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Aug 14, 2020

Amedisys, Inc.(AMED)

$231.17 (As of 08/13/20)

Price Target (6-12 Months): **$243.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/05/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: D	Growth: A	Momentum: B	**3-Hold** VGM:B

Summary

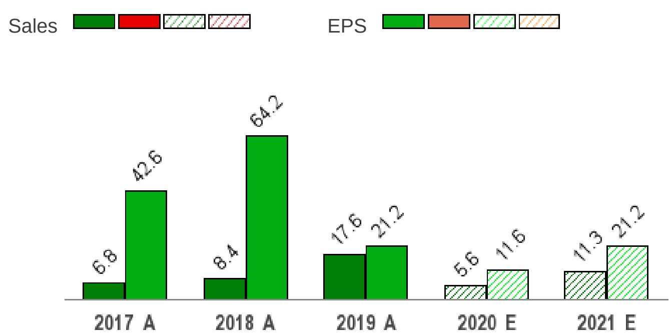
Amid the coronavirus-led volume disruption across the United States, Amedisys ended the second quarter with better-than-expected earnings and revenues. The second-quarter revenues exceeded the company's internal expectations as well.An impressive performance by the company's Hospice division amid the pandemic-led business disruptions buoys optimism. The issuance of the full-year guidance by the company instills investors' confidence. Meanwhile, Amedisys has been benefitting from the recent acquisitions of hospice care providers — Asana Hospice, RoseRock Healthcare and Compassionate Care Hospice (CCH) and the very recent AseraCare. However, the year-over-year decline in the top line as well as the other two reporting segments is concerning. Contraction of both margins is worrying.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$239.49 - $121.37**
20 Day Average Volume (sh)	**196,384**
Market Cap	**$7.5 B**
YTD Price Change	**38.5%**
Beta	**0.98**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Medical - Outpatient and Home Healthcare**
Zacks Industry Rank	**Top 29% (72 out of 252)**
Last EPS Surprise	**69.6%**
Last Sales Surprise	**4.3%**
EPS F1 Est- 4 week change	**9.5%**
Expected Report Date	**11/03/2020**
Earnings ESP	**0.0%**
P/E TTM	**51.6**
P/E F1	**47.1**
PEG F1	**2.4**
P/S TTM	**3.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	562 E	571 E	576 E	590 E	2,298 E
2020	492 A	485 A	533 E	555 E	2,065 E
2019	467 A	493 A	495 A	501 A	1,956 A

EPS Estimates

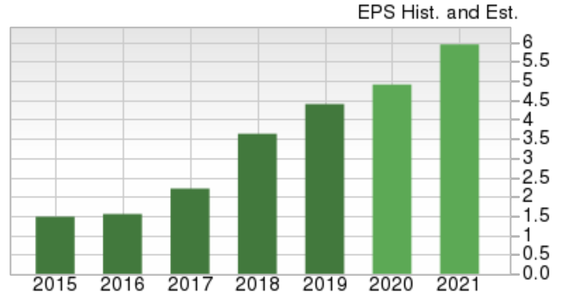
	Q1	Q2	Q3	Q4	Annual*
2021	$1.44 E	$1.54 E	$1.58 E	$1.59 E	$5.95 E
2020	$1.05 A	$1.34 A	$1.27 E	$1.35 E	$4.91 E
2019	$1.11 A	$1.21 A	$1.15 A	$0.94 A	$4.40 A

*Quarterly figures may not add up to annual.

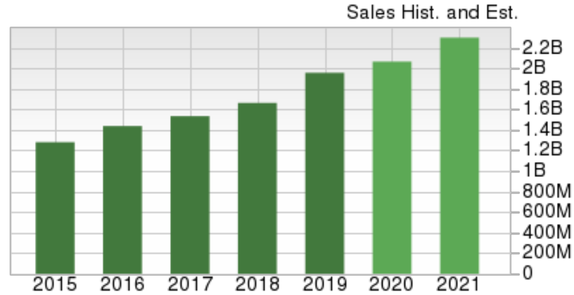
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/13/2020. The reports text is as of 08/14/2020.

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, dieticians, 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:

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.

- **Share Price Movement**: Over the past six months, Amedisys outperformed the industry it belongs to. As per the last trading price, the stock gained 16.8% against the 4.8% fall of the industry. Amid the coronavirus-led volume disruption across the United States, Amedisys ended the second quarter with better-than-expected earnings and revenues. The second-quarter revenues exceeded the company's internal expectations as well. An impressive performance by the company's Hospice division amid the pandemic-led business disruptions buoys optimism. The second quarter demonstrated continued successful implementation of PDGM, the company's ability to successfully complete its hospice acquisition and strong cash flow generation during these challenging times. The issuance of the full-year guidance by the company instills investors' confidence.

