BofA SECURITIES

Home Health

Survey: Hospice, Home health volumes accelerated in Q4; labor remains headwind

Industry Overview

16 January 2024

Equity
United States
HC Facilities

BofA Data Analytics

Vols solid in Q4; costs growth outpaces pricing

According to our Q4 survey, home health volumes and hospice census accelerated. Medicare volumes grew slower than Medicare Advantage (MA), a reversal of recent trends. Labor cost inflation is expected to decelerate in 2024 although the growth will remain elevated at +9% y/y. This will be hard to offset given another year of Medicare rate update below the cost inflation. The outlook for consolidation continues to slow down as the industry is awaiting more clarity on rates. Strong hospice vols are a positive read through to Chemed (CHE) and Addus (ADUS).

Hospice census, admission growth accelerated in Q4 vs Q3

Organic hospice census accelerated in Q4 from Q3 (+11% y/y vs +10% in Q3) and growth remains above trends observed in 2020. Meanwhile, admission growth accelerated to +10.3% in Q3 from +9.8% in Q3, and LOS increased +5.9% y/y in Q4, positive indications for census in the future.

Rates in hospice carve-in demo are 9% below Medicare

About 44% of hospice providers in the survey contract with MA for hospice services. These respondents said the average daily rate for MA was 25% below the average Medicare daily rate, worse than -13% discount in our 3Q23 survey, but the median discount was unchanged at 9% (some said rates in line with Medicare).

Home health volumes accelerated in Q4 from Q3

Organic HH volumes (admissions + recertifications) accelerated in 4Q23 to +20.2% y/y from +14.9% in Q3 and was 560bps above the growth seen a year ago in 4Q22.

MA grew 200bps faster than FFS in Q4

In Q4, Medicare Advantage (MA) admissions grew faster than Medicare fee-for-service (FFS), +13% y/y vs +11% for FFS. This is negative as MA rates are 13% below FFS.

Wages/total labor +9% in 2024 vs +11% in 2023

Wages grew +10.7% y/y in 2023, worse than the outlook for +8-9% in 1H23 surveys. The growth to decelerate to +8.7% y/y in 2024. Total labor costs (including contract labor) +11.0% y/y in 2023 and are expected to decelerate to +9.0% y/y in 2024. Staff turnover in Q4 was 18%, worse than 15% in Q3 and worse than 13% pre-COVID.

Labor shortage's impact to vols got worse

On average, in 4Q23, 15% of patients were not admitted due to labor shortages, worse than 13% reported in our 3Q23 survey and worse than 14% in 2Q23 and 1Q23.

Temp labor use improved in Q4 vs Q3

11% of hours were provided by temp labor in 4Q23, below Q3 (12%) but above 9% in 2019. The outlook for the need to rely on temp labor has been generally improving since the mid-2022, but worse vs prior survey.

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HH = home health

ADC = average daily census

LOS = Length of stay

Refer to important disclosures on page 24 to 28. Analyst Certification on page 22. Price Objective Basis/Risk on page 21. 12645510

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Amedisys (AMED) better positioned in our survey

Our survey results are most relevant for AMED and EHAB as most of their revenues come from home health and hospice. Hospice results are the most relevant for CHE (59% of revs) and AMED (36% of revs), followed by ADUS (26% of revs), and EHAB (18% of revs).

Exhibit 1: Exposure to Home health and hospice – Revenue mix as % of total revs, as of 3Q23
Our survey is most relevant for EHAB, ADUS, and AMED, also applicable for CHE

Category	AMED	EHAB	ADUS	CHE
Home Health	**63%**	**82%**	**8%**	**-**
Hospice	**36%**	**18%**	**26%**	**59%**
Personal Care	-	-	321%	-
Other	1%	-	-	41%

Source: BofA Global Research survey, company reports

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In order to look at the exposure of each company to home health organic volume (admissions + recertifications) trends, we calculated a weighted average for AMED and EHAB based on their exposure to the 22 states (% of centers in each state). This survey's results are relevant for EHAB and AMED as the 22 states included in the survey cover 59% of home health agencies operated by AMED and 59% of home health agencies operated by EHAB.

AMED is better positioned in this survey, with +24.6% weighted avg growth in its markets in 4Q23, above the overall survey average and EHAB's average.

Exhibit 2: Company exposure to Home Health Organic Volume (admits + recertifications) Average y/y growth in 4Q23
AMED is better positioned in this survey, with +24.6% weighted avg growth in its markets

State	# of agencies	4Q23 Organic Vols Y/Y Average	Company exposure (% of agencies) AMED	EHAB
Texas	9	11.4%	4.9%	21.4%
Florida	6	42.7%	4.6%	8.9%
California	6	9.3%	1.2%	0.0%
Oklahoma	3	35.3%	2.0%	7.0%
Ohio	3	36.0%	1.2%	0.4%
Indiana	3	8.3%	1.4%	0.7%
Georgia	3	44.0%	16.1%	7.4%
Iowa	2	6.5%	0.0%	0.0%
Massachusetts	2	52.5%	1.7%	1.8%
New Jersey	1	5.0%	0.6%	0.0%
New York	1	4.0%	1.4%	0.0%
Washington	1	-4.0%	0.6%	0.4%
Arizona	1	-2.0%	0.9%	1.8%
North Carolina	1	15.0%	3.7%	2.2%
Delaware	1	10.0%	0.6%	0.0%
Tennessee	1	10.0%	13.0%	3.3%
Minnesota	1	3.0%	0.0%	0.0%
Maryland	1	11.0%	2.6%	1.1%
Kansas	1	5.0%	0.0%	1.8%
Louisiana	1	15.0%	2.3%	0.4%
Nebraska	1	9.0%	0.3%	0.0%
Connecticut	1	25.0%	0.3%	0.4%
Total	**50**		**59.4%**	**59.0%**
Weighted Avg		**20.2%**	**24.6%**	**23.9%**

Source: BofA Global Research survey, % exposure by state from company reports

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Home health survey

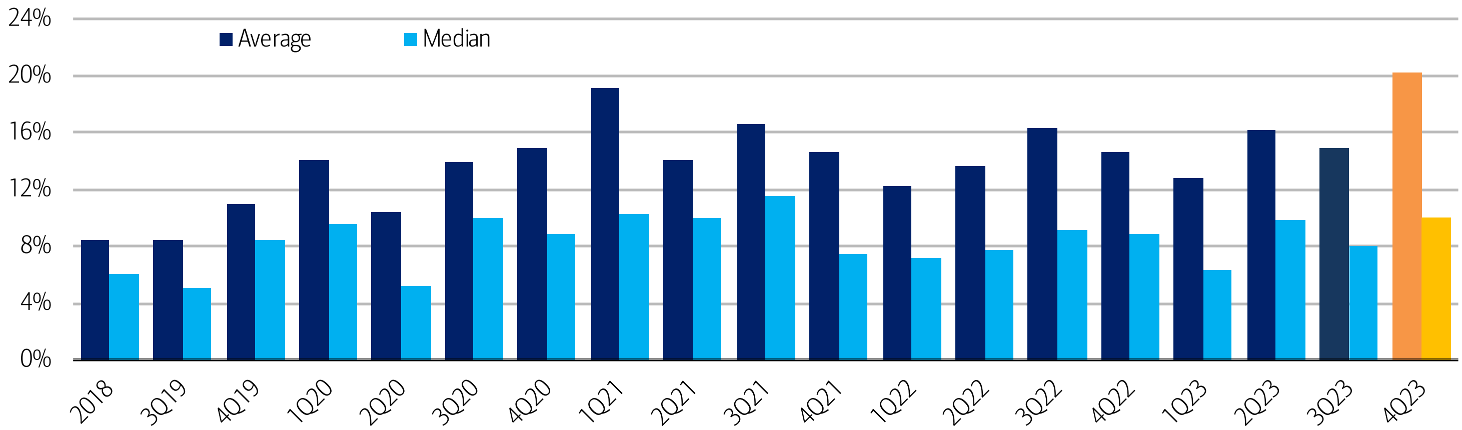
We surveyed 50 home health agencies in 22 states. We focused on the most populous states with 18% of respondents based in TX, 12 in % CA, and 12% in FL - see Exhibit 37 for a full breakout.

Organic home health vols accelerated Q/Q in 4Q23

Please describe (quantify % change) organic Total home health volume (admissions + recertifications) for Medicare + Medicare Advantage year-over-year, at your agency at each of the following points in time?

On average, our survey's respondents saw organic home health volumes (admissions and recertification) grow +20.2% y/y (median of +10%) in 4Q23, accelerating from +14.9% in Q3 and was 560bps above the growth seen a year ago in 4Q22.

Exhibit 3: Quarterly trends in average organic home health volume (admissions + recertifications)
4Q23 Home health vols accelerated from 3Q23, and the growth was above trends observed pre-COVID



Source: BofA Global Research survey

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Surveys directionally consistent with company trends

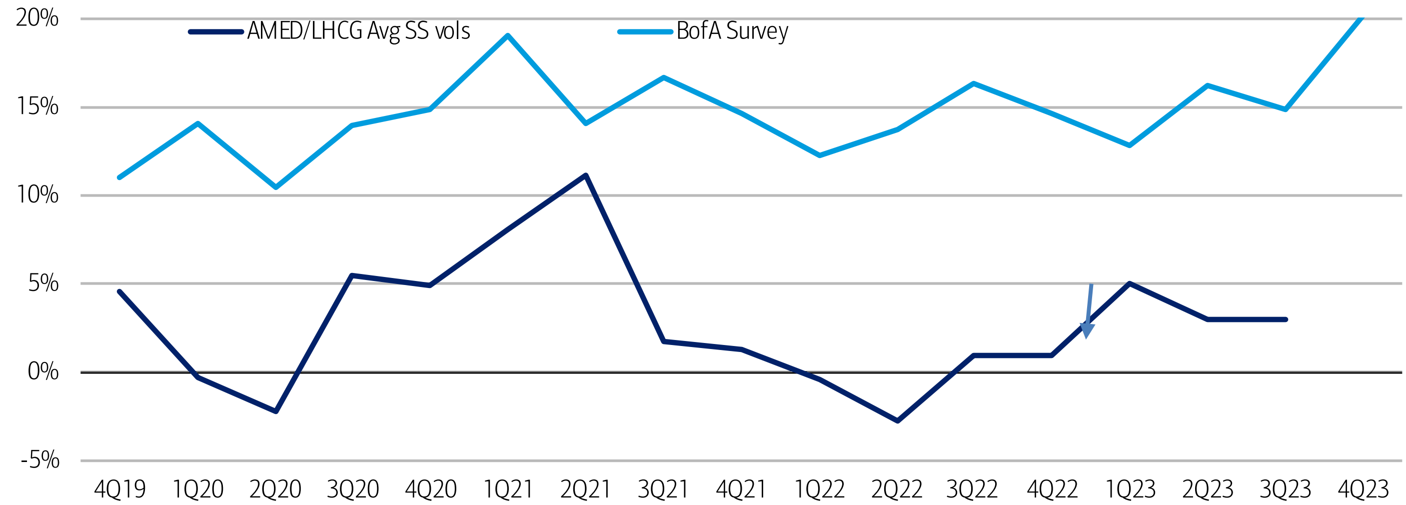
While our BofA survey results for total home health volume trends are only modestly correlated with the average same store volumes at the publicly traded companies, AMED and LHC Group (now owned by UNH), the changes are useful to assess the direction of trends.

For example, the surveys implied a volume slowdown in 4Q21 vs 3Q21, and the companies reported the average same store (SS) volumes slowing down to +1.4% in 4Q21 from +1.8% in 3Q21. Similarly, for 1Q22, the surveys indicated volumes slowing down further (to +12.3% in 1Q22 vs +14.6% in 4Q21) and the average home health vols for AMED and LHCG decelerated to -0.4% in 1Q22 from +1.4% in 4Q21.

However, the correlation was not as strong in 2Q22. Our surveys indicated volumes accelerated (to +13.7% in 2Q22 from +12.3% in 1Q22). Meanwhile, average home health vols for AMED and LHCG decelerated to -2.8% in 2Q22 from -0.4% in 1Q22.

3Q22 was much more directionally consistent as the survey indicated volumes would accelerate (+16.3%, up from +13.7% in Q2) and the average home health vols did, in fact, accelerate (from -2.5% to +1% in 3Q22). Our surveys indicated that volumes decelerated in 4Q22 from 3Q22 while AMED total vols remained stable Q4 vs Q3. Our surveys indicated that volumes in 1Q23 decelerated from 4Q22 while AMED reported volumes accelerated significantly in 1Q23. Our surveys indicated an acceleration in 2Q23 but volumes in fact decelerated for AMED. As of the latest survey, volumes appear to have accelerated in 4Q23.

Exhibit 4: AMED/LHCG home health same store volumes avg vs BofA survey's home health volumes % chg
As per Surveys, 4Q23 vols accelerated from Q3. Highest value in our data set.



