

# US Home Healthcare Sector: Resurgence after a period of contraction

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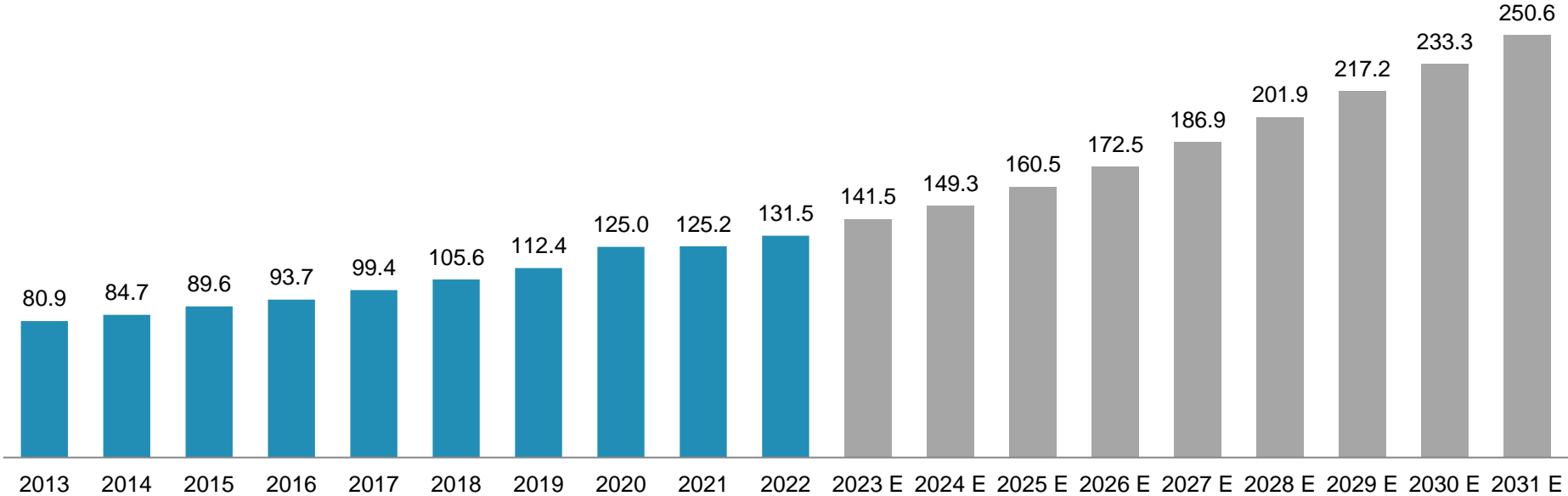
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# US Home Healthcare spending shows consistent growth

- Home healthcare refers to a range of health care services that can be provided in the home for an illness or injury.
- The US home healthcare market is one of the fastest growing sectors in the healthcare industry, with spending projected to grow at a compound annual growth rate of 7.4% from 2022 through 2031 according to the Centers for Medicare and Medicaid Services (“CMS”).
- The growth in the US home healthcare sector is propelled by factors such as the expanding aging population, which constitutes 17% of the total population, advancements in technology, and the cost-effectiveness of home healthcare services.

Home Health Care Expenditures (\$ bn)



Source: Centers for Medicare and Medicaid Services

## US Home Healthcare market is highly fragmented and competitive

- The US home health and hospice market is highly fragmented.
- According to MedPAC, there were 11,353 home health agencies in 2022. Most of the market is composed of small local or regional providers. Nearly 90% of these providers operate with an annual revenue of less than USD 5 million.
- Amedisys, Addus, Aveanna, Brookdale Senior Living, and The Pennant Group are the largest listed player. In addition to the public operators, many of the largest home health and hospice platforms listed above are backed by private equity sponsors.

