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Enhabit Home Health and Hospice

Enhabit, Inc. Q1 2025 Earnings Call

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CORPORATE SPEAKERS:

Jobie Williams

Enhabit Home Health and Hospice; Senior Vice President and Treasurer
Barbara Jacobsmeyer
Enhabit Home Health and Hospice; President and Chief Executive Officer
Ryan Solomon
Enhabit Home Health and Hospice; Chief Financial Officer

PARTICIPANTS:

Brian Tanquilut
Jefferies; Analyst
Albert Rice
UBS; Analyst
Ryan Langston
TD Cowen; Analyst
Benjamin Mayo
Leerink Partners; Analyst

PRESENTATION:

Operator^ Hello. Good morning, everyone. And welcome to Enhabit Home Health & Hospice's First Quarter 2025 Earnings Conference Call. (Operator Instructions)

Today's conference call is being recorded.

If you have any objections, you may disconnect at this time.

I will now turn the call over to Jobie Williams, Enhabit's Senior Vice President and Treasurer.

Mr. Williams, please go ahead.

Jobie Williams^ Thank you, Operator. And good morning, everyone. Thank you for joining our call today.

With me on the call is Barb Jacobsmeyer, President and Chief Executive Officer; and Ryan Solomon, Chief Financial Officer.

Before we begin, if you do not already have a copy, the first quarter earnings release, supplemental information and related Form 8-K filed with the SEC are available on our website at investors.ehab.com.

On Page 2 of the supplemental information, you will find the safe harbor statements, which are also set forth on the last page of the earnings release.

During the call we will make forward-looking statements, which are subject to risks and uncertainties, many of which are beyond our control.

Certain risks and uncertainties that could cause actual results to differ materially from our projections, estimates and expectations are discussed in our SEC filings including our annual report on Form 10-K, which are available on our website. We encourage you to read them.

You are cautioned not to place undue reliance on the estimates, projections, guidance and other forward-looking information presented, which are based on current estimates of future events and speak only as of today. We do not undertake a duty to update these forward-looking statements.

Our supplemental information and discussion on this call will include certain non-GAAP financial measures. For such measures, reconciliation to the most directly comparable GAAP measure is available at the end of the supplemental information and the earnings release.

With that, I'll turn the call over to Barb.

Barbara Jacobsmeyer^ Thanks, Jobie. Good morning, and thanks for joining us.

In our year-end earnings call, I outlined how executing on 2024 strategy laid a promising foundation for 2025 success.

Our team has done a tremendous job in the first quarter building on that foundation.

Our first quarter home health performance is the result of executing on our payer contract initiatives.

We started 2025 in a stronger position with our payer contracts, and we're able to fully focus on growth.

Our admissions from quarter four to quarter one increased by 8.1%, with fee-for-service also growing 4% sequentially.

Our year-over-year admission growth was up 0.7%. When normalized for leap year and the impact of our closed branches, growth is 2.5%.

Our total home health census was down 2.4% year-over-year due to a low entry point in January.

Sequentially, total census was up 3.7%. Census growth occurred each month in quarter one, exiting March at an average daily census 9.8% higher than January.

Our non-Medicare admissions were up 7.4% year-over-year, mainly driven by our payer innovation contracts.

We increased the percentage of home health visits and payer innovation contracts.

In the first quarter of 2024, 38% of non-Medicare visits were in payer innovation contracts.

That rate grew to 44% in the first quarter of 2025. Payer mix progress to payer innovation contracts resulted in a 7.6% improvement year-over-year in non-Medicare revenue per visit. A just right care plan for our patients continues to be an area of focus with over two-thirds of our payer innovation contracts in episodic arrangements, managing our visits per episode while maintaining high-quality outcomes is an important part of our strategy.

Total visits per episode declined 6.7% from 14.9% in quarter one of 2024 to 13.9% in quarter one 2025. Continued progress with managing VPE creates additional clinical capacity as evidenced by our decrease in cost per day year-over-year and sequentially. Moving now to our hospice segment. The sequential monthly census growth that started in January 2024 has continued throughout the first quarter of 2025. Total admissions grew 8% year-over-year with same-store up 5.2%.

