

Home Health

Final hospice rates 30bps higher than proposal, above historical avg

Government Regulations

Final rates 30bps better than proposal on higher MB

The final FY24 Hospice rule calls for a +3.1% increase in payments, 30bps better than +2.8% proposal on a higher market basket (MB) update. While this is likely less than the labor cost inflation, the rate is above the historical average and up from the proposal, positive for hospice providers CHE (hospice is 56% of revs), AMED (35%), ADUS (21%), and EHAB (18%). The higher final MB is a positive read through to other providers, such as hospitals which would have the same MB of +3.3% (final reg expected early Aug). Maintain ratings on companies under coverage.

Hospice is facing more oversight, proposals finalized

CMS finalized its proposals that are part of its efforts to reduce fraud and abuse: 1) the penalty for failing to report quality metrics data was raised to 4% from 2%, and 2) physicians who order hospice need to be enrolled in Medicare (effective 5/1/24), similar to the current requirement in home health. Also, the 2024 home health proposal included proposals aiming to increase oversight of hospice: 1) a 36-month rule to reduce the churn of agency ownership, and 2) Special Focus Program (SFP) to focus on bad actors in the industry. Finally, CMS will conduct medical reviews of hospice stays longer than 90 days. We would expect the larger, well-established companies such as CHE to do better in this environment. Importantly, there seems to be no push for rate cuts in hospice with CMS noting it has no authority to reduce the hospice cap amount.

MB up 30bps vs proposal, similar to IRFs, psych

FY24 (starts 10/1/23) MB was finalized at +3.3%, 30bps above +3.0% proposal. It is below +4.1% in FY23 as it assumes inflation decelerating. The MB improvement vs proposal is similar to the 30-40bps improvement for Inpatient Rehab Facilities (IRFs) and Psych. The MB is reduced by a -0.2% productivity adjustment, in line with the proposal, resulting in a net update of +3.1%. While the MB is below FY23, it is above the +2.7% avg in FY10-FY22. Similarly, the net update is above the +1.5% avg in FY10-FY22 (see Exhibit 1).

CMS argues against 1x MB forecast error adj

The industry had asked CMS for a forecast error adjustment to compensate providers for the fact that MB updates in 2021-22 were below the actual inflation. While CMS agreed that the FY21-22 MB updates were under forecast, it argued that over a 10-year period (2013-2022, ex 2018), MB was 90bps above the actual inflation, benefiting providers. CMS also noted that the MB of +3.3% reflects forecasted compensation price growth of 4.3%, implying a more appropriate way would be to adjust the weights.

Routine rates up more than Inpatient, Continuous

Routine home care rates to be +3.3% for days 1-60, and +3.2% for days 61+, up from the proposal (worse than +3.9% for FY23). Respite Inpatient rates to be up +3.2%, General Inpatient rates up +3.1%, Continuous care +2.9%. This is a reversal from the FY23 reg where Inpatient and Continuous rates were up more than Routine.

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Refer to important disclosures on page 4 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.

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Equity
United States
HC Facilities

Joanna Gajuk
Research Analyst
BofAS
+1 646 855 3961
joanna.gajuk@bofa.com

Kevin Fischbeck, CFA
Research Analyst
BofAS
+1 646 855 5948
kevin.fischbeck@bofa.com

Nabil Gutierrez
Research Analyst
BofAS
+1 646 556 2974
nabil.gutierrez@bofa.com

Mia Munoz
Research Analyst
BofAS
+1 646 855 0735
mia.munoz2@bofa.com

Abbreviations:

Chemed (CHE)

Amedisys (AMED)

Addus (ADUS)

Enhabet (EHAB)