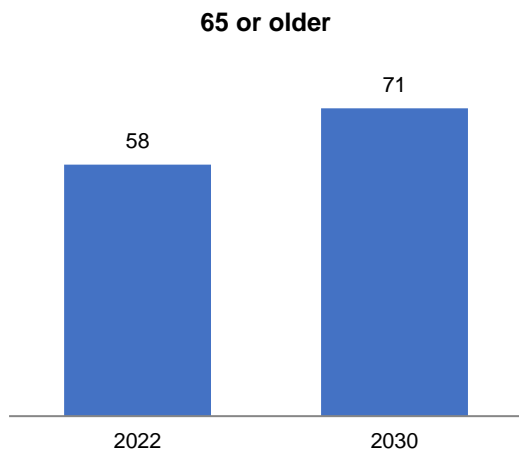
### Revenue Mix and Financial Metrics of key US Home Care Companies

Revenue Mix (2023)			Financial Metrics (2023)			
	Home Health	Others	Revenue	EBITDA	EBITDA Margin	Net Debt /EBITDA (x)
CHEMED	85.2%	14.8%	2,264	461	20.4%	-0.27
AMEDISYS	99.3%	0.7%	2,236	214	9.6%	1.68
AVEANNA	91.8%	8.2%	1,881	136	7.2%	-
ADDUS	24.9%	75.1%	1,059	115	10.9%	0.96
PENNANT	72.4%	27.6%	545	70	12.9%	4.62

Source: Company Filings, Bloomberg  
Amount in \$ millions, unless specified

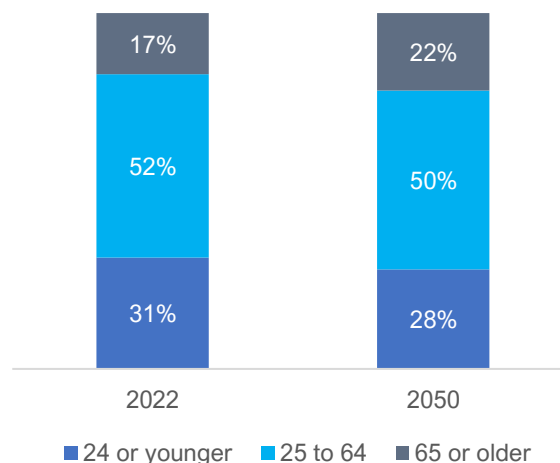
# Aging population, rising healthcare costs, and an increasing age dependency ratio drives growth for the sector

## Aging Population



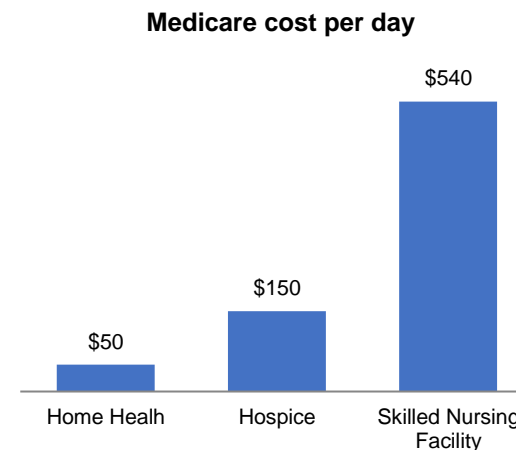
- The Congressional Budget Office, projects that the U.S. population aged 65 and older will grow to 71 million individuals by 2030 from 58 million in 2022.
- The increasing elderly population is surpassing the growth of facility-based beds, leading to a shift towards home-based care.

## Dependency Ratio



- The expected increase in the senior population's share from 17% in 2022 to 22% by 2050.
- This is expected to result in an increased age dependency ratio and will be a driving force for the need for geriatric care.

