

Amedisys, Inc.(AMED)

\$188.85 (As of 02/06/20)

Price Target (6-12 Months): **\$198.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/05/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: C

Summary

Over the past six months, Amedisys outperformed the industry it belongs to. It saw solid year-over-year growth in Medicare and non-Medicare revenues at the Home Health and Hospice. In Hospice, the company topped the national average in all measurement categories, which was as a breakthrough. The recent acquisitions of RoseRock Healthcare and Compassionate Care Hospice contributed significantly to Amedisys' top line during the quarter. The company's solid show by the latest Personal Care segment buoys optimism. A favorable demographic trend and acquisitions also bode well. The company put up a robust performance in the third-quarter 2019 with earnings exceeding estimates. However, an intense competitive landscape and regulatory concerns pose challenges in the home health and hospice industry. Rising costs and expenses are added concerns.

Data Overview

52 Week High-Low	\$189.87 - \$106.65
20 Day Average Volume (sh)	158,330
Market Cap	\$6.1 B
YTD Price Change	13.1%
Beta	1.47
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Outpatient and Home Healthcare
Zacks Industry Rank	Bottom 26% (189 out of 255)

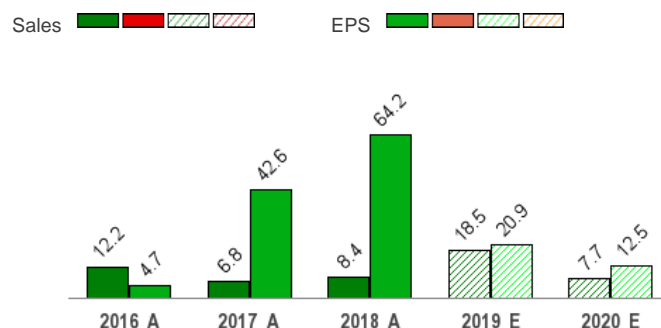
Last EPS Surprise	27.8%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	1.0%
Expected Report Date	02/26/2020
Earnings ESP	-1.2%

P/E TTM	43.1
P/E F1	38.2
PEG F1	1.9
P/S TTM	3.2

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	517 E	529 E	527 E	543 E	2,122 E
2019	467 A	493 A	495 A	510 E	1,970 E
2018	399 A	412 A	417 A	434 A	1,663 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.15 E	\$1.28 E	\$1.25 E	\$1.30 E	\$4.94 E
2019	\$1.11 A	\$1.21 A	\$1.15 A	\$0.93 E	\$4.39 E
2018	\$0.79 A	\$1.00 A	\$0.95 A	\$0.91 A	\$3.63 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 02/06/2020. The reports text is as of 02/07/2020.

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.

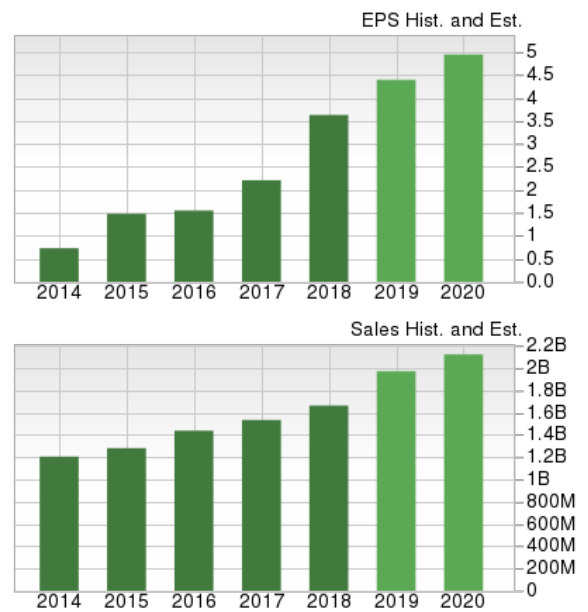
The company depends on reimbursement from Medicare (for chronic care) for a significant portion of its revenues on account of the age demographics of its patient base (average age of 81). Medicare represented approximately 82% to 84% of Amedisys' net service revenue in the last three years.

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 (70.6% of total revenues in the 2018; underlying growth being 8.4% from 2017), Hospice (25%; up 11.7%), 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 38.9%, compared with the 28.1% rise of the industry. Amedisys ended third-quarter 2019 on a promising note with earnings exceeding the Zacks Consensus Estimate. 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 presently is positioned at the top of the national players. Amedisys is currently exploring opportunities in these segments. In this regard, 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 5% and same- store admissions rose 4% during the quarter. The company's solid performance in the recently-launched Personal Care segment has also driven the share price.

