

Chemed Corporation (CHE)

\$506.91 (As of 08/10/20)

Price Target (6-12 Months): **\$532.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/10/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

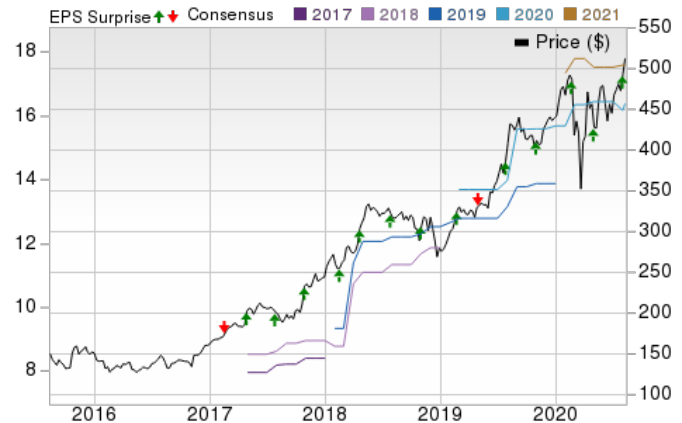
Growth: A

Momentum: D

Summary

Chemed exited the second quarter with better-than-expected earnings. Amid the pandemic scenario, fortunately for the company, VITAS and Roto-Rooter both have been classified as essential services allowing Chemed to run its operation. VITAS has been recording continued uptick in total admissions. Expansion of average daily census is also encouraging. The Roto-Rooter business has been seeing growth on strong performance by the core plumbing, excavation and drain cleaning service segments. Over the past six months, its share price has consistently outperformed its industry. Yet, revenue erosion due to the pandemic was deterring. Reimbursement issues, business seasonality and a tough competition are other concerns. A weak solvency with a slightly leveraged balance sheet is also deterring.

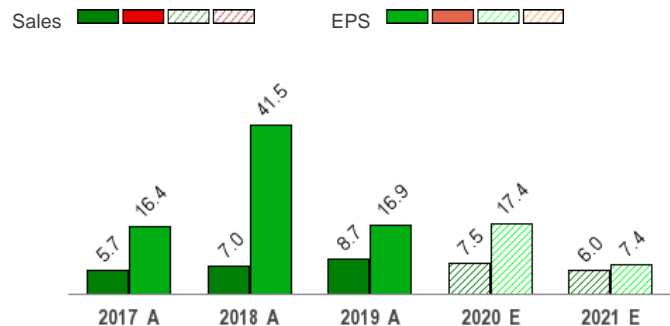
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$515.38 - \$330.01
20 Day Average Volume (sh)	68,224
Market Cap	\$8.1 B
YTD Price Change	15.4%
Beta	0.71
Dividend / Div Yld	\$1.28 / 0.3%
Industry	Medical - Outpatient and Home Healthcare
Zacks Industry Rank	Top 26% (67 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.4%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	-1.0%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	32.1
P/E F1	31.0
PEG F1	3.5
P/S TTM	4.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	539 E	548 E	553 E	571 E	2,210 E
2020	516 A	502 A	517 E	546 E	2,085 E
2019	462 A	474 A	481 A	522 A	1,939 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$4.03 E	\$4.48 E	\$4.48 E	\$4.97 E	\$17.58 E
2020	\$3.68 A	\$4.41 A	\$3.99 E	\$4.44 E	\$16.37 E
2019	\$2.92 A	\$3.36 A	\$3.46 A	\$4.22 A	\$13.95 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 08/10/2020. The reports text is as of 08/11/2020.

Overview

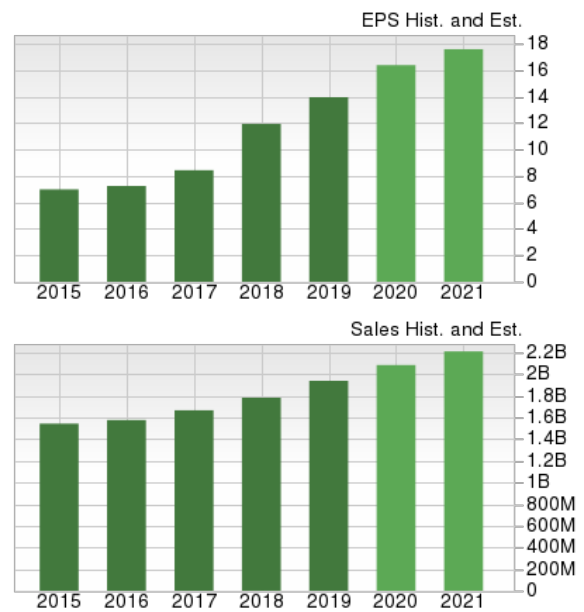
Cincinnati, OH-based Chemed Corporation purchases, operates and divests subsidiaries engaged in diverse business activities. The company's operating businesses are managed on a decentralized basis. Since its inception, Chemed has engaged in twelve significant acquisitions or divestitures of diverse business units.

