

Home Infusion

Survey shows no signs of slowing home infusion revenue growth

Industry Overview

Industry expected to grow in mid-teens

Our survey of 30 home infusion providers in the US (conducted in Jan. 2024) indicates the outlook for revenue growth is bullish with +14% expected for 2024 and +15% CAGR in 2024-2026. That's despite providers acknowledging headwinds from subcutaneous formulations and biosimilar Stelara coming to the market, as well as minimal contribution from the new Alzheimer's drugs. The survey is a positive read through to Option Care (OPCH), supporting our positive view on robust industry revenue growth and continued consolidation in the sector. We reiterate our Buy rating.

+14% revenue growth expected, in line with 2020-22 Avg.

Respondents saw rev growth of +14% in 2023, which followed +14% CAGR in 2020-22. This was an acceleration from +11% CAGR in 2017-19. Respondents expect revs to continue to grow in the mid-teens: +14% in 2024 and +15% CAGR in 2024-26 (Exhibit 1). Meanwhile, wages for clinical labor are expected to grow +6% y/y in 2024 (median +5.0%), boding well for margins given the top-line growth forecast.

SubQ largely viewed as headwind, some expect benefit

About one-third of respondents expect no impact from subcutaneous (subQ) formulations coming to the market. Almost 60% said they expect a negative impact to revs/profits (Exhibit 9): 17% expect less than a 5% decline, 10% expect a 5-10% decline, and 10% expect a 10-20% decline over time. Interestingly, 30% expect their rev/profits to grow faster as more subQs enter the market – likely because new therapies, even if in a form of subQ, tend to require assistance from a medical professional.

Impact of Biosimilar Stelara to be small

About 60% of respondents think that biosimilar Stelara will reduce revenues and profits by less than 5%, 20% said it will have a significant impact and 20% expects a bigger impact to revenues and a smaller % impact to profits due to more competition.

Alzheimer's drugs not a meaningful contributor for most

Over 40% expects no impact to revenues from the new Alzheimer's drug class. This is no surprise given the very slow roll out. About one-third expects the new drug class to add slightly (less than 5%), and over 20% expects significant benefit to revenues over time.

Consolidation to continue, would pay 5.5x EBITDA

80% expects consolidation in the industry and expect to pay 5.5x EBITDA for deals on average (4.0x median).

60% of revs from drug costs, 20% from nursing

About 60% of home infusion provider revenues come from billings for the cost of drugs, with 20% from nursing costs, and the remaining 20% from Other costs (pharmacy, compounding, delivery, etc.). This is relevant when it comes to any drug pricing pressure, as providers have other sources of revenue besides the cost of the drug. The drug offerings by home infusion providers are quite diversified – key therapies in Exhibit 7.

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Home infusion survey

In January 2024, we conducted a survey of 30 home infusion providers across 16 states (see Exhibit 15 for state breakout).

+14% revenue growth expected, in line with 2020-22 Avg.

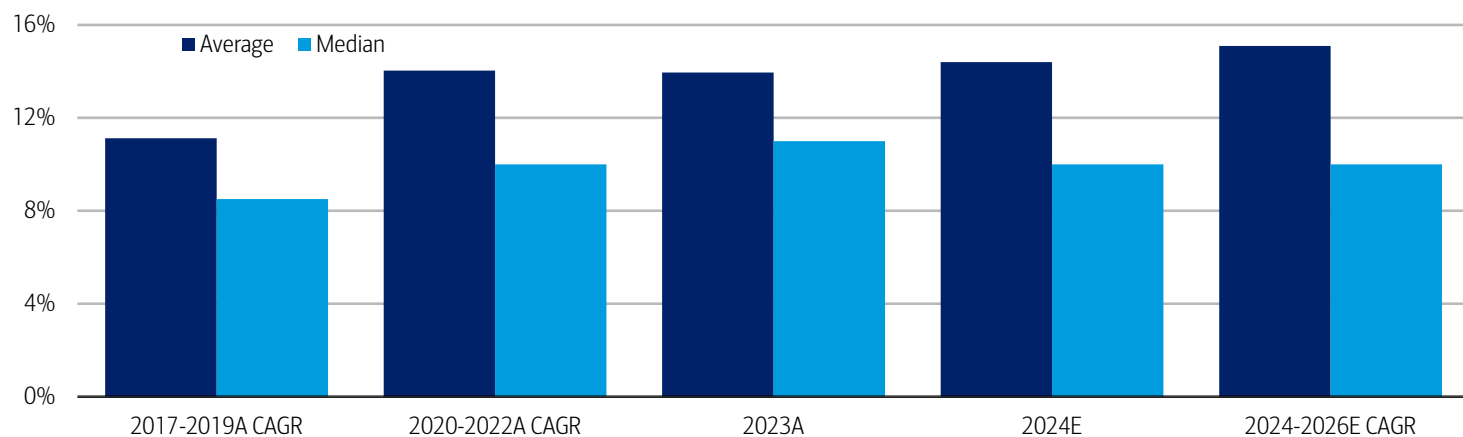
Survey respondents reported 14% rev growth in 2023 on average (+11% median), which followed a 14% average CAGR in 2020-2022. Of note, +14% growth is an acceleration from +11% growth pre-COVID (2017-2019).

