

Addus HomeCare

Beat on much better margins as Personal Care continues to outperform

Reiterate Rating: BUY | PO: 108.00 USD | Price: 87.33 USD

EBITDA 6% above ests on much better margins

Adj EBITDA was \$2m or 6% above consensus (7% above our est) on much better margins and slightly higher revs. Adj EPS was 13% above consensus. Personal Care (PC) same store revs grew a strong +11% y/y, well above growth in other settings. Better PC revs offset weaker Hospice revs compared to consensus. ADUS made bullish comments on the deal outlook noting its financial flexibility (strong free cash flow, leverage of only 1x, credit availability). We raise EBITDA ests for the beat, roll out 2026 ests. We reiterate Buy on the attractive growth profile and upside from future deals.

Personal Care revs beat on pricing, SS revs +11%

PC revs (74% of total) were 1% above our est/2% above consensus. Hours per business day grew 3.1% y/y and were flat Q/Q as volumes continue to recover, and billable hours per census per month increased 3% y/y and +1% Q/Q. Pricing increased +8.4% y/y (+1% q/q) and was 1% above our est. Same store (ss) revs increased 11.2%, decelerating from +13.9% in 3Q23, and came on top of +7.9% in 4Q22. Organic SS revenue growth is tracking 33% above pre-pandemic levels, much better than other subsectors.

Hospice revs missed on vols, SS revs accelerated to +3.5%

Hospice revs were 4% below our est. and 2% below consensus on worse vols. Census grew 5% y/y but was down 2% q/q. SS revs grew +3.5%, accelerating from +3.1% in Q3. SS average daily census (ADC) declined -1.1% y/y, worse than -0.9% y/y in Q3. The slight deceleration of hospice vols is worse than AMED's hospice improving trends in Q4 (CHE reports 2/27 after close). Average length of stay (LOS) increased 8% y/y, flat q/q.

Home health ss revs down as ADUS selective on admits

Segment revs (6% of total) were 4% above our est. but 3% below consensus. SS revs declined -17.8% y/y, decelerating from -9% in Q3. SS admits declined 10% y/y but pricing was better as ADUS continues to re-focus on episodic vols (higher rate).

Strong cash flows allowed for debt paydown

Operating cash flows was \$30m allowing for a \$40m debt paydown. Full year was \$120m ex the \$7m American Rescue Plan Act (ARPA) funding used.

Estimates(Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.73	4.51	4.83	5.27	5.71
GAAP EPS	2.85	3.84	4.35	4.78	5.22
EPS Change (YoY)	6.0%	20.9%	7.1%	9.1%	8.3%
Consensus EPS (Bloomberg)	3.59	4.36	4.79	5.28	5.97
Valuation (Dec)					
P/E	23.4x	19.4x	18.1x	16.6x	15.3x
GAAP P/E	30.6x	22.7x	20.1x	18.3x	16.7x
EV / EBITDA*	14.4x	12.1x	11.1x	10.3x	9.6x
Free Cash Flow Yield*	6.8%	7.5%	6.7%	7.1%	7.6%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 27 February 2024 12:05AM EST

27 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	1,138.3	1,157.0
2025E Rev (m)	1,200.1	1,220.4
2026E Rev (m)	NA	1,287.3
2024E EPS	4.69	4.83
2025E EPS	5.15	5.27
2026E EPS	NA	5.71
2024E EBITDA (m)	129.0	131.7
2025E EBITDA (m)	138.4	141.5
2026E EBITDA (m)	NA	151.9

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Stock Data

Price	87.33 USD
Price Objective	108.00 USD
Date Established	1-Aug-2023
Investment Opinion	B-1-9
52-Week Range	77.30 USD - 114.99 USD
Mkt Val (mn) / Shares Out (mn)	1,416 USD / 16.2
Free Float	98.2%
Average Daily Value (mn)	8.75 USD
BofA Ticker / Exchange	ADUS / NAS
Bloomberg / Reuters	ADUS US / ADUS.OQ
ROE (2024E)	10.6%
Net Dbt to Eqty (Dec-2023A)	8.4%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

CHE = Chemed;

iQprofileSM Addus HomeCare

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.4%	8.3%	8.9%	9.1%	8.9%
Return on Equity	10.0%	11.0%	10.6%	10.4%	10.2%
Operating Margin	7.2%	8.6%	9.2%	9.5%	9.8%
Free Cash Flow	97	107	95	100	108

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	1.5x	1.3x	1.2x	1.2x
Asset Replacement Ratio	0.6x	0.4x	0.4x	0.4x	0.4x
Tax Rate	23.5%	23.1%	26.0%	26.0%	26.0%
Net Debt-to-Equity Ratio	8.2%	8.4%	-4.6%	-15.5%	-25.0%
Interest Cover	8.0x	9.4x	10.3x	11.8x	12.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	951	1,059	1,157	1,220	1,287
% Change	10.0%	11.3%	9.3%	5.5%	5.5%
Gross Profit	300	340	372	394	417
% Change	11.1%	13.4%	9.5%	5.9%	5.9%
EBITDA	101	121	132	142	152
% Change	3.9%	19.0%	9.0%	7.5%	7.4%
Net Interest & Other Income	(9)	(10)	(10)	(10)	(10)
Net Income (Adjusted)	60	74	79	87	94
% Change	6.7%	22.0%	7.3%	9.6%	8.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	46	63	71	79	86
Depreciation & Amortization	14	14	15	15	15
Change in Working Capital	28	23	3	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	17	12	12	13	13
Capital Expenditure	(8)	(6)	(6)	(6)	(6)
Free Cash Flow	97	107	95	100	108
% Change	177.8%	10.1%	-10.6%	4.9%	7.8%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(90)	3	(95)	(18)	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	80	65	65	147	255
Trade Receivables	126	115	127	134	141
Other Current Assets	17	20	18	18	18
Property, Plant & Equipment	21	24	30	36	42
Other Non-Current Assets	694	800	800	800	800
Total Assets	938	1,024	1,040	1,136	1,257
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	131	145	144	145	147
Long-Term Debt	132	124	29	11	11
Other Non-Current Liabilities	42	48	79	102	124
Total Liabilities	304	318	252	258	282
Total Equity	634	707	788	878	975
Total Equity & Liabilities	938	1,024	1,040	1,136	1,257