## Rising cost of care



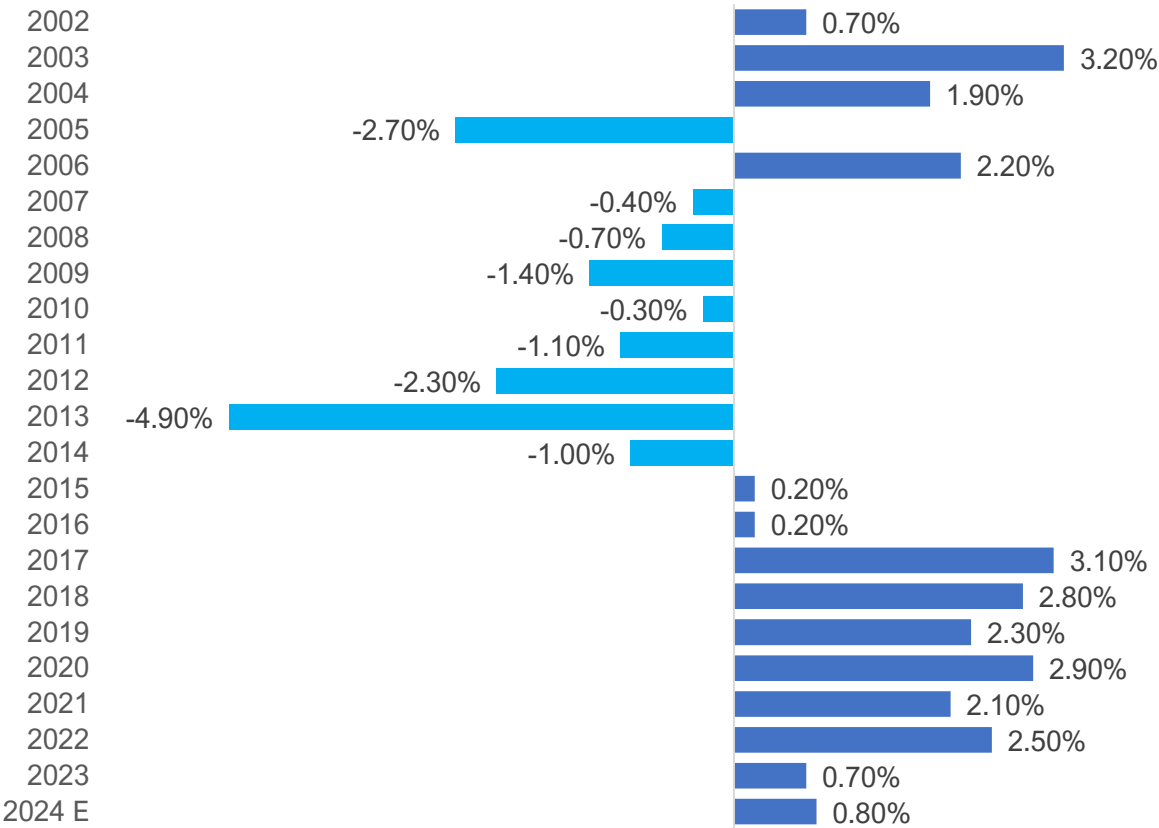
- The growing senior population is leading to higher healthcare costs. However, providing care in home settings can reduce overall costs.
- The Medicare cost per day in a home health setting is \$50, while the cost per patient per day in a hospice setting is \$150. In contrast, a skilled nursing facility incurs a cost of \$540 per day.

Source: Company Filings, Bloomberg

# Reimbursement shifts from fee-for-service to value-based models

- Reimbursement trends in the home health care sector are driven by several factors including the transition from fee-for-service to value-based payment models and the adoption of new technologies, such as telehealth and remote monitoring.
- The transition from the traditional fee-for-service model to risk-sharing arrangements offers a mutually beneficial opportunity for both providers and payors. Under this model, providers have the potential to earn rewards for achieving cost savings through enhanced patient outcomes, thereby contributing to the overall value proposition for healthcare organizations.

Medicare Home Health Agencies Net Rate Changes



Source: CMS

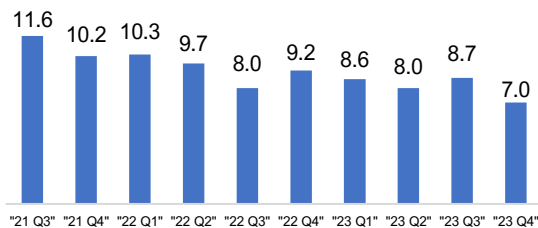
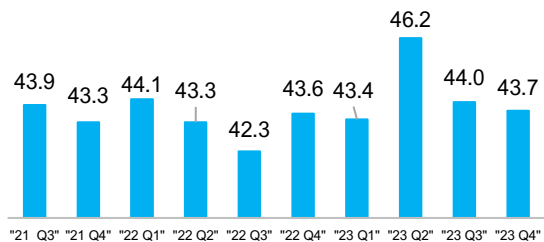
# Cost pressures weigh on margins

## Company Gross Margin (%)

## EBITDA Margin (%)

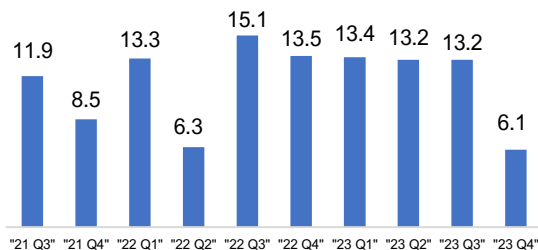
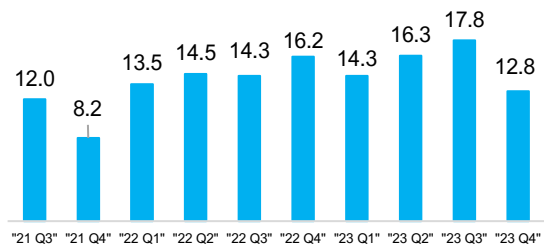
## Key Trends