Respondents expect revenue to continue to grow in the mid-teens. In 2024, the average growth outlook expected is +14% (+10% median). Meanwhile, respondents expect revenue growth to accelerate further to a +15% CAGR in 2024-2026 (+10% median).

Of note, some respondents expect revs to grow 50-80%, likely because of their small rev base. Meanwhile, several respondents expect rev growth in the single digits.

Exhibit 1: Historical revenue growth and revenue growth outlook

14% revenue growth expected in 2024, in line with 2020-22 Avg



Source: BofA Global Research survey

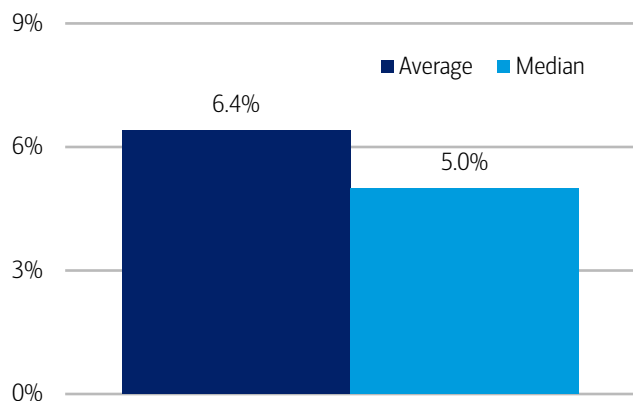
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Wages to grow +6% y/y in 2024

On average, our survey respondents expect wages for clinical labor to grow +6% y/y in 2024, ranging from +2% to +22%. The median was +5.0%.

Exhibit 2: Wages to grow 6% y/y in 2024

Wage growth y/y outlook for 2024



Source: BofA Global Research survey

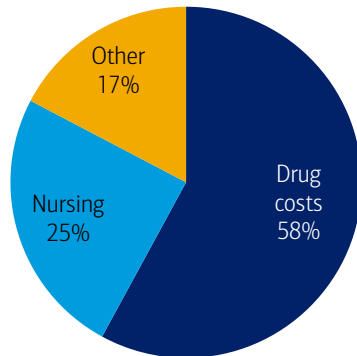
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60% of revs from drug costs, 25% from nursing

On average, about 60% of home infusion provider revs come from billings for the cost of drugs, with 25% from nursing costs and the remaining 17% from Other costs such as pharmacy, compounding, delivery, etc.

Exhibit 3: Revenue mix, average

On average, drug costs are 58% of revs

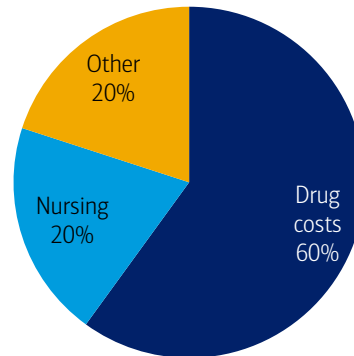


Source: BofA Global Research survey

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Exhibit 4: Revenue mix, median

