

Amedisys, Inc.(AMED)

\$181.00 (As of 04/30/20)

Price Target (6-12 Months): **\$193.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/05/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: D

Summary

Over the past six months, Amedisys has outperformed the industry it belongs to. Amedisys's Home Health and Hospice divisions witnessed solid year-over-year growth in Medicare and non-Medicare revenues during the fourth quarter. Amedisys is currently exploring opportunities in these segments. We are also impressed by the company's solid performance in the recently-launched Personal Care segment. The company continued gaining from the CCH and RoseRock acquisitions during the fourth quarter. A favorable demographic trend, and a strong solvency and capital structure also bodes well. However, an intense competitive landscape and regulatory concerns pose challenges to the home health and hospice industry. Escalating costs and contraction in operating margin remain woes.

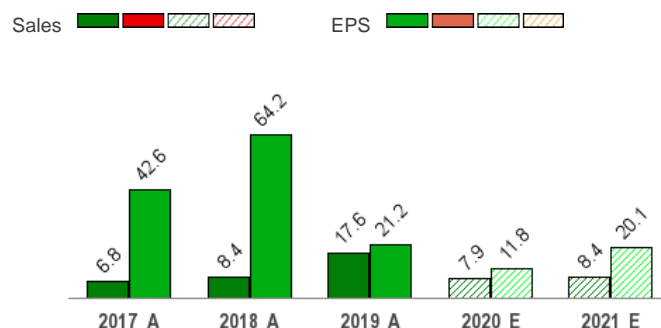
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$218.44 - \$106.65
20 Day Average Volume (sh)	262,680
Market Cap	\$6.0 B
YTD Price Change	10.3%
Beta	0.89
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Outpatient and Home Healthcare
Zacks Industry Rank	Top 30% (76 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.1%
Last Sales Surprise	-1.9%
EPS F1 Est- 4 week change	-1.9%
Expected Report Date	05/06/2020
Earnings ESP	-6.8%
P/E TTM	41.8
P/E F1	36.8
PEG F1	1.9
P/S TTM	3.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	556 E	565 E	570 E	586 E	2,288 E
2020	512 E	511 E	534 E	552 E	2,110 E
2019	467 A	493 A	495 A	501 A	1,956 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.41 E	\$1.48 E	\$1.49 E	\$1.53 E	\$5.91 E
2020	\$0.97 E	\$1.04 E	\$1.31 E	\$1.46 E	\$4.92 E
2019	\$1.11 A	\$1.21 A	\$1.15 A	\$0.94 A	\$4.40 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/30/2020. The reports text is as of 05/01/2020.

Overview

Amedisys Inc. provides home health and hospice services throughout the U.S. to the growing chronic, co-morbid, and aging American population. The company also offers clinically focused programs for chronic conditions and various diseases such as diabetes, coronary artery disease, congestive heart failure, orthopedics, complex wound care, geriatric surgical recovery, balance retraining, behavioral health and stroke recovery, as well as various rehabilitative programs. It provides hospice services to patients using an interdisciplinary care team comprising a physician, nurses, home health aides, social workers, therapists, dietitians, volunteers, counselors, chaplains and bereavement coordinators, when required. Amedisys was founded in 1982 and is headquartered in Baton Rouge, LA.

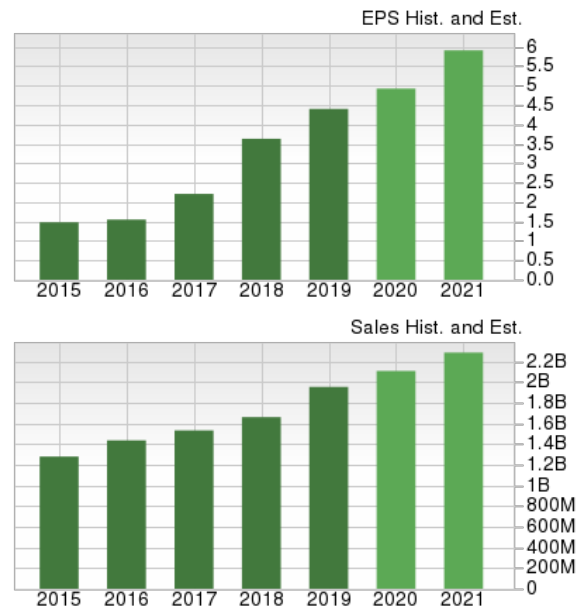
The company depends on reimbursement from Medicare (for chronic care) for a significant portion of its revenues on account of the age demographics of its patient base (average age of 81). Medicare represented approximately 82% to 84% of Amedisys' net service revenue in the last three years.

