

Chemed Corporation

Search data implies stable trends in Q4 for Roto; activity picked up in January

Reiterate Rating: BUY | PO: 680.00 USD | Price: 571.74 USD

Data in line with our Q4 est. Strong start to Q1

Google Trends data shows searches for “plumbing” in 4Q23 declined -1% Q/Q, better than historical Q/Q trends. Given the high correlation with CHE’s Roto-Rooter revs, the search data implies 4Q23 revs down 1% y/y, in line with our estimate/ consensus. Meanwhile, the initial data for January 2024 shows potentially higher demand for services, boding well for 1Q24. This could be a result of the unusually cold weather in the Midwest and South in January (freezing temps can cause pipes to burst). We reiterate Buy on CHE as we expect Vitas to provide offsets to Roto – bullish at our [Conference \(see report\)](#).

Q4 demand decelerated slightly, better than historical

Google searches for “plumbing” in Oct-Dec 2023 imply 4Q23 activity declined -0.8% Q/Q (Exhibit 5), better than the historical seasonality in the data: on avg, Q4 was down -2.1% Q/Q in 2017-2022, and -2.7% in 2017-2019. 4Q23 activity was much better.

Data in line with our est. for Roto’s Q4 revs

We found a strong correlation (86%) between the y/y change in the Searches and Roto-Rooter’s revenue growth (1Q17-3Q23) – see Exhibit 4. Assuming demand for plumbing services decelerated -0.8% Q/Q in 4Q23, it implies Roto revs would be -1.2% y/y (off of +0.4% in 3Q23), in line with our estimate/ consensus of -1% y/y.

January searches were much better than historical

After December searches declined 6% m/m (worse than historical trends), the activity in January 2024 increased 23% m/m, above the historical avg m/m growth of +9%. It is up 8% y/y (Exhibit 1) and above any January level in the data set (Exhibit 2). The January searches are 12% above the Jan. 2019 levels, a sharp improvement from recent trends (Q3 was 1% below 2019, Q4 was 1% above 2019).

Bloomberg card data shows spending improved in Q4

We also looked at Bloomberg Second Measure credit and debit card data for CHE’s Roto-Rooter. The correlation is weaker (47%) but the data could be used to assess the direction of trends. Bloomberg data shows card spending on Roto services declined -2.7% y/y in 4Q23, an improvement from -6.5% y/y in 3Q23 (Exhibit 7). Though, we note, the sample is small as the data represents only 1% of Roto’s revs in a period.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	19.35	19.75	19.92	22.59	24.75
GAAP EPS	16.85	16.53	17.96	20.68	23.07
EPS Change (YoY)	7.0%	2.1%	0.9%	13.4%	9.6%
Consensus EPS (Bloomberg)			20.71	23.01	24.86
DPS	1.40	1.48	1.56	1.60	1.60
Valuation (Dec)					
P/E	29.5x	28.9x	28.7x	25.3x	23.1x
GAAP P/E	33.9x	34.6x	31.8x	27.6x	24.8x
Dividend Yield	0.2%	0.3%	0.3%	0.3%	0.3%
EV / EBITDA*	18.8x	19.1x	19.2x	17.4x	16.1x
Free Cash Flow Yield*	2.9%	2.9%	3.4%	4.2%	4.1%

* For full definitions of *IQmethod*SM measures, see page 9.

14 February 2024

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Stock Data

Price	571.74 USD
Price Objective	680.00 USD
Date Established	15-Dec-2023
Investment Opinion	A-1-7
52-Week Range	492.84 USD - 610.35 USD
Mrkt Val (mn) / Shares Out (mn)	8,639 USD / 15.1
Free Float	98.3%
Average Daily Value (mn)	45.77 USD
BofA Ticker / Exchange	CHE / NYS
Bloomberg / Reuters	CHE US / CHE.N
ROE (2023E)	32.2%
Net Dbt to Eqty (Dec-2022A)	2.9%
ESGMeter™	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"](#).