Census grew 12.3% with 10.6% same-store growth.

Our admission departments continue to focus on timely responses to our referral sources, driving a 310 basis point improvement year-over-year in referral to admission conversion.

Census growth continues to create leverage on the fixed costs we added in 2023, resulting in a cost per day decrease of 0.8% year-over-year and a 2.7% decline sequentially. To complement our organic growth strategy, our de novo strategy is positively impacting total growth.

In quarter one, we opened one hospice location and have 13 projects underway. Turning now to our cost structure strategy update.

As anticipated, we completed the transition of all branches to the outsourced coding resource in the first quarter, which we estimate will deliver $1.5 million in cost savings for the remainder of 2025.

Additionally, seven branches were closed or consolidated in the first quarter and four remain on track to be closed by the end of quarter two, 2025.

We continue to focus on new technologies targeted at improving efficiency, productivity and cost reduction.

We are currently piloting two internally developed apps. One of these is designed to improve clinician and patient communication related to scheduled visits. The other is designed to improve communication between our business development and operations team members regarding patient referral to admission process and status.

On the human capital front, we just completed our annual employee engagement survey with results above the health care benchmark. There were two drivers to our engagement success, our employees finding their work meaningful and collaborating with colleagues to deliver quality outcomes for our patients.

Survey results are critical feedback to help focus management on priorities identified by our staff as important to their success and continued engagement.

We are proud of our Enhabit culture and the impact it has on our team and on our patients and their families.

And now I will turn it over to Ryan, who will cover the financial results of quarter one.

Ryan Solomon^ Thanks, Barb.

Q1 2025 financial performance delivered strong sequential growth, margin expansion and continued deleveraging of our balance sheet. Execution in the quarter on our broader 2025 strategic priorities has enabled a strong start to 2025.

A few highlights before reviewing the segments include the following: Home health performance returned the segment to sequential profitability growth in Q1 with segment EBITDA improving 7.9% sequentially, while also setting the stage for continued growth in 2025. Hospice momentum continues to be very strong, delivering year-over-year segment EBITDA growth of 65% on both ADC volume growth and margin expansion in Q1. The final highlight is our Q1 2025 leverage ratio of 4.4x.

This will allow us to benefit from improved pricing under our existing agreement and provide additional flexibility as we now exit our covenant relief period restrictions under the agreement a quarter earlier than required.

Shifting to our detailed Q1 consolidated results.

In the first quarter, consolidated net revenue was $259.9 million, an increase sequentially of $1.7 million or 0.7% quarter-over-quarter, while a decrease of $2.5 million or 1.0% year-over-year. Consolidated sequential revenue improvement reflects growth in both home health and hospice segments, with particular strength resulting from continued strong momentum in our hospice segment on both average daily census volume growth and favorable unit revenue. Consolidated revenue growth in the quarter translated into improved profitability sequentially.

With consolidated adjusted EBITDA of $26.6 million in the quarter, an increase sequentially of $1.5 million or 6.0%, while growing to the prior year by $1.3 million or 5.1% with overall EBITDA margin as a percentage of revenue coming in at 10.2%, an increase of 60 basis points to the prior year.

Now shifting to our Home Health segment performance for Q1. Revenue came in at $200.6 million, an increase of $0.2 million or 0.1%. Volumes were up sequentially with a 3.7% increase in average daily census, somewhat muted by fewer calendar days in the quarter, leading to overall patient day volume growth of 1.4%.

We saw growth in all payer types sequentially with outsized growth in non-episodic volumes in the quarter as we saw the benefit of a key national contract signed in December 2024. The growth in average daily census in the quarter allowed us to deliver a cost per patient day improvement of 3.1% sequentially as we were able to improve clinical staff productivity on the additional volume.

