

LHC Group (LHCG)

\$145.42 (As of 01/17/20)

Price Target (6-12 Months): **\$153.00**

Long Term: 6-12 Months	Zacks Recommendation:	Neutral
	(Since: 01/02/20)	
	Prior Recommendation:	Outperform
Short Term: 1-3 Months	Zacks Rank: (1-5)	1-Strong Buy
	Zacks Style Scores:	VGM:B
	Value: D	Growth: A
		Momentum: B

Summary

LHC Group has outperformed the industry in a year's time. The company continues to benefit from its home health services and hospice admissions, which have 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 guidance for 2019 paints a bright picture about the rest of the year. Strong 2019 outlook paints a bright picture as well. Expansion in margins is an added positive. Meanwhile, a highly competitive home healthcare market and regulatory headwinds remain woes.

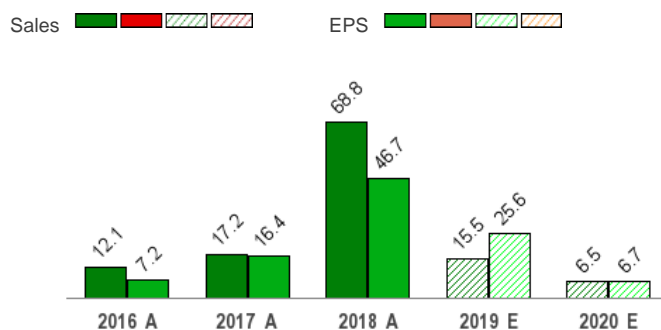
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$145.48 - \$98.41
20 Day Average Volume (sh)	194,844
Market Cap	\$4.6 B
YTD Price Change	5.6%
Beta	0.91
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical Services
Zacks Industry Rank	Top 21% (54 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.7%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/26/2020
Earnings ESP	0.0%
P/E TTM	33.5
P/E F1	30.6
PEG F1	2.2
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	537 E	554 E	560 E	575 E	2,226 E
2019	503 A	518 A	529 A	542 E	2,091 E
2018	296 A	502 A	507 A	510 A	1,810 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.00 E	\$1.15 E	\$1.27 E	\$1.38 E	\$4.76 E
2019	\$0.98 A	\$1.07 A	\$1.26 A	\$1.15 E	\$4.46 E
2018	\$0.63 A	\$0.84 A	\$0.95 A	\$1.03 A	\$3.55 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 01/17/2020. The reports text is as of 01/20/2020.

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.

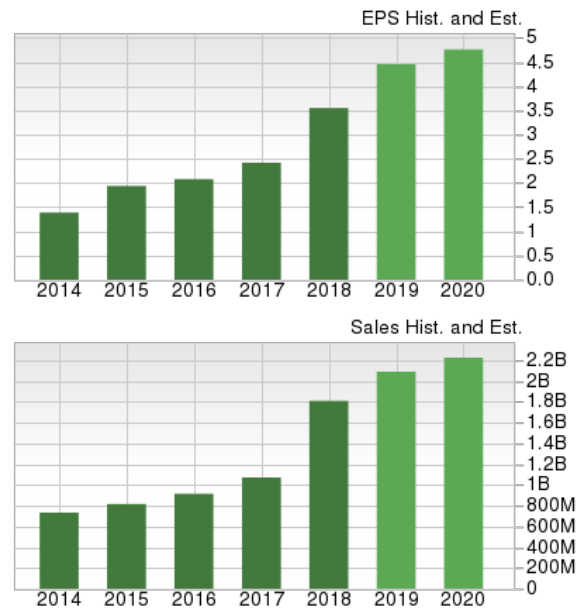
Hospices provide end-of-life care to patients with terminal illnesses through interdisciplinary teams of physicians, nurses, home health aides, counselors and volunteers.

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.

2018 at a Glance

Full-year revenues totaled \$1.81 billion, which skyrocketed 70.3% from 2017. Adjusted earnings per share in 2018 were \$2.29, down 17.9% from 2017.



Reasons To Buy:

- ▲ **Shares Up:** Over the past year, shares of LHC Group have gained 40.9% against the industry's decline of 8.8%. The S&P 500 Index has rallied 23.9% in the same timeframe.