  Meanwhile, we note that, Amedisys is currently exploring opportunities in Home Health and Hospice segments. Amedisys has been benefitting from the recent acquisitions of hospice care providers — Asana Hospice, RoseRock Healthcare and Compassionate Care Hospice (CCH) and the very recent AseraCare.

- **Improving Clinical Quality**: Amedisys is currently focusing on improving clinical quality. In this regard, we take note that Amedisys' last-announced (during the 2019 earnings call) 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.

- **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.

  In June 2020, the company closed the acquisition of AseraCare Hospice, a national hospice care provider with an executive office in Plano, TX and administrative support center in Fort Smith, AK. In January, it acquired Asana hospice. 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 first 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 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.

- **Strong Solvency but Leveraged**: Amedisys exited the second quarter with cash and cash equivalents of $180 million compared with $178 million at the end of the first quarter of 2020. Meanwhile, total debt came up to $494 million for the period, compared to $474 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 $41 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.

  The quarter's total debt-to-capital of 40.7% stands at a moderately high level indicating a leveraged balance sheet. It also represents a sequential rise from 41% at the end of the first quarter. However, the times interest earned for the company stands at 14.3%, representing a sequential rise from 12.8% at the end of the first quarter.

Reasons To Sell:

Reimbursement headwinds and competitive challenges that the company faces remain our concerns.

- **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 41.7 for the past year, whereas the current P/E ratio (F12 basis) for the industry it belongs to is 19.9.

- **Margin Pressure Remains**: During the second quarter, Gross profit for the company declined 6.1%. Gross margin contracted 189 basis points (bps) to 39.1%. Expense on salaries and benefits rose 7.4%. Other expenses decreased 9.1%. Operating profit reflected a 27.5% fall from the year-ago figure. Operating margin also contracted 296 bps to 8.3% from the prior-year level.

- **Competitive Landscape**: The market for home health and hospice is fragented 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.

Last Earnings Report

Amedisys Q2 Earnings Beat Estimates, Revenues Fall Y/Y

Quarter Ending	06/2020
Report Date	**Jul 28, 2020**
Sales Surprise	**4.30%**
EPS Surprise	**69.62%**
Quarterly EPS	**1.34**
Annual EPS (TTM)	**4.48**

Amedisys reported adjusted earnings per share (EPS) of $1.34 for second-quarter 2020, up 10.7% from the year-ago figure. The bottom line beat the Zacks Consensus Estimate by 69.6%.

Net service revenues grossed $485.1 million, down 1.6% year over year. However, the top line surpassed the Zacks Consensus Estimate by 4.3%.

Quarter in Detail

Within the Home Health division, net service revenues totaled $290.2 million in the quarter, reflecting an 8.9% decline year over year. Moreover, Medicare revenues of $192.9 million dropped 11.9% year over year. Non-Medicare revenues fell 2.2% to $97.3 million.

Within the Hospice division, net service revenues were $177.1 million (up 15.6% year over year), including Medicare revenues of $167 million (up 14.5%) and non-Medicare revenues of $10.1 million (up 36.5%).

The company's additional operating segments, post integration, are Personal Care and Corporate. At Personal Care, net service revenues totaled $17.7 million, representing a decline of 16.5% from the year-ago number. Meanwhile, the Corporate segment did not register any revenues in the second quarter.

Margins

Gross profit for the company declined 6.1% to $189.8 million in the quarter under review. Gross margin contracted 189 basis points (bps) to 39.1%.

Expense on salaries and benefits rose 7.4% to $105.6 million. However, Other expenses decreased 9.1% to $44 million. Operating profit of $40.2 million reflected a 27.5% fall from the year-ago figure. Operating margin also contracted 296 bps to 8.3% from the prior-year level.

Cash Position

Amedisys exited the quarter with cash and cash equivalents of $177.3 million compared with $174.7 million at the end of the first quarter of 2020. The company's long-term obligations (excluding current portion) were $392.7 million at the end of the second quarter compared with $379.9 million at the end of first-quarter 2020.

Cumulative net cash provided by operating activities at the end of the second quarter was $139.9 million compared with $79.3 million a year ago.

2020 Guidance

The company, after taking its second-quarter performance into consideration, has reissued its full-year guidance.

Amedisys projects net service revenues within $2.04-$2.07 billion. The Zacks Consensus Estimate for the same is pegged at $2.06 billion.

The adjusted EPS is anticipated within $4.84-$5.06 (based on an estimated 33.4 million outstanding shares). The Zacks Consensus Estimate for the same is pegged at $4.58.

Further, adjusted EBITDA is projected within $245-$255 million.