Chemed currently operates as two wholly-owned subsidiaries: VITAS Healthcare and Roto-Rooter.

VITAS Healthcare (65.1% of total revenues in 2019; underlying growth rate was 10.8% from 2018): The segment provides hospice and palliative care services for patients with terminal illnesses. This type of care is aimed at making a terminally ill patient's last days as comfortable and pain-free as possible. Hospice care is available for patients who have been initially certified or re-certified as terminally ill (a prognosis of six months or less) by their attending physician, if any, and the hospice physician. VITAS offer all levels of hospice care in a given market, including routine home care, inpatient care and continuous care. Over 95% of VITAS' revenues are derived through Medicare and Medicaid reimbursement programs.

Roto-Rooter (34.9%; up 21.2%): The segment provides plumbing and drain-cleaning services to both residential and commercial customers. This segment provides repair and maintenance services to residential and commercial accounts using the Roto-Rooter registered service marks. Such services include plumbing and sewer, drain and pipe cleaning. They are delivered through company-owned and operated territories, independent contractor-operated territories and franchised locations. This segment also manufactures and sells products and equipment used to provide such services.

In 2019, Roto-Rooter made two separate acquisitions of territories from former franchisees. This was part of Roto-Rooter's current strategy of franchise acquisition to boost productivity, market share and profitability.



Reasons To Buy:

▲ **Share Price Movement:** Over the past six months, Chemed's share price has consistently outperformed its industry. The stock has gained 3.4% against the industry's 4.8% fall. The company exited the second quarter with better-than-expected earnings. It is optimistic to note that in the quarter, the company once again registered solid revenue growth both across key subsidiaries. Amid the pandemic scenario, fortunately for the company, VITAS and Roto-Rooter both have been classified as essential services allowing Chemed to run its operation. Over the past few quarters, VITAS has been registering continued uptick in total admissions. Expansion of average daily census is also encouraging. Meanwhile, the Roto-Rooter business has been seeing growth on strong performance by the core plumbing, excavation and drain cleaning service segments.

Chemed's Roto-Rooter business growth buoys optimism. The company has been registering strong performance from VITAS business over the past few quarters.

▲ **VITAS Prospects Bright:** Chemed has been registering strong performance from VITAS business over the past few quarters.

In the second quarter, net revenues at VITAS reflected a rise of 4.7% year over year. The top-line improvement was driven by a 2.8% increase in days of care, a geographically weighted average Medicare reimbursement rate increase, including the suspension of sequestration on May 1 2020 of approximately 5.4% and acuity mix shift, which reduced the blended average Medicare rate increase by approximately 310 basis points..

In the reported quarter, the company's average daily census witnessed an uptick of 2.8% year over year. Total admissions grew 3.8% in the second quarter of 2020. Although, total admissions in the quarter declined, admissions from physician offices that were able to remain operational through telehealth interactions, saw an increase due to the number of patients choosing to access the disrupted healthcare system through their primary or specialty physician practice along with medical offices. Further, admissions increased 7.1% in home-based preadmit locations. Notably, the segment received \$80 million from the CARES Act Relief Fund as a formulaic calculation applied to VITAS' 2019-Medicare fee-for-service revenue.

▲ **Roto-Rooter Continues to Expand:** Roto-Rooter is currently the nation's leading provider of plumbing and drain cleaning services, providing services to over 90% of the U.S. population.

In the second quarter the segment surged 8.6% year over year. Although, unit-for-unit basis, (excluding the Oakland and Hoffman Southwest acquisitions completed in Jul 2019 and September 2019 respectively), Roto-Rooter revenue dropped, total residential revenue, excluding acquisitions increased 10.4%. This aggregate revenue growth for residential consisted of residential drain cleaning increasing 10.2%, plumbing and excavation expanding 14.4% and commercial water restoration increasing 4.3%.