Source: BofA Global Research survey, Company reports

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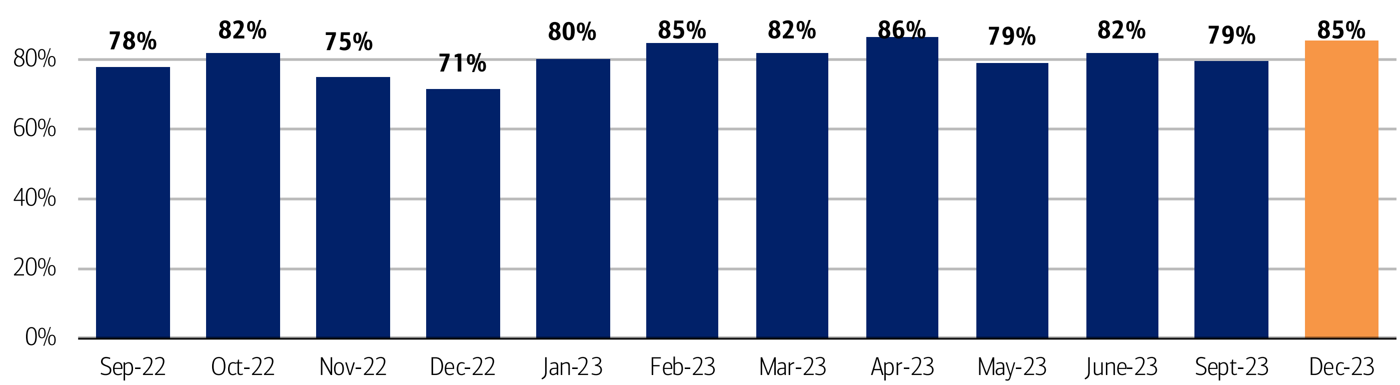
Census above 2019 levels, view improved from the prior survey

We added a question in September 2022 where we asked respondents how census compares to 2019 levels. As of December 2023, on average, respondents said their census was at 85% of the 2019 levels, ranging from 0% to 200%. This is above the average of 79% in our September survey and above the 82% we saw in June. Of note, 36% of respondents said their census is above 2019 levels, above the 28% in the prior survey. Generally, the view of census recovery to pre-COVID levels improved in 2023 from the Dec 2022 lows.

Exhibit 5: In December, Respondents' census was at 85% of 2019 levels, above the September avg
Average of respondents' census as a percentage of 2019



Source: BofA Global Research survey

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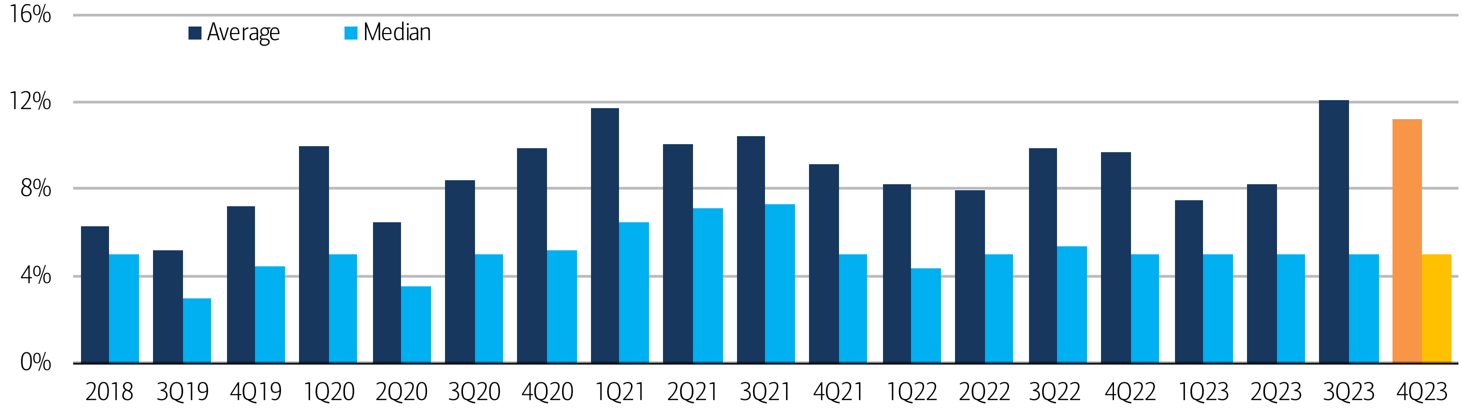
Medicare admission growth decelerated in 4Q23

Please describe (quantify % change) organic Medicare admissions year-over-year, at your agency at each of the following points in time?

On average, organic Medicare admissions increased +11.2% y/y in 4Q23, a deceleration from +12.1% in 3Q23. This is above the pre-pandemic trends, the highest growth in our dataset was 3Q23. Median growth of +5.0% this month was in line with the median in 3Q23.

Exhibit 6: Quarterly trends in average organic home health Medicare admissions y/y growth
Medicare admits growth in 4Q23 below 3Q23, the highest in our dataset was 3Q23



Source: BofA Global Research survey

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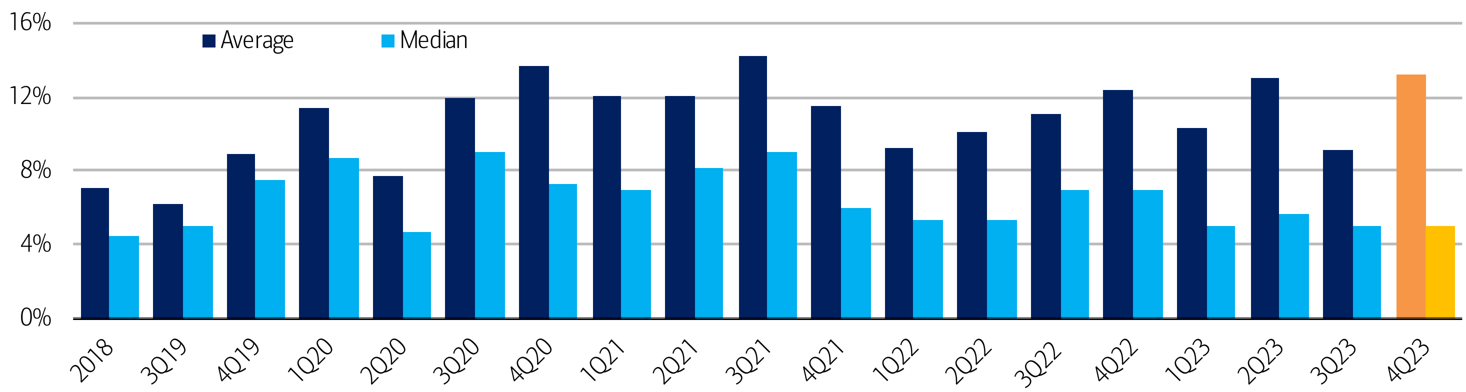
MA admits accelerated in 4Q23 from 3Q23

Please describe (quantify % change) actual Medicare Advantage admissions year-over-year, at your agency at each of the following points in time?

Organic Medicare Advantage (MA) admissions grew +13.2% y/y in Q4, above the 3Q23 growth of 9.0%. This growth is generally above the trends observed prior to the pandemic. The median of +5.0% in 4Q23 was in line with the median growth in Q3.

Of note, the 4Q23 average MA growth is +200bps above the Medicare volume growth, in line with recent trends.

Exhibit 7: Quarterly trends in average home health organic MA admits y/y growth
Avg MA admission growth in 4Q23 were above 3Q23



Source: BofA Global Research survey

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MA accounted for 36% of patients, down from 49% in January

What percentage of your home health patients are/were on Medicare Advantage at each of the following points in time, if any?

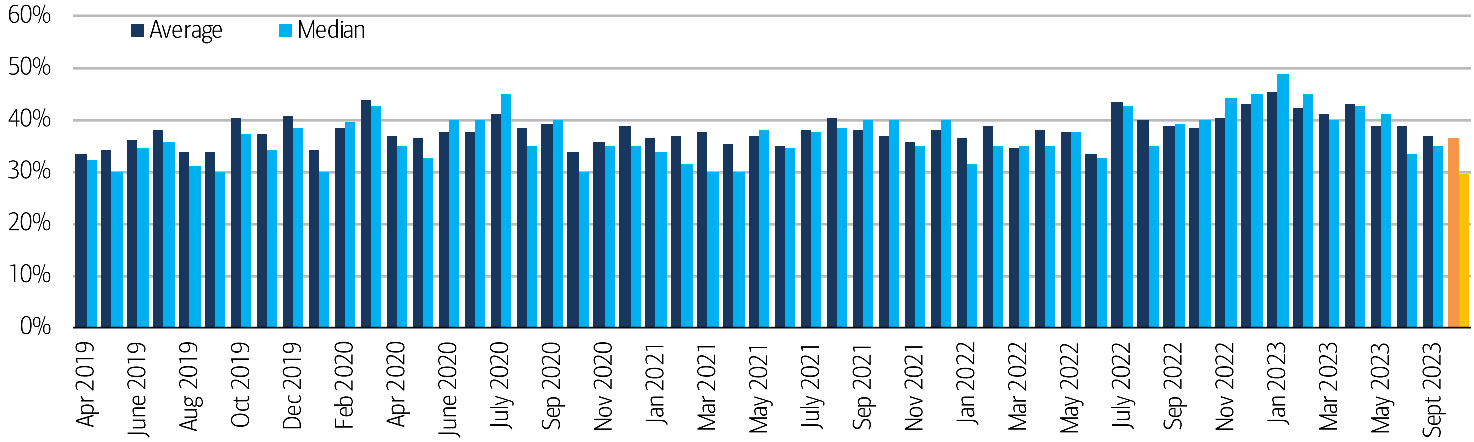
On average, Medicare Advantage (MA) accounted for 36% of our respondents' home health patients as of December 2023, below the 37% in September and 39% in June. it is below the 43% year ago in our September 2022 survey.

The respondents' penetration in our 4Q23 survey is below the 45% MA penetration within Medicare beneficiaries overall in 2022 (according to Kaiser). The overall MA market penetration varies by state. For example, the overall penetration of MA is 53% in

Florida, 50% in Georgia, and 49% in Texas, but only 33% in Virginia. As such the location of respondents can influence the results of the survey.

Exhibit 8: Medicare Advantage as % of home health patients

About 36% of home health patients are in MA plans



Source: BofA Global Research survey

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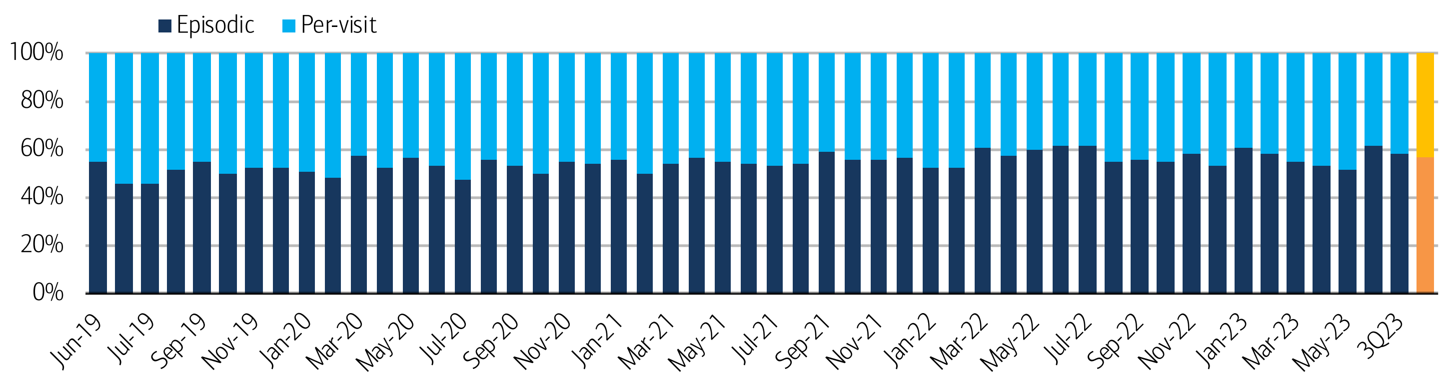
57% of MA admits are being paid on an episodic basis

What percentage of your Medicare Advantage admissions are/were paid on an episodic vs. per-visit basis at each of the following points in time?

As of 4Q23, 57% of MA admissions on average are paid on an episodic basis as per our survey. This is above the average of 53% a year ago, but below Q3 trends (average of 58%) as well as above the 50% range observed through 2019 on average. The remaining 43% of MA admits are paid on a per visit basis.

