

LHC Group (LHCG)

\$130.34 (As of 03/10/20)

Price Target (6-12 Months): **\$137.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/02/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: F

Summary

LHC Group exited the fourth quarter on a mixed note, wherein earnings came in line with the Zacks Consensus Estimate, while revenues missed the same. The company continues to benefit from its home health services and hospice admissions, which witnessed solid year-over-year growth. Substantial increase in the top and bottom lines also instills optimism in the stock. Management continues to remain optimistic about the Almost Family acquisition, which has proven accretive in recent times. Also, the company is anticipated to gain from joint ventures. Strong 2020 outlook also paints a bright picture. LHC Group has outperformed the industry in a year's time. Meanwhile, a highly competitive home healthcare market and regulatory headwinds remain woes. The company witnessed contraction in both gross and operating margins in the quarter under review.

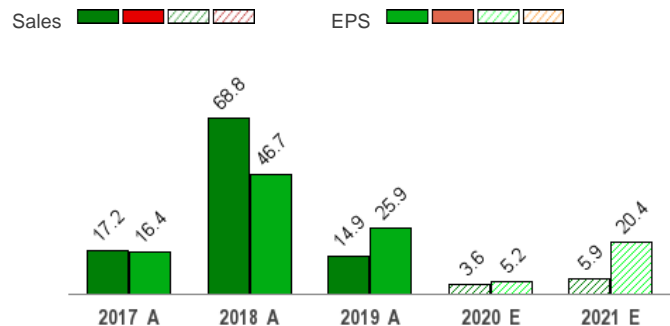
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$159.48 - \$98.41
20 Day Average Volume (sh)	321,683
Market Cap	\$4.1 B
YTD Price Change	-5.4%
Beta	0.98
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical Services
Zacks Industry Rank	Bottom 40% (152 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-1.9%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	05/13/2020
Earnings ESP	0.0%
P/E TTM	29.2
P/E F1	27.7
PEG F1	2.0
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	543 E	572 E	576 E	582 E	2,281 E
2020	508 E	536 E	550 E	560 E	2,154 E
2019	503 A	518 A	529 A	531 A	2,080 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.06 E	\$1.36 E	\$1.55 E	\$1.57 E	\$5.66 E
2020	\$0.74 E	\$1.02 E	\$1.40 E	\$1.53 E	\$4.70 E
2019	\$0.98 A	\$1.07 A	\$1.26 A	\$1.15 A	\$4.47 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 03/10/2020. The reports text is as of 03/11/2020.

Overview

Headquartered in Lafayette, LA, LHC Group serves as a post-acute care partner for hospitals, physicians and families in the United States. From home health and hospice care to long-term acute care and community-based services, LHC Group delivers high-quality, cost-effective care that helps patients manage their health at home.

The company operates through five segments — **home health, hospice, home and community-based, facility-based** and **healthcare innovation**.

The company's home health service locations offer a wide range of services, including skilled nursing, medically-oriented social services and physical, occupational and speech therapy.

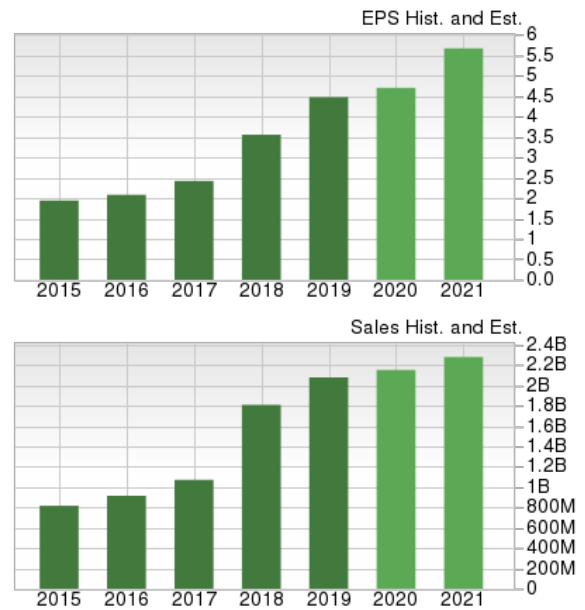
Hospices provide end-of-life care to patients with terminal illnesses through interdisciplinary teams of physicians, nurses, home health aides, counselors and volunteers.