Reasons To Sell:

- ▼ **Pandemic Causes Revenue Erosion:** Chemed's Roto-Rooter operations were severely impacted at the start of the pandemic. In late March 2020, the company observed significant disruption in Roto-Rooter commercial business. Total commercial revenue, excluding acquisitions, decreased 29.1% in the quarter. This aggregate commercial revenue decline consisted of drain cleaning revenue decreasing 31.2%, commercial plumbing and excavation declining 28%, and commercial water restoration declining 20.3%.
- ▼ **Reimbursement Headwind Hampering Topline Growth:** CMS' implementation of a refinement to the Medicare hospice reimbursement per diem (announced in Jan 2016) eliminated the single-tier per diem for routine home care (RHC) and replaced it with a two-tiered rate, with a higher per diem rate for the first 60 days of a hospice patient's care, and a lower rate for day 61 and after. In addition, CMS provided for a Service Intensity Add-on (SIA) payment, which provides for reimbursement of care provided by a registered nurse or social worker for RHC patients within seven days prior to death. The current two-tiered national per diem rate for RHC is \$190.41 for the first 60 days and \$149.68 for RHC provided to patients in hospice beyond 60 days. An individual hospice's actual per diem rate is adjusted for differences in geographic cost of living.
- ▼ **Seasonality of the Business Weigh on the Stock:** A significant portion of the VITAS business operates in the state of Florida. As the majority of Chemed's patients are Medicare recipients, retirees relocating to Florida during the winter months generally result in higher admissions and revenue concentrated only within Florida during that period. Besides, the Roto-Rooter's revenue and operating results are also impacted by significant weather patterns across the U.S. which generally affects the revenue and operating results at Roto-Rooter.
- ▼ **Tough Competitive Landscape:** The market for sewer, drain and pipe cleaning and plumbing repair businesses is highly competitive. Competition is fragmented in most markets with local and regional firms providing much of the competition. Besides, Hospice care in the U.S. is competitive as programs for hospice services are generally uniform. As the hospice care industry is highly fragmented, VITAS compete with a large number of organizations on the basis of its ability to deliver quality, responsive services.
- ▼ **Dependence on Government Mandates:** Over 90% of VITAS' revenues consist of payments from the Medicare and Medicaid programs. The Medicare and Medicaid programs are increasing pressure to control health care costs and cut or limit increases in reimbursement rates for health care services. As with most government programs, the Medicare and Medicaid programs are subject to statutory and regulatory changes, possible retroactive and prospective rate and payment adjustments, administrative rulings, freezes and funding reductions, all of which may adversely affect the level of program payments and have a material adverse effect on VITAS' business. Hence, VITAS' levels of revenues and profitability are subject to the effect of legislative and regulatory changes, including possible reductions in coverage or payment rates or changes in methods of payment, by the Medicare and Medicaid programs.
- ▼ **Weak Solvency but Slight Leverage:** Chemed exited the second quarter of 2020 with cash and cash equivalents of \$20 million compared with \$29 million at the end of the first quarter of 2020. Meanwhile, total debt rose to \$140 million for the period from \$284 million in the sequentially last-reported quarter. This figure is much higher than the quarter-end cash and cash equivalent, indicating weak solvency.

Headwinds like seasonality in business, competitive landscape and dependence on government mandates are intimidating.

Moreover, if we go by the company's debt payable in the near term, it stands at \$36 million, more than the current cash holding. This is not good news as it implies that it does not have sufficient cash for short-term debt repayment during the pandemic. Debt comparison with the industry is, however, favorable as industry's total debt of \$3.12 billion, stands much higher than the company's debt level.

The quarter's total debt-to-capital ratio of 0.16 indicates a slightly leveraged balance sheet. This represents a drop from the total debt-to-capital ratio of 0.29 in the sequentially last-reported quarter. This compares favorably with the total debt-to-capital of 0.47 of the industry.

Meanwhile, the times interest earned for the company stands at a pretty encouraging level of 83.9%, representing an increase from 64.8% at the end of the first quarter of 2019. This compares favorably with industry's low level of 5%.

The current payout ratio stands at an encouragingly low level of 8.1%. It also represents a sequential decline from 8.6%. This ratio indicates sustainability in terms of dividend payment amid the ongoing economic crisis. Moreover, this compares favorably with the payout rate of the industry which stands at a higher level (14.8%).

