

AdaptHealth Corp.

Takes from call: Q4 much better but Q1 guide below

Reiterate Rating: UNDERPERFORM | PO: 7.00 USD | Price: 10.06 USD

Strong beat. Lowering our EBITDA for the guide

AHCO reported strong results beating Q4 EBITDA by 20% on higher-than-expected re-supply revs and strong cost control (there were no unusual items). However, Q1 guide is 7% below consensus with the full year roughly in line implying a steep ramp up. The company listed several items that could bring it back to the mid- to high-single digits organic growth in 2025+: more capitated contracts, returning Diabetes to growth in line with the market, share gains in Sleep and Respiratory, and more cost cutting. We reduce our adj EBITDA ests to reflect the guide vs. our model, and roll out 2026 ests. We raise PO to \$7 (8.6x 2024E EBITDA less capex vs 8.3x prior) from \$6.50 as numbers were restated for 2024. We reiterate Underperform as we wait for more consistent results, clarity on LT growth.

Q4 beat on re-supply revs, costs. Q1 guide 7% below

Q4 came in well above the reset guide: 1) re-supply revs grew \$40m Q/Q, double the expectations - high margins; 2) labor and operating expenses were better, down \$5m Q/Q; 3) Humana (HUM) contract ramped up faster. AHCO expects Q1 revs and EBITDA to grow 3% y/y, implying EBITDA of \$138m, 7% below consensus (18% margin).

Sleep to grow mid-single digits on tough comps

After growing 16% in 2023, Sleep revs to grow mid-single digits with Rental revs flat but re-supply up high single digits. The 75-25 rule expiration is a headwind (\$25m headwind for total company, 4% of EBITDA).

Diabetes to grow in 2H, flat for the year

As AHCO benefits from sales force doubling, CGM revs should grow low single digits in 2H24 (limited growth in 1eH24). Pump revs to decline another \$20m y/y after being down \$40m in 2023 (\$120m in 2023). Expects government mix to increase from 79% in Q4. Working to identify a partner to ramp up its participation in the pharmacy channel.

FCF to be 5% of revs. Leverage 3x at year end

Full year free cash flow (FCF) was \$144m, 4.5% of revs, above 3-4% guide. Investments in new technology helped procurement/inventory management, while capex declined from the peak in 1Q23 as pent-up demand in Sleep was filled. 2024 guide implies further improvement with FCF to be 5% of revs, capex 10%. 1Q24 FCF to be \$0 given the \$25m lawsuit settlement payout expected and seasonality. About 1/3 of FCF in 1H24. Expects to continue to deliver as EBITDA grows – to be at 3x at 2024-year end.

Estimates(Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.51	(5.03)	0.81	1.05	1.35
EPS Change (YoY)	4.1%	NM	NM	29.6%	28.6%
Consensus EPS (Bloomberg)	0.99	(0.14)	0.74	0.94	0.57
Valuation (Dec)					
P/E	19.7x	NM	12.4x	9.6x	7.5x
EV / EBITDA*	6.9x	6.1x	6.1x	5.6x	5.2x
Free Cash Flow Yield*	-1.3%	10.7%	12.5%	15.5%	17.5%

* For full definitions of *IQmethod*SM measures, see page 6.

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Timestamp: 27 February 2024 03:14PM EST

27 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	6.50	7.00
2024E Rev (m)	3,300.4	3,300.7
2025E Rev (m)	3,535.3	3,500.4
2026E Rev (m)	NA	3,712.9
2024E EPS	0.78	0.81
2025E EPS	1.10	1.05
2026E EPS	NA	1.35
2024E EBITDA (m)	691.4	680.2
2025E EBITDA (m)	759.6	734.6
2026E EBITDA (m)	NA	797.0

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Stock Data

Price	10.06 USD
Price Objective	7.00 USD
Date Established	27-Feb-2024
Investment Opinion	C-3-9
52-Week Range	6.37 USD - 22.57 USD
Mkt Val (mn) / Shares Out (mn)	1,338 USD / 133.0
Free Float	61.5%
Average Daily Value (mn)	10.44 USD
BofA Ticker / Exchange	AHCO / NAS
Bloomberg / Reuters	AHCO US / AHCO.OQ
ROE (2024E)	7.1%
Net Dbt to Eqty (Dec-2023A)	147.0%
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".



iQprofileSM AdaptHealth Corp.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	3.4%	5.4%	4.9%	5.0%	10.9%
Return on Equity	3.3%	-37.5%	7.1%	8.5%	20.8%
Operating Margin	7.4%	8.3%	8.6%	9.4%	10.2%
Free Cash Flow	(18)	143	168	207	235