AMED



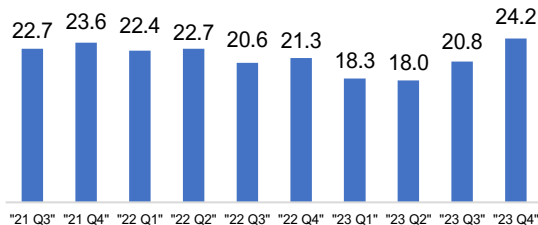
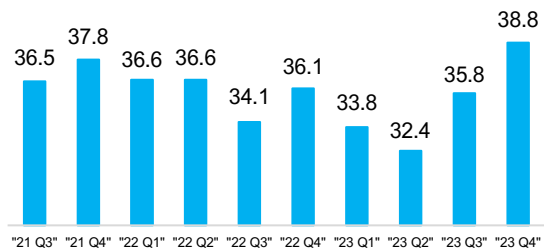
- AMED shows a declining EBITDA margin trend, indicating potential operational challenges, while maintaining a stable gross margin.
- Reason for declining margins are primarily due to planned wage increases and a seasonality driven increase in health insurance costs.

PNTG



- In PNTG, FY23 sees an upsurge in gross margin and a steady EBITDA margin, driven by a strong technology foundation across home health, hospice, and senior living.
- This is attributed to operational efficiencies achieved through resource sharing.

CHEMED

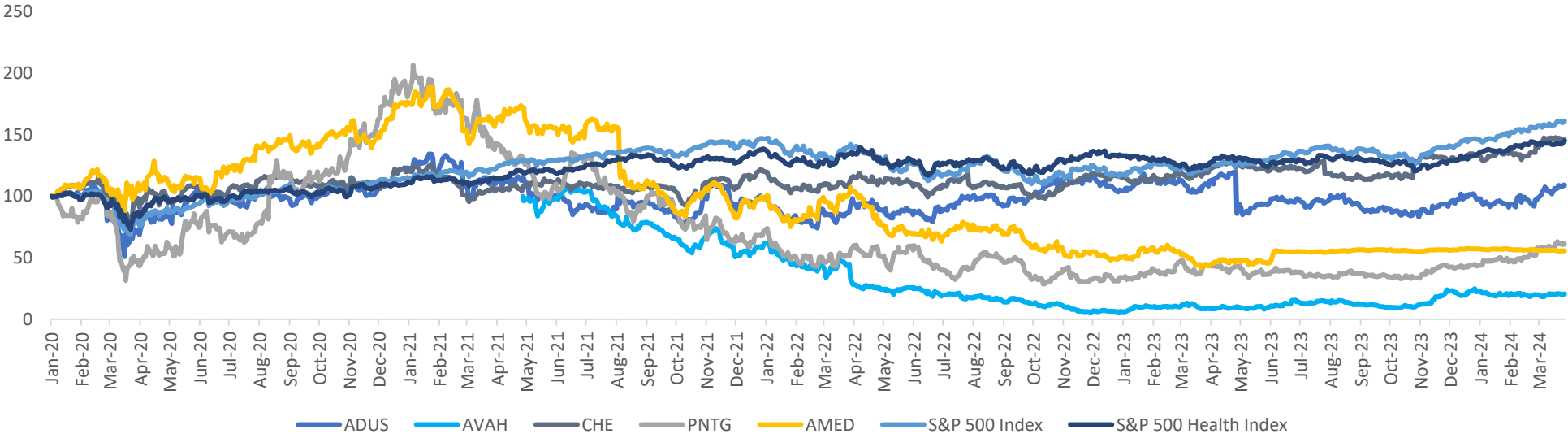


- CHEMED's stable operational performance, despite moderate EBITDA fluctuations and a declining gross margin, showcased resilience amid cost challenges.
- In 2023, heightened care demand, operational efficiency, and enhanced reimbursement rates drove substantial revenue and profitability growth.

