

## Home Care

# Infusion transaction shows interest from managed care in the space

Industry Overview

## ELV to buy infusion provider

Elevance (ELV) announced it will acquire Paragon Healthcare, a provider of infusion services as well as specialty pharmacy. No terms were disclosed. While the deal is small (we estimate Paragon's revenues of \$560m, adding less than 1% to ELV), it implies managed care companies' interest in the infusion space. Given Option Care's (OPCH) size and geographic coverage, we expect ELV to maintain its contracts with OPCH. We remain bullish on OPCH given an attractive growth profile and upside on capital deployment.

## Paragon is a fraction of OPCH, mostly in center

Paragon serves about 35k patients annually compared to more than 265k patients served by OPCH. Assuming the same revenue per patient suggests Paragon's revenues amount to about \$560m, which would represent 13% of OPCH's revenues. Paragon provides infusions mostly in ambulatory suites under the provider model in Texas and south-central states (Alabama, Colorado, Florida, Georgia, Missouri, Oklahoma, Tennessee). The company has 40 infusion centers compared to more than 150 operated by OPCH. Paragon also provides infusion services in the home setting as well as specialty pharmacy.

## ELV typically buys a small asset, then scales it up

To us, this deal matches ELV's recent M&A playbook as Infusion services fits the bill of capital-light assets which have adjacent capabilities to its existing Caredon services, that ELV can scale somewhat rapidly using its health plans to drive demand. For example, ELV has integrated ZipDrug (mail order), BioPlus (specialty), and myNexus (post acute) and has set extremely ambitious growth targets at each. Notably, two out of the three largest infusion companies are also owned by managed care organizations (MCOs) (UnitedHealth Group and CVS Health) while Humana is currently in the process of building out an infusion company organically. However, infusion is relatively small for ELV: even if it would grow the infusion business to match the size of OPCH (8x the scale), it would still only add 3% to earnings. We maintain our Buy rating on ELV given a favorable risk-reward.

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Equity  
United States  
HC Facilities

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## Price objective basis & risk

### **Elevance Health Inc (ELV, \$485.24, B-1-7)**

Our \$580 PO is based on 15.7x our 2024E EPS, above the 5YR average of 14.3x, reflecting more diversified business mix, multiple levers to grow (commercial margins, growing services business) and favorable backdrop broadly for MCOs.

Risks to the downside are a quicker than expected rebound in utilization, a more competitive pricing environment, Medicaid redetermination impact on revenue/MLR and government rate pressure.

Risks to the upside are better-than-expected enrollment growth, upside from capital deployment, lower than expected utilization and faster than expected growth in the services businesses.

### **Option Care Health (OPCH, \$32.47, C-1-9)**

Our price objective of \$43 is based on 19.1x our 2024E Adj EBITDA estimate. This multiple is at a premium to the current average multiple for its Home Care peers given the limited Medicare rate risks, lower leverage, and stronger FCF profile. The multiple is at a slight premium to OPCH's/Legacy BIOS's five-year average of 18.8x given the lower leverage and deal optionality.

Risks are worse-than-expected labor and other cost pressures, customer/ competitor concentration, drug pricing pressure, deal integration risks.

## Analyst Certification

We, Joanna Gajuk and Kevin Fischbeck, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

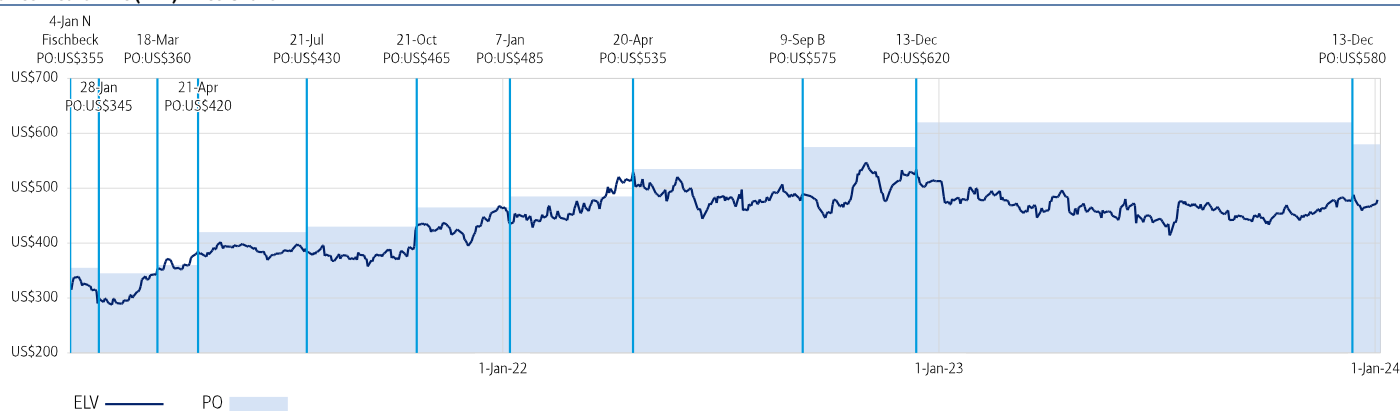
## US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	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
	Privia Health	PRVA	PRVA 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
<b>NEUTRAL</b>				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
<b>UNDERPERFORM</b>				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agility Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	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

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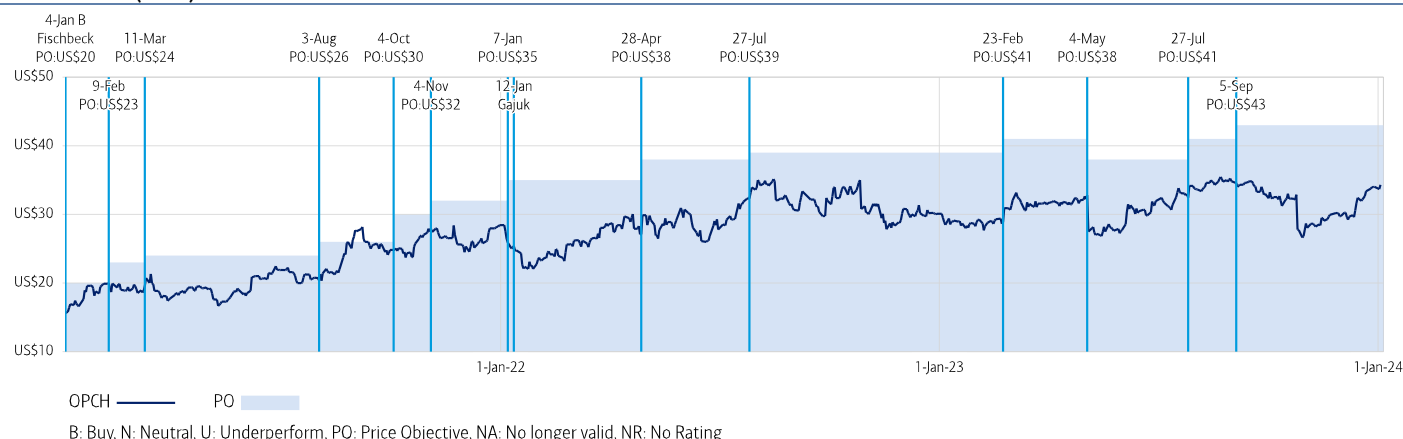
## Elevance Health Inc (ELV) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

## Option Care Health (OPCH) 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 <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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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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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