

LHC Group (LHCG)

\$160.75 (As of 05/19/20)

Price Target (6-12 Months): **\$169.00**

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:F

Value: D

Growth: F

Momentum: D

Summary

LHC Group exited the first quarter on a strong note, with earnings and revenues beating estimates. The company continues to gain from home health services and hospice admissions, which rose year over year in the reported quarter. Increase in the topline also instills optimism on the stock. LHC Group is also anticipated to gain from joint ventures. The recent expansion of joint venture partnership with Ochsner Health System is encouraging. Expansion in gross margin is heartening. Over the past year, the company has outperformed its industry. However, a highly competitive home healthcare market adds to the woes. The company also witnessed contraction in adjusted operating margin in the quarter under review.

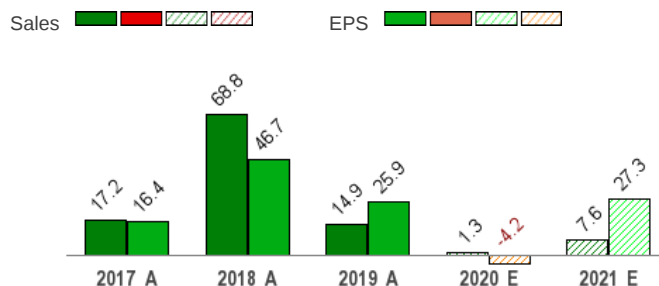
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$164.73 - \$100.00
20 Day Average Volume (sh)	380,292
Market Cap	\$5.1 B
YTD Price Change	16.7%
Beta	0.41
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical Services
Zacks Industry Rank	Top 29% (74 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.7%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	-8.8%
Expected Report Date	08/05/2020
Earnings ESP	0.0%
P/E TTM	38.0
P/E F1	37.6
PEG F1	2.8
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	546 E	552 E	569 E	585 E	2,266 E
2020	513 A	493 E	537 E	563 E	2,106 E
2019	503 A	518 A	529 A	531 A	2,080 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.16 E	\$1.24 E	\$1.41 E	\$1.59 E	\$5.45 E
2020	\$0.75 A	\$0.79 E	\$1.21 E	\$1.53 E	\$4.28 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 05/19/2020. The reports text is as of 05/20/2020.

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.

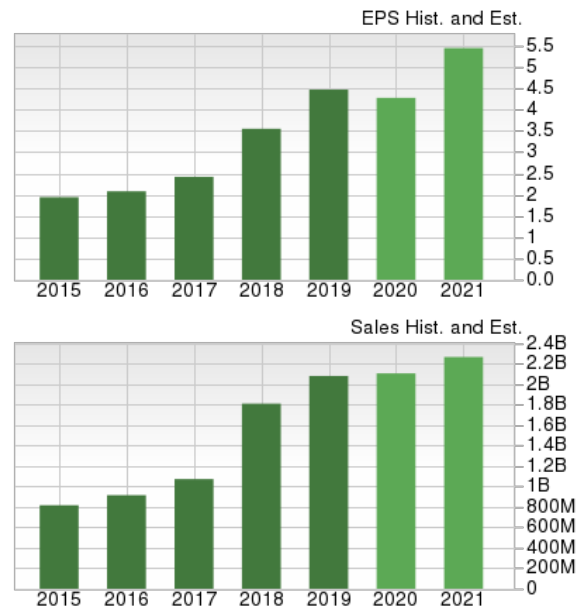
Hospices provide end-of-life care to patients with terminal illnesses through interdisciplinary teams of physicians, nurses, home health aides, counselors and volunteers.

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.

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 2018.



Reasons To Buy:

▲ **Shares Up:** Over the past year, shares of LHC Group have gained 35.5% against the industry's 18.9% decline. The company registered solid gains from home health services and hospice admissions, which rose year over year in the first quarter. A broad array of services is also working in favor of the stock.

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

▲ **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 first quarter, home health service revenues grew 1.3% year over year while organic growth in home health admissions was 7.1%.

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 first quarter, hospice service revenues grew 17% while organic growth in hospice admissions advanced 0.2%.

Through the first quarter, the company has been sourcing adequate PPE kits for patients and clinicians. These PPE kits include N95 mask, isolation gown, face shield, gloves, head and shoe covering, appropriate facemask, and a pair of gloves.