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Timestamp: 14 February 2024 12:05AM EST

iQprofileSM Chemed Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	24.9%	24.3%	22.1%	22.0%	21.9%
Return on Equity	40.5%	41.9%	32.2%	28.7%	26.8%
Operating Margin	16.5%	16.5%	15.5%	16.8%	17.5%
Free Cash Flow	250	253	293	364	352

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.0x	1.0x	1.2x	1.2x	1.1x
Asset Replacement Ratio	1.0x	1.0x	1.0x	0.9x	0.9x
Tax Rate	23.3%	24.3%	22.6%	22.8%	23.4%
Net Debt-to-Equity Ratio	24.4%	2.9%	-22.5%	-32.6%	-35.0%
Interest Cover	NM	NM	NM	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,139	2,135	2,264	2,385	2,551
% Change	2.8%	-0.2%	6.0%	5.4%	6.9%
Gross Profit	770	765	789	836	902
% Change	9.7%	-0.6%	3.1%	5.9%	8.0%
EBITDA	460	452	448	496	536
% Change	3.3%	-1.6%	-0.8%	10.6%	8.1%
Net Interest & Other Income	(3)	(22)	0	4	3
Net Income (Adjusted)	308	298	302	341	370
% Change	4.0%	-3.3%	1.4%	12.9%	8.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	269	250	273	313	345
Depreciation & Amortization	59	59	60	63	63
Change in Working Capital	(27)	(35)	(10)	10	(30)
Deferred Taxation Charge	2	15	(8)	0	0
Other Adjustments, Net	5	21	38	37	33
Capital Expenditure	(59)	(57)	(60)	(59)	(59)
Free Cash Flow	250	253	293	364	352
% Change	-41.9%	1.1%	16.0%	24.3%	-3.5%
Share / Issue Repurchase	576	115	68	160	240
Cost of Dividends Paid	(22)	(22)	(24)	(24)	(24)
Change in Debt	185	(85)	(98)	0	3

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	33	74	243	423	514
Trade Receivables	137	139	177	189	202
Other Current Assets	60	59	49	60	60
Property, Plant & Equipment	194	200	205	201	197
Other Non-Current Assets	919	970	962	962	962
Total Assets	1,343	1,442	1,637	1,835	1,934
Short-Term Debt	0	5	0	0	0
Other Current Liabilities	302	292	325	332	311
Long-Term Debt	185	93	0	0	3
Other Non-Current Liabilities	232	254	232	205	159
Total Liabilities	719	643	557	537	473
Total Equity	623	799	1,080	1,299	1,461
Total Equity & Liabilities	1,343	1,442	1,637	1,835	1,934

* For full definitions of iQmethodSM measures, see page 9.

Company Sector

Long-Term Care

Company Description

Chemed (CHE) operates through two wholly owned subsidiaries: VITAS and Roto-Rooter Group. VITAS is one of the largest providers of hospice service in the US, accounting for 7% of the industry. It operates 45 programs in 15 states and the DC. The average daily census of an average program is about 350 patients, with the largest program having census of 1,800. Roto-Rooter provides plumbing, drain cleaning, water restoration and other related services to both residential and commercial customers.

Investment Rationale

We like the LT volume tailwinds for hospice and the stability/cash flow of both the hospice and Roto-Rooter business, even during recession. In addition, we view favorably CHE's very low leverage (close to zero) and a growing dividend.