Home health adjusted EBITDA totaled $38.3 million in Q1, reflecting a sequential increase of $2.8 million or 7.9%. The breakdown of the $2.8 million of sequential improvement reflects $1.3 million related to volume, yield favorable by $1.0 million and favorable sales ops, back office and G&A-related costs of $0.5 million. Q1 gross margin as a percentage of revenue came in at 48.5%, an improvement sequentially of 110 basis points as we delivered lower cost per patient day on improving clinical staff productivity as we grew volumes in the quarter.

We were able to pull this gross margin expansion through to adjusted EBITDA margin, finishing the quarter at 19.1%, an improvement of 140 basis points sequentially. A few key items to highlight in home health outside of our broader revenue and adjusted EBITDA performance include a key priority in 2025 was slowing the rate of decline in our Medicare patient volumes.

Our teams were successful in executing on this strategy in the quarter, with Medicare ADC improving sequentially in Q1 to 20,110, an improvement of 1.5% on sequential admission growth of 4%, representing back-to-back quarters of growth in this key metric. Combining ADC growth with our continued focus on optimizing productivity of our clinical staff and lower visits per episode allowed us to achieve a lower cost per patient day than what we saw in any quarter throughout full year 2024.

Now shifting to our hospice segment. Revenue came in at $59.3 million, reflecting strong growth both sequentially, increasing $1.5 million or 2.6% and to prior year, increasing $10.1 million or 20.5%. Volume growth remained strong with average daily census totaling [$38.09] in Q1, an improvement of 2.1% sequentially and 12.3% year-over-year.

Q1 2025 unit revenue per patient day benefited from the reversal of aged Medicare cap liability of approximately $1.0 million, which after normalizing for this benefit in the quarter, we would have seen relatively flat unit revenue sequentially. Hospice adjusted EBITDA totaled $15.0 million in Q1, reflecting a sequential increase of $1.7 million or 12.8% on increased revenues combined with gross margin expansion of 260 basis points as we saw improved unit cost per patient day on increased volumes.

A few key items to highlight in hospice outside of broader revenue and adjusted EBITDA performance include hospice adjusted EBITDA margin as a percentage of revenue at 25.3% in Q1 reflects five straight quarters of sequential improvement and the highest adjusted EBITDA as a percentage of revenue for this segment post spin as our operational leadership continues to realize leverage benefits from average daily census growth. Growth in average daily census, combined with a lower average length of stay sequentially and year-over-year continues to lower our overall cap liability risk.

Shifting to our home office and general and administrative expenses totaled $26.7 million or 10.3% of revenues in Q1, a decrease of $0.3 million or 1.1% year-over-year.

This decrease reflects targeted cost savings initiatives, somewhat offset by merit and other inflationary increases year-over-year. Transitioning now to the balance sheet and cash flow. A key strategic priority in 2025 is using free cash flow to continue to deleverage our balance sheet.

In Q1, we generated approximately $17 million of free cash flow, a 63.5% free cash flow conversion rate.

During the quarter, we reduced our overall bank debt by $25 million. We did this through the combination of free cash flow generation and utilization of $20 million in proceeds from the sale of our investment interest in Medalogix.

We ended the quarter with approximately $40 million in cash, a $12 million sequential improvement.

Additionally, our liquidity increased approximately $30 million sequentially to $111 million.

Improved profitability, coupled with these balance sheet improvements results in a leverage ratio now of 4.4x, which is below our covenant of 4.5x. Later today, we will deliver the Q1 covenant certificate to our lender group, which will effectively end the covenant relief period we entered in Q4 2023.

Since Q4 2023, we have successfully lowered our leverage by one full turn.

A meaningful benefit of exiting the relief period is improved pricing under our existing agreement and added flexibility around tuck-in acquisitions.

We remain committed to strengthening our balance sheet and improving profitability.

Now let's briefly turn to guidance. Based on our consolidated first quarter results and the momentum in the business, we reaffirm our 2025 guidance.

Thank you for the time today.

