

March, 21, 2017

Amedisys Inc.: AMED

Peter Galante

Sector: Healthcare

Industry: Home Health Care

Current Price: \$54.53

Target Price: \$66.59

Amedisys, Inc., together with its subsidiaries, provides healthcare services in the United States. It operates through three segments: Home Health, Hospice, and Personal Care. The Home Health segment offers a range of services in the homes of individuals for the recovery of patients from surgery, chronic disability, or terminal illness, as well as prevents avoidable hospital readmissions through its skilled nurses, physical and speech therapists, occupational therapists, and aides for its patients to complete their important personal tasks. The Hospice segment offers care that is designed to provide comfort and support for those who are dealing with a terminal illness, including heart disease, pulmonary disease, Alzheimer's, HIV/AIDS, and cancer. The Personal Care segment provides assistance for patients with the activities of daily living.

BUY

Current Price: \$54.53
 Target Price: \$66.59
 Market Cap: 1.81B
 Beta: 1.31
 Cash EBITDA Margin: 5.61%
 TTM Revenue Growth: 12.25%
 Average Volume: 384.55K



Thesis: Amedisys provides high quality home health, hospice, and personal care services to clients all around the country. With 88% of plans operating at 4.0+ CMS Star Rating, and continued improvements to operating cost controls, AMED is in a position to take advantage of the industry growth that is expected for health care services. Share price has been beaten down by concerns over CMS' Home Health Groupings Model, but the plan has been dropped, and AMED should be able to see considerable growth going forward.

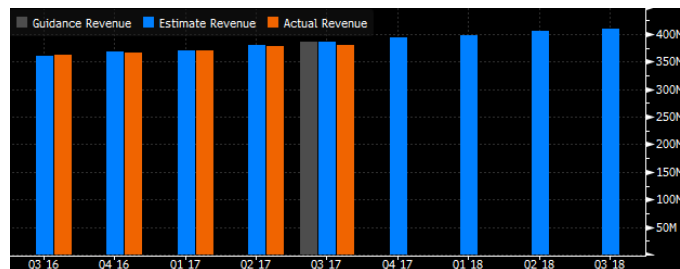
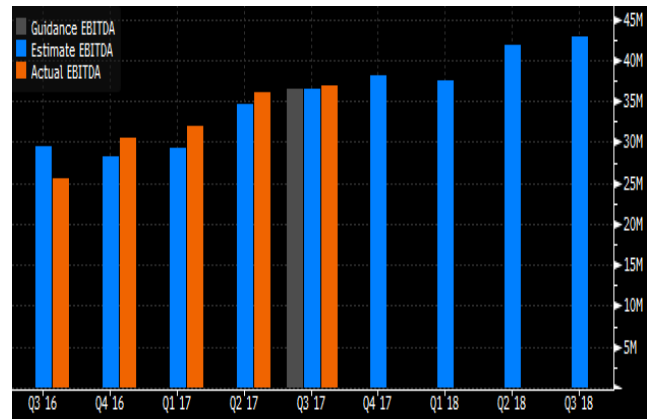
Catalysts:

- Continued improvements to quality and efficiency):
- The ability to generate steady profitable growth following industry trends through 2025. Adding industry experts and leading employees to their business development team.
- Identifying synergies of Personal Care Segment and tradition Home Care/ Hospice Segments. Expansion of Personal Care Segment.

Earnings Performance:

Over the last four quarters, AMED has been able to beat expected EBITDA. This has come through improvements in operational efficiency and cost cutting. Management expects to see further improvements in these areas that will help increase margins. Despite their margin improvements, AMED has been unable to meet expectations for revenue in the past four quarters.