At the median, drug costs are 60% of revs



Source: BofA Global Research survey

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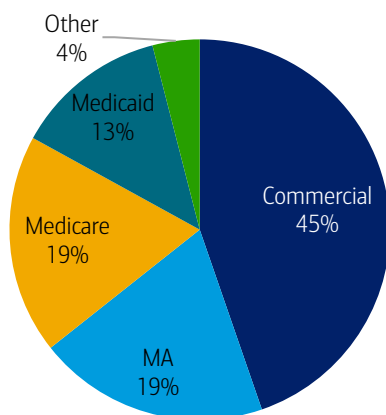
Commercial payors are 45% of revs, MA is 19%

On average, about 45% of home infusion provider revs comes from commercial payors and about 20% from Medicare Advantage (MA).

Interestingly, 19% of respondents' revs comes from Medicare, above OPCH's exposure of about 6%. Another 13% of revs comes from Medicaid. This is much higher than OPCH and implies lower margins for the respondents.

Exhibit 5: 45% of revenues comes from commercial, 20% from MA

Rev by payor, average for survey respondents



Source: BofA Global Research survey

MA = Medicare Advantage

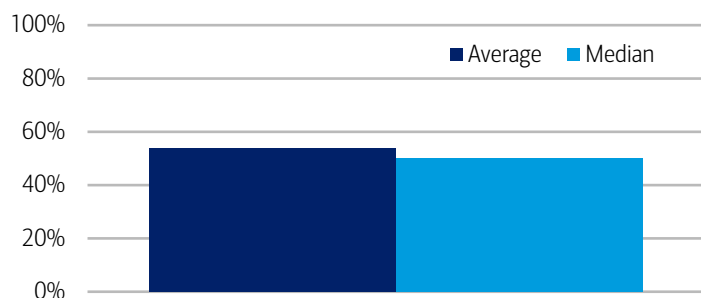
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Chronic therapies account for 54% of revs

On average, chronic therapies account for over half of respondents' revs, ranging from 2% to 100%. This is lower than the 70% Chronic mix for OPCH.

Exhibit 6: About half of revenues comes from chronic therapies

% of revs coming from Chronic therapies



Source: BofA Global Research survey

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IVIg most common therapy class

Home infusion companies provide a wide range of drugs. We had asked our survey respondents to list the three biggest therapies they provide. Overall, the most commonly listed therapy type was IVIG or Immunoglobulins: 20% of respondents listed IVIG as their biggest therapy class, and 20% listed IVIG as the second-biggest therapy.

The second most common category listed was Antibiotics: 13% said it was their biggest therapy class, and 17% said it was the second-biggest therapy provided.

This is similar to OPCH's therapy mix, where IG is more than 20% of therapy revs and antibiotics are 10%. See details in our [OPCH deep dive report](#).

Chemotherapy was third most common category listed (OPCH does not do much oncology), followed by Remicade, Entyvio and Total Parenteral Nutrition (TPN).

Exhibit 7: IVIG and Antibiotics are the most common therapies

of respondents that listed certain therapy

	Top 1-3	Biggest therapy	%	Second biggest Therapy	%	Third biggest therapy	%
IVIg	15	6	20%	6	20%	3	10%
Antibiotics	10	4	13%	5	17%	1	3%
Chemotherapy	7	4	13%	3	10%	0	0%
Remicade	4	2	7%	0	0%	2	7%
Entyvio	3	2	7%	1	3%	0	0%
TPN	3	1	3%	0	0%	2	7%

Source: BofA Global Research survey

IVIg = Immunoglobulins. TPN = Total Parenteral Nutrition

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Impact of Biosimilar Stelara to be small