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	5.4x	NM	4.6x	4.0x	3.4x
Asset Replacement Ratio	1.1x	0.9x	0.9x	0.9x	1.0x
Tax Rate	25.3%	6.8%	25.5%	25.5%	25.5%
Net Debt-to-Equity Ratio	104.1%	147.0%	126.0%	103.4%	NA
Interest Cover	2.0x	2.0x	2.1x	2.5x	2.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,971	3,200	3,301	3,500	3,713
% Change	21.0%	7.7%	3.1%	6.1%	6.1%
Gross Profit	417	480	490	541	599
% Change	-6.3%	14.9%	2.2%	10.3%	10.9%
EBITDA	594	671	680	735	797
% Change	4.9%	13.0%	1.4%	8.0%	8.5%
Net Interest & Other Income	(109)	(130)	(133)	(133)	(133)
Net Income (Adjusted)	70	(679)	108	140	180
% Change	7.6%	NM	NM	29.6%	28.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	73	(675)	112	145	184
Depreciation & Amortization	351	383	374	382	390
Change in Working Capital	(93)	(22)	(11)	5	5
Deferred Taxation Charge	18	(63)	0	0	0
Other Adjustments, Net	24	857	23	25	27
Capital Expenditure	(391)	(337)	(330)	(350)	(371)
Free Cash Flow	-18	143	168	207	235
% Change	-109.8%	NM	17.2%	23.3%	13.4%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(20)	(45)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	46	77	245	452	0
Trade Receivables	359	389	412	437	0
Other Current Assets	180	183	197	204	0
Property, Plant & Equipment	487	495	825	1,175	0
Other Non-Current Assets	4,147	3,365	3,365	3,365	0
Total Assets	5,220	4,509	5,043	5,633	0
Short-Term Debt	35	53	53	53	0
Other Current Liabilities	421	484	436	457	0
Long-Term Debt	2,258	2,180	2,180	2,180	0
Other Non-Current Liabilities	348	325	796	1,220	0
Total Liabilities	3,062	3,042	3,465	3,910	0
Total Equity	2,158	1,467	1,578	1,723	0
Total Equity & Liabilities	5,220	4,509	5,043	5,633	0

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Hospital Management

Company Description

AdaptHealth (AHCO) is a home medical equipment company that provides equipment and services that enable patients to receive the medical care they need in the home setting. Their offerings span across six service lines: obstructive sleep apnea, home respiratory, diabetes, home medical equipment (HME), supplies to home, and other. The company serves about 4m patients in the US.

Investment Rationale

We rate AHCO Underperform as the organic growth decelerated for its fastest growing business, diabetes, and there are risks there could be more pressure. The string of misses makes it a "show-me story". In addition, the company is exposed to GLP1 headlines, and there is risk to the LT growth as GLP1 usage is more broad-based

Stock Data

Average Daily Volume 1,037,524

Quarterly Earnings Estimates

	2023	2024
Q1	0.12A	0.03E
Q2	0.10A	0.23E
Q3	-3.36A	0.25E
Q4	-1.91A	0.30E



Price objective basis & risk

AdaptHealth Corp. (AHCO)

Our \$7 PO is based on 8.6x our 2024E Adj EBITDA less capex, discount to the current multiple of home health peer (10x) as AHCO as weight-loss drugs pose a risk to its long-term organic growth profile, while Diabetes business growth decelerates.

Downside risks to our PO: 1) Organic growth is lower than expected. 2) Medicare reimbursement is worse than expected. 3) Deal integration issues arise. 4) Competitive risk from distributors and new technologies is worse than expected. 5) GLP1 headwind materializes faster.

Upside risks: 1) Organic growth is faster than expected, 2) The company executes better on cost cutting. 3) The headwinds to Diabetes business dissipate.

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
	Astrana Health Inc	ASTH	ASTH US	Adam Ron
	BrightSpring Health Services	BTSG	BTSG US	Joanna Gajuk
	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
	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
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
	Privia Health	PRVA	PRVA US	Adam Ron
UNDERPERFORM				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	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



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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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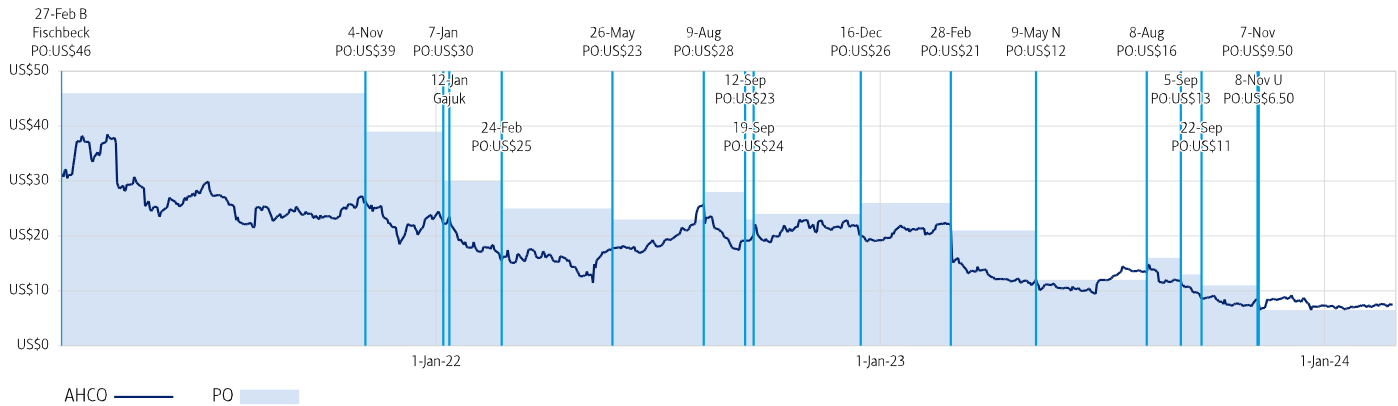
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AdaptHealth Corp. (AHCO) Price Chart



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.

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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