Stock Data

Average Daily Volume 80,046

Quarterly Earnings Estimates

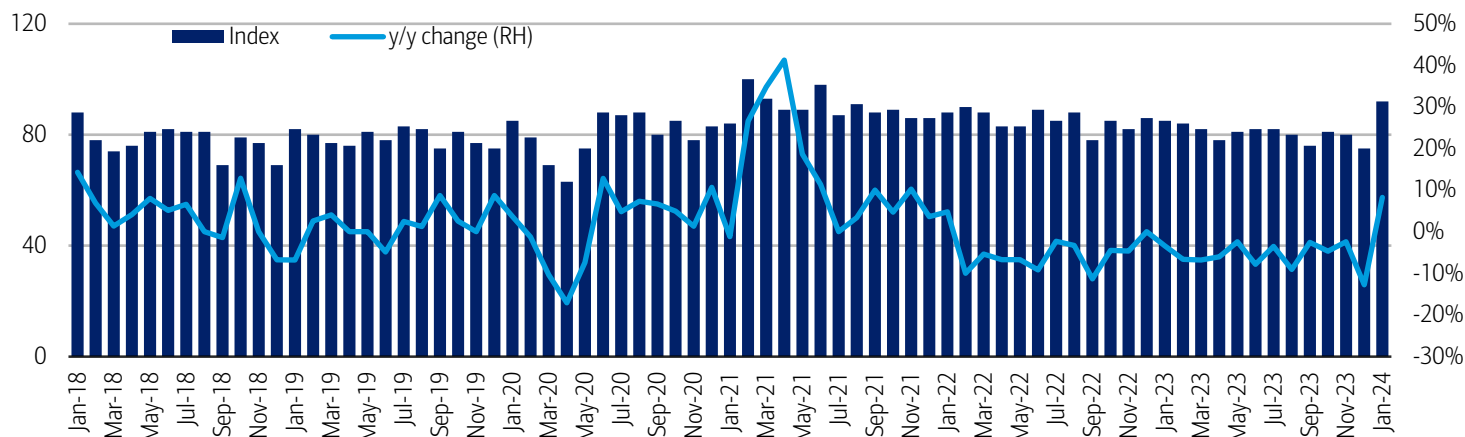
	2022	2023
Q1	4.79A	4.30A
Q2	4.84A	4.06A
Q3	4.74A	5.32A
Q4	5.39A	6.24E

Monthly data: Jan searches up from Dec.

In this report we track Google Trends data for “plumbing” in the US. The data is indexed to the highest point.

Exhibit 1: Google searches for “Plumbing” declined m/m in December 2023 but January 2024 is tracking well above

Google Trends data Indexed to the highest level in Feb 2021; y/y % changes; monthly Jan 2018-Jan 2024

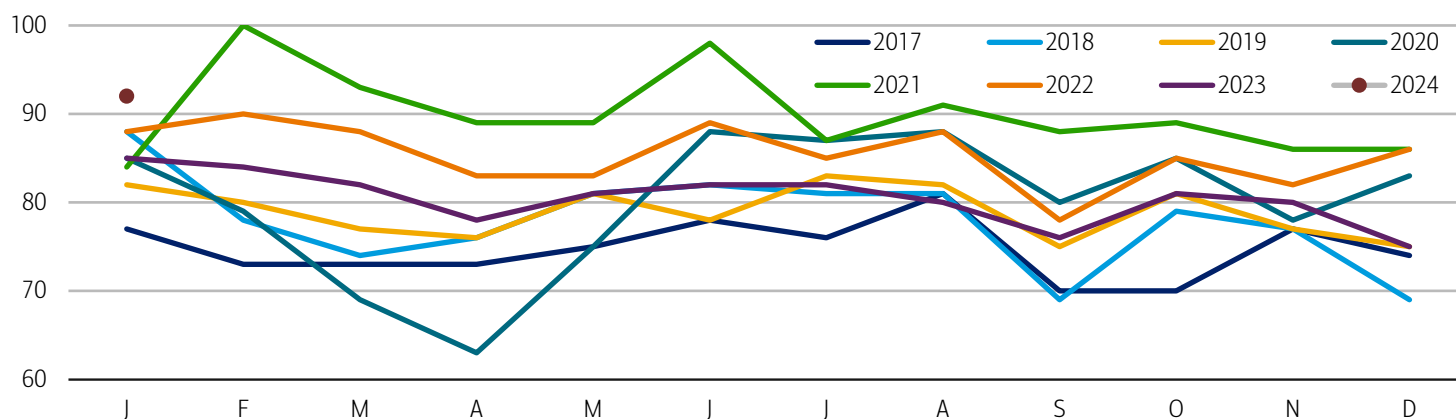


Source: Google Trends

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Exhibit 2: Historically, searches for Plumbing are the lowest in September and December; typically increase in January from December.

