

Home Care

Hospice carve-in demo will end this year, removes LT risk for providers

Industry Overview

Hospice carve-in ending positive for CHE, ADUS

On 3/4/24, CMS said in a statement that it will end its hospice carve-in demonstration (demo) under the Medicare Advantage (MA) Value-Based Insurance Design (VBID) Model at the end of 2024. The agency acknowledged that the demo created operational challenges for providers while the participation by MA plans was limited. The end of the demo removes the risk of the carve-in becoming nationwide and mandatory, which could create price pressure for providers. This is positive for Chemed (CHE; hospice is 60% of revs), Amedisys (AMED; 36%), Addus (ADUS; 25%), and Enhabit (EHAB; 18%). We remain bullish on CHE given the strong hospice fundamentals helping offset Roto, and we remain bullish on ADUS on the continued outperformance in its Personal Care business.

Carve-in posed a LT risk to hospice providers

Under the current law, MA beneficiaries, who elect hospice, shift all payments to traditional Medicare FFS. Starting in 2020, CMS has been testing the effect of allowing MA to cover hospice benefits. The risk of the carve-in becoming the norm is that MA plans would pay lower rates than FFS, similar to other settings, and home health in particular where some MA contracts (paid per visit) pay providers 35-40% less than an equivalent FFS rate. Initial data from CMS and [our hospice provider surveys](#) had indicated that contracted MA rates in hospice demo were at a 10-15% discount to FFS.

MA participation in demo was low

The demo has started small with few MA plans and few hospice providers participating with MA members receiving hospice under the demo accounting for only 1% of Medicare hospice patients. For 2024, 13 MA companies are participating in the demo, providing coverage through 78 health plans in 19 states. This is down from 2023, when 15 companies participated (119 health plans in 23 states). Of note, United Healthcare (UNH), the largest MA provider, exited the demo for 2024.

Demo was modified to attract interest

In April 2023, CMS extended the demo through 2030. Given the limited participation and studies showing challenges with the demo for both providers and payors, CMS made modifications such as allowing MA plans to narrow the hospice networks starting in 2026, and offer curative care at the same time as hospice care, among other changes. Nevertheless, the changes were not enough to generate more interest from MA plans.

04 March 2024

Equity
United States
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CMS = Centers for Medicare & Medicaid Services

FFS = fee for service

Exhibit 1: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ADUS	ADUS US	Addus	US\$ 95.75	B-1-9
AMED	AMED US	Amedisys, Inc.	US\$ 92.97	-6-
CHE	CHE US	Chemed	US\$ 632.07	A-1-7
EHAB	EHAB US	Enhabit	US\$ 8.22	C-3-9

Source: BofA Global Research

BofA GLOBAL RESEARCH

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.

Amedisys, Inc. (AMED)

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

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.

Enhabit Home Health & Hospice (EHAB)

Our PO of \$9 is based on 10.2x 2024E Adj EBITDA, a discount to the average multiple we use for POs in the HC Facilities universe. The discount is justified by EHAB's exposure to the home health Medicare rate cuts, its relatively high leverage, and worse

operating performance over the last two years. The multiple is below the historical average for the home health sector given the negative reimbursement outlook and much higher leverage vs peers historically.

Upside risks to our PO are: 1) Medicare rate update is much better. 2) labor cost pressures dissipate faster than expected, 3) volume growth is faster than expected, 4) the company deploys capital accretively beyond what's included in the guidance, 5) executes better on offsetting reimbursement headwinds. 6) Headwind from Medicare Advantage negative mix shift is better than expected.

Downside risks to our PO are: 1) Labor cost inflation worse than expected, 2) Medicare rate cuts are deeper than we expect, 3) the company fails to offset the reimbursement pressures, 4) volumes are worse than expected. 5) Headwind from Medicare Advantage negative mix shift is worse than expected.