The home and community-based service locations offer assistance with activities of daily living to elderly, chronically ill, and disabled patients.

The healthcare innovations segment reports on the company's developmental activities outside its other business segments.

2019 at a Glance

Full-year revenues totaled \$2.08 billion, which improved 14.9% from 2018. Adjusted earnings per share in 2018 were \$4.47, up 25.9% from 2017.



Reasons To Buy:

- ▲ **Shares Up:** Over the past year, shares of LHC Group have gained 18.3% against the industry's 25.2% decline. The S&P 500 Index has declined 2.6% in the same time frame.

A solid view for 2020 and broad array of services are currently working in favor of the stock.

- ▲ **Guidance Impressive:** For full-year 2020, the company projects adjusted EPS between \$4.60 and \$4.80. The Zacks Consensus Estimate for the same is pegged at \$4.73.

LHC Group expects net service revenues in the band of \$2.13-\$2.18 billion for 2020. The corresponding Zacks Consensus Estimate stands at \$2.23 billion.

For the full year, adjusted EBITDA is projected between \$230 million and \$240 million.

For first-quarter 2020, net service revenues are estimated in the band of \$500-\$510 million, while adjusted EPS is anticipated in the range of 70-80 cents. Adjusted EBITDA is projected in the range of \$33-\$40 million.

- ▲ **Broad Array of Services:** LHC Group has been offering a wide array of services through its diverse business segments, which have also been instrumental in driving the top line.

Within home health services arm, nurses, home health aides and therapists work closely with patients and their families to design and implement individualized treatment plans in accordance with a physician-prescribed plan of care. Increased acquisition activities in this space has helped the company gain a competitive edge. In the fourth quarter, this business reported revenue growth of 6.1% year over year (organic growth was 6.5%). The hospices segment offers a wide range of services including pain and symptom management, emotional and spiritual support, inpatient and respite care, homemaker services, and counseling. In the fourth quarter, hospice admissions improved 9.7% year over year (organic growth was 5.6%).

- ▲ **Acquisitions & Joint Ventures Look Strategic:** LHC Group has long been focusing on acquisitions and joint ventures for inorganic expansion. From 2019 to so far in 2020, the company acquired 27 home health, 11 hospice and three home and community-based services locations, and one Long Term Acute Care (LTAC) hospital in 13 states and the District of Columbia, the majority of which are hospital joint ventures. These buyouts represent \$114.3 million in annualized revenues. Given the current environment, LHC Group is positioned to exceed the aforementioned annualized revenues in 2020 and 2021, per management. These transactions comprise of more hospital joint ventures, both new and extensions of existing partnerships, several strategic and tuck-in acquisitions that fill out the company's tri-level of care strategy in existing markets.

The Geisinger Home Health and Hospice joint venture too looks strategic as this aims to enhance home health and hospice services at Geisinger locations in Pennsylvania. We also look forward to LHC Group and Unity Health's equity partnership agreement to purchase and share ownership of two home health providers in Arkansas.

A diversified business as well as strategic ventures and acquisitions drives the stock.

Reasons To Sell:

- ▼ **Valuation Looks Dull:** A comparative analysis of LHC Group's P/E (TTM basis) ratio reflects a relatively gloomy picture. The company is currently trading at a P/E (TTM basis) ratio of 29.22 compared with 17.12 for the S&P 500 Index over the past year.
- ▼ **Competition:** The home health care market is highly fragmented. Notably, LHC Group faces stiff competition from MedTech bigwigs like Amedisys, Chemed, CVS who have greater resources and better access to capital. Even local and regional providers of home health service pose stiff competition. These providers include facility- and hospital-based providers, visiting nurse associations and nurse registries.
- ▼ **Regulatory Bottlenecks:** The health care industry is highly regulated and we are required to comply with federal, state and local laws which significantly affect LHC Group. Notably, these laws and regulations are extremely complex and, in many instances, the industry does not have the benefit of significant regulatory or judicial interpretation.