Monthly data Google Trends data Indexed to the highest level (Feb 2021 = 100)

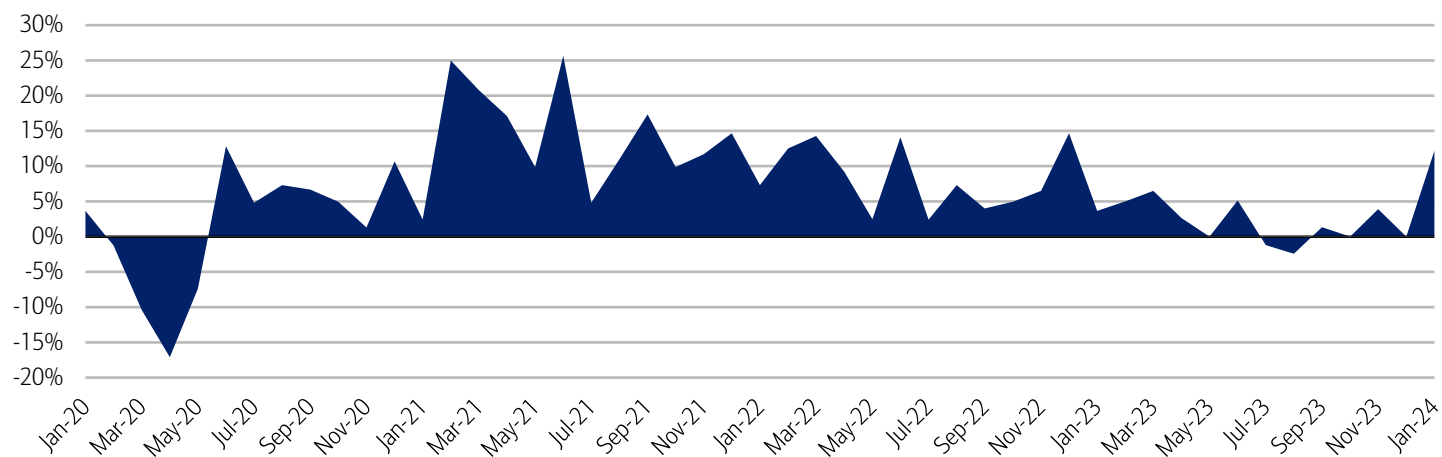


Source: Google Trends

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Exhibit 3: “Plumbing” searches in January 2024 were above 2019 levels

Google Trends on “Plumbing”, Indexed to the highest level (Feb 2021 = 100), monthly, as % of 2019 Index value



Source: Google Trends

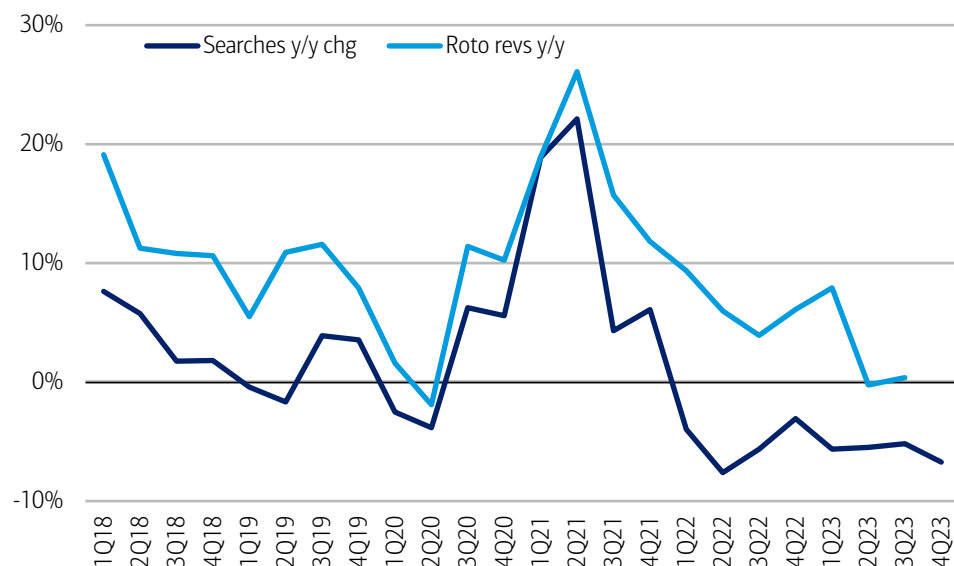
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Quarterly data**Google Trends data is highly correlated with Roto revs y/y changes**

We had found a strong correlation (86%) between the y/y change in the average quarterly searches and Roto-Rooter's segment revenue growth (1Q17-3Q23).