Analyst Certification

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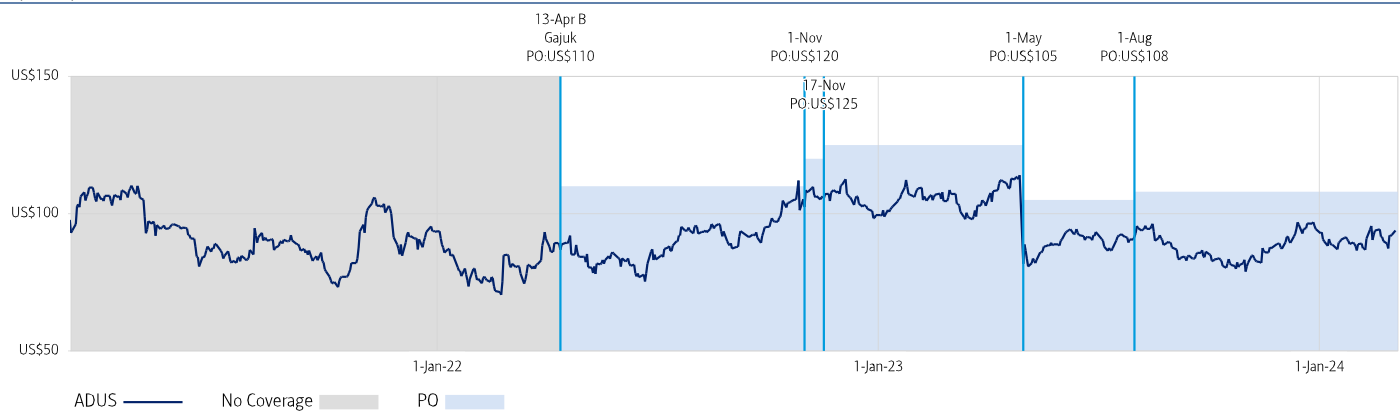
US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

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	BTSB	BTSB 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
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatric Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

Disclosures

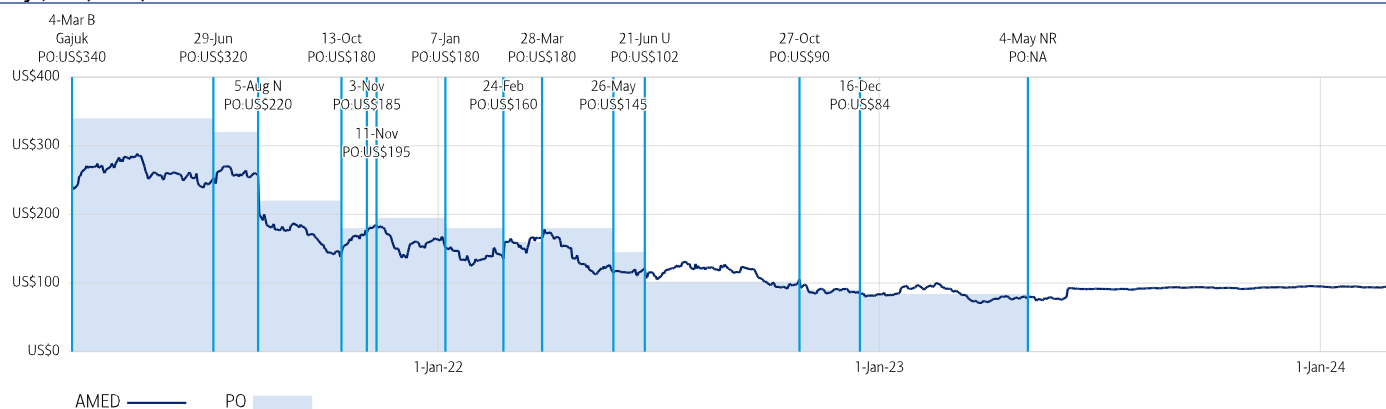
Important Disclosures

Addus (ADUS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Amedisys, Inc. (AMED) Price Chart

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Chemed (CHE) Price Chart

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Enhabit (EHAB) 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%

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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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