STRATUM HEALTH ADVISORS

CASE STUDY N° 4 · DECISION ANALYSIS

Betting the Identity of the Company

How a hospital operator reallocated capital into ambulatory surgery ahead of the curve — and read the site-of-care shift correctly. An ASC / ambulatory decision analysis.

The Fork

For most of its history, Tenet Healthcare was a hospital company. Over the past several years its leadership made a deliberate, capital-intensive bet to become something else: it divested hospitals and poured the proceeds into United Surgical Partners International (USPI), its ambulatory surgery center platform. The fork was fundamental — double down on the acute-care hospital business that defined the company, or reallocate capital toward lower-cost, faster-growing outpatient surgery and accept the risk of dismantling part of the core franchise. Tenet chose the ambulatory pivot. This is an analysis of a bet that has aged well, and what it teaches an operator about reading a site-of-care shift early.

The Landscape Before the Decision

- **The structural shift —** Procedures have been migrating from inpatient hospital settings to outpatient ASCs for years, driven by clinical advances, patient preference, and payer economics — patients save an average of roughly $684 per procedure in an ASC versus a hospital outpatient department (Source: industry compilations of CMS data).
- **Better unit economics —** ASCs are less capital-intensive than hospitals and generate strong, growing cash flows — particularly as higher-acuity cases like total joint replacements migrate outpatient (Source: Tenet earnings commentary, 2025–2026).

- **Policy tailwind —** Federal policy has actively accelerated the shift, with CMS steadily expanding the list of ASC-payable procedures — a regulatory tailwind pushing volume in exactly the direction Tenet was reallocating toward.

The Decision Logic — Steelmanned

Divesting hospitals to fund ASCs is a bet that the future of surgical volume is ambulatory and that capital earns a higher return in outpatient than in acute care. It is not without cost or risk: hospitals anchor a system in complex, higher-acuity care and local payer relationships, and selling them shrinks the revenue base and can look like retreat. But Tenet's leadership read the site-of-care migration as durable and structural rather than cyclical, and chose to reshape the portfolio toward the growth curve while simultaneously deleveraging with the divestiture proceeds. Reallocating capital from a mature, capital-heavy business to a faster-growing, capital-light one is textbook portfolio strategy — the difficulty is having the conviction to do it with the business that is your own identity.

The Landscape After

- **Ambulatory took off —** The ambulatory bet became the growth engine. USPI's adjusted EBITDA grew 17% in 2024, fueled by 19% year-over-year growth in high-acuity cases like total joint replacements (Source: Tenet Q4 2024 call, Healthcare Finance News).
- **The results —** For full-year 2025, Tenet reported adjusted diluted EPS of $16.78, up 41.2% year over year, with USPI holding interests in 533 ASCs across 37 states and the ambulatory segment consistently outgrowing the hospital segment (Source: Fierce Healthcare; Becker's, Feb 2026).
- **Balance sheet and capital return —** The divestiture proceeds funded substantial deleveraging and $1.39 billion in share repurchases in 2025, and management's own framing now describes ambulatory surgery as more attractive than broad-based hospital expansion for capital allocation (Source: Tenet Q1 2026; Umbrex company profile, 2026).

The Strategic Read — For Anyone Facing This Fork

Tenet's pivot is the case where the bold, identity-altering reallocation worked — and it worked because the underlying shift it bet on was real, durable, and policy-supported. The generalizable framework for reading a site-of-care or channel shift:

QUESTION	DEFEND THE CORE	REALLOCATE TO THE SHIFT
Is the shift structural or cyclical?	Right call if cyclical / reversible	Right call if structural and policy-backed
What do the unit economics say?	Core still earns superior returns	New channel earns more per capital dollar
Is policy tailwind or headwind?	Headwind protects the incumbent position	Tailwind compounds the reallocation
Cost of being wrong	Miss the migration; slow decline	Dismantled a franchise chasing a fad

QUESTION	DEFEND THE CORE	REALLOCATE TO THE SHIFT
The discipline required	Resist a real shift out of identity attachment	Reallocate without over-rotating before proof

The cautionary edge, kept honest: this bet worked because the site-of-care shift was genuine and durable. The same aggressive reallocation against a cyclical or reversible trend would have dismantled a core franchise chasing a mirage. The skill Tenet demonstrated was not boldness for its own sake — it was correctly reading that outpatient migration was structural, not a phase, and sizing the reallocation to that conviction. The strategic question is never “should we be bold”; it is “is this shift real enough to bet the identity of the company on it.”