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DEALBOOK

At HCA, Hot Debt Markets Offer Chance at Big Payday

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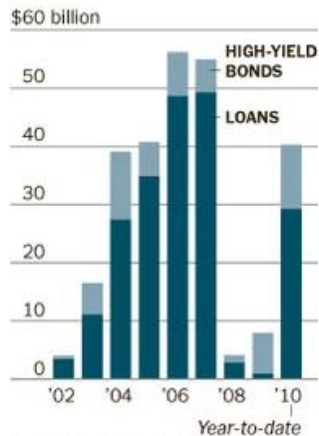
So long as investors are throwing money into the bond markets, [private equity](#) firms are taking advantage by cashing out of their investments in a hurry.

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Dividends From Debt

Companies are taking out loans and issuing bonds to pay dividends at the fastest pace since before the financial crisis.

DEBT SOURCES TO FINANCE DIVIDENDS



Source: Standard & Poor's
The New York Times

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But HCA, which has already paid two dividends this year, has proved to be one of the most durable of the mega-buyouts since being acquired by Bain Capital, [Kohlberg Kravis Roberts](#), [Merrill Lynch](#) and its founders, the Frist family, in 2006. The company on Tuesday reported a 24 percent jump in third-quarter earnings before interest, tax, depreciation and amortization, or Ebitda, to \$243 million.

The latest buyout firms to take advantage of the red-hot debt markets are the owners of HCA, the hospital giant that on Tuesday announced plans to pay \$2 billion to its investors this quarter.

The payments — the third in a series that HCA will make to its owners this year — will be financed in part by a \$1.53 billion bond offering.

So-called dividend recapitalizations have roared back in popularity this year, one of many signs that the debt markets are surging from the depths of the financial crisis.

In dividend recaps, private equity-owned companies borrow money to pay their investors. About \$40.3 billion in dividends have been announced so far this year, a level that has not been attained since the beginning of the buyout boom in 2005, according to [Standard & Poor's Leveraged Commentary and Data](#). By contrast, private equity-owned companies paid out about a total of \$12 billion in dividends in 2008 and 2009.

Such payments have sometimes been criticized as private equity excess, with buyout firms foisting billions of dollars of debt onto their portfolio companies to extract big paydays.

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[Moody's Investors Service](#) on Tuesday maintained an investment-grade B2 rating on HCA, though it gave the proposed debt offering a junk-bond rating of Caa1.

"The positive rating outlook reflects that HCA has been able to offset industry pressures, such as increasing bad debt expense and weak volumes, and realize solid earnings growth," Dean Diaz, a [Moody's](#) analyst, wrote in a research note.

Those strong profits have buttressed HCA's dividends, totaling \$4.25 billion, counting the latest quarter. That will allow the company to return more than 80 percent of its owners' \$5.3 billion equity investment. HCA announced in March that it is also seeking to go public in an initial public offering that could raise \$4.6 billion, a move that could help its owners pare down their stakes.

At this rate, the HCA buyout consortium is on track to make more than three times their original equity investment.

And for those worried about HCA's balance sheet, the company's strong profits have helped lower its debt-to-Ebitda ratio — a crucial measure of financial health — to 4.5, down from 6.5 at the leveraged buyout's close four years ago.

A version of this article appeared in print on November 10, 2010, on page B5 of the New York edition.

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