Fierce competition and complex regulatory principles are major headwinds.

Last Earnings Report

LHC Group Q4 Earnings Meet Estimates, Revenues Lag

LHC Group Inc.'s fourth-quarter 2019 adjusted earnings per share of \$1.15 matched the Zacks Consensus Estimate. However, the bottom line improved 11.7% year over year.

For the full year, adjusted EPS was \$4.47, up 25.9% from that of 2018. The figure also beat the consensus mark by 0.2%.

Revenues in Detail

The company reported net service revenues of \$531.3 million in the quarter, which missed the Zacks Consensus Estimate by 1.9%. However, the top line improved 4.2% on a year-over-year basis.

For full-year 2019, the company reported net service revenues worth \$2.08 billion, which improved 14.9% from the previous year. However, the top line missed the Zacks Consensus Estimate by 0.4%.

Q4 Highlights

In the quarter under review, total growth in home health admissions was 11.7% year over year and organic growth was 10.3%.

Total growth in home health revenues was 6.1% year over year and organic growth was 6.5%. While growth in hospice admissions was 9.7% year over year, organic growth advanced 5.6%.

During 2019 and year to date in 2020, the company acquired 27 home health, 11 hospice and three home and community-based services locations and one Long Term Acute Care (LTAC) hospital in 13 states and the District of Columbia, the majority of which are hospital joint ventures. These buyouts represent around \$114.3 million in annualized revenues.

Margin

Gross profit in the quarter totaled \$188 million, up 1.5%. Gross margin in the reported quarter was 35.4%, down 90 bps.

Operating income came in at \$32.5 million, down 10.1% from the year-ago quarter's \$36.1 million. Operating margin was 6.1%, down 100 bps.

2020 Guidance

For full-year 2020, the company projects adjusted EPS to range between \$4.60 and \$4.80. The Zacks Consensus Estimate is pegged at \$4.73.

LHC Group expects net service revenues in the band of \$2.13-\$2.18 billion in 2020. The Zacks Consensus Estimate stands at \$2.23 billion.

For the full year, adjusted EBITDA is projected between \$230 million and \$240 million.

For first-quarter 2020, net service revenues are estimated to be in the band of \$500-\$510 million, while adjusted EPS is anticipated to be in the range of 70-80 cents. Adjusted EBITDA is projected to be in the range of \$33 million to \$40 million.

Quarter Ending **12/2019**

Report Date	Feb 26, 2020
Sales Surprise	-1.89%
EPS Surprise	0.00%
Quarterly EPS	1.15
Annual EPS (TTM)	4.46

Valuation

LHC Group's shares are down 5.4% in the year-to-date period while up 18.3% in the trailing 12-month periods. Stocks in the Zacks sub-industry and Zacks Medical sector are down 9.2% and 9.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 25.2% and 9.4%, respectively.

The S&P 500 index is down 14.8% in the year-to-date period and 2.6% in the past year.

The stock is currently trading at 26.7X Forward 12-months earnings, which compares to 25.7X for the Zacks sub-industry, 18.7X for the Zacks sector and 15.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.7X and as low as 15.6X, with a 5-year median of 23.2X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$137 price target reflects 28.1X forward 12-months earnings.

The table below shows summary valuation data for LHCG.