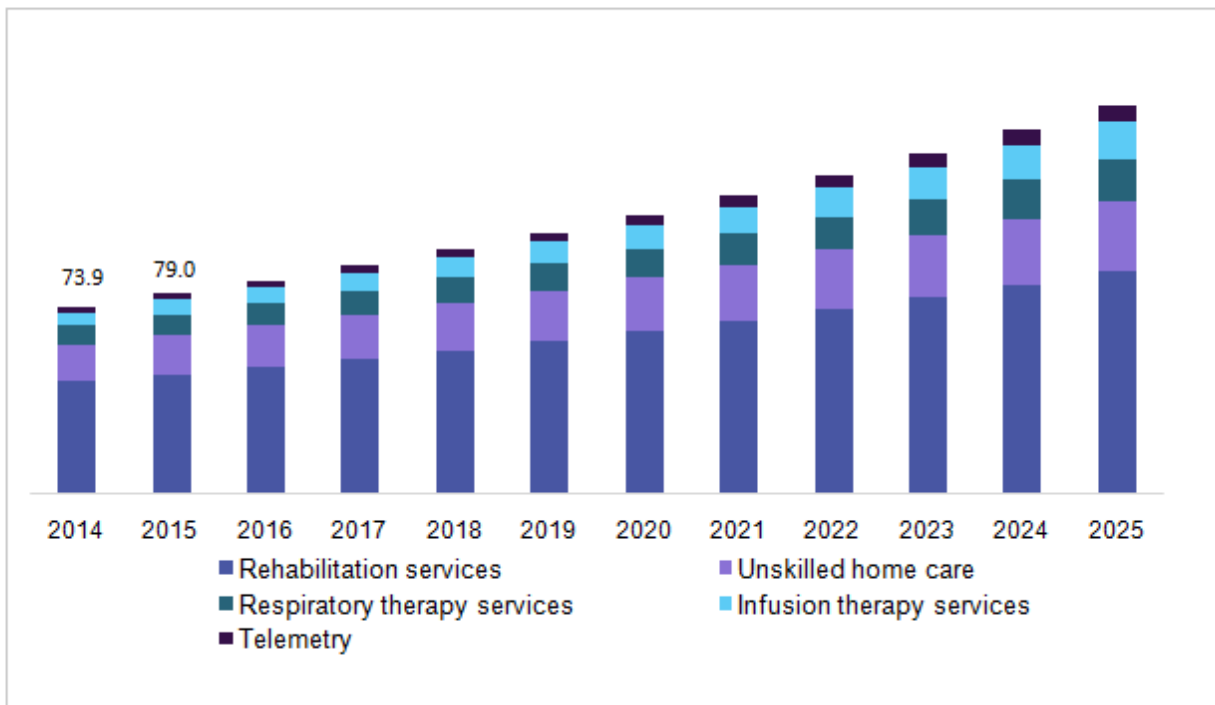
A main focus of the past two calls have been their efforts to build and maintain their business development team. They have had issues in the past maintaining these key employees, but are now making an effort to attract top industry talent and retain them. This is important for their long term success. Amedisys has the clinical services to satisfy customer needs, so a stronger business development team will be able to help maximize the potential of these quality services.



Industry Outlook:

Both the home health and hospice care industries will see considerable growth moving forward. A major driver of this industry growth is the aging population. The average age of an Amedisys customer is 81 years old, the market for their services will be increasing by an estimated 7.8% each year through 2025. Since 2011, the baby boomers generation has seen about 10,000 individuals turn 65 years old each day. By the time that their generation will be past retirement age, it is estimated that 18% of the total population will be above 65. This is a significant increase from the roughly 14% of the population this age group represents today. The Centers for Medicare and Medicaid Services (CMS) estimate that there will be 81 million beneficiaries by 2030 (Source: The Fiscal Times). These industry trends signal that there will be plenty of growth opportunities for companies like AMED that provide quality service to their clients.

U.S. home healthcare market, by services, 2014 - 2025 (USD Billion)



The aging population is promising for Amedisys because their services are cost efficient methods of providing care to members. Grand View Research indicates that “treatment cost for acute care hospital is around \$3250 per day” There are clear cost saving opportunities as the home care equivalent costs an average of \$50 per day. It is also estimated that the average charge per day for hospital inpatient care is over \$3000, and this is compared to nursing facilities at \$450 and home hospice care at an average of \$120 per day. The services that Amedisys provides will be utilized to responsibly manage the growing spend on health care in the coming years.

Another industry trend that is important for AMED, is that the average base episode payment has been increasing each year. An episode is a 60 day period of time where care is given, after the patient is reevaluated, another 60 day episode will begin and will be billed for. This is how AMED generates revenue from Medicare, as the rates they charge are adjusted prices from these base payments.

<u>Period</u>	<u>Base episode payment</u>
January 1, 2014 through December 31, 2014	\$2,869
January 1, 2015 through December 31, 2015	\$2,961
January 1, 2016 through December 31, 2016	\$2,965
January 1, 2017 through December 31, 2017	\$2,990

Another important industry factor that is important to discuss is that the Home Health Grouping Model plan has been pulled. This was a proposal from CMS to change the pricing model of Home Health services, and the potential passing of this weighed heavily on the share prices of AMED. As of November, this plan has been pulled, and AMED can continue with their current pricing model. With less uncertainty over the future cash flows of Home Health companies, the markets should be able to fairly price these companies.

