

## Addus HomeCare

## Takes from the call: Personal Care seeing positive trends on all fronts

Maintain Rating: BUY | PO: 125.00 USD | Price: 105.93 USD

## Hiring improved, rate increases continue

Personal Care (PC) hiring and retention improved as the average number of hires per business day was up 10% y/y but was down q/q due to seasonality. The positive trend has continued in Jan/Feb (tracking above Q4). In addition, more rate increases are coming (4% to segment revs) and volumes continue to improve. ADUS expects to be more active on the acquisition front in 2H; It is well positioned with net leverage under 1x, and \$237m availability under its revolver. We remain bullish given the solid fundamentals and potential deal upside.

## Medicaid rate increases to add 4% to PC revs

In Q4, +5.2% y/y growth in pricing was driven by an Illinois rate increase. 2023 pricing should be positively impacted by two more rate increases in Illinois: a Jan 1 hourly rate increase of \$0.70 that should result in \$12m in annualized revs, and a Mar 1 increase of \$1.26 that should add \$17-18m in annualized revs, which combined will add about 4% to PC revs. The rates to cover minimum wage increases in IL. Received \$2m in ARPA funding in Q4 (\$24m in 2022).

## PC vols improving, hospice to benefit from PHE ending

The industry struggled to see growth in PC vols since the start of the pandemic, but ADUS has seen volumes and hours provided improve in the last couple quarters. Hospice has also been slowly recovering from the pandemic, but admissions improved sequentially in Q4, benefitting from the JourneyCare acquisition. ADUS believes that the PHE ending will also have a positive impact on hospice vols as fewer patients will qualify for skilled nursing facility stay (3-day hospital stay requirement was lifted in PHE).

## Labor trends also improved in HH, hospice

Hiring of clinical staff (home health and hospice) is more challenging than in Personal Care but ADUS saw improvement in 2H22, added 80 net hires (primarily Hospice).

## Clarity on HH rates needed for larger deals

Deal flow continues to consist of smaller PC/HH opportunities, but ADUS expects larger HH deals to arise in the coming months after we get HH proposal for 2024 and buyers adjust expectations. Deal focus will be on growing HH as well as PC in markets where ADUS currently operates. The company will not prioritize hospice deals, views platform as sufficient. With leverage below 1x, \$237m available under its revolver, and operating cash flow to grow from the 2022 core of \$75-80m, ADUS is well positioned for acquisitions.

## Working with MA plans on better HH rates

ADUS is working on additional VBC contracts for 2023. The company currently has 5 contracts in 3 states with 4,800 clients. In addition, the company continues to negotiate with Medicare Advantage (MA) plans to get better rates, making some traction while also de-emphasizing low paying payors.

28 February 2023

## Equity

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## Stock Data

Price	105.93 USD
Price Objective	125.00 USD
Date Established	17-Nov-2022
Investment Opinion	B-1-9
52-Week Range	73.66 USD - 112.89 USD
Mkt Val (mn) / Shares Out (mn)	1,707 USD / 16.1
Average Daily Value (mn)	8.42 USD
BofA Ticker / Exchange	ADUS / NAS
Bloomberg / Reuters	ADUS US / ADUS.OQ
ROE (2023E)	9.7%
Net Dbt to Eqty (Dec-2022A)	8.2%

ESGMeter™ Medium

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ARPA = The American Rescue Plan Act

PHE = Public Health Emergency

VBC = Value Based Care

HH = Home Health

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Timestamp: 28 February 2023 01:25PM EST

## Price objective basis & risk

### Addus HomeCare (ADUS)

Our PO of \$125 is based on 18.7x 2023E Adj EBITDA, a premium to the multiple we use for peers given ADUS' much smaller exposure to the Medicare rate pressure in home health. 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.

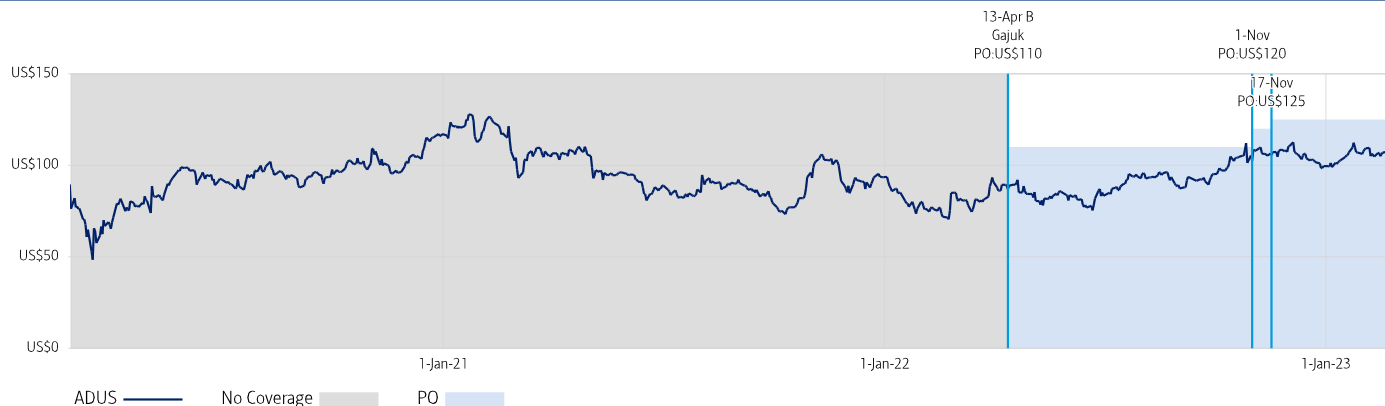
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### Addus (ADUS) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Sell	83	20.29%	Sell	26	31.33%

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Sell	831	23.58%	Sell	404	48.62%

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Neutral	≥ 0%	≤ 30%
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