▲ **Acquisitions & Joint Ventures Look Strategic:** LHC Group has long been focusing on acquisitions and joint ventures for inorganic expansion. The company's pipeline of potential M&A growth opportunities remains robust and is well balanced between Home Health and Hospice.

On Jan 6, 2020, the company announced that it has finalized joint venture (JV) purchase and expansion deal with partners in Texas, Arkansas, and Louisiana – all effective as of Jan 1, 2020. These transactions account for annualized revenue of approximately \$23.8 million.

In December 2019, LHC Group, and Ochsner Health System announced an expansion of their joint venture partnership – Southeast Louisiana HomeCare – with a deal to purchase five Egan Home Health and Hospice provider locations across South Louisiana. LHC Group and Ochsner have been home health joint venture partners since 2009. Through their partnership, the two healthcare organizations have enhanced the overall quality ratings for their agencies, as well as diminished hospital readmission rates.

Reasons To Sell:

- ▼ **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.
- ▼ **Weak Liquidity Position:** LHC Group exited the first quarter of 2020 with cash of \$8.3 million, down from 31.7 million sequentially. Meanwhile, the company's long-term debt for the first quarter came at \$363.5 million, up from \$322.6 million sequentially. Also, the current debt for the first quarter amounted to \$33.4 million, up from \$28.7 million sequentially. So we can see that both the long-term debt level and current debt level are significantly higher than the company's short-term cash level, which is not particularly good when it comes to company's solvency position as at least during the year of economic downturn, the company is not holding sufficient cash for debt repayment.

Fierce competition and complex regulatory principles are major headwinds.

Last Earnings Report

LHC Group Earnings and Revenues Beat Estimates in Q1

LHC Group Holdings first-quarter 2020 adjusted earnings per share of 75 cents beat the Zacks Consensus Estimate of 69 cents by 8.7%. However, the bottom line fell 23.5% year over year.

Revenues in Detail

The company reported net service revenues of \$512.9 million in the quarter, which beat the Zacks Consensus Estimate by 1.2%. Also, the top line improved 2% on a year-over-year basis.

Q1 Highlights

In the quarter under review, total organic growth in home health admissions was 7.1% year over year, while organic growth in hospice admissions advanced 0.2%. Home health service revenues came in at \$367.8 million, up 1.3% year over year, whereas hospice services totaled \$60.5 million, up 17%.

On Jan 1, 2020, LHC Group completed the acquisition of eight home health and hospice providers in three states, all of which were hospital joint ventures. These acquisitions account for almost \$23.8 million in annualized revenues.

Margin

Gross profit in the quarter totaled \$191.7 million, up 5.5%. Gross margin in the reported quarter was 37.4%, up 124 basis points (bps).

Adjusted operating profit came in at \$33.8 million, down 7.1%. Operating margin was 6.6%, down 65 bps.

2020 Guidance

Due to the uncertainty regarding the impact and disruption caused by COVID-19, the company has withdrawn its 2020 guidance.

Quarter Ending 03/2020

Report Date	May 07, 2020
Sales Surprise	1.14%
EPS Surprise	8.70%
Quarterly EPS	0.75
Annual EPS (TTM)	4.23

Valuation

LHC Group's shares are up 16.7% and up 35.5% in the year-to-date and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are down 6.2% while the Zacks Medical sector is down 1.5% in the year-to-date period. Over the past year, the Zacks sub-industry is down 18.9% while the sector is up 3.4%.

The S&P 500 index is down 8.2% in the year-to-date period and up 3% in the past year.