Exhibit 9: MA admission mix by payment structure (episodic vs per-visit)

57% of MA admissions are paid on an episodic basis as of 4Q23, above 50% on avg in 2019



Source: BofA Global Research survey

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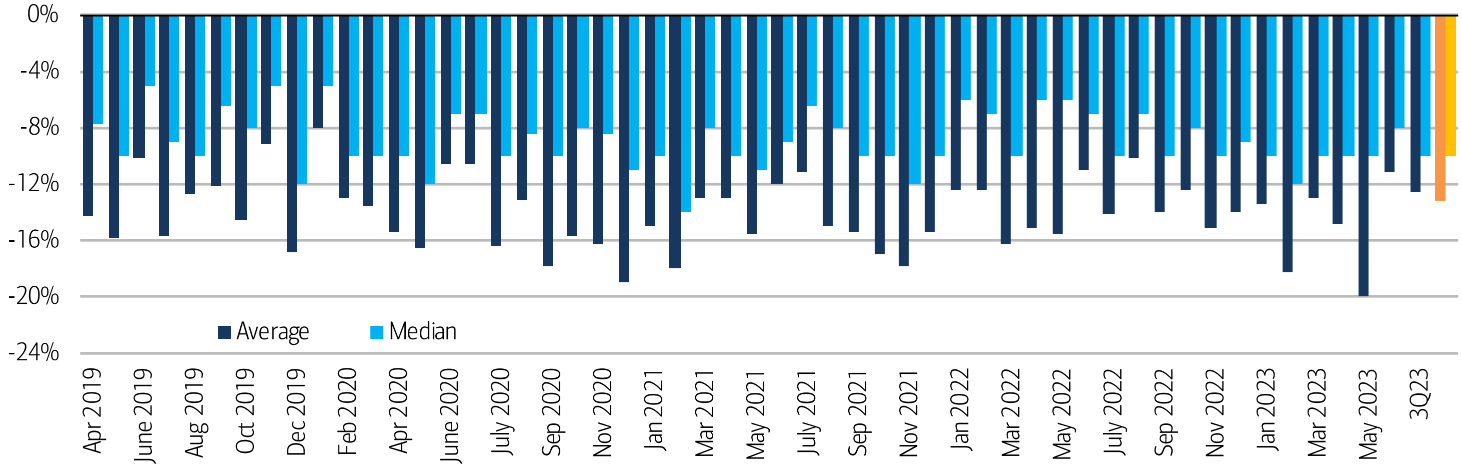
MA rate 13% below FFS in 4Q23, improvement from 1H23 trends

What is the difference between the average rate per visit for Medicare Advantage vs. Medicare Fee-for-service for your agency?

66% of respondents said their MA rate per visit is below the comparable FFS rate in 4Q23, below the commentary from the publicly traded companies. Meanwhile, 26% of respondents said their MA rate per visit was above the comparable FFS rate with the premium ranging from +1% to +50% among respondents. The remaining 8% of respondents said their MA rate per visit is in-line with the FFS rate.

In 4Q23, the MA rate per visit was 13% below Medicare FFS rates on average, with a median 10% discount to FFS rates. This average discount is below the average value for 4Q22 (-14% discount), and an improvement from the -15% discount observed in 1H23.

Exhibit 10: Average rate per visit for Medicare Advantage vs. Medicare Fee-for-service
The MA rates remain at a discount to traditional Medicare, with a variance of -13% on average in 4Q23



Source: BofA Global Research survey

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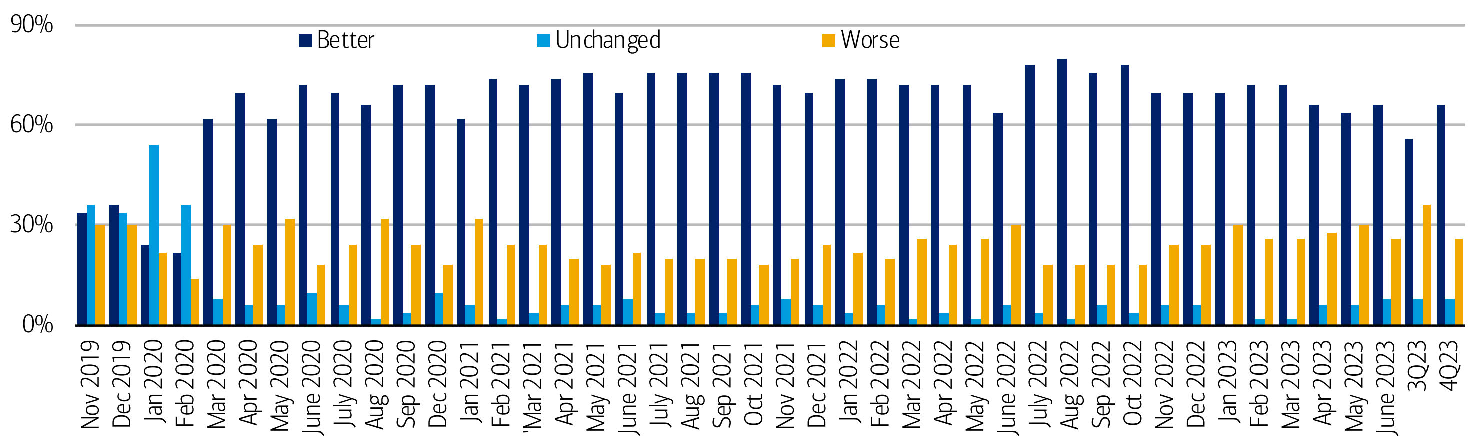
Majority see MA rates improving; 26% see delta vs FFS getting worse

In our latest survey, 66% of respondents said the delta between the MA rate and FFS rate improved year over year in 4Q23, while 26% said the delta worsened and 8% said the delta remained unchanged.

The percentage of those who think the rate is improving is above what we saw in our 3Q23 survey. The % who think the rate is unchanged is in line with the result in our last survey. The % who think it worsened was below the 3Q23 survey. That said, it is important to note that this is the 37th straight survey in which over half of respondents said the rates were improving. Nevertheless, the percentage of respondents with worsening MA rates was relatively in line compared to %s earlier this year.

Exhibit 11: Change in delta between MA and FFS rate
Most of respondents see MA rates improving, consistent with our prior surveys



Source: BofA Global Research survey

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Industry consolidation to be below average, outlook below prior surveys

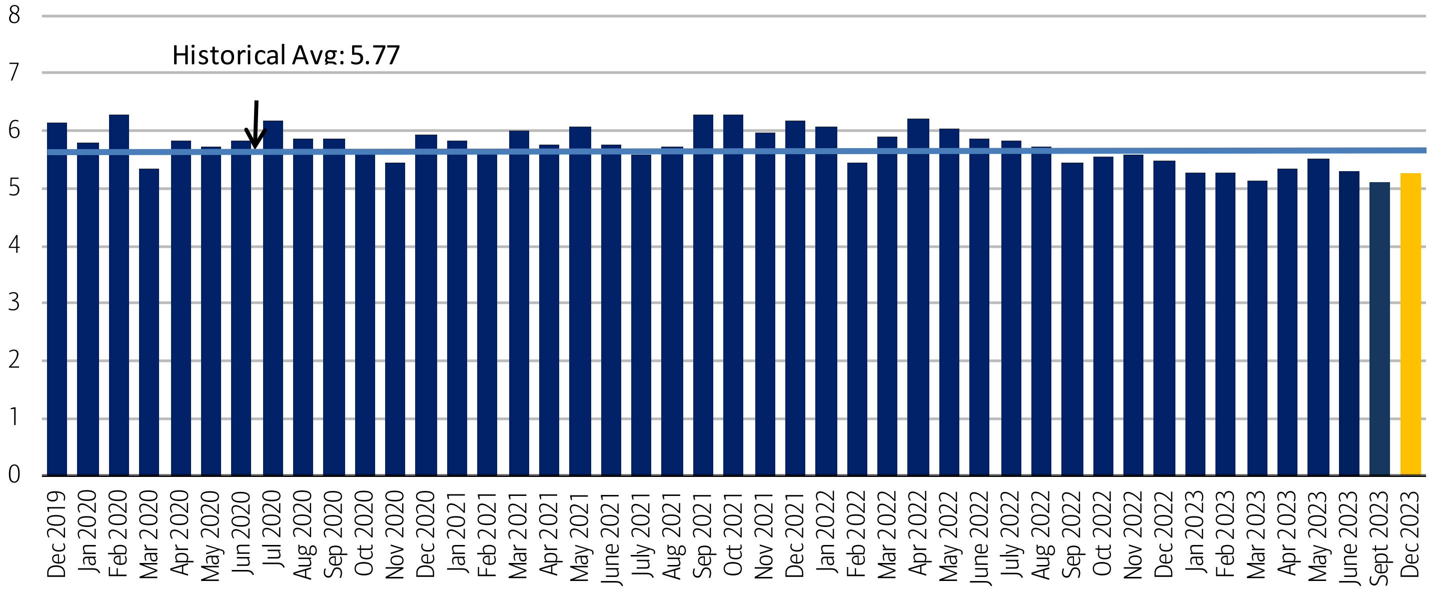
What do you think the pace of the industry consolidation would be over the next year? Please rate on the scale from 1 to 10, with 1 being 'no consolidation activity' and 10 being 'extremely robust consolidation activity'.

We asked respondents about their outlook for industry consolidation on the scale of 1 to 10, with 1 being 'no consolidation activity' and 10 being 'extremely robust consolidation activity'.

As of December 2023, respondents expect the industry consolidation to be slightly above average (5.3) but below the survey average of 5.8. Of note, the expectations have been declining from the peak in the late 2022. This is above the 5.1 avg in our prior survey.

0% of respondents expect robust consolidation activity (selected "10"); meanwhile, 50% of respondents expect moderate/high consolidation (selected "6-9"). Publicly traded companies expect more M&A after some increased reimbursement visibility post the 2024 proposal. Overall, PDGM, RAP removal, and pandemic disruption should be driving more consolidation in the industry.

Exhibit 12: Expectations for industry consolidation, weighted average (scale of 1 to 10; 1="no consolidation activity", 10="extremely robust")
Industry consolidation expected to be below historical average



Source: BofA Global Research survey

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Labor costs

Wage/ labor costs to decelerate in 2024 vs 2023

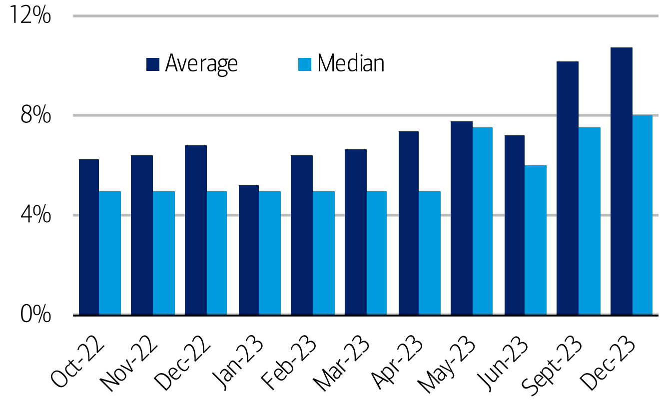
What year-over-year percentage change in wages did you experience in 2023 vs. 2022, and what are you expecting in 2024 vs 2023?

What year-over-year labor cost (wages and contract labor) growth did you experience in 2023 vs. 2022, and what are you expecting in 2024 vs 2023?

In October 2022, we changed how we asked for the outlook for labor costs: instead of selecting a range of increases, we ask respondents to provide an exact rate of increase they expect. In our latest survey, we are now asking about wage growth in 2023 and 2024.

In our December survey, agencies said wages were +10.7% y/y on average in 2023, worse than the 3Q23 survey and worse than the outlook for +8-9% growth in prior surveys. Meanwhile, agencies expect wage inflation to decelerate in 2024 to +8.7% y/y. This is comparable to the Sept survey's results.

Exhibit 13: Wage outlook for 2023
Wage growth was +11% in 2023, worse vs prior surveys



Source: BofA Global Research Survey

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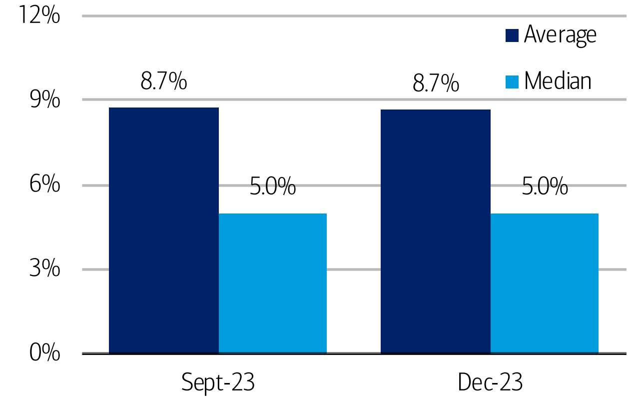
Exhibit 14: Wage outlook for 2024
Wage growth to decelerate in 2024 (+9% y/y) from +11% in 2023



Source: BofA Global Research Survey

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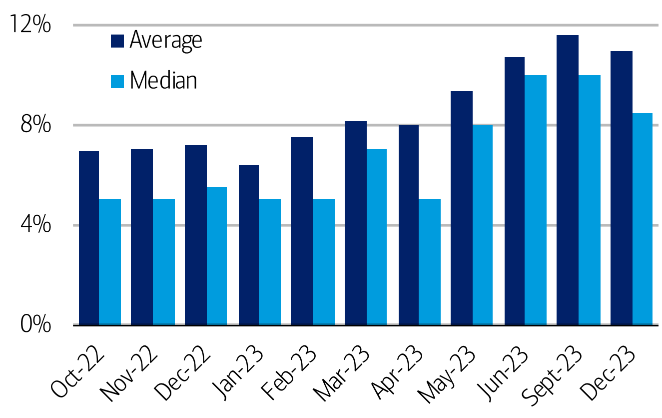
Meanwhile, agencies said that the total labor costs (wages and contract labor) grew +11.0% y/y in 2023, worse than the outlook in the prior surveys.