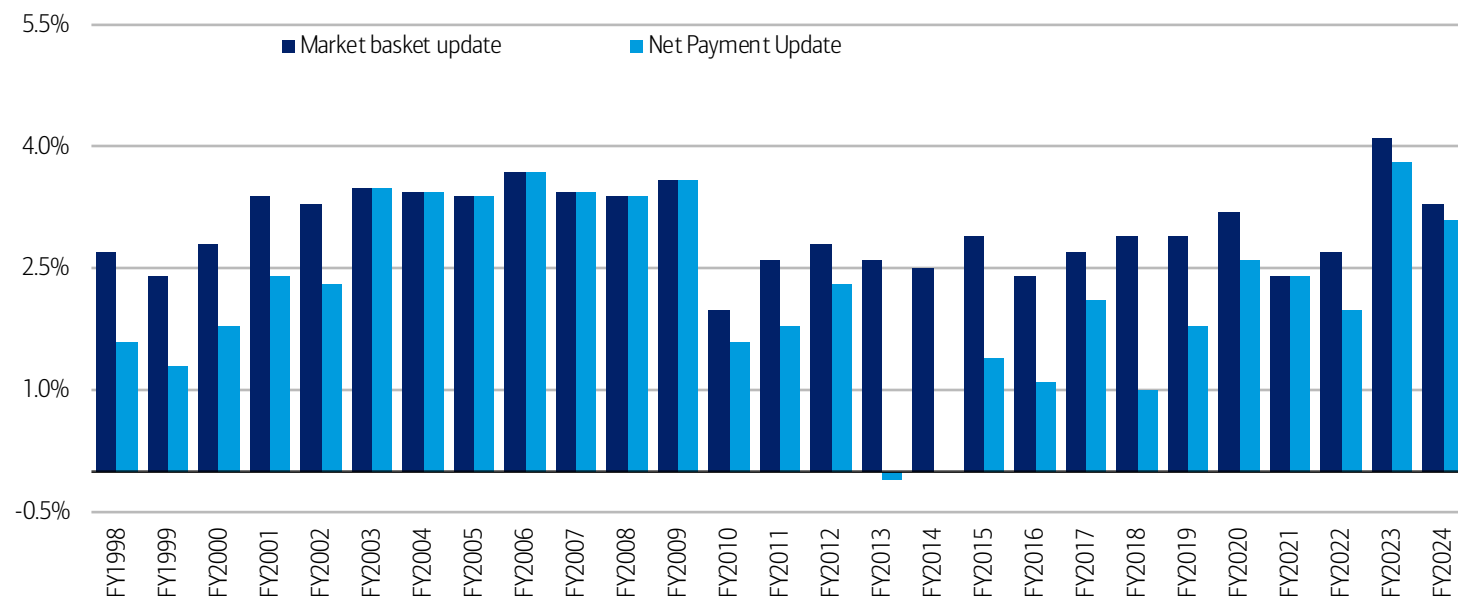
CMS: Centers for Medicare &
Medicaid Services

MB: Market basket

IRF: Inpatient rehabilitation facility

Exhibit 1: Medicare rate updates for Hospice, FY1998-FY2024

FY24 rate update is below the FY23 update but above the FY10-22 average



Source: CMS

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Exhibit 2: Stock Mentioned

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ADUS	ADUS US	Addus	US\$ 90.59	B-1-9
AMED	AMED US	Amedisys, Inc.	US\$ 90.5	-6-
CHE	CHE US	Chemed	US\$ 523.21	B-1-7
EHAB	EHAB US	Enhabit	US\$ 13.69	C-3-9

Source: BofA Global Research

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Price objective basis & risk**Addus HomeCare (ADUS)**

Our PO of \$105 is based on 15.7x 2023E 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) 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 \$610 is based on 18.2x 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 29% 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 22x 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 22x to Roto's 2023E EBITDA, our PO implies about 15x 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 \$10 is based on 8.1x 2023E Adj EBITDA, significant discount to the historical average multiple for home health of 18x. The discount is justified by EHAB's higher exposure to the home health Medicare rate cuts, its much higher leverage, worse operating performance over the last three years, and worse Medicare Star ratings.

Upside risks to our PO are: 1) Medicare rate update is much better. 2) labor cost pressures dissipate faster than expected, 3) volume growth is faster than expected, 4) the company deploys capital accretively beyond what's included in the guidance, 5) executes better on offsetting reimbursement headwinds. 6) Headwind from Medicare Advantage negative mix shift is better than expected.

Downside risks to our PO are: 1) Labor cost inflation worse than expected, 2) Medicare rate cuts are deeper than we expect, 3) the company fails to offset the reimbursement pressures, 4) volumes are worse than expected. 5) Headwind from Medicare Advantage negative mix shift is worse than expected.