A solid view for 2019 and expected synergies from strategic acquisitions are currently working in favor of the stock.

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

- ▲ **Guidance Impressive:** LHC Group raised 2019 earnings outlook and now projects adjusted EPS to range between \$4.35 and \$4.45 (up from the previously guided range of \$4.25 and \$4.35).

The company affirmed revenue guidance for 2019. The company anticipates revenues in the band of \$2.09-\$2.14 billion. Adjusted EBITDA is projected to be in the range of \$214 million to \$220 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 third quarter, this business reported revenue growth of 4.3% year over year (organic growth was 7.9%). The hospices segment too 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 third quarter, hospice admissions improved 2.1% year over year (organic growth was 2.1%).

- ▲ **Acquisitions & Joint Ventures Look Strategic:** LHC Group has long been focusing on acquisitions and joint ventures for inorganic expansion. For 2019, the company's target for M&A volume ranges between \$100 million and \$150 million. Till date, the company has announced six transactions, resulting in about \$81 million in annualized revenues. These transactions comprise of more hospital joint ventures, several tuck-in acquisitions that fill out the company's tri-level of care strategy in existing markets. The transactions also include a strategic buyout of Visiting Nurse Association of Maryland with approximately \$35 million in annual revenues.

The company is optimistic about its previously-announced buyout of Almost Family. Notably, the company realized approximately \$7.8 million in pre-tax synergies in the second quarter from its acquisition of Almost Family, which now brings the realized cost synergies to an annual run rate of \$31.2 million from the buyout.

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.

During second-quarter 2019, the company completed its previously announced joint venture with Capital Region Medical Center. Year to date, the company agreed to acquire 17 home health, eight hospice and two home and community-based services locations, the majority of which are hospital joint ventures. These acquisitions represent around \$86.7 million in annualized revenues.

Reasons To Sell:

- ▼ **Valuation Looks Dull:** LHC Group is currently trading at a P/E (TTM basis) ratio of 33.51 over the past year, which compares with 20.83 for the S&P 500 Index.
- ▼ **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 Q3 Earnings Surpass Estimates, Revenues Lag

LHC Group Inc.'s third-quarter 2019 adjusted earnings per share of \$1.26 beat the Zacks Consensus Estimate of \$1.08 by 16.7% and improved 32.6% year over year.

The company reported revenues of \$528.5 million in the quarter, which missed the Zacks Consensus Estimate by 0.7%. However, the top line improved 4.2% on a year-over-year basis.

Q3 Highlights

In the quarter under review, total growth in home health admissions was 5.6% year over year and organic growth was 11.1%.

Total growth in home health revenues was 4.3% year over year and organic growth was 7.9%. While growth in hospice admissions was 2.1% year over year, organic growth advanced 2.1%.

Year to date, the company agreed to acquire 17 home health, eight hospice and two home and community-based services locations, the majority of which are hospital joint ventures. These acquisitions represent around \$86.7 million in annualized revenues.

Margin

Gross profit in the quarter totaled \$193.7 million, up 4.8%. Gross margin in the reported quarter was 36.7%, up 20 bps.

Operating income came in at \$46.7 million, up 33.7% from the year-ago quarter's \$34.9 million. Operating margin was 8.8%, up 190 bps.

2019 Guidance

The company raised 2019 earnings outlook and now projects adjusted EPS to range between \$4.35 and \$4.45 (up from the previously guided range of \$4.25 and \$4.35). The Zacks Consensus Estimate is pegged at \$4.34, lower than the projected range.

LHC Group affirmed revenue guidance for 2019. The company expects revenues in the band of \$2.09-\$2.14 billion. The Zacks Consensus Estimate stands at \$2.10 billion, within the guided range.

Adjusted EBITDA is projected to be in the range of \$214 million to \$220 million.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	-0.70%
EPS Surprise	16.67%
Quarterly EPS	1.26
Annual EPS (TTM)	4.34

Valuation

LHC Group's shares are up 5.5% and 41% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 5.6% while that of Zacks Medical sector are up 3.3% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 8.6% and up 4.8%, respectively.

The S&P 500 index is up 3.5% in the year-to-date period and 23.9% in the past year.