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 4.27. The company now has 13% of its care centers rated at 5 stars, with 90% 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, this quarter, 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.

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. The RoseRock and CCH acquisitions contributed significantly to Amedisys' top line during the second 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. During the reported quarter, net service revenues totaled \$20.7 million with total hours per quarter growing approximately 2%. 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).

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 37 for the past year, whereas the current P/E ratio (F12 basis) for the industry it belongs to is 20.9.
 - ▼ **Escalating Costs a Concern:** In the first quarter, Amedisys witnessed a 25.4% rise in expense on salaries and benefits. Other expenses escalated 63.6% on a year-over-year basis. Escalating costs continue to weigh on the company's bottom line.
 - ▼ **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 Q3 Earnings Top Estimates

Amedisys reported adjusted earnings per share of \$1.15 in the third quarter of 2019, up 21.1% from the year-ago figure. The bottom line also beat the Zacks Consensus Estimate of 97 cents by 27.8%.

Net service revenues grossed \$494.6 million, up 18.5% year over year. Meanwhile, the top line marginally matched the Zacks Consensus Estimate.

Quarter Ending 09/2019

Report Date	Oct 29, 2019
Sales Surprise	0.01%
EPS Surprise	27.78%
Quarterly EPS	1.15
Annual EPS (TTM)	4.38

Quarter in Detail

Within the company's Home Health division, net service revenues totaled \$311.5 million in the quarter, reflecting a 5.6% improvement year over year. Moreover, Medicare revenues of \$211.5 million rose a mere 2% year over year, driven by lowered Medicare recertification rate and an increase in price concessions. Non-Medicare revenues improved 15.1% to \$100 million.

Within the Hospice division, net service revenues were \$162.4 million (up 57.1% year over year) including Medicare revenues of \$153.5 million (up 56.7%) and non-Medicare revenues of \$8.9 million (up 64.8%).

The company recently integrated two additional operating segments within its business, namely, Personal Care and Corporate. At Personal Care, net service revenues totaled \$20.7 million, representing an 8.9% rise from the year-ago number. Meanwhile, the Corporate segment did not register any revenues in the third quarter.

Margins

Gross margin expanded 147 basis points (bps) to 41.6% in the quarter under review. Further, expense on salaries and benefits rose 25.9% to \$99.9 million. Other expenses increased 20.2% to \$48.5 million as well. Meanwhile, adjusted operating profit of \$57.5 million reflects a 20.1% rise from the year-ago tally. Adjusted operating margin also expanded 15 bps to 11.6% from the prior-year level.

Cash Position

Amedisys exited the September quarter with cash and cash equivalents of \$20.7 million compared with \$13.9 million at the end of the second quarter. The company's long-term obligations (excluding current portion) were \$231.6 million at the end of the third quarter compared with \$266.5 million at the end of the second quarter. However, year-to-date net cash provided by operating activities was \$126.8 million compared with \$159.5 million a year ago.

Recent News

On **Jan 2, 2020**, Amedisys closed the acquisition of Asana Hospice. Under the terms of the agreement, Amedisys acquired 100 percent of its membership interests.

On **Nov 25, 2019**, Amedisys entered into a definitive agreement to acquire Asana Hospice, a prominent hospice and palliative care provider in the United States. The company expects to close the deal on Jan 1, 2020 by dint of which it will get 100% ownership interests in Asana Hospice.

On **Nov 11, 2019**, Amedisys announced its plans to expand its commitment to provide highest quality end-of-life care to the dying veterans to commemorate the Veteran's Day. The company partnered with We Honor Veterans program — a collaboration between the U.S. Department of Veteran Affairs and the National Hospice and Palliative Care Organization — for this purpose.

Valuation

Amedisys shares are up 13.1% in the year to date period and up 44.9% in the trailing 12-month periods. Stocks in the Zacks sub-industry and Zacks Medical sector are up 75.8% and up 2.9% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are up 39.4% and up 5.3%, respectively.

The S&P 500 index is up 3.4% in the year to date period and up 22.1% in the past year.

The stock is currently trading at 37X Forward 12-months earnings, which compares to 20.9X for the Zacks sub-industry, 21.6X for the Zacks sector and 19.1X for the S&P 500 index.