Segment Analysis:

Amedisys Operates with 3 segments. Their home health segment accounts for about 76% of their total revenue in 2016. Their Hospice segment generates about 22% of their total revenue. Both of these segments generate their revenues from Medicare and Non-Medicare health plans. The EBITDA margin for the Home Health Segment is 12%. In the most recent quarter, Hospice EBITDA margin was 29.5%. Payment for the home health services is broken up into 60 day periods called episodes. Historically, 78 to 82% of the revenues for these segments come from Medicare. Amedisys has been able to grow their higher margin hospice segment faster than their larger home health segment. Hospice has grown at 13.53% over 2016, and Home Health has grown at 7.94% in the same time span.

HOME HEALTH			
\$ in Millions	3Q16	3Q17	
Medicare	203.9	197.9	
Non-Medicare	65.0	78.1	
Home Health Revenue	\$268.9	\$276.0	
Gross Margin %	39.6%	39.1%	
Segment EBITDA ⁽²⁾	31.9	33.2	
	11.9%	12.0%	

HOSPICE			
\$ in Millions	3Q16	3Q17	
Medicare	77.0	91.4	
Non-Medicare	5.0	5.1	
Hospice Revenue	\$82.0	\$96.5	
Gross Margin %	48.9%	50.5%	
Segment EBITDA ⁽²⁾	21.3	28.5	
	26.0%	29.5%	

Both of these segments offer lower cost solutions than their inpatient counter parts. Home Health and Hospice services will be vital components of managing the growing health care spend.

The third segment that they operate is the new Personal Care segment. This was built around 2 acquisitions in 2016, and they currently operate 14 centers in Massachusetts. As they look for opportunities to grow this business through acquisitions, they see potential synergies with their other segments. This segment has clients that consist of health plans and insurers, it does not receive Medicare income. In the current state, this is a low margin segment. Operating Margin in 2016 was around 4%. Management has indicated that they would like to pursue growth opportunities in each of these categories through M&A activity if the deals make sense for the company.

Competitor Analysis:

The competitors below represent home health, post-acute care, and hospice care companies. Their operations are comparable to the operations of Amedisys. Amedisys has performed in line with their competition for revenue growth. They have also been able to increase their EBITDA margin at a rate faster than their competition. Despite EBITDA improvements, they still operate slightly below the median margin for their comparable firms. As management implements plans to increase their operation efficiency, they should be able to increase their margins even more to reach the industry standards. Amedisys has seen a year-over-year

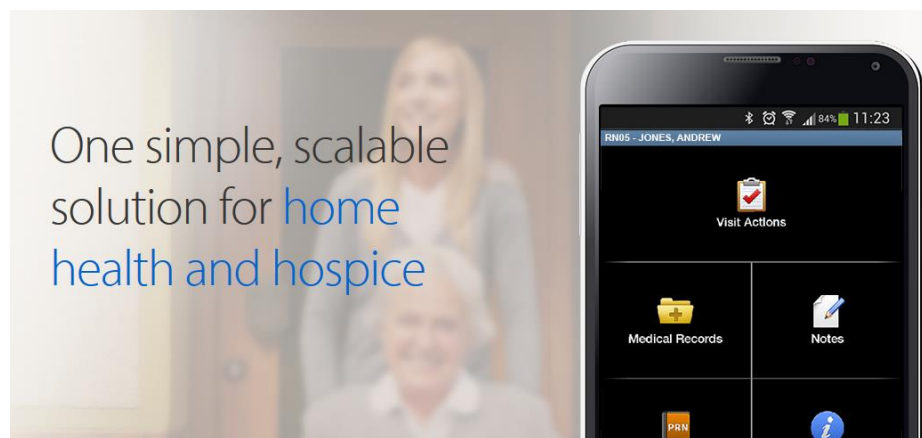
1% decrease in cost per visit for their Home Health segment. To compliment this, Cost per day of Hospice Service is down 1% over the same time period as well. Being able to achieve or exceed the industry average margins while providing the quality service that Amedisys does will allow AMED to maximize their profits on the projected industry growth.