Source: Bloomberg, Company Financials

# Home health stocks rebounded in 2013 following COVID-19-induced decline

- The US home healthcare market faced a significant downturn between 2021 and 2022 due to disruptions caused by the COVID-19 pandemic, including interruptions in service delivery and safety concerns.
- Hospitals prioritized resources for managing COVID-19 cases, resulting in a decrease in demand for non-urgent medical procedures and subsequent home healthcare services.
- However, in 2023, the market began to rebound as technological advancements improved the efficiency and safety of home-based care, and patients increasingly preferred receiving healthcare services in the comfort of their homes.
- Additionally, demographic factors such as an aging population contributed to the resurgence in demand for home healthcare services, driving the market's recovery.

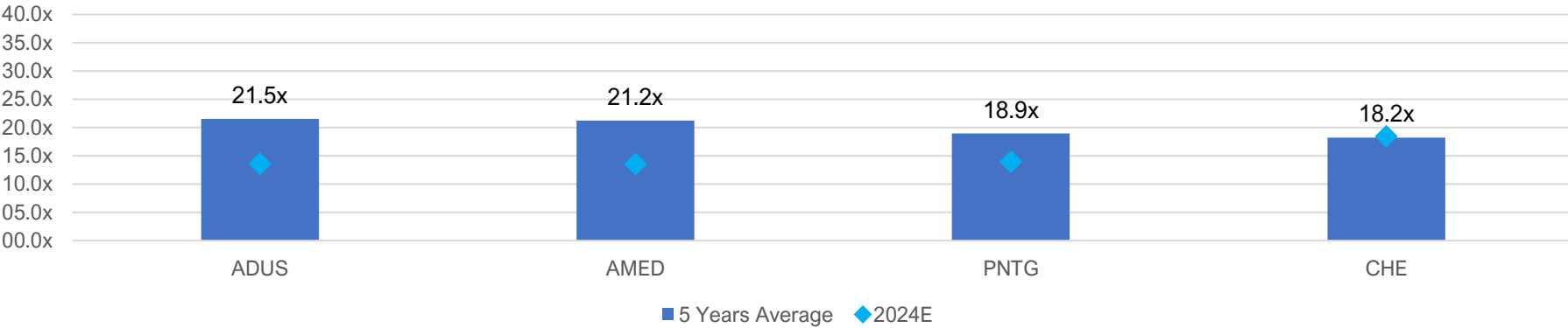


Source: Company Filings, Bloomberg

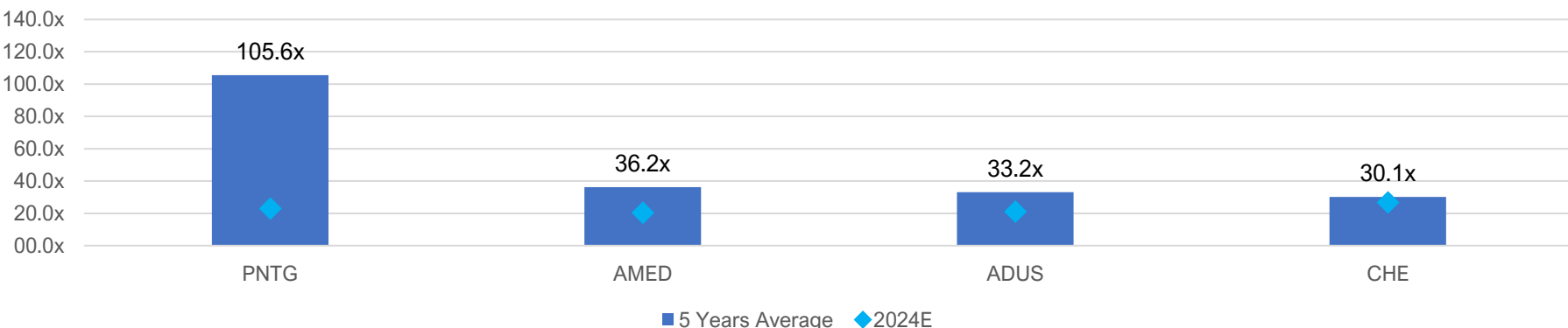


**Valuation of the sector is low based on 2024 estimates, with average EV / EBITDA ratio at 14.9x, less than five-year average of 20.0x**

EV / EBITDA Multiple \*



P / E Multiple \*



Source: Bloomberg

\*2019-2023 Average

AVAH has recorded negative earnings since 2021 and estimates for 2024 also indicate negative earnings



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