

## Chemed Corporation

## Takes from call: High single digit growth for Vitas sustainable; Roto demand stable

Maintain Rating: BUY | PO: 708.00 USD | Price: 629.13 USD

## Vitas revs to grow high-single digits, Roto mid-single LT

Q4 beat the guide on much better Vitas helping offset weaker Roto's commercial revs. CHE believes the high-single digit growth expected for Vitas in 2024 is sustainable in 2025+ with potential for a continued margin expansion on the operating leverage. Roto guide calls for a +3.5-4% top line growth driven by +3.5% pricing volumes improving through the year. Roto margins are sustainable and would continue to tick up over time given the expected LT top line growth in the +4-6% range. Reiterate Buy given the strong Vitas fundamentals and stable Roto, with both generating strong cash flows.

## Roto commercial revs decline seen as temporary

Roto call volume was down 18.7% in Q4 or -13% excluding the last week of Dec 2022 (deep freeze nationwide), in line with declines in Q3 and Q2. This was offset by higher close rates and higher conversion rates. Roto Commercial revs declined 8% in 4Q23, a deceleration from +1.5% y/y in 3Q23 as more clients asked for lower prices given inflationary pressures they are seeing elsewhere. Like prior situations, Roto was disciplined on pricing and did not take this business. In the past, Roto saw customers had returned to Roto after realizing that dealing with smaller providers is not sustainable. Roto guide assumes residential and commercial revs grow y/y.

## Roto weekly data shows demand stable

Roto is seeing stabilization in demand in weekly data and assumes improving trends sequentially through 2Q24-4Q24. Q1 has tough comps given the deep freeze nationwide in Jan 2023 which drove a +8% growth in 1Q23. Roto rev to grow 3.5-4% y/y in 2024 driven by the avg +3.5% price increase implemented Jan 1.

## Roto LT rev growth in mid-single digits

Long-term, Roto expects revs to grow 4-6% driven by pricing and Roto taking market share as the blue-collar workforce of plumbers/ other technicians is aging. Roto noted that the economy-driven disruption to the industry will likely drive more opportunities to buy franchises. Margins are sustainable, potentially growing as Roto gets leverage on the mid-single digit top line growth. Margins are currently compressed due to an increased marketing spending (spends \$1m/month more to drive leads).

## Bullish outlook for Vitas

Vitas continues to outperform with the outlook calling for the census growing 7% again as the company benefits from a stable turnover and continued hiring. Vitas Q4 margins benefited from fewer than expected new hires (lower training costs etc.) and changes to the paid-time-off policy (added 135bps to margin). While hiring was soft in 4Q23 due to holidays, activity so far in 1Q24 implies a return to the expected trend. The guide assumes census growth driven by hiring and retention. Long-term, Vitas should grow top line in the high-single digits given the strong demand and some pricing. Census growth to be driven by demographics, increasing acceptance of the hospice benefit, patients choosing hospice early, and Vita's strategy to drive more admits with longer stays.

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## Stock Data

Price	629.13 USD
Price Objective	708.00 USD
Date Established	28-Feb-2024
Investment Opinion	A-1-7
52-Week Range	492.84 USD - 610.35 USD
Mkt Val (mn) / Shares Out (mn)	9,607 USD / 15.3
Free Float	98.3%
Average Daily Value (mn)	51.81 USD
BofA Ticker / Exchange	CHE / NYS
Bloomberg / Reuters	CHE US / CHE.N
ROE (2024E)	29.1%
Net Dbt to Eqty (Dec-2023A)	-23.8%
ESGMeter™	Medium

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ADC = Average Daily Census

## Price objective basis & risk

### Chemed Corporation (CHE)

Our PO of \$708 is based on 20.5x 2024E EBITDA, a significant premium to CHE's historical average of 9x to reflect the clear and strong tailwinds to hospice volumes and a better than average near to medium-term outlook for Medicare reimbursement. Hospice is also defensive from a recession.

Given the above peer margins in the 28% range, the asset-light model, the reduced exposure to economic cycles (due to increased exposure to water restoration), and a limited potential for an on-line competition, we believe an above-peer multiple of 20x for Roto-Rooter is warranted. Meanwhile, given the size of the Vitas platform (scarcity value), the positive outlook for the hospice industry, the minimal leverage at the corporate level, the growing dividend, and the solid track record, we believe an above average multiple for Vitas is warranted. Applying 20x to Roto's 2024E EBITDA, our PO implies about 21x VITAS EBITDA.

Downside risks to our PO: 1) Medicare reimbursement is worse than expected. 2) Labor cost pressure is higher than expected. 3) Volume growth is lower than expected. 4) Unexpected legal issues around government billing. 5) Recession impact to Roto-Rooter is worse than expected.

Upside risks to our PO: 1) Medicare reimbursement is much better than expected. 2) Volume growth is better than expected. 3) Capital deployment.

## Analyst Certification

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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