Enhabit Home Health & Hospice

Takes from the call

Maintain Rating: UNDERPERFORM | PO: 9.00 USD | Price: 9.61 USD

Guide range is wide, depends on payor mix

EHAB expects EBITDA to be flat to grow 13% y/y with the range dependent on the payor mix, noting challenges in forecasting the shift from Medicare FFS to Medicare Advantage (MA) and the shift into higher-rate MA. The company expects the Medicare volume declines to moderate and be closer to the industry avg. The company's strategic review is ongoing. While Q4 came in better and the guidance is above expectations, we remain Underperform as we prefer other names with more pricing power and a greater visibility into payor mix.

Leverage to improve on EBITDA, potential debt paydown

The EBITDA midpoint implies net leverage of 5.1x at 12/31/24 vs 5.4x at the end of 2023. EHAB expects a $20m amortization payment of its term loan with free cash flow to be potentially largely used for debt paydown after $2.5-3.5m denovo spending. Assuming $20m loan payment and $46m of FCF (FCF guide mid less $3m on denovos) used for debt paydown, it implies net leverage of 4.4x at 2024-year end.

Home health vols to grow, MA rate improves

Medicare admission declines to be offset by growing MA business. 2024 MA vols to benefit from two national innovation contracts: one took effect on May 1, 2023 and a new contract started Jan 1, 2024. The improving MA rates combined with improved staffing levels to help offset the expected cost per visit growth of +2-3% y/y.

Hospice cost/day ex DME headwind 0-2%

Hospice vols expected to grow (census +1% q/q in 4Q23) with Medicare rate update of +2.9% helping to offset the wage inflation. Growing vols to provide operating leverage. Cost per day to grow 2-4% due to merit increases and $2m higher durable medical equipment (DME) costs. Ex the higher DME costs, cost /day would have been 0-2% y/y.

25% of non-episodic vols in better MA contracts

EHAB added 11 new MA contracts in 4Q23 (8 at episodic rates and 3 at improved per visit rates) with a total of 59 since the start of the program (2/3 are at episodic rates). In 4Q23, 25% of non-episodic visits were in MA contracts at improved rates (episodic or improved per visit rates), up from 5% in 1Q23. Nevertheless, the non-episodic book growing faster remains a headwind – it was an $8m hit to EBITDA, net of the improved contracting, in line with the Q2 and Q3 headwinds.

No impact in Q4 from reserve changes

EHAB clarified that the comment on the change in rev recoverability related more to 4Q22 rather than 4Q23, implying little benefit in 4Q23.

07 March 2024

Equity

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Stock Data

Price	9.61 USD
Price Objective	9.00 USD
Date Established	15-Dec-2023
Investment Opinion	C-3-9
52-Week Range	7.12 USD - 14.59 USD
Mrkt Val (mn) / Shares Out (mn)	481 USD / 50.0
Free Float	97.5%
Average Daily Value (mn)	4.86 USD
BofA Ticker / Exchange	EHAB / NYS
Bloomberg / Reuters	EHAB US / EHAB.N
ROE (2024E)	1.8%
Net Dbt to Eqty (Dec-2023A)	74.8%
ESGMeter™	Low

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EHAB = Enhabit Home Health & Hospice

EHC = Encompass

FCF = free cash flow

Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2. 12668308

Timestamp: 07 March 2024 11:48AM EST

Price objective basis & risk

Enhabit Home Health & Hospice (EHAB)

Our PO of $9 is based on 9.7x 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 three 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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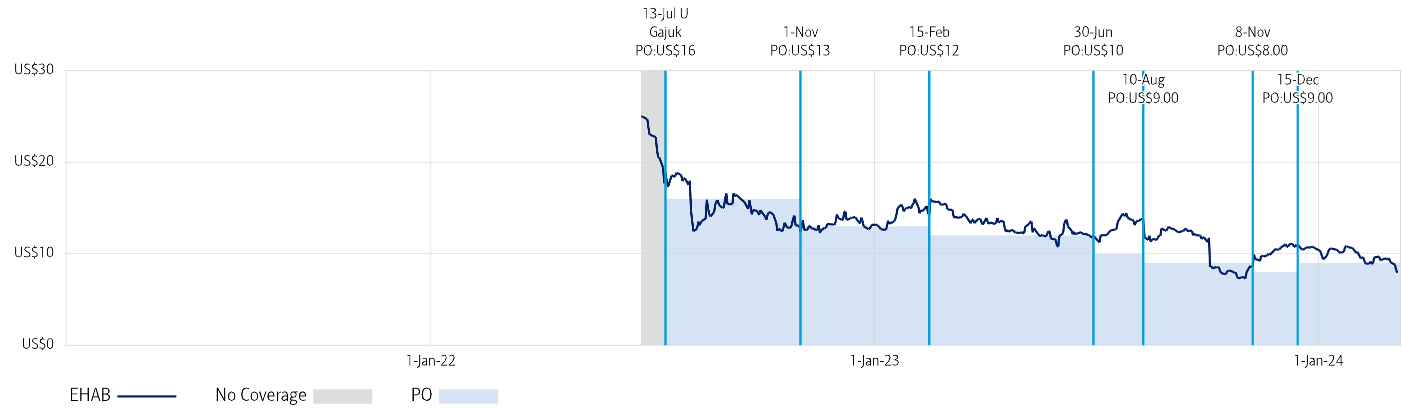
Enhabit (EHAB) Price Chart



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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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Sell	807	22.84%	Sell	383	47.46%

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