Exhibit 4: Google searches for “plumbing” are highly correlated with Roto revenue y/y changes

Google Trends data (Indexed to the highest level), y/y changes vs Roto revs % y/y change; quarterly



Source: CHE company filings (Roto revs), Google Trends (searches)

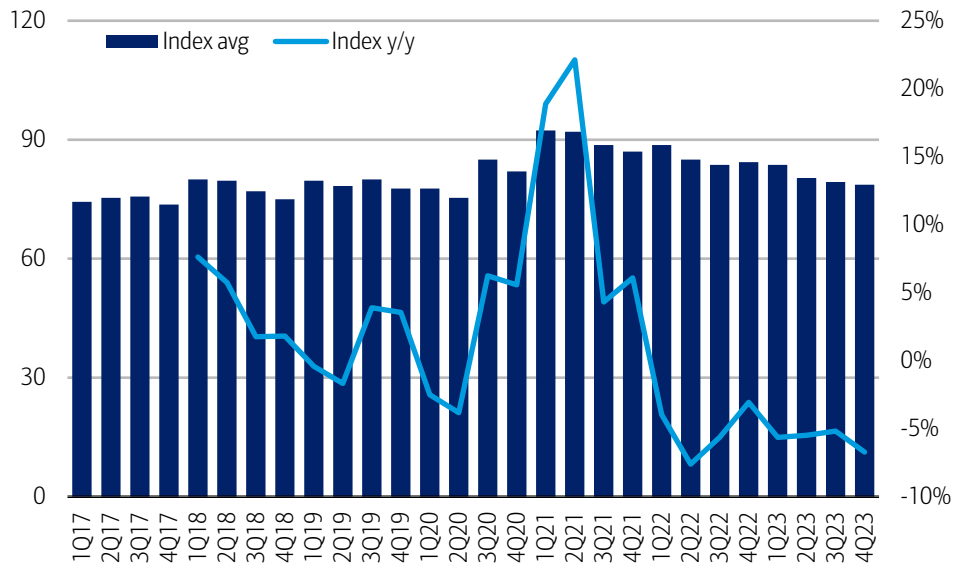
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Q4 searches -0.8% Q/Q, better than historical seasonality

Based on the Oct-Dec 2023 searches, the average declined -0.8% Q/Q in 4Q23 from 3Q23. This is better than the historical seasonality: on avg, Q4 was down -2.1% Q/Q in 2017-2022, and -2.7% Q/Q in 2017-2019.

Exhibit 5: “Plumbing” searches declined 0.8% Q/Q in 4Q23, better than historical trends

Google Trends data Indexed to the highest level in Feb 2021; y/y % changes; quarterly average

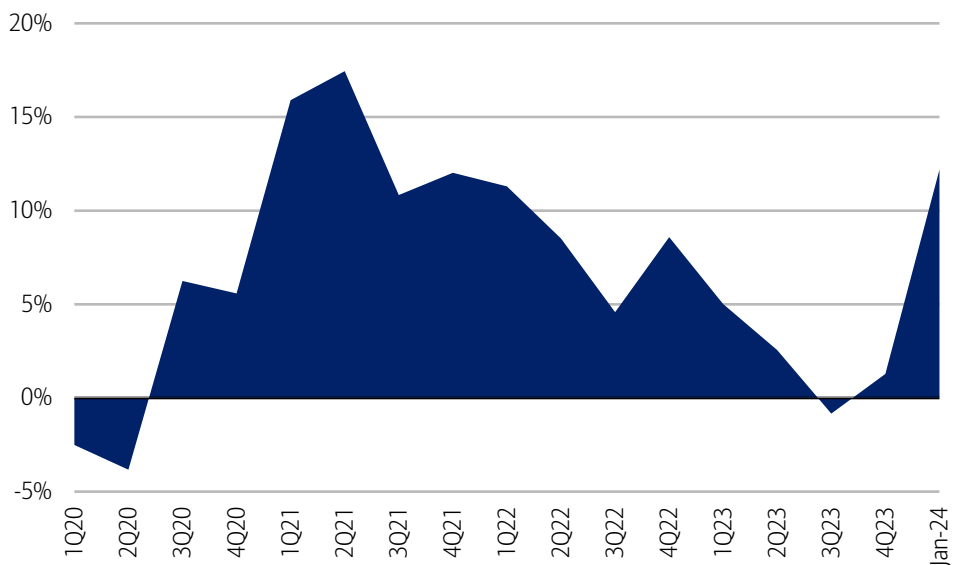


Source: Google Trends

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Exhibit 6: Searches for plumbing tracking above 2019 in January, reversal from recent trends.