Operator, could you please open the line for questions.

Operator^ (Operator Instructions) And with our first question, this comes from the line of Brian Tanquilut from Jefferies.

Brian Tanquilut^ Congrats on the quarter. Barb, maybe as I think about the performance in Q1 and as we think about the United contract coming in, I mean how are you thinking about the ramp in further volume growth within the non-Medicare book of business, especially as we give consideration to in theory volumes coming through that specific client?

Barbara Jacobsmeyer^ Sure. So well, I think first, just to note that, obviously the goal of the field is really to balance that admissions to make sure we maintain a very healthy payer mix -- when we look at -- obviously we had negative growth year-over-year in Medicare, the areas that we positively grew with payer innovation and some of the other contracts outside of payer innovation, payer innovation was 82% of that positive growth.

So it really shows that the field is doing a good job balancing that. The focus now really is now continuing now our hiring so that we can continue to improve that average daily census and those admissions.

Brian Tanquilut^ Got it. And then as I think about the labor profile or the labor market in the business lines that you run, how should we be thinking about kind of like the inflation expectation for the rest of the year?

Barbara Jacobsmeyer^ Sure. So we do believe that we're kind of back to that normal of that 2% to 3% from a salary market and merit. There are some markets where it is becoming a little bit more difficult, and we're going to -- we're focusing on those at a market level to see if there's additional compensation adjustments that need to occur.

Ryan Solomon^ And Brian, with that, I think we're also demonstrating the ability with normalized market rates to build capacity, building on Barb's point earlier, we were able to grow our end capacity from December to March by approximately 4%.

So we're really feeling good about the market normalizing and then the ability to build capacity behind that to set us up for growth through the balance of the year.

Operator^ Our next question comes from the line of A.J. Rice from UBS.

Albert Rice^ First, on the hospice side. Obviously the ADC growth has been -- is really good there. What -- is that you specifically initiatives you're putting on gaining share? Or do you think there's underlying improvement in the overall market that's somehow helping drive that?

Barbara Jacobsmeyer^ I think, A.J., it's a combination. I mean our referrals were up in first quarter year-over-year about 3%.

But if you recall last year, we put in regional admissions departments so that we can have a very quick and timely answer to our referral sources. I do think that has helped the conversion rate.

Our conversion rate was up 310 basis points. Our conversion rate is 79%. So nice strong conversion rate on those referrals.

So I think it is a combination of the referrals, but also on some of the work that we've put into that timely response.

Albert Rice^ Okay. And then maybe, obviously one of the areas on home health is your visits per episode continues to trend in a good direction there. Maybe flesh out some of the dynamics behind that. Are the newer contracts allowing you more flexibility on visits per episode? Are there other things you're doing that are driving that?

Barbara Jacobsmeyer^ The continued use of Medalogix Pulse has been the critical piece to the visit per episode, really making sure that we're giving those higher number of visits to the higher acuity patients and moving visits away from patients that either have less acuity or that have progressed quicker than anticipated and really adjusting that plan of care so that those can either be moved to a new patient or to a patient of higher acuity. So it's that continued focus on the Medalogix Pulse tool at the field level.

Albert Rice^ Okay. All right. Are you pretty much fully penetrated on the Medalogix just to put a finer point on that?

Barbara Jacobsmeyer^ Yes. So that's in all of the branches, and we continue to work with the branch directors to make sure that it's being utilized as intended.

Operator^ Our next question comes from the line of Ryan Langston from TD Cowen.

Ryan Langston^ Sticking with hospice, obviously nice growth, cost per patient day down 80 bps. I know you've centralized some of the operations there. I guess how much ability is left to sort of leverage those operations? And I mean if ADC keeps growing nicely like it really has, at some point, are you going to have to make sort of a step investment in those operations just to support all this new growth?

Ryan Solomon^ Yes. And Ryan, thanks for the question. Yes. I think ultimately, as we think about that, we've done a really good job, to your point, of really creating the leverage and kind of improvement in profitability.