Similar to the wage outlook for 2024, respondents expect the total labor cost growth to decelerate in 2024. The average outlook is for an +9.0% labor cost growth in 2024, below the +11.0% growth experienced in 2023. This is comparable to the Sept survey.

Exhibit 15: Labor cost outlook for 2023
Labor costs grew 11% in 2023, less than the expectations in the prior survey



Source: BofA Global Research Survey

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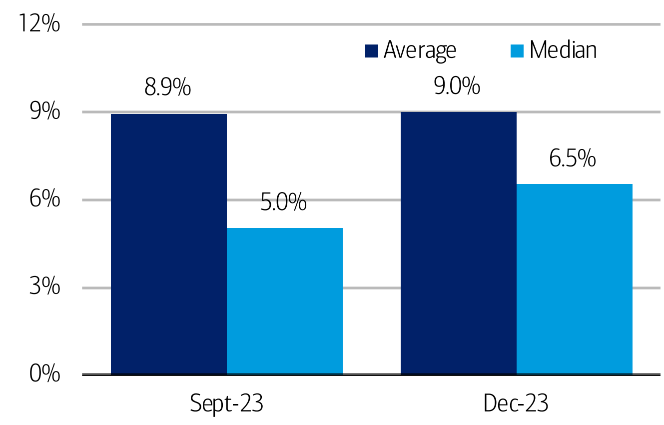
Exhibit 16: Labor cost outlook for 2024
Labor cost growth to decelerate in 2024 to +9% y/y from +11% in 2023



Source: BofA Global Research Survey

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Labor costs to pressure margins, impact to volumes increased

What do you expect the impact of the higher labor costs to be to 1) your margins next year and 2) your volume growth next year? Please rank each 1) and 2) from -10 to +10 with 0 being "no impact" and -10 being "significantly negative impact" and +10 being "significantly positive impact"

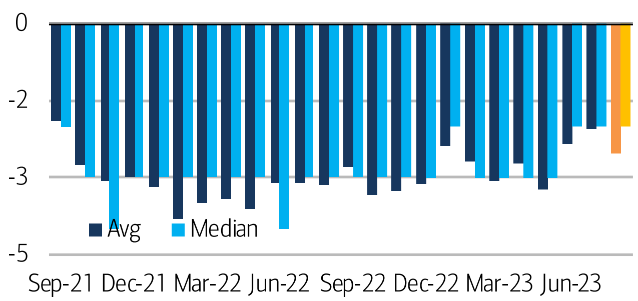
We asked how the labor shortages/cost pressures are expected to impact margins and the volume growth next year. In our December survey, on average, respondents expect a negative impact to margins next year with the average impact of -2.5 on a scale from -10 (*significantly negative impact*) to +10 (*significantly positive impact*) with a median of -2.0. This implies the providers expect labor costs to be a headwind to margins but it would be rather modest. Of note, the responses ranged from -10 to +10, implying a very diverse impact.

In our December survey, on average, respondents expect a negative impact to volumes next year with the average impact of -1.7 (median of -1.5) on a scale from -10 to +10. The responses ranged from -10 to +10. This implies that providers are more worried about margins than the ability to take on new patients with the impact to volumes viewed as very minimal.

The outlook for the impact to margins (-2.5) is worse vs the prior survey where the avg impact to margins was expected to be -2.0 (median of -2.0). The impact to volumes (-1.7) is worse than the -0.2 average in the prior survey.

Some of the respondents who do not expect labor shortages to have a negative impact to volumes said that labor issues have improved and that labor shortages in SNF are driving patients to home care.

Exhibit 17: Labor cost impact to margins next year on a scale from -10 (significantly negative) to +10 (significantly positive)
Respondents expect some pressure to margins



Source: BofA Global Research survey

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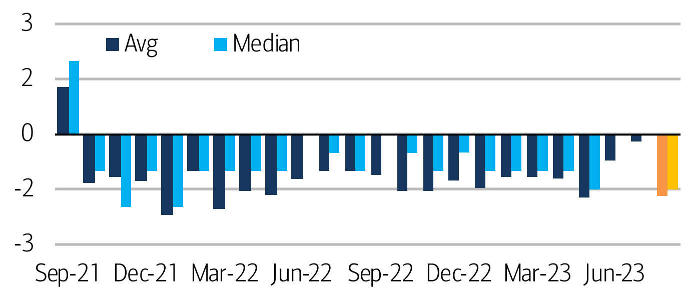
Exhibit 18: Labor cost impact to volumes next year on a scale from -10 (significantly negative) to +10 (significantly positive)
Respondents expect some pressure to volumes



Source: BofA Global Research survey

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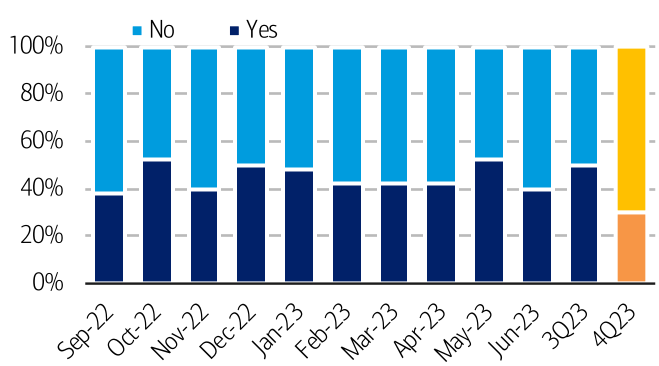
Fewer agencies limited admits due to labor shortages, 15% of admits lost

In September 2022, we began asking our respondents if they had to limit admissions because of labor shortages. In 4Q23, 30% of respondents said they had to limit admissions because of labor shortages, below 50% in the prior survey for the month of September 2023. The remaining 70% affirmed they did not limit vols.

On average, 15% of patients were not admitted due to shortages in 4Q23, ranging from 1% to 30%. This is above the average impact in 3Q23 and 2Q23.

Exhibit 19: About 30% of respondents had to limit admits in 4Q23
Answer to the question "Did you have to limit admissions because of labor shortage?"; % of respondents



Source: BofA Global Research survey

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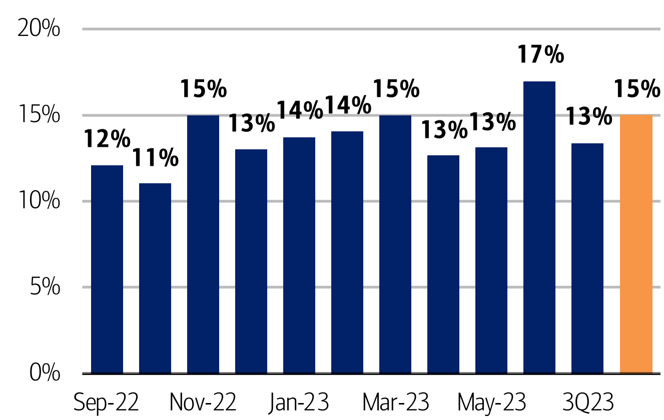
Exhibit 20: % of lost admits due to labor shortages worsened in 4Q23 vs prior surveys
Average % of patients not admitted due to labor shortages



Source: BofA Global Research survey

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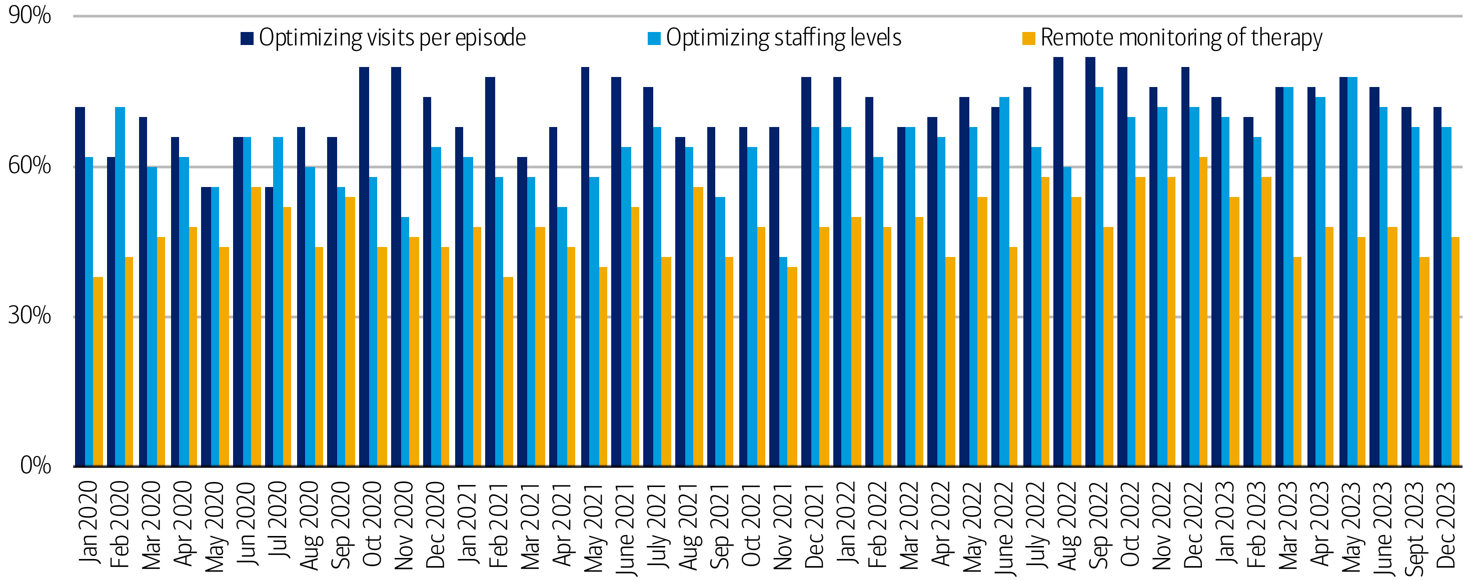
Majority looking to optimize visits and staffing levels to offset headwinds

Which areas are the biggest focuses for cost savings in 2024?

Given the expected pressures, we asked respondents how they plan to offset the headwinds. The main area of cost savings is optimizing visits per episode, a priority for 72% of respondents, in line with our September survey. Similarly, respondents plan to optimize staffing levels, a priority for 68% of respondents, in line with our September survey. Meanwhile, about 46% of respondents plan to use remote monitoring of therapy (above the 42% in our September survey).

Exhibit 21: Main cost saving areas in focus

Majority look to optimize visits and staffing levels as a way to save costs



Source: BofA Global Research survey

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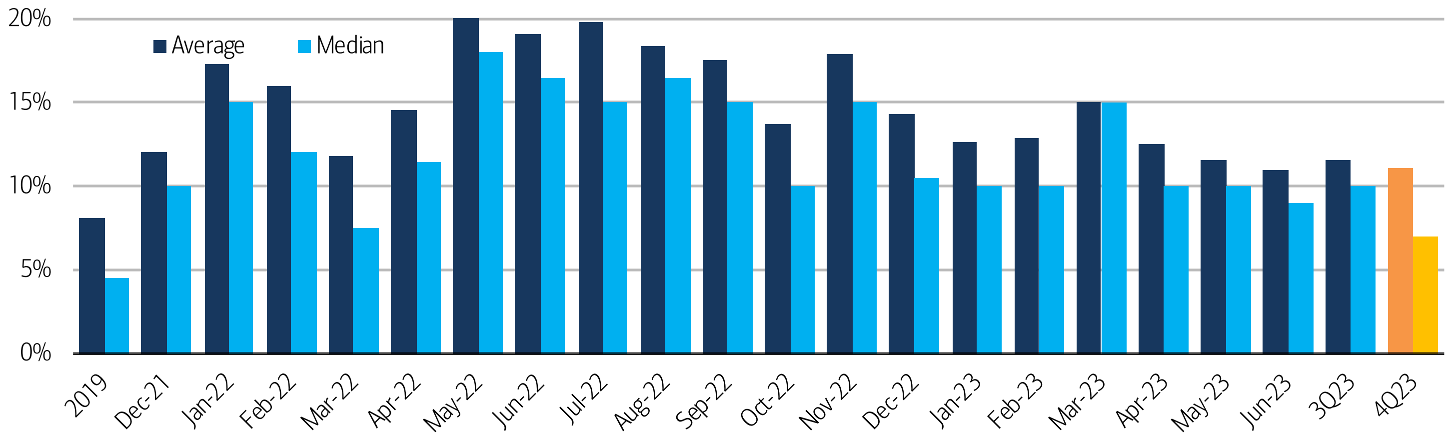
The use of temp labor in 4Q23 was below Q3, but above 2019 levels

What share of hours of Home health care provided to patients were filled by contracted or temporary staff in: a) Q4 2023 b) before the pandemic (2019)?

