

Addus HomeCare

Takes from call: Personal care deals to pick up in 2024

Reiterate Rating: BUY | PO: 108.00 USD | Price: 92.29 USD

Momentum into 2024, deals to pick up

Q4 came in better as Personal Care Services (PCS) continue to outperform offsetting worse Hospice. Q1 is a seasonally weak quarter but ADUS expects momentum it saw in 4Q23 to continue into 2024. The company expects deal activity to pick up after the final Medicaid rule comes out in April, noting it is well positioned to take market share and continue to consolidate even if the reg is finalized as proposed. We reiterate our Buy rating given the strong fundamentals and potential deal upside.

ADUS more optimistic on final Medicaid reg

ADUS sounded more positive on the final Medicaid reg (expected in April) given the support by states. The company believes it is well positioned under the reg given its ability to invest and improve operations (e.g. scheduling). The company is confident that as a large provider, it will be able to operate effectively through the changes. Expects to do more deals, including larger deals in new markets.

PCS to grow at high end/slightly above LT outlook

2024 to benefit from the Illinois rate increase (40% of PCS revs) with positive trends in hiring/retention boding well for volumes. ADUS expects PCS growth to be towards the higher end to slightly above its +3-5% long-term outlook (about 2/3 vols, rest pricing). No other material rate increases from states currently scheduled, although a rate increase in Veteran Affairs (VA) program to impact a few ADUS markets.

Q1 tends to be seasonally weak Qtr

Q4 margins outperformed and were up +100bps y/y but margins tend to decline in Q1 from Q4 given merit increases/payroll taxes (the quarter tends to have the lowest margins of the year). ADUS expects 1x margin compression from higher % of rate increase in IL going to bonuses as a result of union negotiations. Together, these factors are expected to contribute to a Q/Q decline of -140bps. Assumes bad debt returns to normal levels in Q1, additional -30bps Q/Q decline. ADUS doesn't expect same cadence of rate increases it saw in 2023 and expects margins to be fairly consistent through the year. Home health/hospice deals could provide margin upside.

Q4 margins beat on strong PCS, mix, lower bad debt

75% of PC states saw hourly volume growth y/y with total SS hours up 2.7% y/y combined with strong pricing aiding segment margins. Hospice benefited from the +3.1% rate increase, and total company margins benefited from the home health/hospice acquisition coming at higher margins. Finally, lower bad debt added 30bp.

5-7% revs growth expected for Hospice in '24

Hospice vols were flattish y/y due to higher discharges in Q4 but strong admission growth over past couple of quarters should translate to census growth leading to +5-7% revs growth for hospice in 2024. Rate update to be offset by wage growth – margins flattish for the yr.

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Equity

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

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

Stock Data

Price	92.29 USD
Price Objective	108.00 USD
Date Established	1-Aug-2023
Investment Opinion	B-1-9
52-Week Range	77.30 USD - 114.99 USD
Mrkt Val (mn) / Shares Out (mn)	1,496 USD / 16.2
Free Float	98.2%
Average Daily Value (mn)	9.25 USD
BofA Ticker / Exchange	ADUS / NAS
Bloomberg / Reuters	ADUS US / ADUS.OQ
ROE (2024E)	10.6%
Net Dbt to Eqty (Dec-2023A)	8.4%
ESGMeter™	Medium

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PCS = Personal care services

Price objective basis & risk

Addus HomeCare (ADUS)

Our PO of \$108 is based on 13.8x 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.

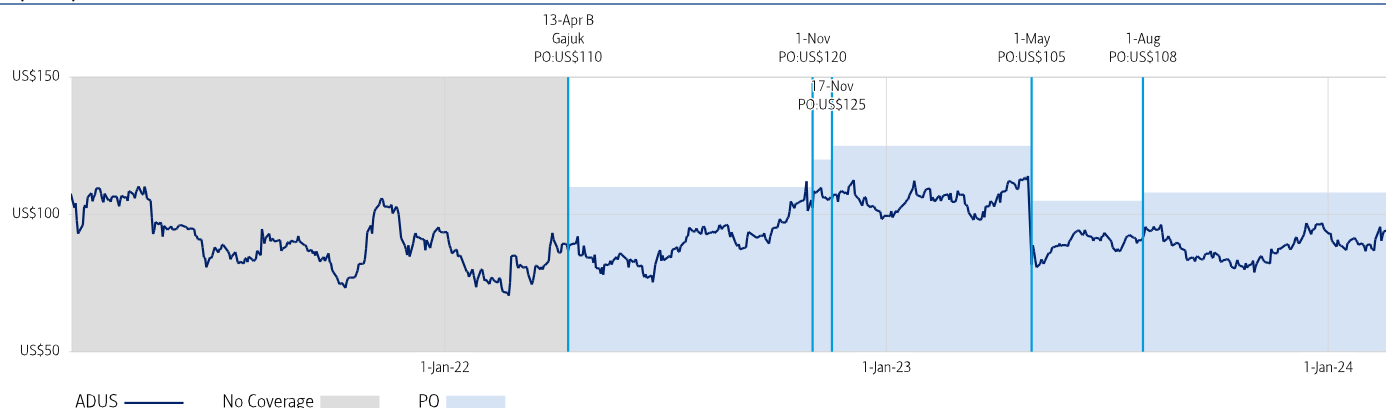
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Addus (ADUS) Price Chart



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Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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