I think as far as investment and kind of how do we think about that going forward, when we look at the margin profile, it was really healthy in Q1.

We think that we've started to kind of fully generate the leverage profile on the volume. There will be what I'll call minor incremental investments as we kind of go through those step function growth phases, but we wouldn't anticipate a material deviation from the margin profile that we saw really in Q4, continued into Q1.

So we'll continue to monitor that, but it feels like we're in a pretty good glide slope from an overall margin profile, along with the growth trajectory that we're on.

Ryan Langston^ Got it. And then just obviously the growth has been very impressive. I think it's 14 months of straight ADC growth in hospice. I guess where are you running from a capacity and sort of productivity standpoint in terms of sort of on-the-ground labor? And I guess, is there any reason we shouldn't sort of assume that this ADC growth won't continue through the rest of the year?

Barbara Jacobsmeyer^ Well first, from a capacity standpoint, that really is kind of at a branch level. We do look to make sure that we have the capacity to grow at our branches. And so because we're on this case management model, you can really start to grow into that case management model while adding additional resources, but ensuring that you have that referral flow coming in so that you can have that strong productivity that we've seen.

I do think, again, because of the work that we've done to diversify the referral sources and the focus on the admission departments, we don't anticipate any change in our growth trajectory.

Ryan Solomon^ Yes. And maybe just to build on that. So if we look at our ADC growth up year-over-year, 12.3%. If we look at the [RN] capacity that we had exiting March year-over-year, we were up 16%.

So to build on Barb's point, I think we're staying ahead of the curve from an overall kind of RN and capacity in front of our volumes. So we feel confident that the team is executing at a really high level. We've got a really strong operating team in the hospice segment, and we have a lot of confidence we'll continue to execute there.

Operator^ (Operator Instructions) Our next question comes from the line of Whit Mayo from Leerink Partners.

Benjamin Mayo^ Barb, I'm just curious now that you're lapping sort of a year or two of some of the original contracts from plans on your payer innovation strategy, what the rate increases are looking like? Or do you have annual rate escalators or anything on these contracts? Is there any protection you have around keeping up with inflation, that would be helpful.

Barbara Jacobsmeyer^ Sure. Well we -- most of our contracts are two to three years in length. We do right now have 43 in our pipeline that we're working on the renegotiations. A few do have escalators. Some of them are tied to quality metrics.

And we do bring a lot of data to show not only what has happened from an inflationary impact, but we kind of know on the flip side, what Medicare Advantage has been receiving from CMS. And so we'd like to bring a lot of that data to the table as we work to renegotiate to move to not only better pricing, but continue to try to shift to more episodic payers.

Benjamin Mayo^ And then maybe just on research, the research just keep declining which you seem fairly confident that you had some initiatives that would start to stem some of those losses and maybe reverse itself. So just maybe some color around the recertification rates.

Barbara Jacobsmeyer^ Sure. So we do follow how we are compared to others in our Homecare Homebase system. And we still are within in line, in fact, a little bit above kind of our peers in Homecare Homebase.

Our focus has really been on using Medalogix Pulse that will do a recommendation on whether the patient looks like they're going to need a research. So making sure that in the team meetings that they're discussing those patients that could benefit.

But we have obviously seen as Medicare Advantage grows, even if we believe the patient needs a research, we're not always successful in getting that research. So the focus has really been on growing census because ultimately, that's going to be the driver. So whether that's through admissions or research.

We've also put a little bit more focus on early institutional, which does have higher revenue, but the early institutional does not have the same research potential that more of your chronic community-based patients have.

So we're seeing a little bit of the reset impact based on the blend of the admissions we're getting.

Operator^ There are no further questions.

I'll be turning the call back over now to Jobie Williams for closing remarks.

Jobie Williams^ If you have any additional questions, please e-mail investorrelations@ehab.com. Thank you again for joining today's call.

Operator^ The meeting has now concluded. Thank you all for joining. You may now disconnect.