In the January 2022 survey we added a new question. We asked what share of hours of Home health care provided to patients was filled by contracted or temporary staff. The trends have generally been improving since the peak in May 2022. Most recently, the percentage of respondents using agency labor declined in April from March and further in May 2023, followed by a decline in June.

Now reporting on a quarterly basis, in 4Q23, on average, respondents said that 11% of provided hours was temp labor, ranging from 0 to 60%. This is below the 12% of hours filled with temp labor in 3Q23 (ranging from 0 to 50%). However, it is well above the avg of 9% before the pandemic (ranging from 0 to 80%). The ratio is below the most recent peak in May 2022 of 20%. The median was 7% in 4Q23.

Exhibit 22: Share of Home health hours of care delivered by temp staff (% of respondents)
Providers have gradually relied on less temp labor in recent months but still more than pre-pandemic



Source: BofA Global Research survey

BofA GLOBAL RESEARCH

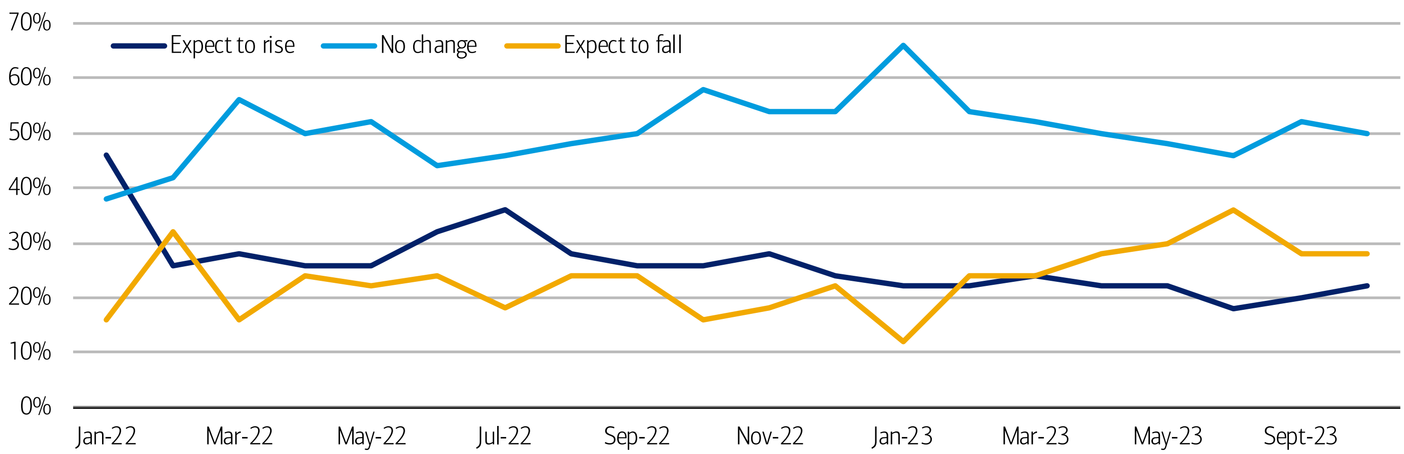
Outlook for the need to use temp labor worsened vs our prior survey

Do you expect the use of contracted/temp staff to rise or fall in the next 3 months?

In our December 2023 survey, 22% of respondents said they are expecting the use of contracted/temp staff to rise in the next 3 months, above the 20% in our prior survey. Meanwhile, 28% of respondents are expecting the use to fall, in line with our prior survey. The remaining 50% are expecting no change, below the 52% in the prior survey.

Overall, the outlook for the need to rely on temp labor has been generally improving since the summer 2022: % expecting the use to rise is 22% vs 36% in July 2022.

Exhibit 23: Outlook for the use of contracted/temp staff in the next 3 months (% of respondents)
About 22% of respondents expects use of temp staff to rise, an improvement from the 36% peak in July 2022



Source: BofA Global Research survey

BofA GLOBAL RESEARCH

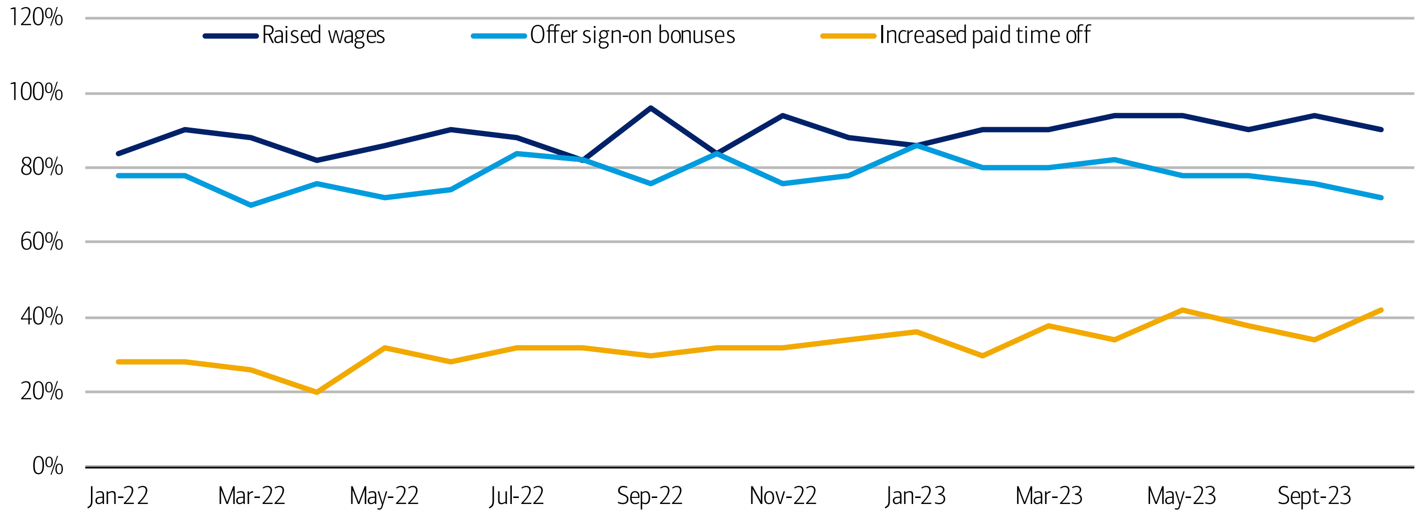
Majority increased wages, offered sign-on bonuses

What efforts have you taken recently to improve recruiting and retention of clinical staff?

We also asked respondents about the efforts they have recently undertaken in order to improve recruiting and retention of clinical staff. As of December 2023, 90% increased wages, below the 94% in our prior survey. 72% of respondents said they are offering sign-on bonuses, below the 76% in our prior survey. Lastly, 42% increased paid time off, above the 34% in our prior survey and higher than levels seen in 2022.

Respondents noted the following additional actions they took: quarterly bonuses, flexible scheduling, and gift cards.

Exhibit 24: Efforts undertaken to improve recruiting & retention of clinical staff (% of respondents)
To improve retention/recruiting, most respondents increased wages and offered bonuses



Source: BofA Global Research survey

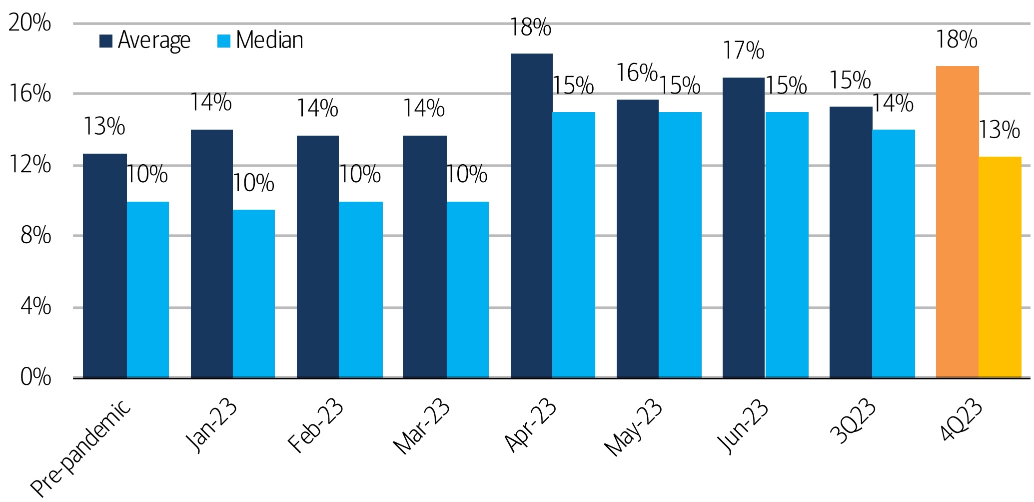
BofA GLOBAL RESEARCH

Clinical staff turnover worse in Q4 vs Q3, well above pre-pandemic

What was the turnover of your clinical staff in 3Q23 and pre-pandemic (2019)?

In January 2023, we began asking respondents about their clinical staff turnover. On average, respondents reported clinical staff turnover at 18% in 4Q23, well above the 11% turnover before the pandemic. The ratio is worse than the 15% avg for Q3. Median clinical staff turnover in 4Q23 of 13% was well above the 9% median turnover pre-pandemic.

Exhibit 25: Clinical staff turnover (%)
On average, respondents saw clinical staff turnover at 18% in 4Q23 worse than 15% in Q3



Source: BofA Global Research survey

BofA GLOBAL RESEARCH

More of the recently hired nurses came from home health agencies

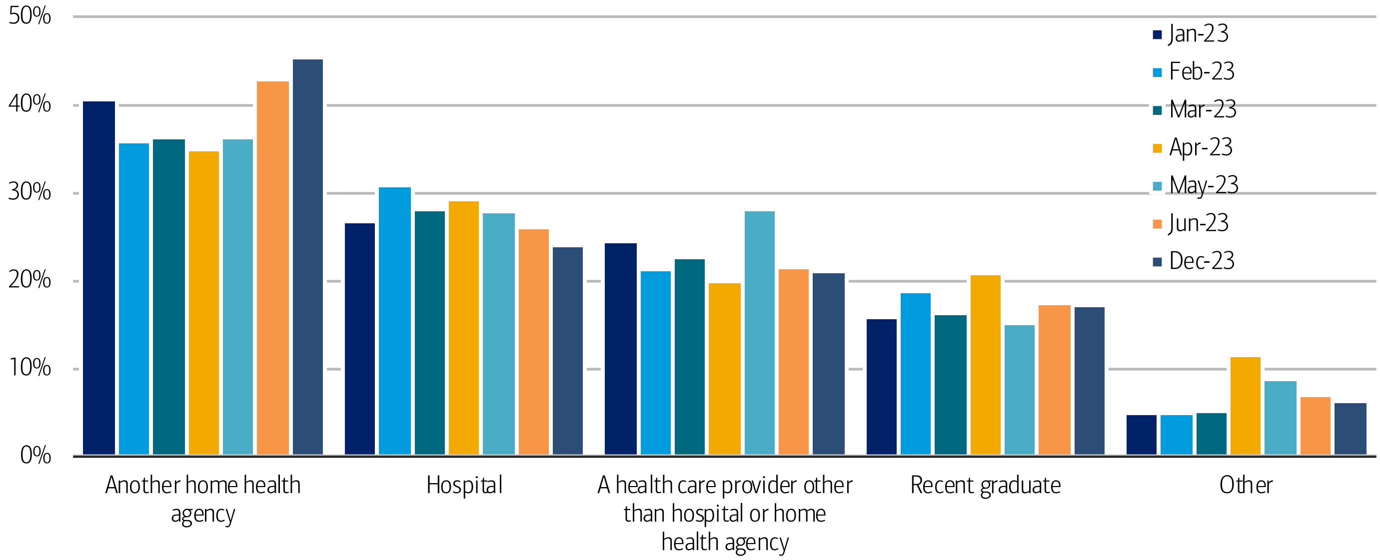
Please provide an approximate breakdown (%) of nurses you hired over the last few months by the area they came from (prior employment)?

In January 2023, we began asking respondents about the breakdown of previous employers for nurses that were recently hired (last few months). As of December 2023, on average, respondents reported most of recently hired nurses have been coming from other home health agencies (45% of nurses), followed by hospitals (24% of nurses) and other non-hospital/non-home-health-agency healthcare providers (21% of nurses). 17% of nurses, on average, that were recently recruited are recent graduates, while 6% of nurses were hired from other types of employers.