Google Trends on “Plumbing”, Indexed to Feb 2021; quarterly, as % of 2019 Index value



Source: Google Trends

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Bloomberg card data

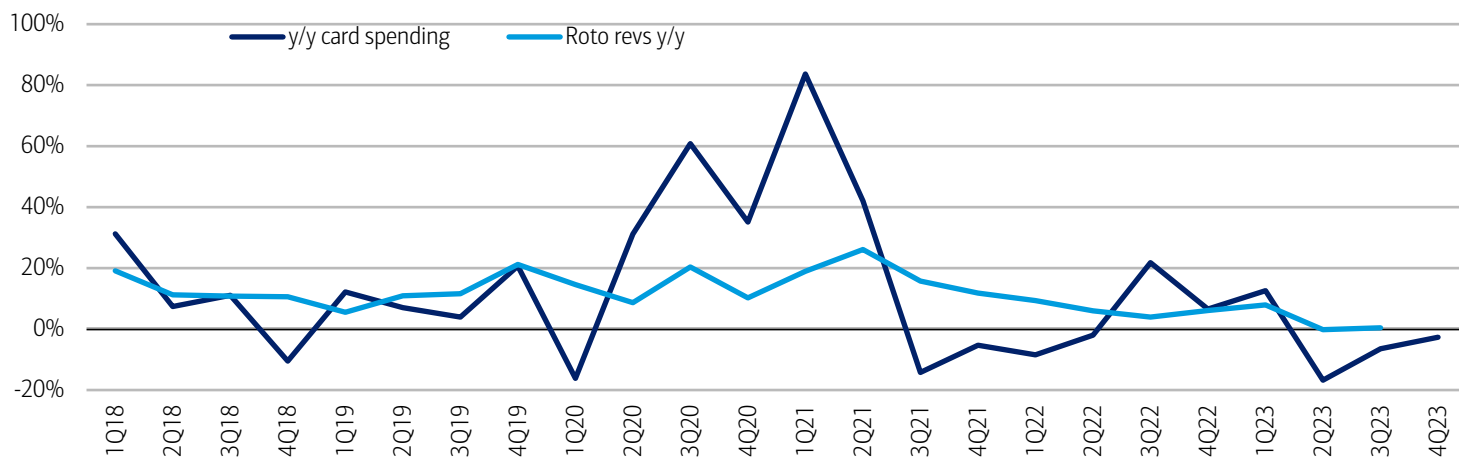
We also looked at Bloomberg Second Measure credit and debit card data through 1/31/24. The data provides aggregated analytics from billions of credit card and debit card purchases from a U.S. consumer panel that includes 20+ million members. The data skews towards debit cards and over-represents certain mid-western and island states and under-represents states along the coasts. To correct for this geographic skew, a post-stratification technique is used to normalize geographic imbalances in the panel and re-weight the data based on U.S. Census data.

We found that the data on card spending (observed sales) associated with CHE's Roto-Rooter has a relatively low correlation with Roto's rev y/y changes, at 47% using the Excel formula. However, directionally the two data sets move in the same direction. For example, both data sets showed a deceleration in 2Q23: Roto reported revs slowed down to -0.2% y/y in 2Q23 from +7.9% y/y in 1Q23, and similarly Bloomberg card data implied a deceleration to -16.8% y/y in 2Q23 from +12.6% in 1Q23.

The Bloomberg data shows card spending on Roto services declined -2.7% y/y in 4Q23, an improvement from -6.5% y/y in 3Q23.

