

Chemed Corporation

First hospice deal in many years, small but strategic

Reiterate Rating: BUY | PO: 708.00 USD | Price: 643.83 USD

Vitas adding hospice and memory care community

CHE announced that Vitas plans to acquire hospice assets along with an assisted living facility from Covenant Care for \$85m. The deal will expand Vitas' presence in Florida and add new markets. We estimate it would add 4% to Vitas revs and 2% to CHE's consolidated EBITDA. It is strategic as it expands Vitas' scale in its biggest state, and it is in line with its strategy and recent comments. We will update our model after the deal closes (expected in 2Q24). Reiterate Buy given the strong Vitas fundamentals and potential capital deployment upside.

We estimate deal to add 4% to Vitas revs

Covenant Care is a non-profit post-acute provider with home health, personal care and hospice assets. Vitas is buying only the hospice assets. Covenant hospice services Northwest Florida and South Alabama, and has 3 inpatient hospice units. We estimate hospice revs of \$60m. Vitas will also buy Covenant Memory Care Community for Alzheimer's and other dementia patients in Pensacola FL. Given it has 32 beds, we estimate revs of \$2m. Combined, the assets would add 4% to Vitas annual revs. Assuming 20% margins, it would add 2% to CHE's annual EBITDA.

Vitas had indicated interest in hospice acquisitions

This is first hospice acquisition for Vitas since 2018. We note during our Home Care conference in Dec 2023, CHE said that Vitas is open to acquiring assets that are in attractive markets or would increase its existing density. It looks for larger hospice agencies and markets that can support larger hospice programs (over 100 average census). Scale is needed for Vitas' strategy of full service offering. The Covenant Care fits the requirement of size/ scale (Medicare data shows one of the Covenant programs had 550 census) and a full service offering.

Adds 1 market in FL, entry into AL

Covenant Care has been operating hospice in Florida (FL) since 1983 and in Alabama (AL) since 2000. The deal will add the Tallahassee market to Vitas' existing FL footprint and expand into AL where Vitas has no presence. While Vitas acquiring an assisted living facility might be somewhat surprising, we view it as strategic given the synergies – memory care patients account for 1/3 of all hospice patients, and tend to have long hospice stays. Vitas is acquiring the real estate.

Deal is small for CHE, FCF usually towards share repo

The annual free cash flow (FCF) of over \$300m allows CHE to fund the \$85m deal and \$24m dividends and still have \$190m for other uses (historically FCF largely went towards share repurchases.)

13 March 2024

Equity

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Stock Data

Price	643.83 USD
Price Objective	708.00 USD
Date Established	28-Feb-2024
Investment Opinion	A-1-7
52-Week Range	492.84 USD - 652.34 USD
Mrkt Val (mn) / Shares Out (mn)	9,831 USD / 15.3
Free Float	98.3%
Average Daily Value (mn)	58.83 USD
BofA Ticker / Exchange	CHE / NYS
Bloomberg / Reuters	CHE US / CHE.N
ROE (2024E)	29.1%
Net Dbt to Eqty (Dec-2023A)	-23.8%
ESGMeter™	Medium

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CHE - Chemed

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Timestamp: 13 March 2024 11:44AM EDT

Price objective basis & risk

Chemed Corporation (CHE)

Our PO of \$708 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 21x 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

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Chemed (CHE) Price Chart



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

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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)

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