Over the past five years, the stock has traded as high as 37.9X and as low as 18.4X, with a 5-year median 25.8X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$198 price target reflects 38.8x 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	37.01	20.95	21.56	19.09
	5-Year High	37.99	20.95	21.56	19.34
	5-Year Low	18.38	14.67	15.84	15.18
	5-Year Median	25.82	17.89	18.90	17.46
P/S F12M	Current	2.86	2.69	2.89	3.54
	5-Year High	2.86	3.80	3.82	3.54
	5-Year Low	0.69	0.73	2.44	2.54
	5-Year Median	1.18	0.96	2.95	3.00
P/B TTM	Current	10.09	11.27	4.64	4.54
	5-Year High	10.09	11.27	5.03	4.54
	5-Year Low	2.23	1.99	3.43	2.85
	5-Year Median	3.94	2.50	4.30	3.62

As of 02/06/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (189 out of 255)



Top Peers

LHC Group, Inc. (LHCG)	Outperform
Addus HomeCare Corporation (ADUS)	Neutral
Brookdale Senior Living Inc. (BKD)	Neutral
Chemed Corporation (CHE)	Neutral
DaVita Inc. (DVA)	Neutral
Encompass Health Corporation (EHC)	Neutral
The Ensign Group, Inc. (ENSG)	Neutral
Hanger Inc. (HNGR)	Neutral

Industry Comparison Industry: Medical - Outpatient And Home Healthcare				Industry Peers		
	AMED Neutral	X Industry	S&P 500	BKD Neutral	EHC Neutral	LHCG Outperform
VGM Score	B	-	-	C	B	C
Market Cap	6.09 B	853.57 M	24.40 B	1.27 B	7.87 B	4.88 B
# of Analysts	8	2	13	3	9	8
Dividend Yield	0.00%	0.00%	1.75%	0.00%	1.40%	0.00%
Value Score	C	-	-	B	B	C
Cash/Price	0.00	0.06	0.04	0.27	0.06	0.01
EV/EBITDA	35.25	12.35	14.17	11.26	12.57	39.13
PEG Ratio	1.93	2.58	2.05	NA	2.34	2.35
Price/Book (P/B)	10.09	3.40	3.31	1.59	4.71	3.29
Price/Cash Flow (P/CF)	44.22	12.87	13.63	2.26	13.94	40.71
P/E (F1)	38.13	29.57	19.08	NA	21.55	32.74
Price/Sales (P/S)	3.22	1.19	2.67	0.31	1.71	2.37
Earnings Yield	2.62%	3.09%	5.24%	-12.90%	4.64%	3.05%
Debt/Equity	0.48	0.48	0.71	6.73	1.94	0.20
Cash Flow (\$/share)	4.27	1.99	6.89	3.02	5.72	3.81
Growth Score	A	-	-	D	C	A
Hist. EPS Growth (3-5 yrs)	38.47%	13.13%	10.80%	NA	15.79%	22.89%
Proj. EPS Growth (F1/F0)	12.51%	10.13%	7.23%	22.64%	-5.29%	6.14%
Curr. Cash Flow Growth	45.19%	19.72%	9.51%	-24.72%	24.32%	104.30%
Hist. Cash Flow Growth (3-5 yrs)	23.90%	9.79%	8.55%	17.11%	10.83%	31.24%
Current Ratio	0.95	1.21	1.20	0.59	0.97	1.53
Debt/Capital	32.33%	47.70%	42.90%	87.07%	67.34%	17.65%
Net Margin	6.70%	3.35%	11.76%	-1.09%	7.79%	4.59%
Return on Equity	26.53%	16.34%	16.98%	-24.04%	23.93%	9.39%
Sales/Assets	1.75	0.85	0.54	0.57	0.78	1.02
Proj. Sales Growth (F1/F0)	7.69%	5.42%	4.15%	-4.32%	5.50%	6.49%
Momentum Score	C	-	-	A	B	F
Daily Price Chg	1.39%	0.00%	-0.11%	-1.02%	0.63%	1.21%
1 Week Price Chg	-1.39%	-2.12%	-2.60%	-4.77%	-2.30%	-0.67%
4 Week Price Chg	9.38%	4.20%	1.51%	-4.48%	15.81%	8.75%
12 Week Price Chg	24.85%	15.11%	5.63%	-2.29%	15.29%	20.18%
52 Week Price Chg	40.82%	13.92%	17.01%	-14.21%	16.65%	41.05%
20 Day Average Volume	158,330	108,997	1,961,054	987,402	648,076	210,409
(F1) EPS Est 1 week change	-0.87%	0.00%	0.00%	0.00%	0.14%	-0.84%
(F1) EPS Est 4 week change	1.02%	0.00%	-0.00%	0.00%	-1.58%	-0.63%
(F1) EPS Est 12 week change	3.11%	0.00%	-0.16%	0.00%	-1.07%	1.23%
(Q1) EPS Est Mthly Chg	3.59%	0.00%	0.00%	0.00%	0.61%	-3.85%

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	C
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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