Exhibit 7: Bloomberg card data is somewhat correlated with Roto's rev y/y changes. The y/y decline in 4Q23 improved from 3Q23

Bloomberg Second Measure credit and debit card data for Roto-Rooter, y/y % change in observed sales



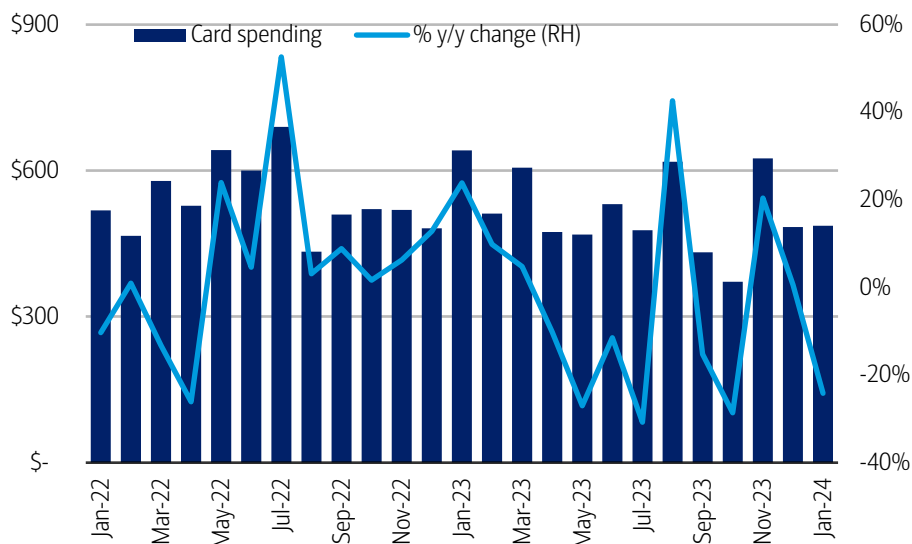
Source: Bloomberg Financial LP- ALTD <GO>

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The data for the month of January 2024, shows the card spending was flat m/m vs Dec and it is down 24% y/y on tough comps (Jan 2023 sales were up 24%, and the highest in 2023).

Exhibit 8: Spending was flat m/m in Jan

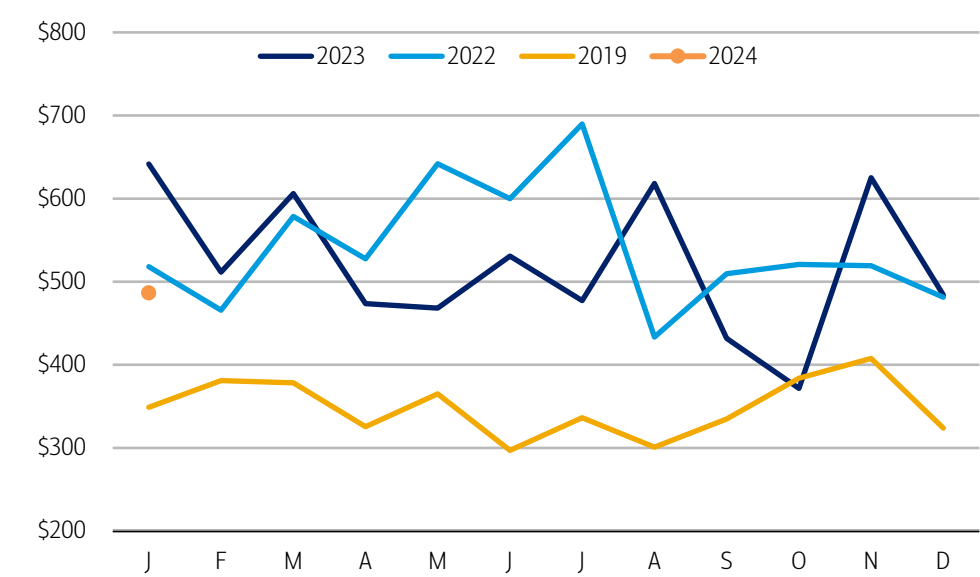
Bloomberg Second Measure credit and debit card data for Roto-Rooter, observed sales (\$000s); monthly



Source: Bloomberg Financial LP- ALTD <GO>

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Exhibit 9: January card spending is down y/y but well above 2019
Bloomberg Second Measure credit and debit card data for Roto-Rooter, observed sales (\$000s); monthly – comparison by year



Source: Bloomberg Financial LP- ALTD <GO>

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Price objective basis & risk

Chemed Corporation (CHE)

Our PO of \$680 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 18x 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.

Analyst Certification

I, Joanna Gajuk, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my 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
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

US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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Disclosures

Important Disclosures

Chemed (CHE) Price Chart



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}
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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