Amedisys plans to diversify its payment sources and becomes less reliant upon Medicare, based on the needs of the aging population, uncertainty surrounding health care reform, and new health care models currently in development, such as Accountable Care Organizations (ACOs).

The company's operations involve servicing patients through four reportable business segments: Home Health (63.8% of total revenues in the 2019; underlying growth being 6.8% from 2018), Hospice (31.1%; up 50.2%), Personal Care and Corporate.

Home health segment delivers a wide range of services in the homes of individuals who may be recovering from an illness, injury or surgery.

Hospice segment on the other hand, provides care that is designed to provide comfort and support for those who are facing a terminal illness.



Reasons To Buy:

▲ **Share Price Movement:** Over the past six months, Amedisys outperformed the industry it belongs to. As per the last trading price, the stock gained 24.9%, compared with the 6.9% gain of the industry. At the Home Health and Hospice divisions, the company witnessed encouraging revenue growth in Medicare and non-Medicare revenues. In Hospice, as a major breakthrough this quarter, the company topped the national average in all measurement categories and is presently positioned as a top national player. Amedisys is currently exploring opportunities in Home Health and Hospice segments. Amedisys has been benefitting from the recent acquisitions of hospice care providers — RoseRock Healthcare and Compassionate Care Hospice (CCH). Amedisys' ADC (average daily census) rose 8% and same-store admissions increased 4% during the quarter. The company's solid performance in the recently-launched Personal Care segment has also driven the stock.

Amedisys is currently exploring new opportunities in Home Health and Hospice segments. The company's favorable demographic trend and strategic acquisitions undertaken also encourages us.

▲ **Improving Clinical Quality:** Amedisys is currently focusing on improving clinical quality. In this regard, we take note that Amedisys' current Quality of Patient Care Star QPC score was 4.26. The company now has 15% of its care centers rated at 5 stars, with 91% of overall portfolio rated at 4 stars or better. Amedisys is targeting to achieve a 4.0 Quality Star Rating for all its care centers. In Hospice, as a major breakthrough, during the fourth quarter as well, the company topped the national average in all measurement categories and presently is positioned at the top of the national players.

▲ **Favorable CMS Ruling:** Per Amedisys, CMS has issued a final rule which updates the Medicare Home Health Prospective Payment System ("HHPPS") rates and wage index for calendar year ("CY") 2019. As a result of the rule, there will be a 2.2% (\$420 million) rise in payments to Home Health agencies ("HHA") in CY 2019. Furthermore, the latest CMS regulation finalizes the implementation of an alternative case-mix adjustment methodology — the Patient Drive Groupings Model ("PDGM"). The PDGM has been planned to be implemented in a budget neutral manner on Jan 1, 2020. Based on patient characteristics for a 30-day period of care, the PDGM will adjust payments to home health agencies providing home health services under Medicare Fee-For-Service. Moreover, it will remove the use of therapy visits in the determination of payments. In a scenario where Medicare payments form around 73-73% of the company's net service revenues over the past three years, such favorable rulings seem to be encouraging.

▲ **Positive Demographic Trend:** The home health industry is poised for tremendous growth in the long term, driven by the aging U.S. population, patients' desire for independence, and home health as a cheaper care modality. The company should continue to benefit from the aging demographics of the U.S. population and the need for higher acuity patients to be taken care of in a home nursing environment. In addition, with continued pressure on the U.S. healthcare system, we believe operators such as Amedisys will continue to benefit from increased volume shift from higher-cost institutional settings to a lower-cost environment such as home health.

▲ **Strategic Acquisitions and Partnerships to Add Values:** Amedisys is developing and acquiring new business lines that will complement its existing home care and hospice business and help seniors manage their health more effectively and stay in their homes longer. In July 2019, the company announced a crucial partnership with ClearCare, the personal care industry's leading software platform with 4,000 personal care agencies in every zip code in the United States. The company continued benefiting from the partnership during the fourth quarter.