During the quarter, the company repurchased stock for \$21.9 million. As of Jun 30, 2020, there was approximately \$232 million of remaining share repurchase authorization under this plan.

Last Earnings Report

Chemed's Q2 Earnings Beat Estimates, Margins Down

Chemed reported second-quarter 2020 adjusted earnings per share (EPS) of \$4.41, up 31.3% year over year. The figure beat the Zacks Consensus Estimate by 16.4%.

The company's GAAP EPS was \$5.01, up 62.7% year over year.

Quarter Ending **06/2020**

Report Date	Jul 29, 2020
Sales Surprise	-1.40%
EPS Surprise	16.36%
Quarterly EPS	4.41
Annual EPS (TTM)	15.77

Revenues in Detail

Revenues in the reported quarter improved 6% year over year to \$502.2 million but lagged the Zacks Consensus Estimate by 1.4%.

Segmental Details

Chemed operates through two wholly-owned subsidiaries, namely VITAS (a major provider of end-of-life care) and Roto-Rooter (a leading commercial and residential plumbing plus drain cleaning service provider).

In the second quarter, net revenues at VITAS totaled \$327 million, reflecting a rise of 4.7% year over year. The top-line improvement was driven by a 2.8% increase in days of care, a 5.4% increase in geographically weighted average Medicare reimbursement rate (considering the suspension of sequestration on May 1, 2020), and a mix shift that reduced the blended average Medicare rate by approximately 310 basis points. However, increase in Medicare Cap, decline in Medicaid net room and board pass through and other contra revenue activity had 42-basis points adverse impact on revenue growth.

Roto-Rooter reported sales of \$174.7 million in the second quarter, reflecting growth of 8.6% year over year. On a unit-for-unit basis, excluding the Oakland and HSW acquisitions completed in July and September 2019, the segment registered revenues of \$158 million in the second quarter (a year-over-year increase of 1.9%).

Per the company, total commercial revenues (excluding acquisitions) registered growth of 29.1% on 31.2% rise in drain cleaning revenues, and 28% improvement in commercial plumbing and excavation. However, commercial water restoration revenues declined 20.3%.

Total residential revenues (excluding acquisitions) registered growth of 10.4% on 10.2% rise in residential drain cleaning revenues, a 14.4% improvement in plumbing and excavation, and a 4.3% increase in residential water restoration.

Margin in Detail

Gross profit edged up 0.1% year over year to \$150 million in the second quarter of 2020. Gross margin contracted 179 basis points (bps) year over year to 29.9% on 8.8% rise in cost of products and services.

Adjusted operating profit declined 16.4% from the year-ago period to \$84.5 million. Adjusted operating margin contracted 351 bps to 13% on an 18.1% rise in adjusted operating expenses.

Operational Update

Chemed exited the second quarter of 2020 with cash and cash equivalents of \$20.4 million compared with \$28.9 million at the end of the first quarter. There was no long-term debt at the end of second-quarter 2020 compared with \$160 million at first quarter-end. In the second quarter, Chemed's management repurchased stocks for \$21.9 million. As of Jun 30, 2020, there was approximately \$232 million of share repurchase remaining under the existing plan.

Cumulative net cash provided by operating activities at the end of the second quarter was \$277.8 million compared with \$108.9 million a year ago.

Guidance

In 2020, revenue growth for VITAS (prior to Medicare Cap) is estimated to be in the range of 5% to 7%. Average daily census in 2020 is estimated to expand in the band of 2% to 4%. Roto-Rooter revenue growth is expected in the range of 9% to 10%.

Full-year adjusted EPS is estimated in the range of \$16.20 to \$16.40.

Valuation

Chemed shares are up 15.4% in the year-to-date period and up 18.2% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Medical sector are up 5.4% and 0.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 3.5% and up 8.6%, respectively.

The S&P 500 index is up 4.2% in the year-to-date period and up 16.7% in the past year.

The stock is currently trading at 29.6X Forward 12-months earnings, which compares to 20.1X for the Zacks sub-industry, 22.1X for the Zacks sector and 22.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 52.9X and as low as 16.5X, with a 5-year median 24.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$532 price target reflects 31.1X forward 12-months earnings.

The table below shows summary valuation data for CHE.