Analyst Certification

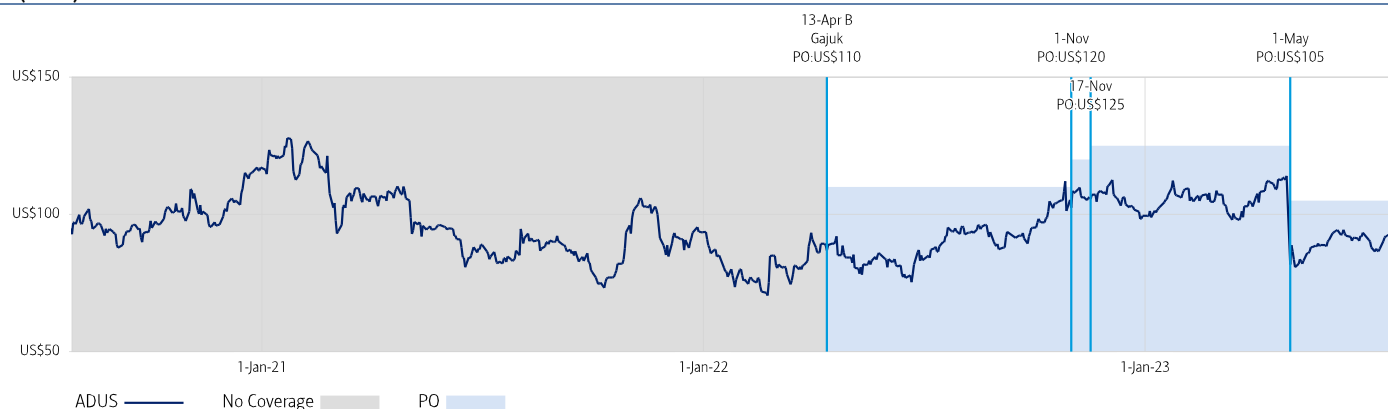
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US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

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
	Alignment Healthcare	ALHC	ALHC US	Kevin Fischbeck, CFA
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	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
	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				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agility Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Community Health Systems	CYH	CYH US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Oscar Health	OSCR	OSCR US	Kevin Fischbeck, CFA
UNDERPERFORM				
	Aveanna Healthcare	AVAH	AVAH US	Joanna Gajuk
	Bright Health Group	BHG	BHG US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Cano Health	CANO	CANO US	Adam Ron
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Clover Health	CLOV	CLOV 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