The company closed the acquisition of Asana hospice in January 2020. In April 2019, Amedisys acquired hospice care provider- Oklahoma-based RoseRock Healthcare. The acquisition was made with the aim of boosting Amedisys' presence in the region. Further, the acquisition of Compassionate Care Hospice (CCH), a national hospice care provider, was made with the aim of adding significant new access to Amedisys' nationwide network of 83 hospice care centers. These previously-closed acquisitions contributed significantly to Amedisys' top line during the fourth quarter.

Currently, management expects the company to have enough cash balance to make a number of such acquisitions in the future.

▲ **Personal Care Prospects Bright:** Recently, the company integrated a new operating segment within its business — Personal Care. Per management, this segment is stabilizing and performing as per expectation. Moreover, the company is working on expanding the geographical presence of the Personal Care business through inorganic expansion. Amedisys is integrating tuck-in acquisitions like Bring Care Home, East Tennessee Personal Care Services and Intercity. According to the company, these buyouts will enlarge its personal care footprint outside of Massachusetts and Florida. This apart, the company's recent deal with ClearCare (a popular web-based operating platform representing 4,000 Personal Care agencies) creates an opportunity to establish a partnership between Amedisys and Personal Care agencies using the ClearCare platform.

▲ **Favorable Bipartisan Budget Act:** In February 2018, the Congress passed the Bipartisan Budget Act of 2018 (BBA of 2018). Focusing on Home Health, the BBA of 2018 aims at extending the home health rural add-on payment for four years, reducing the 2020 market basket update along with modifying the eligibility documentation requirements and reform to the Home Health Prospective Payment System (HHPPS).

▲ **Strong Solvency and Capital Structure:** Amedisys exited the year with cash and cash equivalents of \$96 million compared with \$21 million at the end of the third quarter of 2019. Meanwhile, total debt came up to \$326 million for the period, compared to \$324 million in the sequentially last reported quarter. This figure is much higher than the year-end cash and cash equivalent level apparently indicating weak solvency. However, if we go by the company's current-year debt level of \$38 million, this comes pretty low compared to the cash in hand, a good news in terms of solvency position of the company. At least during the year of economic downturn, the company is holding sufficient cash for debt repayment.

Debt comparison with the industry is, favorable too as, industry's total debt of \$3.19 billion, stands much higher to the company's debt level.

The quarter's total debt-to-capital of 33.7% although stands at a moderately high level indicating a leveraged balance sheet, it represents a sequential decrease from 34.9% at the end of the third quarter. This again compares favorably with the total debt-to-capital of the industry which stands at a higher level of 51.5%. The overall data concludes that, in terms of solvency level, the company is positioned better than its

industry average.

The times interest earned for the company stands at 12.7%, representing a sequential decrease from 13.9% at the end of the third quarter. This, however, compares favorably with the times interest earned for the industry which stands at a further low level (5.8%).

Reasons To Sell:

- ▼ **Expensive Valuation:** Amedisys' P/E (F12M) ratio is expensive in comparison to the broader industry. The company is currently trading at a forward P/E (F12M basis) ratio of 34.6 for the past six months, whereas the current P/E ratio (F12 basis) for the industry it belongs to is 21.8.
 - ▼ **Escalating Costs a Concern:** During the fourth quarter, expense on salaries and benefits advanced 20.2%. Other expenses increased 12.6%. Operating margin accordingly contracted 10 bps to 8.3% from the prior-year level.
 - ▼ **Competitive Landscape:** The market for home health and hospice is fragmented with a number of small local providers. With few barriers to entry in this market, Amedisys primarily faces tough competition from local privately and publicly-owned and hospital-owned health care providers. It competes based on the availability of personnel, the quality of services, expertise of visiting staff and the price of services. In addition, it competes with a number of non-profit organizations that finance acquisitions and capital expenditures on a tax-exempt basis or receive charitable contributions that are unavailable to the company.
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Reimbursement headwinds and competitive challenges that the company faces remain our concerns.