Recent News

Completes Homecare Acquisition: Jun 1, 2020

Amedisys announced the completion of the acquisition of Homecare Preferred Choice, Inc. (which is conducting its business as AseraCare Hospice). This is a national hospice care provider with an executive office in Plano, Texas and administrative support center in Fort Smith, Arkansas.

Valuation

Amedisys shares are up 37.6% in the year to date period and up 76.9% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 5% while the Zacks Medical sector rose 1.3% in the year to date period. Over the past year, the Zacks sub-industry is up 4.3% and sector is up 11%.

The S&P 500 index is up 4.6% in the year to date period and rose 18.6% in the past year.

The stock is currently trading at 41.7X Forward 12-months earnings, which compares to 19.9X for the Zacks sub-industry, 22.2X for the Zacks sector and 22.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.6X as low as 18.4X, with a 5-year median 26.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $224 price target reflects 43.8X 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	41.65	19.97	22.21	22.87
	5-Year High	44.59	22.66	23.17	22.87
	5-Year Low	18.38	14.49	15.89	15.25
	5-Year Median	26.35	17.72	18.97	17.58
P/S F12M	Current	3.4	2.61	2.89	3.4
	5-Year High	3.49	2.62	3.74	3.7
	5-Year Low	0.79	0.71	2.22	2.53
	5-Year Median	1.29	1.08	2.9	3.05
P/B TTM	Current	10.39	3.3	4.42	4.7
	5-Year High	10.65	4	5.07	4.71
	5-Year Low	2.61	1.91	2.94	2.83
	5-Year Median	4.17	2.49	4.3	3.74

As of 08/13/2020

Industry Analysis **Zacks Industry Rank:** Top 29% (72 out of 252)

Top Peers

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

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	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	B	-	-	B	A	A
Market Cap	7.51 B	977.69 M	23.58 B	8.09 B	9.96 B	756.68 M
# of Analysts	9	3.5	14	2	7	1
Dividend Yield	0.00%	0.00%	1.68%	0.25%	0.00%	0.00%
Value Score	D	-	-	D	A	A
Cash/Price	0.02	0.09	0.07	0.00	0.32	0.17
EV/EBITDA	32.40	12.24	13.34	26.22	9.60	12.24
PEG Ratio	2.36	3.28	2.99	3.22	1.28	NA
Price/Book (P/B)	10.39	3.04	3.20	10.77	4.27	36.29
Price/Cash Flow (P/CF)	37.20	13.13	12.83	29.48	7.24	10.31
P/E (F1)	46.70	39.18	21.99	31.04	12.20	86.35
Price/Sales (P/S)	3.81	1.18	2.53	4.00	0.86	0.72
Earnings Yield	2.12%	2.07%	4.35%	3.22%	8.20%	1.16%
Debt/Equity	0.63	0.63	0.77	0.14	4.54	29.98
Cash Flow ($/share)	6.21	1.90	6.94	17.24	11.28	1.93
Growth Score	A	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	35.31%	7.92%	10.41%	22.39%	8.21%	NA
Proj. EPS Growth (F1/F0)	11.52%	11.78%	-6.32%	17.35%	23.99%	-74.44%
Curr. Cash Flow Growth	47.20%	6.12%	5.20%	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	1.02	1.14	1.33	0.59	1.35	1.46
Debt/Capital	38.61%	43.98%	44.59%	12.21%	83.54%	96.77%
Net Margin	6.50%	3.79%	10.13%	12.99%	7.20%	3.79%
Return on Equity	22.41%	13.78%	14.51%	36.71%	40.78%	80,707.43%
Sales/Assets	1.42	0.83	0.51	1.59	0.64	1.22
Proj. Sales Growth (F1/F0)	5.58%	0.96%	-1.43%	7.54%	2.08%	-9.57%
Momentum Score	B	-	-	D	F	D
Daily Price Chg	1.14%	0.00%	-0.44%	-0.17%	-0.96%	-2.60%
1 Week Price Chg	1.21%	1.21%	2.30%	4.01%	-5.74%	17.98%
4 Week Price Chg	9.86%	9.03%	4.38%	7.47%	-3.70%	13.42%
12 Week Price Chg	20.53%	7.12%	13.59%	6.48%	3.73%	12.78%
52 Week Price Chg	77.99%	16.04%	5.75%	19.14%	39.94%	3.98%
20 Day Average Volume	196,384	147,517	1,984,154	66,414	842,196	138,357
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	9.45%	0.83%	2.08%	-1.04%	9.18%	156.10%
(F1) EPS Est 12 week change	7.49%	0.88%	2.66%	-1.04%	9.18%	195.83%
(Q1) EPS Est Mthly Chg	1.30%	1.30%	0.94%	-1.72%	-2.70%	-433.33%

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	D
Growth Score	A
Momentum Score	B
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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