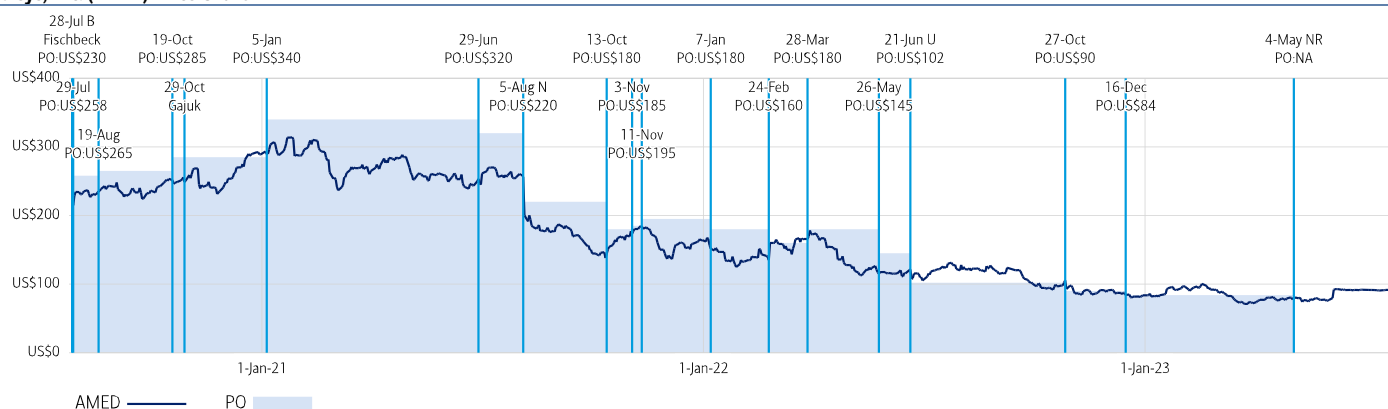
Disclosures

Important Disclosures

Addus (ADUS) Price Chart

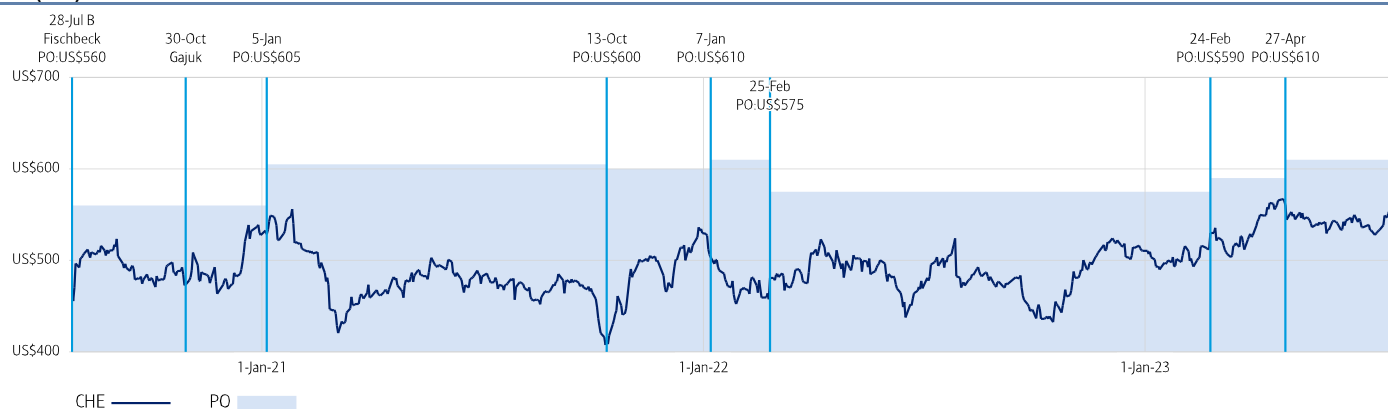
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Amedisys, Inc. (AMED) Price Chart

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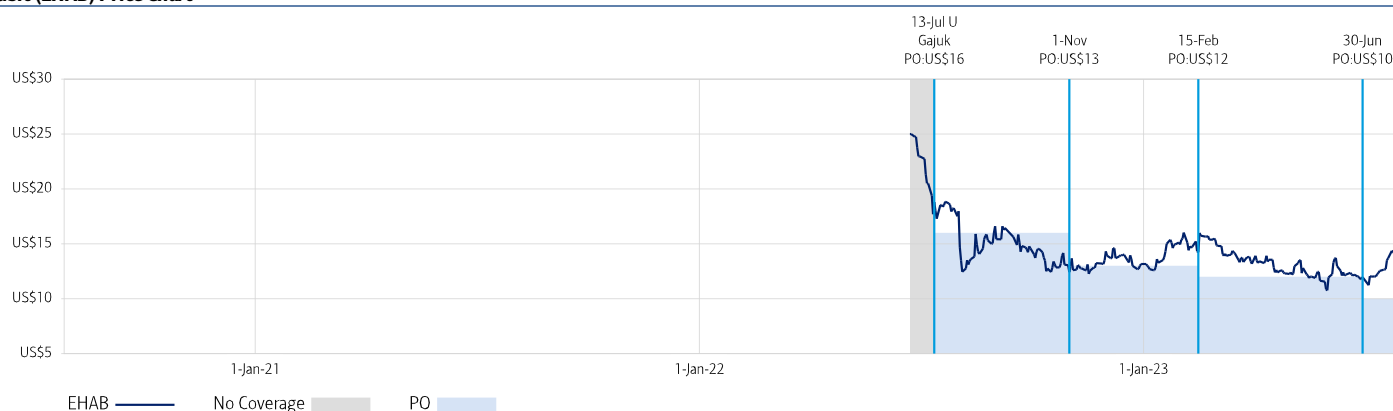
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Chemed (CHE) Price Chart

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Enhabit (EHAB) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	236	57.84%	Buy	105	44.49%
Hold	87	21.32%	Hold	38	43.68%
Sell	85	20.83%	Sell	22	25.88%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{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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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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