Valuation Multiples - CHE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	29.63	20.13	22.12	22.81
	5-Year High	52.88	22.66	23.17	22.81
	5-Year Low	16.45	14.49	15.89	15.25
	5-Year Median	24.98	17.72	18.97	17.38
P/S F12M	Current	3.73	2.61	2.81	3.67
	5-Year High	3.77	2.62	3.41	3.67
	5-Year Low	1.30	0.71	2.22	2.53
	5-Year Median	2.40	1.08	2.89	3.05
P/B TTM	Current	10.75	3.31	4.39	4.68
	5-Year High	11.32	4.00	5.07	4.68
	5-Year Low	4.16	1.91	2.94	2.83
	5-Year Median	7.81	2.49	4.30	3.74

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Top 26% (67 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
DaVita Inc. (DVA)	Outperform	1
Addus HomeCare Corporation (ADUS)	Neutral	3
Amedisys, Inc. (AMED)	Neutral	3
Brookdale Senior Living Inc. (BKD)	Neutral	3
Encompass Health Corporation (EHC)	Neutral	3
The Ensign Group, Inc. (ENSG)	Neutral	3
Hanger Inc. (HNGR)	Neutral	2
LHC Group, Inc. (LHCG)	Neutral	2

Industry Comparison Industry: Medical - Outpatient And Home Healthcare				Industry Peers		
	CHE	X Industry	S&P 500	AMED	BKD	EHC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	A	C	B
Market Cap	8.07 B	951.80 M	23.56 B	7.53 B	575.14 M	6.68 B
# of Analysts	2	3.5	14	9	1	8
Dividend Yield	0.25%	0.00%	1.71%	0.00%	0.00%	1.67%
Value Score	D	-	-	D	D	B
Cash/Price	0.00	0.09	0.07	0.02	0.95	0.07
EV/EBITDA	26.16	12.22	13.39	32.50	16.64	10.57
PEG Ratio	3.49	3.28	2.92	3.35	NA	5.37
Price/Book (P/B)	10.75	3.15	3.18	10.43	0.55	3.65
Price/Cash Flow (P/CF)	29.41	13.14	12.69	37.32	2.64	10.80
P/E (F1)	30.89	39.85	22.16	47.27	NA	22.45
Price/Sales (P/S)	3.99	0.87	2.55	3.82	0.15	1.45
Earnings Yield	3.23%	2.06%	4.33%	2.12%	-41.08%	4.45%
Debt/Equity	0.14	0.66	0.77	0.63	5.37	2.06
Cash Flow (\$/share)	17.24	1.90	6.94	6.21	1.19	6.22
Growth Score	A	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	22.39%	7.92%	10.41%	35.31%	NA	13.25%
Proj. EPS Growth (F1/F0)	17.35%	15.41%	-6.51%	11.52%	-14.16%	-23.47%
Curr. Cash Flow Growth	14.93%	6.12%	5.26%	47.20%	-61.06%	8.30%
Hist. Cash Flow Growth (3-5 yrs)	14.21%	13.00%	8.55%	30.47%	-11.65%	13.00%
Current Ratio	0.59	1.19	1.34	1.02	1.17	1.66
Debt/Capital	12.21%	45.71%	44.59%	38.61%	84.29%	67.57%
Net Margin	12.99%	3.79%	10.13%	6.50%	2.10%	6.21%
Return on Equity	36.71%	13.71%	14.59%	22.41%	-30.29%	16.89%
Sales/Assets	1.59	0.74	0.51	1.42	0.53	0.73
Proj. Sales Growth (F1/F0)	7.54%	2.00%	-1.54%	5.58%	0.00%	1.91%
Momentum Score	D	-	-	A	D	C
Daily Price Chg	-0.98%	0.00%	0.91%	-2.14%	4.32%	-0.62%
1 Week Price Chg	4.01%	1.21%	2.30%	1.21%	8.66%	-0.69%
4 Week Price Chg	9.73%	9.17%	8.54%	16.41%	23.62%	10.42%
12 Week Price Chg	8.83%	10.01%	13.68%	20.04%	-7.37%	-4.04%
52 Week Price Chg	18.16%	15.51%	3.71%	76.89%	-60.55%	9.06%
20 Day Average Volume	68,224	145,470	2,015,804	199,449	2,424,188	609,563
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.04%	0.00%	1.67%	9.45%	0.00%	-1.67%
(F1) EPS Est 12 week change	-1.04%	4.05%	2.27%	7.49%	0.00%	-4.10%
(Q1) EPS Est Mthly Chg	-1.72%	0.00%	0.67%	1.30%	0.00%	6.63%

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	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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