Valuation Multiples - LHCG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.69	25.7	18.72	15.75
	5-Year High	32.67	33.3	21.08	19.34
	5-Year Low	15.59	21.25	15.82	15.18
	5-Year Median	23.17	26.07	18.74	17.42
P/S F12M	Current	1.89	2.78	2.53	2.91
	5-Year High	2.23	3.08	3.84	3.44
	5-Year Low	0.62	1.98	2.46	2.54
	5-Year Median	1.02	2.53	2.96	3

As of 03/10/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (152 out of 253)



Top Peers

DaVita Inc. (DVA)	Outperform
Amedisys, Inc. (AMED)	Neutral
Chemed Corporation (CHE)	Neutral
CRH Medical Corporation (CRHM)	Neutral
CVS Health Corporation (CVS)	Neutral
Rite Aid Corporation (RAD)	Neutral
Teladoc Health, Inc. (TDOC)	Neutral
Walgreens Boots Alliance, Inc. (WBA)	Neutral

Industry Comparison Industry: Medical Services				Industry Peers		
	LHCG Neutral	X Industry	S&P 500	AMED Neutral	CHE Neutral	CVS Neutral
VGM Score	C	-	-	B	C	B
Market Cap	4.11 B	269.96 M	20.21 B	5.66 B	6.64 B	81.64 B
# of Analysts	8	4	13	9	2	15
Dividend Yield	0.00%	0.00%	2.18%	0.00%	0.31%	3.19%
Value Score	D	-	-	D	F	B
Cash/Price	0.01	0.05	0.05	0.02	0.00	0.10
EV/EBITDA	21.65	-0.59	12.36	24.36	21.84	9.58
PEG Ratio	1.96	1.39	1.78	2.44	2.20	1.23
Price/Book (P/B)	2.72	3.80	2.77	8.80	9.11	1.27
Price/Cash Flow (P/CF)	21.51	13.58	11.04	28.17	23.98	5.98
P/E (F1)	26.85	18.73	16.09	34.67	25.30	8.76
Price/Sales (P/S)	1.98	2.71	2.17	2.89	3.42	0.32
Earnings Yield	3.61%	4.09%	6.20%	2.88%	3.95%	11.42%
Debt/Equity	0.21	0.05	0.70	0.45	0.24	1.30
Cash Flow (\$/share)	6.06	-0.01	7.01	6.21	17.24	10.47
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	23.33%	25.53%	10.85%	35.97%	20.43%	10.58%
Proj. EPS Growth (F1/F0)	5.12%	21.87%	6.14%	14.77%	17.10%	0.92%
Curr. Cash Flow Growth	66.04%	4.09%	6.09%	47.20%	14.93%	-16.33%
Hist. Cash Flow Growth (3-5 yrs)	41.56%	15.76%	8.52%	30.47%	14.21%	14.66%
Current Ratio	1.65	1.44	1.24	1.07	0.73	0.94
Debt/Capital	18.30%	30.28%	42.57%	31.01%	19.56%	56.58%
Net Margin	4.60%	-17.29%	11.69%	6.49%	11.35%	2.58%
Return on Equity	9.52%	-10.65%	16.74%	24.95%	35.38%	14.87%
Sales/Assets	1.00	0.73	0.54	1.61	1.66	1.17
Proj. Sales Growth (F1/F0)	3.55%	10.62%	3.71%	8.82%	10.59%	1.01%
Momentum Score	F	-	-	C	D	F
Daily Price Chg	6.99%	0.58%	4.87%	5.02%	5.14%	2.12%
1 Week Price Chg	5.68%	-1.07%	-0.67%	0.17%	4.19%	8.40%
4 Week Price Chg	-16.18%	-16.51%	-15.65%	-10.28%	-15.66%	-15.23%
12 Week Price Chg	-0.08%	-6.89%	-13.60%	8.17%	-5.85%	-14.66%
52 Week Price Chg	18.28%	-30.87%	-2.27%	44.11%	25.90%	14.55%
20 Day Average Volume	321,683	197,850	2,778,843	291,589	134,704	11,513,335
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%
(F1) EPS Est 4 week change	-0.69%	0.00%	-0.16%	1.39%	4.24%	-0.33%
(F1) EPS Est 12 week change	-1.31%	0.00%	-0.57%	2.54%	4.88%	-0.35%
(Q1) EPS Est Mthly Chg	-22.65%	0.00%	-0.49%	-8.34%	3.55%	-0.03%

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	F
VGM Score	C

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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