Compared to our prior survey, a lower % of hires came from hospitals as well as non-hospital/non-home-health providers and more came from other home health agencies.

Exhibit 26: Previous employer of recently hired nurses (% of nurses)

About 45% of recently hired nurses came from another home health agency and 24% came from a hospital



Source: BofA Global Research survey

BofA GLOBAL RESEARCH

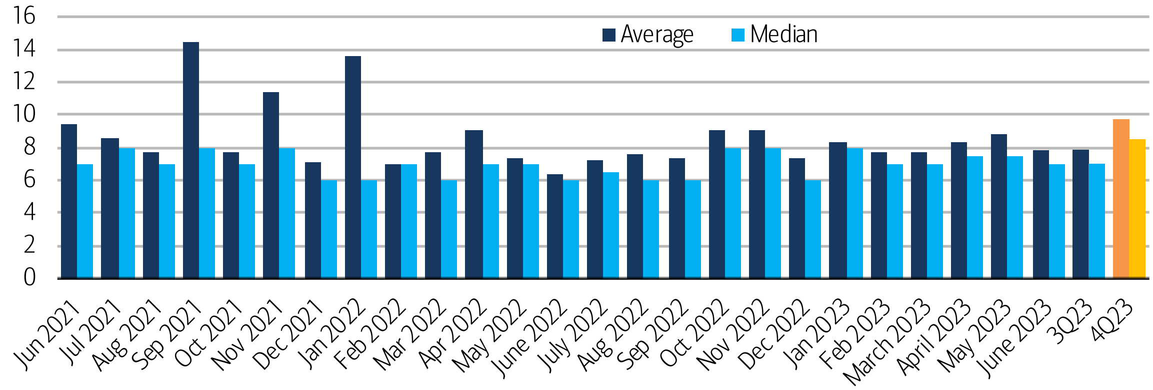
VPE was 9.7 in 4Q23, above 7.9 in 3Q23

What was the average number of visits per episode in 3Q23?

We asked agencies about the number of visits per episode (VPE). Generally, the avg VPE has been increasing from the lows observed in June 2022, likely aided by the improving labor availability. In our latest survey, in 4Q23, the average number of VPE was 9.7 (median of 8.5), above 7.9 in the month of 3Q23 and is the highest VPE in 2023. Respondents saw a wide distribution of VPE this quarter, ranging from 1 to 30. The median number of tele-visits per episode was 2.

Exhibit 27: Number of visits per episode

The average VPE has been improving from the low in June 2022 of 6 visits



Source: BofA Global Research survey

Patient sources

About 53% of patients come to home health from a hospital, 27% from SNFs

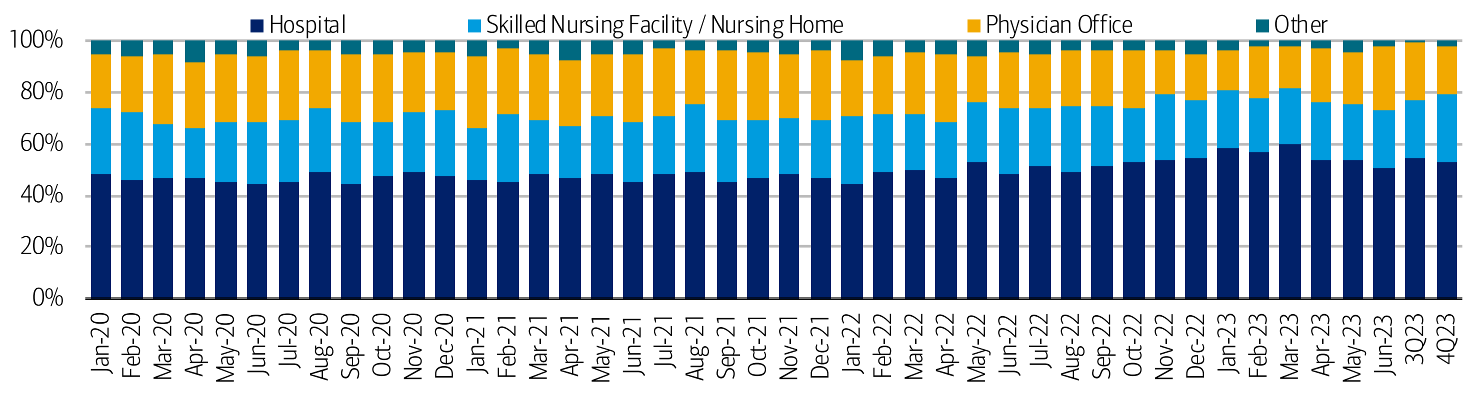
Please provide a percentage (%) of your home health patients that came from the following settings in Q4 2023 and Q4 2022.

We asked respondents to estimate a percentage of home health patients coming from different settings. Comparing to the prior year's mix, less patients came from a hospital (53% in 4Q23 vs 54% last year), more % came from a physician office (27% vs 23% prior year), while less came from Skilled Nursing Facilities (SNFs) or nursing homes (18% vs 19% year ago), and less % came from other settings, such as assisted living, internet searches or insurance contracts (2% vs 4% a year ago).

Compared to the 3Q23 survey, less patients came from Hospitals (53% vs 54%), more came from Nursing homes (27% vs 23%), and less from Physician offices (18% vs. 23%).

Exhibit 28: Admission source of home health patients

More than half of patients come from Hospitals, about 27% from nursing homes, and 18% from doctor's offices



Source: BofA Global Research survey.

BofA GLOBAL RESEARCH

More agencies see patients being diverted from SNFs to home health

Do you think you are getting more patients that previously would have been discharged to a skilled nursing facility?

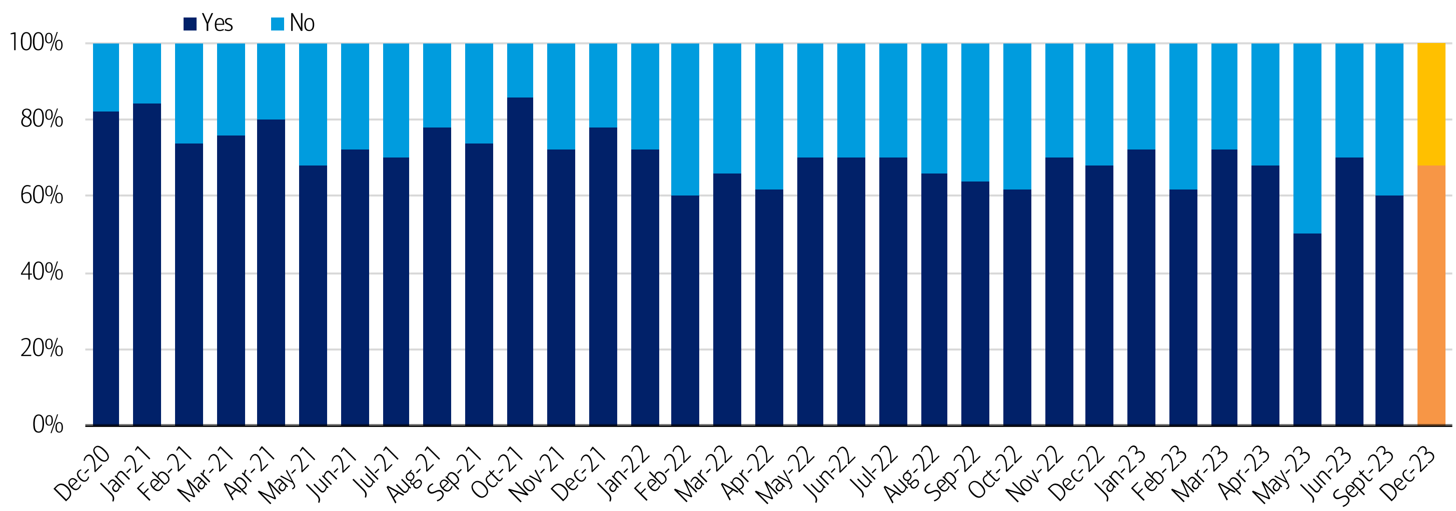
About 68% of respondents believe they are getting more patients that previously would have been discharged to a SNF. This is above the 60% in our September survey and below the 70% range in the summer months of 2022. Those who are seeing this trend noted:

- SNFs have to discharge to get new admissions
- Better care at home
- Lack of capacity at SNFs
- Hospitals are actively looking to circumvent SNFs
- SNFs struggle more with labor

Meanwhile, the 40% of respondents who are not seeing this trend noted:

- No more COVID impact
- Seeing less patients

Exhibit 29: Responses to a question about SNF diversion
About 68% of respondents believe they're seeing patients that previously would have gone to SNFs



Source: BofA Global Research survey

BofA GLOBAL RESEARCH

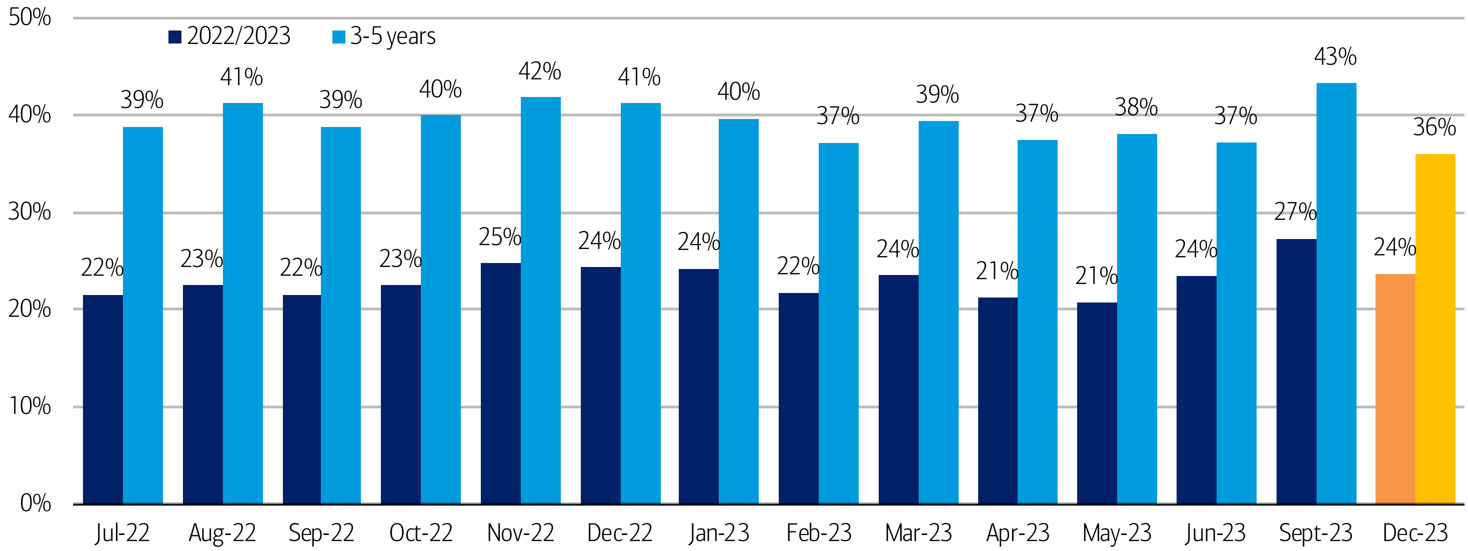
VBC expected to be a bigger part of revs in future

What % of your revenues comes from value-based contracts in 2023? What % of your revenues do you expect to come from value-based contracts in 3-5 years?

In the July 2022 survey we started asking our survey respondents what share of their revenues are coming from value-based contracts (VBC) in 2022 and what share of their revenues they expect to come from VBC in 3-5 years. Now, we ask respondents about contracts in 2023.

In December 2023, on a weighted average basis, respondents said 24% of their revenues came from VBC, below the 27% of revs coming from VBC in 2022 reported in our prior survey. In 3-5 years, on a weighted average basis, respondents expect 36% of revenues from VBC, below the 43% in our Sept. survey. Nevertheless, agencies VBC to become bigger part of their biz in the future.