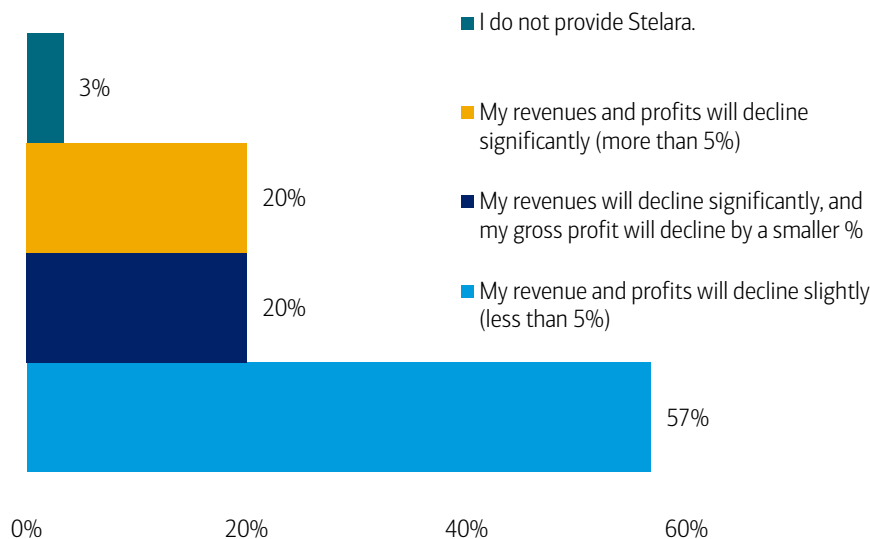
Stelara is one of the key infusion drugs – we estimate 13% of total spending on home infusion therapies. Given expectations for the Stelara biosimilar coming to the market in 2025, we had asked survey respondents what impact they expect from the changes.

About 60% of respondents think that biosimilar Stelara coming to the market will reduce revenues and profits by less than 5%. 20% said the biosimilar will have a significant impact on revenue and profits. Another 20% said they expect a bigger impact to revenues and a smaller % impact to profits.

About 3% of respondents do not provide Stelara.

Exhibit 8: What impact do you expect to your business from biosimilar Stelara coming to the market?

Almost 60% expects small impact to revs and profits from biosimilar Stelara



Source: BofA Global Research survey

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SubQ largely viewed as headwind, some expect benefit

Over time, some infusion therapies can be replaced by subcutaneous injection (subQ) where the medication is forced into the body by means of a needle and syringe. In recent years, the number of subQ formulations approved by the FDA has increased, with approvals in 2018 and 2019 outpacing the approvals of infusions. However, new innovative therapies even if in a form of subQ tend to require assistance from a medical professional. See details in our [OPCH deep dive](#).

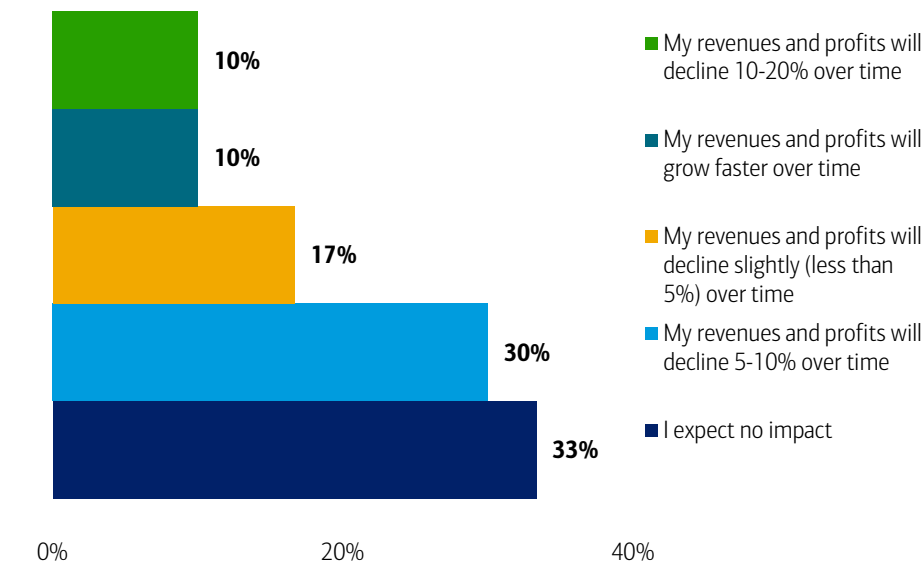
Two important home infusion therapies, Ocrevus and Entyvio, are expected to have a subQ formulations in the market in 2024/25. Given the potential risks to the legacy therapies, we had asked survey respondents for their views of the potential impact of subQ formulations on their business.