The stock is currently trading at 30.15X Forward 12-months earnings, which compares to 32.23X for the Zacks sub-industry, 21.79X for the Zacks sector and 19.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.91X and as low as 15.59X, with a 5-year median of 22.85X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$153 price target reflects 31.88X 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	30.15	32.23	21.79	19.2
	5-Year High	30.91	44.02	21.79	19.34
	5-Year Low	15.59	25.68	15.88	15.17
	5-Year Median	22.85	30.48	18.95	17.44
P/S F12M	Current	2.05	3.25	2.88	3.57
	5-Year High	2.08	3.92	3.81	3.57
	5-Year Low	0.62	2.37	2.42	2.54
	5-Year Median	0.99	2.83	2.93	3

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 21% (54 out of 254)



Top Peers

Amedisys, Inc. (AMED)	Outperform
Rite Aid Corporation (RAD)	Outperform
Option Care Health, Inc. (BIOS)	Neutral
Chemed Corporation (CHE)	Neutral
CVS Health Corporation (CVS)	Neutral
DaVita Inc. (DVA)	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 Outperform	CHE Neutral	CVS Neutral
VGM Score	B	-	-	B	B	A
Market Cap	4.58 B	230.39 M	24.65 B	5.82 B	7.59 B	98.90 B
# of Analysts	8	4	13	8	2	23
Dividend Yield	0.00%	0.00%	1.73%	0.00%	0.27%	2.63%
Value Score	D	-	-	D	C	B
Cash/Price	0.01	0.08	0.04	0.00	0.00	0.08
EV/EBITDA	36.86	-0.62	14.11	33.72	27.39	13.53
PEG Ratio	2.23	1.71	2.08	2.21	2.74	1.62
Price/Book (P/B)	3.09	5.08	3.39	9.64	11.28	1.57
Price/Cash Flow (P/CF)	38.21	16.00	13.81	42.23	31.60	4.76
P/E (F1)	30.55	21.58	19.19	36.31	30.24	10.64
Price/Sales (P/S)	2.23	3.09	2.69	3.08	4.05	0.40
Earnings Yield	3.27%	3.65%	5.21%	2.76%	3.31%	9.41%
Debt/Equity	0.20	0.06	0.72	0.48	0.32	1.32
Cash Flow (\$/share)	3.81	-0.02	6.94	4.27	15.00	15.97
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	22.89%	26.58%	10.56%	38.47%	19.50%	11.14%
Proj. EPS Growth (F1/F0)	6.82%	24.83%	7.57%	13.01%	13.06%	1.64%
Curr. Cash Flow Growth	104.30%	10.80%	14.73%	45.19%	88.71%	87.00%
Hist. Cash Flow Growth (3-5 yrs)	31.24%	16.71%	9.00%	23.90%	10.87%	19.17%
Current Ratio	1.53	1.48	1.24	0.95	0.67	0.92
Debt/Capital	17.65%	33.67%	42.99%	32.33%	23.97%	56.88%
Net Margin	4.59%	-8.43%	11.14%	6.70%	11.14%	1.83%
Return on Equity	9.39%	-20.19%	17.16%	26.53%	35.06%	15.45%
Sales/Assets	1.02	0.73	0.55	1.75	1.71	1.14
Proj. Sales Growth (F1/F0)	6.48%	10.61%	4.16%	7.55%	10.57%	1.25%
Momentum Score	B	-	-	B	D	D
Daily Price Chg	1.56%	0.00%	0.27%	-0.56%	0.12%	-0.04%
1 Week Price Chg	3.04%	0.28%	0.39%	3.92%	3.94%	-1.98%
4 Week Price Chg	8.86%	6.07%	2.95%	11.27%	9.92%	2.59%
12 Week Price Chg	28.30%	15.34%	7.76%	34.97%	16.65%	17.24%
52 Week Price Chg	39.40%	-3.45%	22.29%	42.10%	66.36%	19.96%
20 Day Average Volume	194,844	137,569	1,536,375	191,243	58,212	4,774,183
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	1.48%	0.00%	0.04%
(F1) EPS Est 12 week change	3.70%	-1.75%	-0.40%	5.88%	0.67%	-0.61%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	2.99%	0.00%	-0.13%

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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