Name	Mkt Cap	EBITDA to Net Sales:Q	Trailing 12M EBITDA - 1 Yr Growth	Rev - 1 Yr Gr:Q	Rev - 1 Yr Gr:Y
Median	1.47B	8.14%	8.76%	5.76%	12.16%
100) AMEDISYS INC	1.79B	7.25%	10.12%	5.14%	12.25%
101) ALMOST FAMILY INC	802.29M	4.80%	16.53%	21.12%	17.16%
102) PROVIDENCE SERVICE CORP	782.63M	3.14%	-110.54%	-0.67%	6.83%
103) LHC GROUP INC	1.15B	9.04%	9.45%	18.23%	12.06%
104) CIVITAS SOLUTIONS INC	717.37M	10.59%	8.06%	5.19%	2.97%
105) CHEMED CORP	3.84B	15.06%	12.76%	6.33%	2.17%
106) MEDNAX INC	4.74B	17.44%	-9.54%	4.95%	14.50%
107) TELADOC INC	1.98B	-19.91%	5.55%	112.01%	59.15%

Quality Scores and Operational Improvements:

The Jan 2018 preview of CMS Stars Scores has 88% of AMED Plans at 4.0+ Stars. This means that they will be eligible for bonus revenue in the next year from Medicare in 88% of their plans. Being able to provide service at the 4.0+ level is key in driving revenue growth from Medicare customers. The large proportion of quality programs at Amedisys also indicates that they have the services developed that will allow them to take advantage of the industry growth rate that is expected.

Amedisys has developed and implemented a care platform called Homecare Homebase (HCHB). HCHB has now been implemented at all of AMED's care centers for hospice and home health. This is a leading platform that will help the company gain operating efficiencies as it is developed further.



What If Analysis:

Bull Case: In this scenario, the revenue assumptions were increased by .5% each year. In addition to these changes, operating costs decreased an additional percent to 89% over time. This indicates that they will have slightly higher growth prospects and will be able to exceed the comparable margins. In this scenario the price target is \$74.37 and a 1 year return of 36.38%

Bear Case: In this scenario the base revenue assumptions were decreased by 1% each year. In addition to this, the operating costs remained the same at 91% over the forecast period. In this scenario, the one year target is \$55.47 and the return is 1.72%.

Conclusion:

Amedisys is a company that provides top quality service for home care and hospice care clients. These are two industries that will see considerable growth in the future, and Amedisys has been able to position themselves to take advantage of the growth. By developing an efficient care model to match their high quality service, Amedisys will be able to see profitable growth going forward. They have an opportunity to develop a third segment that will be synergistic with their core developed segments. In addition to those opportunities, the hiring and retention of top class employees will supplement the growth to maximize the potential of their services. Amedisys is a buy opportunity.

Amedisys, Inc. (AMED)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Peter Galante

12/11/2017

Current Price:

\$54.53

Dividend Yield:

0.0%

Intrinsic Value:

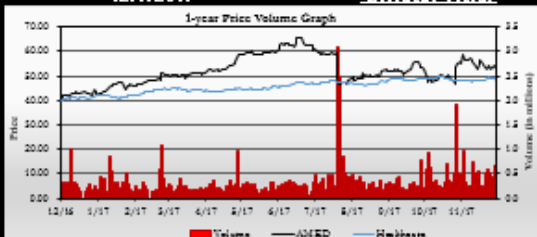
\$58.34

Target Price:

\$66.59

Target 1 year Return: 22.1%

Probability of Price Increase: 94.2%



Description	
Amedisys, Inc., together with its subsidiaries, provides healthcare services in the United States.	
General Information	
Sector	Healthcare
Industry	Healthcare Provider and Services
Last Guidance	November 3, 2015
Next earnings date	March 3, 2018
Estimated Country Risk Premium	5.55%
Effective Tax rate	24%
Effective Operating Tax rate	24%

Market Data	
Market Capitalization	\$1,850.57
Daily volume (mil)	0.41
Shares outstanding (mil)	33.94
Diluted shares outstanding (mil)	34.16
% shares held by institutions	116%
% shares held by investment managers	87%
% shares held by hedge funds	6%
% shares held by insiders	1.79%
Short interest	7.49%
Days to cover short interest	6.20
52-week high	\$65.91
52-week low	\$39.95
Volatility	41.04%

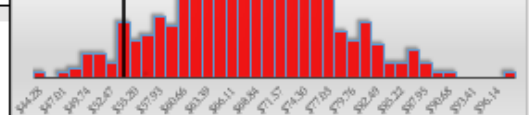
Quarter ending	
9/30/2016	-1.69%
12/31/2016	-1.94%
3/31/2017	-1.70%
6/30/2017	-1.98%
9/30/2017	-2.26%
Mean	-2.14%
Standard error	0.3%

Part Earning Surprise	
Revenue	-1.69%
EBITDA	-37.39%
	-18.54%
	0.65%
	-2.79%
	-15.94%
	-14.80%
	6.7%