About one-third of respondents expect no impact to their business from subQ. Almost 60% said they expect a negative impact to revs/profits: 17% expects less than 5% decline, 10% expects 5-10% decline, and another 10% expects 10-20% decline over time.

Interestingly, 30% said they expect their revenue and profits to grow faster as more subQ formulations enter the market.

Exhibit 9: What impact do you expect to your business from subcutaneous formulations of your key drugs?

1/3 of respondents expect no impact from subQ. 10% expect revs/profits to increase



Source: BofA Global Research survey

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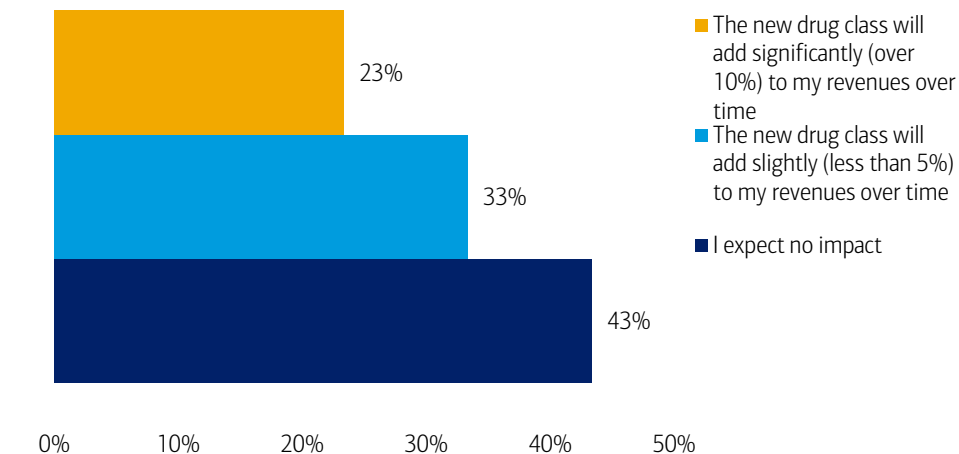
Alzheimer's drugs not a meaningful contributor for most

Over 40% of respondents expect no impact to their revs from the new Alzheimer's drug class. This is no surprise given the very slow roll out of the new therapies.

About one-third of respondents expects the new drug class to add slightly (less than 5%) to their revs over time. Of note, more than 20% of respondents expect the new Alzheimer's drugs to add significantly to their revs over time.

Exhibit 10: What impact do you expect to your business from the new Alzheimer's drugs?

Over 40% expect no impact from new Alzheimer's drugs to its revs



Source: BofA Global Research survey

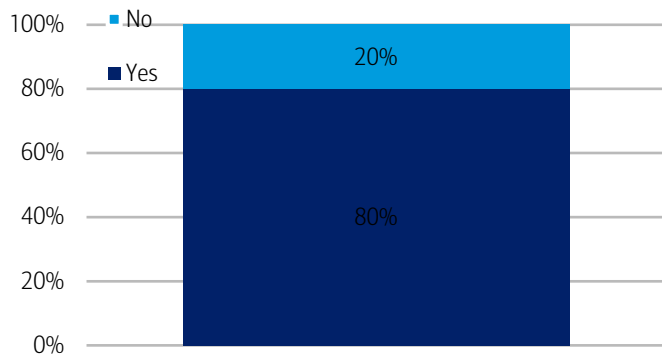
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Expected deal multiples: 5.5x LTM EBITDA

Most of the survey respondents (80%) expect consolidation in the home infusion industry. On average, the companies are expected to pay 5.5x EBITDA for deals, ranging from 1.5x to 22x (4.0x median).

Exhibit 11: 80% of respondents expect more consolidation in the home infusion industry

Outlook for consolidation

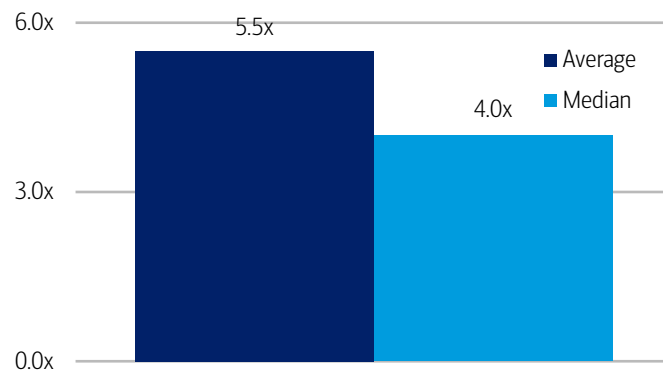


Source: BofA Global Research survey

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Exhibit 12: Deal multiples to be in the 5.5x EBITDA range