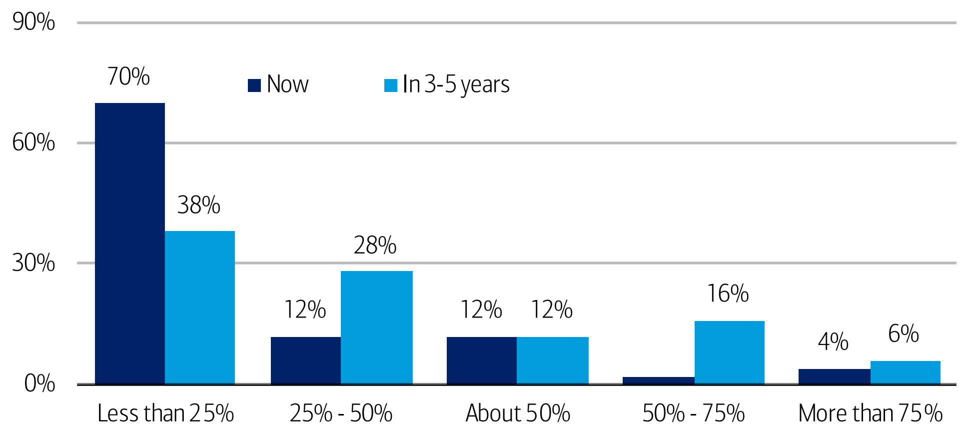
Exhibit 30: Respondents expect VBC to be a bigger share of revs in the future, 36% vs 24% in 2023
Weighted average share of revenues coming from value-based contracts



Source: BofA Global Research survey

BofA GLOBAL RESEARCH

Exhibit 31: Share of revenues coming from value-based contracts
Majority saw less than 25% of their revenues coming from value-based contracts in 2023



BofA Global Research survey

BofA GLOBAL RESEARCH

Hospice volume trends

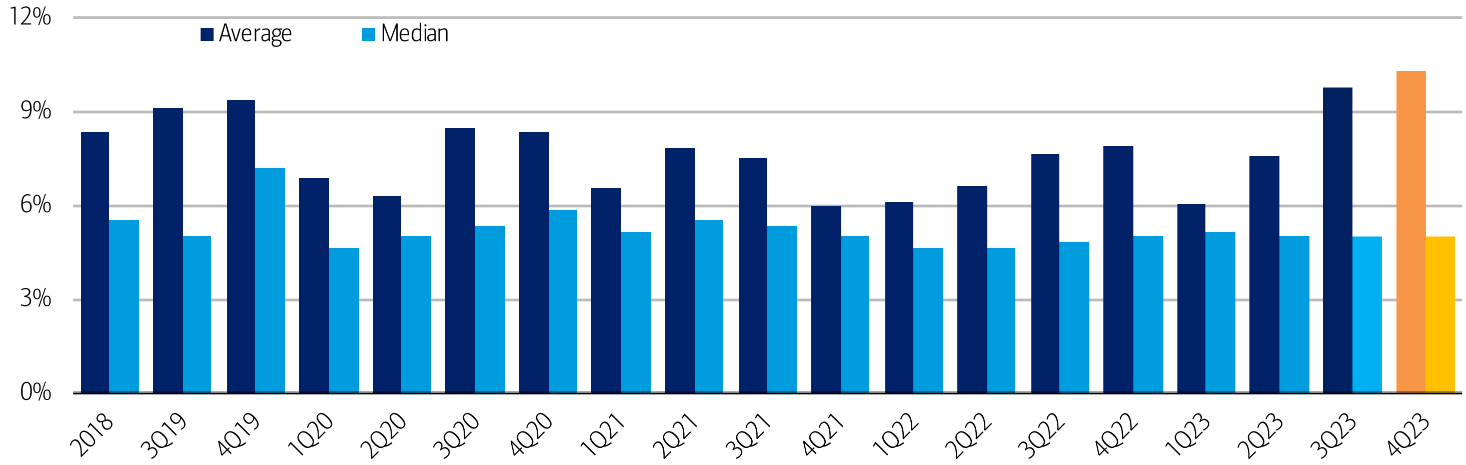
64% of our survey's respondents also provide hospice services. We asked those respondents to provide stats on hospice admits, length of stay, and average daily census.

Hospice admissions growth accelerated in 4Q23 from Q3

Please describe (quantify % change) actual hospice admissions year-over-year, at your agency at each of the following points in time.

At the agencies in our survey that provide hospice, organic hospice admissions increased +10.3% y/y in 4Q23 (median of +5.0%), above +9.8% in 3Q23.

Exhibit 32: Quarterly trends in average organic hospice admits growth y/y
Hospice admission growth in 4Q23 accelerated from 3Q23



Source: BofA Global Research survey

BofA GLOBAL RESEARCH

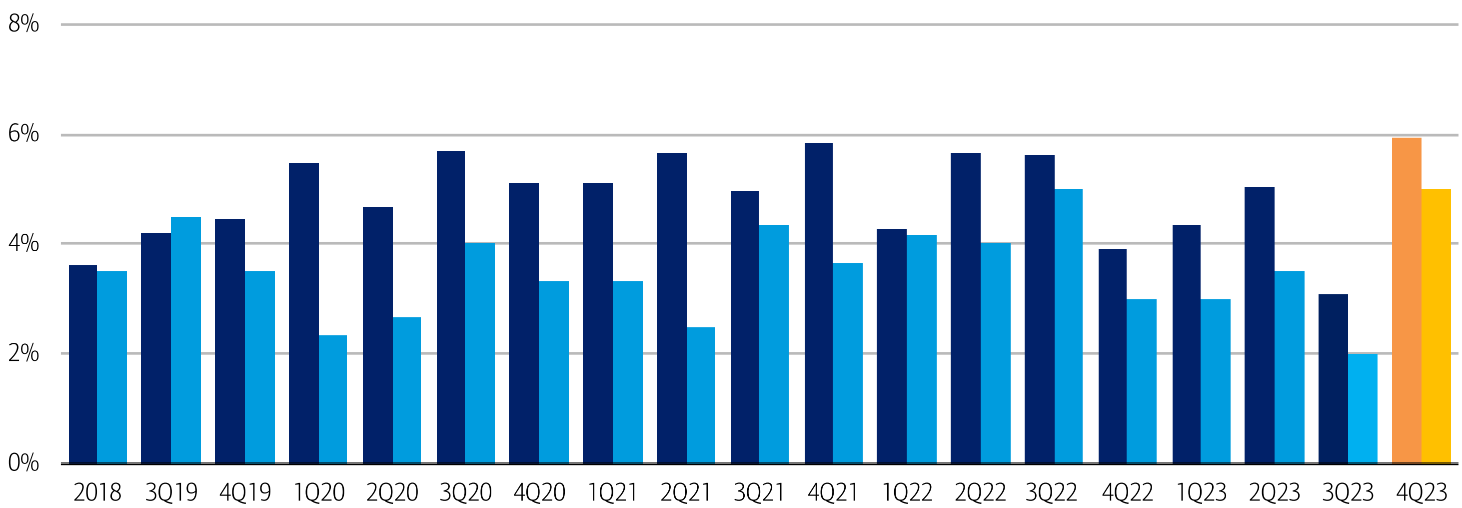
Hospice LOS increased +6% in 4Q23, an acceleration from +3% in Q3

Please describe (quantify % change) actual hospice length of stay year-over-year, at your agency at each of the following points in time.

Length of stay (LOS) is another metric that we track for hospice as an indicator for average census. The average industry LOS increased 0.7% per year in 2000-2019 and was up 4.8% y/y in 2020 but declined 5.1% y/y in 2021 (the most recent data from the MedPAC 2023 Report).

According to our survey, on average, LOS increased +5.9% y/y in 4Q23, after growing +3.1% in 3Q23. The median growth in LOS of 5.0% was above +2.0% in 2Q23.

Exhibit 33: Quarterly Organic Growth in Hospice length of stay
Average LOS growth in 4Q23 was above 3Q23



Source: BofA Global Research survey

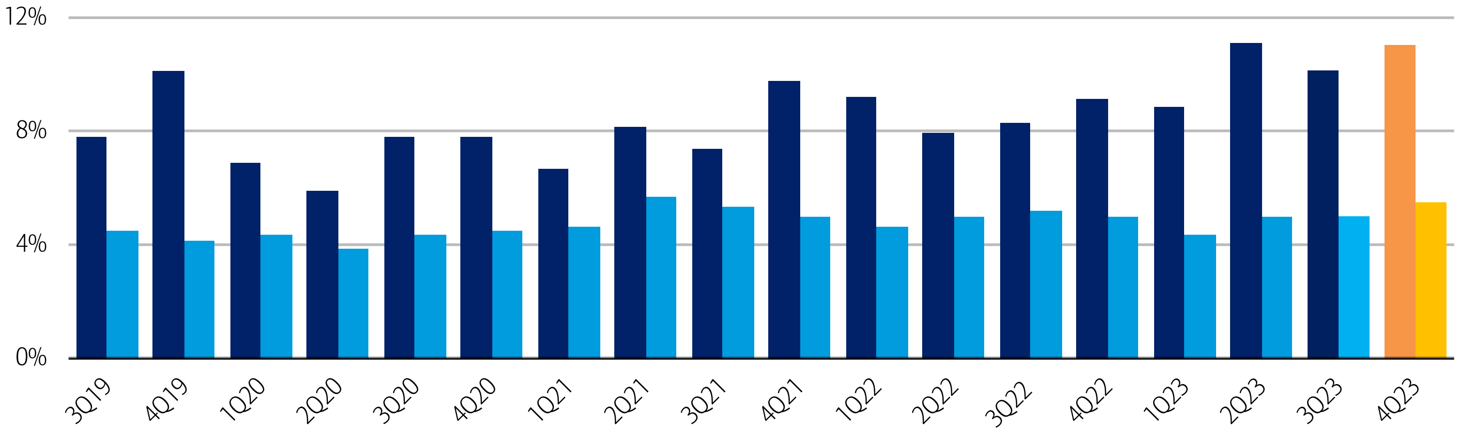
BofA GLOBAL RESEARCH

Organic Hospice ADC growth accelerated in 4Q23 and remained robust

Please describe (quantify % change) actual hospice average daily census year-over-year, at your agency at each of the following points in time.

On average, the organic average daily census (ADC) y/y growth was +11.0% y/y in 4Q23, 90bps above +10.1% y/y in 3Q23. The growth is currently above the trends observed in 2020. The median growth of +5.5% in 4Q23 was above 3Q23 (5.0%).

Exhibit 34: Organic Hospice Average Daily Census y/y growth (Quarterly)
Organic census growth in 4Q23 was above 3Q23, still a robust trend



BofA Global Research survey

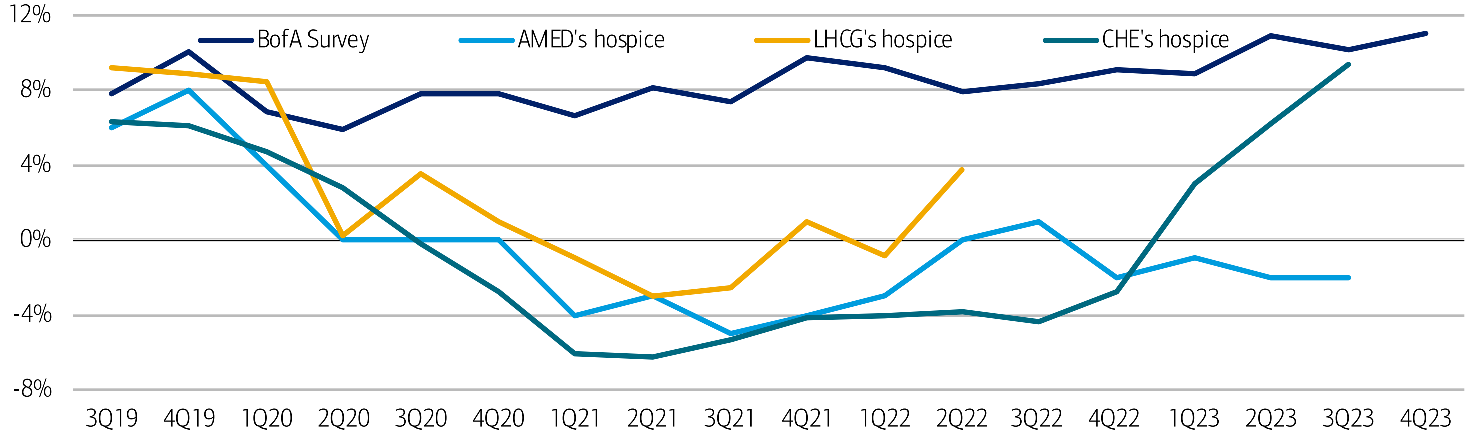
BofA GLOBAL RESEARCH

Surveys imply hospice vols to accelerates in Q4

The hospice trends captured by our BofA Survey are not strongly correlated with the growth reported by the publicly traded companies, CHE, AMED and LHCG. However, recently the survey results have been directionally consistent with the company prints. For example, the survey pointed to 4Q21 ADC growth accelerating from 3Q21 growth, and companies reported ADC growth improved in Q4 from Q3. Similarly, the surveys pointed to growth slowing down to +9.2% in 1Q22 from +9.8% in 4Q21, and LHCG and CHE reported volume trends worsening to stable Q/Q. The surveys pointed to growth accelerating to +8.3% in 3Q22 from +7.9% in 2Q22. Although CHE hospice ADC growth slightly worsened in 3Q22, AMED's positive ADC growth in the quarter was directionally consistent with the survey.

The 4Q22 and 1Q23 data was not strongly correlated: surveys showed acceleration in Q4 while AMED's census decelerated, and CHE's census accelerated in 4Q22. The surveys implied a deceleration in 1Q23 while the companies both saw accelerated census growth. In 2Q23, CHE's ADC growth did accelerate, which was directionally consistent with data from our prior surveys on 2Q23. Meanwhile, AMED's ADC growth in 2Q23 decelerated. The recent surveys show an acceleration in 4Q23 from 3Q23.