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Long-Term Care

Company Description

Addus HomeCare Corp. (ADUS) provides home care services to people that are at risk of hospitalization or institutionalization, such as the elderly, the chronically ill, and the disabled. The company operates 211 locations across 22 states and provides home care services to approximately 44k consumers. ADUS offers personal care (assistance with activities of daily living) with a growing exposure in hospice (palliative care for terminally ill) and home health (short-term skilled care).

Investment Rationale

Buy-rated ADUS has an attractive growth profile with all of its businesses to benefit from the structural shift of care to the lower cost home settings. ADUS' 5% organic growth could be 10%+ when factoring in acquisitions, which could drive EBITDA growth in the low to mid teens. ADUS' low leverage (1.3x) and strong FCF (6% yield) position it well for the continued consolidation. Future deals would be upside to our model (7-14% to EBITDA).

Stock Data

Average Daily Volume 100,220

Quarterly Earnings Estimates

	2023	2024
Q1	0.97A	1.12E
Q2	1.07A	1.14E
Q3	1.15A	1.18E
Q4	1.32A	1.38E

Price objective basis & risk

Addus HomeCare (ADUS)

Our PO of \$108 is based on 13.8x 2024E Adj EBITDA, a premium to the multiple we use for home health given ADUS' much smaller exposure to the Medicare rate pressure in home health, but a discount to other home care names with minimal government rate risk. In addition, we see less labor pressure in ADUS' core Personal Care biz vs home health where peers are more exposed to.

Downside risks to our PO: 1) Labor pressures are more severe than expected. 2) Organic growth is lower than expected. 3) Medicaid reimbursement is worse than expected. 4) Medicaid proposal is finalized as proposed, capping personal care gross margins. 4) Deal integration issues.

Analyst Certification

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US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Astrana Health Inc	ASTH	ASTH US	Adam Ron
	BrightSpring Health Services	BTSG	BTSG US	Joanna Gajuk
	Chemed Corporation	CHE	CHE US	Joanna Gajuk
	Elevance Health Inc	ELV	ELV US	Kevin Fischbeck, CFA
	Encompass Health	EHC	EHC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Option Care Health	OPCH	OPCH US	Joanna Gajuk
	Oscar Health	OSCR	OSCR US	Adam Ron
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Service Corp.	SCI	SCI US	Joanna Gajuk
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
NEUTRAL				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Privia Health	PRVA	PRVA US	Adam Ron
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA



US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatric Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	$\text{Cash Flow From Operations} - \text{Total Capex}$	N/A
Quality of Earnings	Numerator	Denominator
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt} - \text{Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	Numerator	Denominator
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	$\text{Cash Flow From Operations} - \text{Total Capex}$	$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	$\text{Basic EBIT} + \text{Depreciation} + \text{Amortization}$

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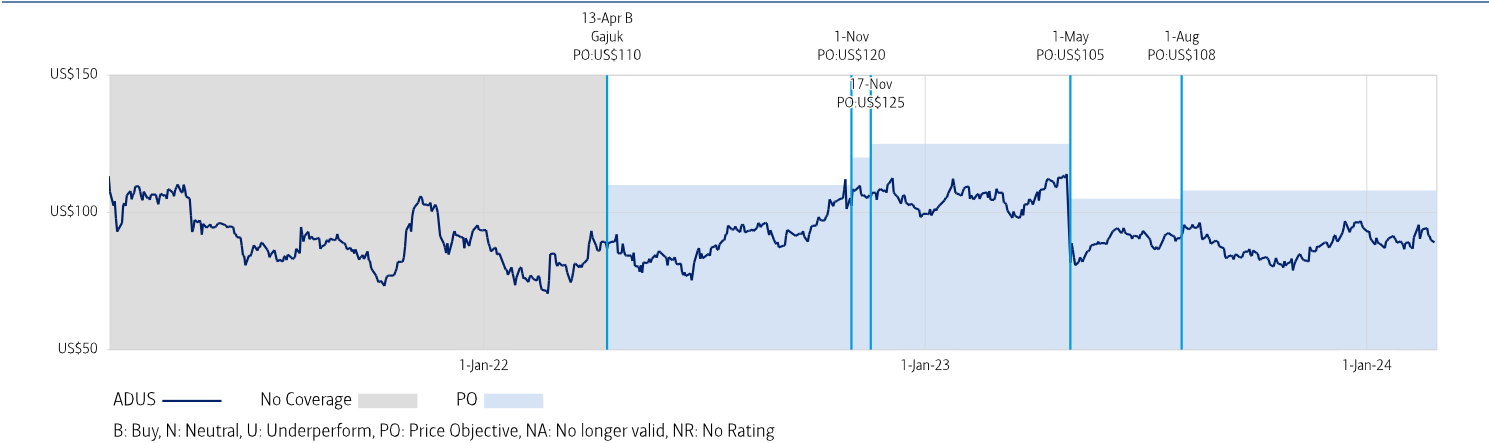
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Addus (ADUS) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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