Outlook for deal multiples



Source: BofA Global Research survey

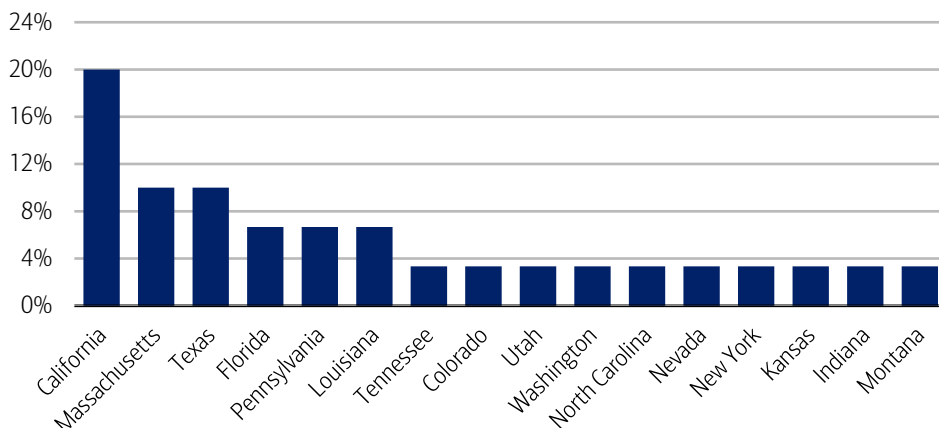
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Appendix

Our survey included providers in 16 states.

Exhibit 13: CA, MA and TX were the most represented states in our survey

% of respondents by state



Source: BofA Global Research survey

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Price objective basis & risk

Option Care Health (OPCH, \$37.49, 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

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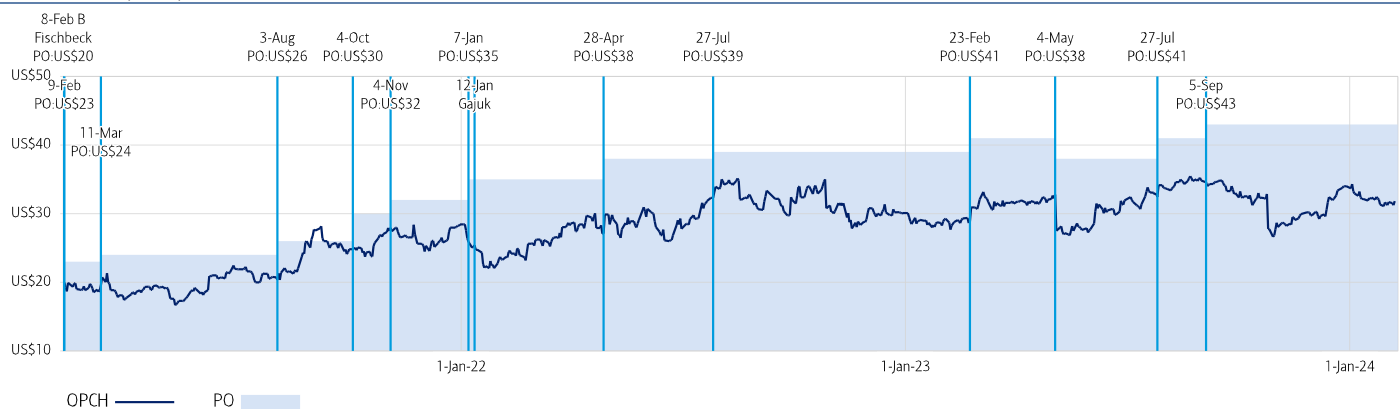
US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

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
	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
NEUTRAL				
	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
UNDERPERFORM				
	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

Disclosures

Important Disclosures

Option Care Health (OPCH) 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.

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}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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