Peer	
LHC Group, Inc.	
The Providence Service Corporation	
Civitas Solutions, Inc.	
BioScrip, Inc.	
Alkermes, Inc.	
ChemoC Corporation	
MEDNAX, Inc.	
Envision Healthcare Corporation	

Management	
Kazerooni, Paul	Chief Executive Officer, Pro
Pernar, Laurence	Chief Human Resources Officer
Selm, Stephen	Chief Strategy Officer
Ginn, Scott	Chief Financial Officer
Gerard, Christopher	Chief Operating Officer
Hartley, Pete	Chief Technology Officer and

Total compensation per	
Chief Executive Officer	-71.3% per annum over 1y
Chief Human Resources Officer	NM
Chief Strategy Officer	NM
Chief Financial Officer	NM
Chief Operating Officer	NM
Chief Technology Officer and	NM



Profitability	
Return on Capital (GAAP)	18.1%
Operating Margin	7%
Revenue/Capital (GAAP)	2.70
ROE (GAAP)	7.9%
Net margin	2.3%
Revenue/Book Value (GAAP)	3.50

AMED (LTM)	
Return on Capital	18.1%
Operating Margin	7%
Revenue/Capital	2.70
ROE (GAAP)	7.9%
Net margin	2.3%
Revenue/Book Value	3.50

Peer's Median (LTM)	
Return on Capital	8.87%
Operating Margin	8.99%
Revenue/Capital	0.99
ROE (GAAP)	13.9%
Net margin	4.4%
Revenue/Book Value	3.18

Invested Funds	
Cost/Capital	15.3%
NWC/Capital	4.5%
Operating Assets/Capital	31.9%
Goodwill/Capital	48.3%

AMED (5 years historical)	
Cost/Capital	4.6%
NWC/Capital	-11.4%
Operating Assets/Capital	63.9%
Goodwill/Capital	42.9%

Peer's Median (LTM)	
Cost/Capital	8.1%
NWC/Capital	13.4%
Operating Assets/Capital	28.5%
Goodwill/Capital	50.0%

Capital Structure	
Total Debt/Market Capitalization	0.28
Cost of Existing Debt	5.7%
CGFS Rating (F:care, Z:care, and default Prob)	A
WACC	10.5%

AMED (5 years historical)	
Total Debt/Market Capitalization	0.32
Cost of Existing Debt	7.6%
CGFS Rating	BBB
WACC	12.2%

Peer's Median (LTM)	
Total Debt/Market Capitalization	0.45
Cost of Existing Debt	5.5%
CGFS Rating	BB
WACC	9.6%

Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Period	
Base Year	6%
9/30/2018	7%
9/30/2019	7%
9/30/2020	8%
9/30/2021	7%
9/30/2022	6%
9/30/2023	6%
9/30/2024	5%
9/30/2025	4%
9/30/2026	3%
9/30/2027	3%
Continuing Period	2%

Revenue Growth Forecast	
Base Year	8.7%
9/30/2018	6.1%
9/30/2019	6.6%
9/30/2020	7.2%
9/30/2021	7.4%
9/30/2022	10.4%
9/30/2023	10.3%
9/30/2024	10.1%
9/30/2025	9.8%
9/30/2026	9.5%
9/30/2027	9.3%
Continuing Period	9.0%

Return on Capital Forecast	
Base Year	8.6%
9/30/2018	5.9%
9/30/2019	6.2%
9/30/2020	6.5%
9/30/2021	6.6%
9/30/2022	9.2%
9/30/2023	8.5%
9/30/2024	7.9%
9/30/2025	7.3%
9/30/2026	6.8%
9/30/2027	6.3%
Continuing Period	5.9%

WACC Forecast	
Base Year	10.5%
9/30/2018	10.0%
9/30/2019	10.0%
9/30/2020	10.1%
9/30/2021	10.1%
9/30/2022	10.1%
9/30/2023	10.1%
9/30/2024	10.1%
9/30/2025	10.1%
9/30/2026	10.3%
9/30/2027	10.3%
Continuing Period	10.3%

Price per share Forecast	
Base Year	\$58.02
9/30/2018	\$66.68
9/30/2019	\$75.04
9/30/2020	\$83.39
9/30/2021	\$91.70
9/30/2022	\$99.91
9/30/2023	\$108.05
9/30/2024	\$116.08
9/30/2025	\$124.01
9/30/2026	\$131.87
9/30/2027	\$139.56
Continuing Period	\$139.56