Last Earnings Report

Amedisys Q4 Earnings Beat Estimates, Revenues Miss

Amedisys, Inc. reported adjusted earnings per share of 94 cents in fourth-quarter 2019, up 3.3% from the year-ago figure. The bottom line also beat the Zacks Consensus Estimate of 93 cents by 1.1%.

Net service revenues grossed \$500.7 million, up 15.3% year over year. However, the top line missed the Zacks Consensus Estimate by 1.8%.

Quarter Ending **12/2019**

Report Date	Feb 18, 2020
Sales Surprise	-1.90%
EPS Surprise	1.08%
Quarterly EPS	0.94
Annual EPS (TTM)	4.41

2019 at a Glance

In 2019, the company reported net service revenues worth \$1.96 billion, which improved 17.9% from the previous year. The top line missed the Zacks Consensus Estimate by 0.5%.

Adjusted earnings for the year was \$4.40, up 21.2% from that of 2018. The figure also beat the consensus mark by 0.2%.

Quarter in Detail

Within the company's Home Health division, net service revenues totaled \$316.2 million in the quarter, reflecting a 4% improvement year over year. Moreover, Medicare revenues of \$215.2 million inched up 1.7% year over year. Non-Medicare revenues improved 9.2% to \$101 million.

Within the Hospice division, net service revenues were \$164.6 million (up 51.3% year over year) including Medicare revenues of \$156.6 million (up 51.3%) and non-Medicare revenues of \$8 million (up 50.9%).

The company recently integrated two additional operating segments within its business, namely, Personal Care and Corporate. At Personal Care, net service revenues totaled \$19.9 million, representing a decline of 7.9% from the year-ago number. Meanwhile, the Corporate segment did not register any revenues in the fourth quarter.

Margins

Gross margin expanded 133 basis points (bps) to 40.9% in the quarter under review. Further, expense on salaries and benefits advanced 20.2% to \$101.3 million. Other expenses increased 12.6% to \$48.2 million as well. Meanwhile, operating profit of \$41.6 million reflects a 14.1% rise from the year-ago figure. Operating margin also contracted 10 bps to 8.3% from the prior-year level.

Cash Position

Amedisys exited the December quarter with cash and cash equivalents of \$30.3 million compared with \$20.2 million in the prior-year quarter. The company's long-term obligations (excluding current portion) were \$232.3 million at the end of the fourth quarter compared with \$5.8 million in the year-ago quarter.

At the end of 2019, net cash provided by operating activities was \$202 million compared with \$223.5 million at the end of 2018.

2020 Guidance

Net service revenues are projected to range between \$2.12 billion and \$2.16 billion.

Adjusted earnings is expected to be in the band of \$4.90-\$5.13 (on the basis of an anticipated 33.4 million shares outstanding).

Adjusted EBITDA is estimated to be in the range of \$250-\$260 million.

Recent News

On **Apr 27, 2020**, Amedisys announced the signing of a definitive agreement to acquire Homecare Preferred Choice, Inc. (which is conducting its business as AseraCare Hospice) through one of Amedisys' wholly owned subsidiaries.

Valuation

Amedisys shares are up 10.3% in the year to date period and up 52.7% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 0.3% while the Zacks Medical sector fell 3.3% in the year to date period. Over the past year, the Zacks sub-industry is up 2.6% and sector is up 1.2%.

The S&P 500 index is down 8.8% in the year to date period and rose 0.4% in the past year.

The stock is currently trading at 34.6X Forward 12-months earnings, which compares to 21.8X for the Zacks sub-industry, 21.7X for the Zacks sector and 20.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 40.4X as low as 18.4X, with a 5-year median 26.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$193 price target reflects 36.2X forward 12-months earnings.

The table below shows summary valuation data for AMED.

