thinks its revenue will be 1.2% higher at the top end of its estimate, about \$21.3 billion, and profit will be 16.4% higher at the top end, \$1.4 billion.

Mayo said he's skeptical insurers are seeing the high level of patient expenses they're describing on earnings calls, since those trends aren't showing up in other data sources. He thinks it's more likely that individual patients are sicker and need more expensive care. He also thinks insurers are getting pummeled in the No Surprises Act dispute process, in which arbiters more commonly side with providers