Exhibit 35: AMED, LHCG, CHE Hospice ADC y/y growth vs BofA surveys
Surveys imply ADC growth is accelerating in 4Q23 vs 3Q23



Source: BofA Global Research survey, Company reports

BofA GLOBAL RESEARCH

Hospice MA rates are 25% below FFS

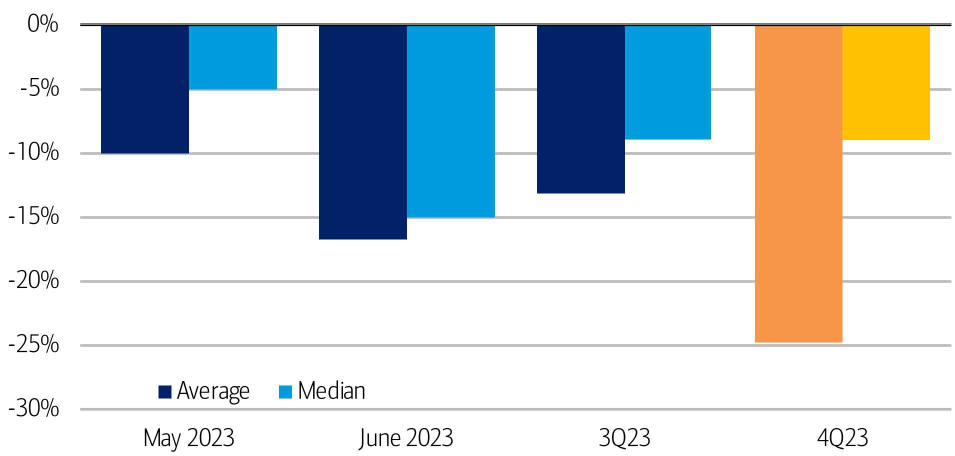
What is your average Medicare Advantage rate vs. Medicare Fee-for-service rate?

In the May 2023 survey, we started asking our survey respondents who provide hospice services whether they contract with a Medicare Advantage (MA) health plan for the provision of hospice services (under the hospice carve-in demo) and what is the average MA rate vs. Medicare Fee-for-service (FFS) rate in those contracts.

As of 4Q23, 44% of hospice providers in the survey contract with an MA health plan for the provision of hospice services (vs 41% in our prior survey). These respondents reported an average daily rate for MA was -25% less than the average daily rate for Medicare FFS, with a median of -9% in 4Q23. This discount is bigger than the average reported in 3Q23 of 13%.

The reported discounts ranged from 0% to 75%, so there are some providers that are seeing rates well below FFS while others are virtually in-line. The 25% average discount reported by the hospice providers is above the 13% discount reported for MA rates in Home Health in this month's survey.

Exhibit 36: Average hospice rate for Medicare Advantage vs. Medicare Fee-for-service
Hospice MA rates are -25% below FFS as of 4Q23



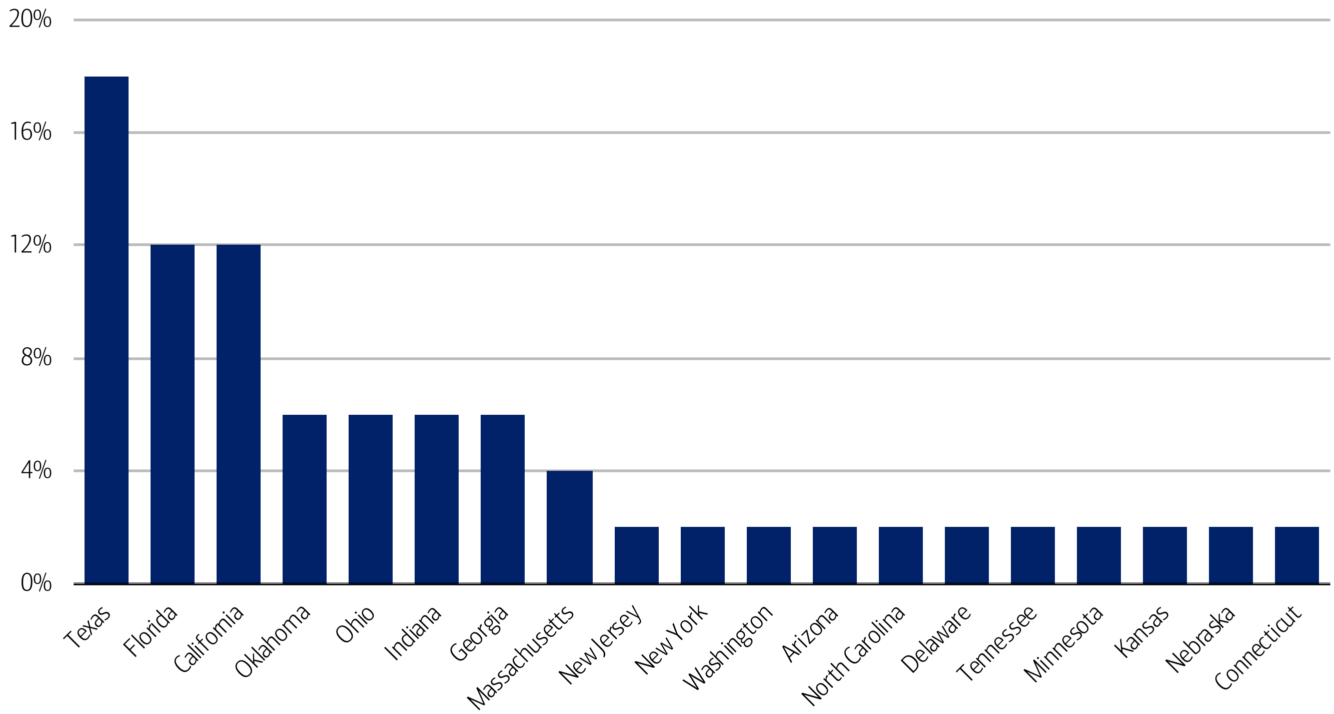
Source: BofA Global Research survey

BofA GLOBAL RESEARCH

Appendix

Survey respondents came from 22 states in total, with CA, FL and TX being the most represented.

Exhibit 37: Regional distribution of survey respondents (%)
Most respondents are based in Texas (18%) and California (12%) and Florida (12%)



Source: BofA Global Research survey

BofA GLOBAL RESEARCH

Exhibit 38: Stock Mentioned
Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ADUS	ADUS US	Addus	US$ 88.63	B-1-9
AMED	AMED US	Amedisys, Inc.	US$ 93.62	-6-
CHE	CHE US	Chemed	US$ 582	A-1-7
EHAB	EHAB US	Enhabit	US$ 10.56	C-3-9
UNH	UNH US	UnitedHealth Grp	US$ 516.73	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Addus HomeCare (ADUS)

Our PO of $108 is based on 14.3x 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 $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.

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

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
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agiliti 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
	Pediatrix Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

Disclosures

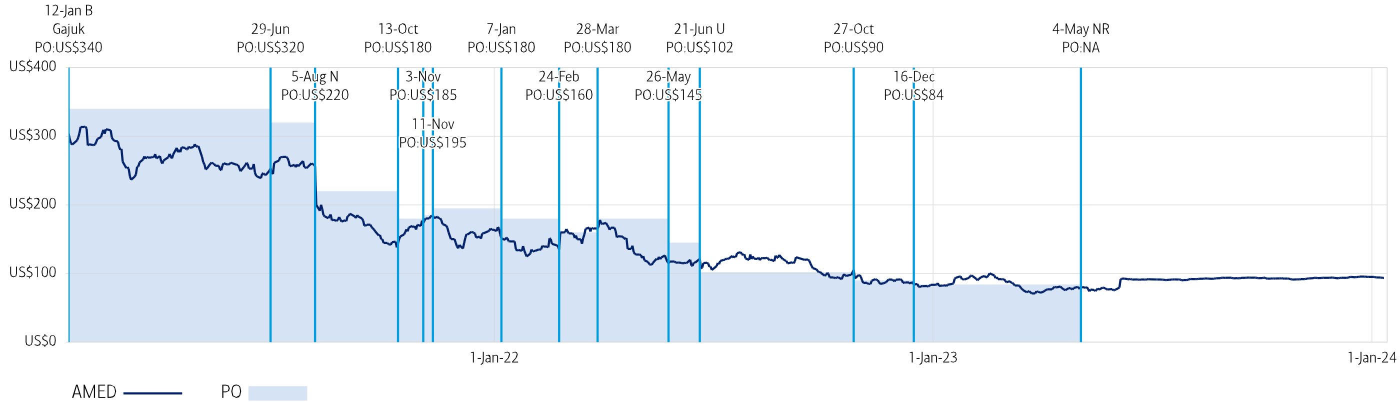
Important Disclosures

Addus (ADUS) Price Chart

The picture can't be displayed.

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.

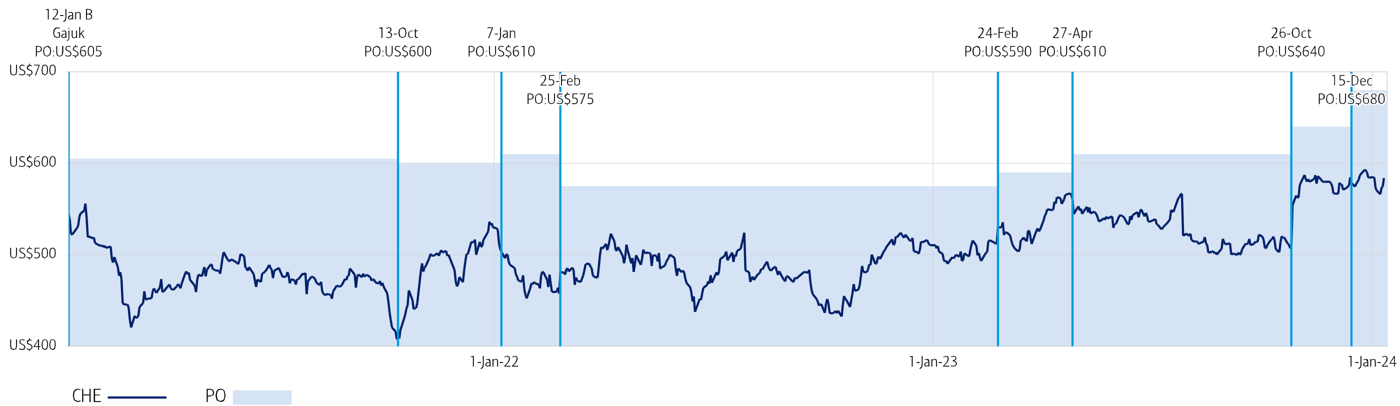
Amedisys, Inc. (AMED) Price Chart



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.

Chemed (CHE) Price Chart



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

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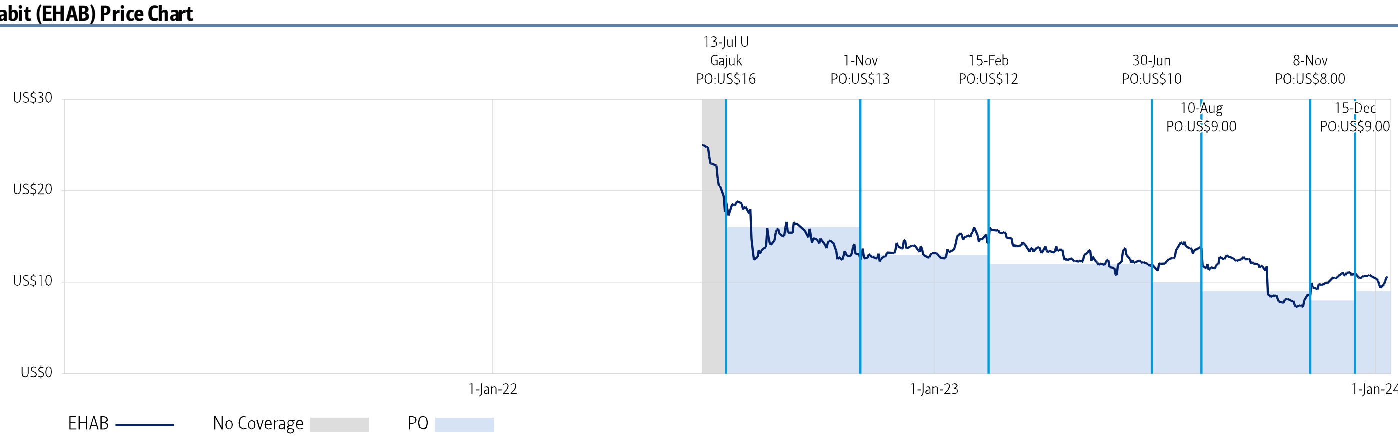
Enhabit (EHAB) Price Chart



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

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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%

[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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