Valuation Multiples - AMED					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	34.56	21.83	21.72	20.80
	5-Year High	40.40	21.83	21.72	20.80
	5-Year Low	18.38	14.49	15.81	15.19
	5-Year Median	26.21	17.60	18.72	17.44
P/S F12M	Current	2.73	2.44	2.72	3.30
	5-Year High	3.17	2.45	3.84	3.44
	5-Year Low	0.74	0.71	2.25	2.54
	5-Year Median	1.21	1.00	2.96	3.01
P/B TTM	Current	9.28	3.45	3.72	3.89
	5-Year High	10.77	4.00	5.05	4.55
	5-Year Low	2.51	1.91	2.91	2.84
	5-Year Median	4.06	2.47	4.29	3.64

As of 04/30/2020

Industry Analysis Zacks Industry Rank: Top 30% (76 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Addus HomeCare Corporation (ADUS)	Outperform	3
American Renal Associates Holdings, Inc (ARA)	Neutral	3
Catsys Inc. (CATS)	Neutral	3
Chemed Corporation (CHE)	Neutral	2
DaVita Inc. (DVA)	Neutral	3
Hanger Inc. (HNGR)	Neutral	3
RadNet, Inc. (RDNT)	Neutral	3
U.S. Physical Therapy, Inc. (USPH)	Underperform	5

Industry Comparison Industry: Medical - Outpatient And Home Healthcare				Industry Peers		
	AMED	X Industry	S&P 500	CHE	DVA	HNGR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	3	3
VGM Score	B	-	-	B	A	A
Market Cap	5.96 B	701.50 M	20.61 B	6.61 B	9.62 B	687.20 M
# of Analysts	9	3	14	2	7	1
Dividend Yield	0.00%	0.00%	2.11%	0.31%	0.00%	0.00%
Value Score	C	-	-	C	B	B
Cash/Price	0.02	0.03	0.06	0.00	0.13	0.12
EV/EBITDA	25.62	11.64	11.87	21.76	10.55	11.65
PEG Ratio	1.90	2.58	2.47	2.58	1.52	NA
Price/Book (P/B)	9.26	2.84	2.67	9.18	4.36	72.13
Price/Cash Flow (P/CF)	29.63	12.56	10.66	24.16	7.00	9.53
P/E (F1)	37.43	26.96	19.01	25.35	13.09	NA
Price/Sales (P/S)	3.05	1.44	2.10	3.32	0.85	0.63
Earnings Yield	2.67%	2.80%	5.05%	3.94%	7.64%	-1.09%
Debt/Equity	0.45	0.46	0.72	0.24	4.61	60.87
Cash Flow (\$/share)	6.21	1.90	7.01	17.24	11.28	1.93
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	35.97%	12.31%	10.88%	20.43%	2.09%	NA
Proj. EPS Growth (F1/F0)	11.87%	1.38%	-7.32%	17.78%	11.77%	-122.22%
Curr. Cash Flow Growth	47.20%	6.12%	5.92%	14.93%	19.72%	4.97%
Hist. Cash Flow Growth (3-5 yrs)	30.47%	13.00%	8.55%	14.21%	0.89%	13.27%
Current Ratio	1.07	1.38	1.23	0.73	1.56	1.51
Debt/Capital	31.01%	46.53%	43.84%	19.56%	83.67%	98.38%
Net Margin	6.49%	2.93%	11.08%	11.60%	7.12%	2.51%
Return on Equity	24.95%	14.15%	16.44%	36.13%	25.18%	-240.70%
Sales/Assets	1.61	0.97	0.54	1.66	0.59	1.38
Proj. Sales Growth (F1/F0)	7.87%	0.00%	-1.42%	8.78%	2.04%	-4.18%
Momentum Score	D	-	-	D	A	C
Daily Price Chg	-3.05%	-2.20%	-2.39%	-5.09%	-3.16%	-5.94%
1 Week Price Chg	-6.08%	-0.51%	-1.74%	1.12%	-5.32%	-5.23%
4 Week Price Chg	2.92%	17.07%	17.07%	-2.61%	12.39%	37.32%
12 Week Price Chg	-2.48%	-16.07%	-18.53%	-14.55%	-4.89%	-26.68%
52 Week Price Chg	52.68%	9.09%	-9.82%	27.52%	39.82%	-9.65%
20 Day Average Volume	262,680	161,014	2,641,413	116,746	1,246,913	269,880
(F1) EPS Est 1 week change	-2.21%	0.00%	0.00%	-1.57%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.90%	-2.82%	-6.62%	-0.15%	-0.47%	0.00%
(F1) EPS Est 12 week change	-1.29%	-11.28%	-13.28%	4.08%	8.50%	-119.80%
(Q1) EPS Est Mthly Chg	-17.01%	-9.80%	-11.97%	-6.77%	-1.46%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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