The stock is currently trading at 34X Forward 12-months earnings, which compares to 36.8X for the Zacks sub-industry, 22.9X for the Zacks sector and 21.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34X and as low as 15.6X, with a 5-year median 23.6X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$169 price target reflects 35.7X 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	34.02	36.83	22.93	21.52
	5-Year High	34.02	36.83	22.93	21.52
	5-Year Low	15.59	21.25	15.93	15.23
	5-Year Median	23.55	26.65	19.01	17.49
P/S F12M	Current	2.34	3.12	2.77	3.34
	5-Year High	2.34	3.12	3.76	3.44
	5-Year Low	0.62	1.98	2.21	2.53
	5-Year Median	1.06	2.52	2.92	3.01

As of 05/19/2020

Industry Analysis Zacks Industry Rank: Top 29% (74 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Amedisys, Inc. (AMED)	Neutral	3
Chemed Corporation (CHE)	Neutral	3
CRH Medical Corporation (CRHM)	Neutral	4
CVS Health Corporation (CVS)	Neutral	3
DaVita Inc. (DVA)	Neutral	2
Rite Aid Corporation (RAD)	Neutral	4
Teladoc Health, Inc. (TDOC)	Neutral	3
Walgreens Boots Alliance, Inc. (WBA)	Neutral	3

Industry Comparison Industry: Medical Services				Industry Peers		
	LHCG	X Industry	S&P 500	AMED	CHE	CVS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	F	C	A
Market Cap	5.08 B	192.92 M	19.91 B	6.15 B	7.43 B	83.14 B
# of Analysts	8	3	14	9	2	11
Dividend Yield	0.00%	0.00%	2.14%	0.00%	0.27%	3.14%
Value Score	D	-	-	D	D	A
Cash/Price	0.00	0.08	0.07	0.03	0.00	0.15
EV/EBITDA	26.73	-0.47	12.09	26.68	24.54	9.44
PEG Ratio	2.81	2.10	2.68	2.95	2.90	1.43
Price/Book (P/B)	3.37	3.39	2.75	9.04	10.87	1.27
Price/Cash Flow (P/CF)	26.52	15.57	10.68	30.56	27.15	6.08
P/E (F1)	38.41	24.79	19.96	41.18	28.48	9.02
Price/Sales (P/S)	2.43	2.71	2.01	3.11	3.73	0.32
Earnings Yield	2.66%	2.71%	4.83%	2.43%	3.51%	11.08%
Debt/Equity	0.24	0.07	0.76	0.64	0.36	1.29
Cash Flow (\$/share)	6.06	-0.02	7.01	6.21	17.24	10.47
Growth Score	F	-	-	D	A	A
Hist. EPS Growth (3-5 yrs)	23.34%	23.34%	10.87%	35.44%	21.36%	10.15%
Proj. EPS Growth (F1/F0)	-4.33%	1.18%	-10.48%	4.82%	17.78%	-0.44%
Curr. Cash Flow Growth	66.04%	6.58%	5.51%	47.20%	14.93%	-16.33%
Hist. Cash Flow Growth (3-5 yrs)	41.56%	14.80%	8.55%	30.47%	14.21%	14.66%
Current Ratio	1.74	1.49	1.28	1.48	0.81	0.99
Debt/Capital	20.27%	25.29%	44.46%	39.00%	26.64%	56.34%
Net Margin	4.73%	-1.72%	10.59%	6.43%	11.60%	2.76%
Return on Equity	8.89%	-10.60%	16.27%	23.09%	35.99%	15.17%
Sales/Assets	0.99	0.65	0.55	1.55	1.64	1.17
Proj. Sales Growth (F1/F0)	1.22%	0.00%	-2.49%	3.89%	8.78%	2.73%
Momentum Score	D	-	-	F	D	D
Daily Price Chg	0.36%	0.00%	-1.38%	-1.69%	0.47%	-0.19%
1 Week Price Chg	11.27%	0.00%	-4.56%	2.41%	7.56%	0.11%
4 Week Price Chg	32.84%	4.73%	6.08%	2.10%	14.44%	5.58%
12 Week Price Chg	8.32%	-13.88%	-13.96%	2.54%	2.07%	-1.12%
52 Week Price Chg	35.52%	-28.80%	-7.85%	70.20%	37.72%	18.85%
20 Day Average Volume	380,292	134,155	2,586,392	284,707	121,643	8,111,418
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-8.77%	-1.79%	-4.62%	-8.67%	-0.15%	-0.24%
(F1) EPS Est 12 week change	-9.62%	-24.95%	-16.58%	-8.12%	-0.15%	-0.53%
(Q1) EPS Est Mthly Chg	-22.91%	-12.15%	-10.10%	-36.04%	-6.77%	-3.90%

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	F
Momentum Score	D
VGM Score	F

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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