



# Chemed Corporation (CHE)

Updated March 2<sup>nd</sup>, 2025, by Yiannis Zourmpanos

## Key Metrics

|                             |       |                                            |       |                                  |            |
|-----------------------------|-------|--------------------------------------------|-------|----------------------------------|------------|
| <b>Current Price:</b>       | \$601 | <b>5 Year CAGR Estimate:</b>               | 8.3%  | <b>Market Cap:</b>               | \$9.04 B   |
| <b>Fair Value Price:</b>    | \$630 | <b>5 Year Growth Estimate:</b>             | 7.0%  | <b>Ex-Dividend Date:</b>         | 02/24/2025 |
| <b>% Fair Value:</b>        | 95%   | <b>5 Year Valuation Multiple Estimate:</b> | 0.9%  | <b>Dividend Payment Date:</b>    | 03/14/2025 |
| <b>Dividend Yield:</b>      | 0.3%  | <b>5 Year Price Target</b>                 | \$884 | <b>Years Of Dividend Growth:</b> | 17         |
| <b>Dividend Risk Score:</b> | A     | <b>Retirement Suitability Score:</b>       | C     | <b>Rating:</b>                   | Hold       |

## Overview & Current Events

Chemed Corporation (CHE) is a publicly traded company based in Cincinnati, Ohio, that operates two wholly owned subsidiaries: VITAS Healthcare Corporation and Roto-Rooter. The company was founded in 1970 and has established itself as a leading provider of healthcare equipment and services, primarily in end-of-life hospice care through VITAS and plumbing and drain services through Roto-Rooter. Chemed Corporation maintains a strong competitive position in the healthcare and plumbing markets, with revenues of \$2.1 billion in 2022. The company's market share is substantial, with VITAS generating roughly 75% of Chemed Corporation's total revenue and Roto-Rooter accounting for the remaining 25%. The company has a strong management team. Its mission is to provide its customers with high-quality healthcare and plumbing services, making it a trusted and reliable partner in these industries.

On February 26<sup>th</sup>, 2025, the company announced results for the fourth quarter of 2024. CHE delivered solid fourth-quarter 2024 results, with total revenue increasing 9.2% year-over-year to \$640 million. CHE reported Q4 non-GAAP EPS of \$6.83, beating market estimates by \$0.05.

The company's hospice business, VITAS Healthcare, led the performance with a 17.4% revenue jump to \$411 million, driven by a 14.6% increase in Average Daily Census (ADC) and higher Medicare reimbursement rates. Meanwhile, Roto-Rooter, Chemed's plumbing and drain service segment, saw revenue decline by 2.9% to \$229 million, reflecting softness in residential services, particularly in plumbing and excavation. Adjusted EBITDA for VITAS grew 11.8% to \$93.2 million, though its margin declined 112 basis points due to a shifting acuity mix. In contrast, Roto-Rooter's adjusted EBITDA fell 7.2% to \$60.3 million, with a margin decline of 120 basis points.

For the full year, VITAS saw significant tailwinds from its \$85 million acquisition of Covenant Health's hospice assets, which contributed approximately \$11 million to \$12 million in Q4 revenue. Despite a slowdown in admissions due to hurricanes in Florida, VITAS continued expanding, including a new hospice program in Pasco County and a certificate of need in Marion County. Looking ahead, Chemed forecasts 2025 earnings per share of \$24.95 to \$25.45, with VITAS revenue expected to grow 10.5% to 11.3% and Roto-Rooter revenue increasing 2.4% to 3.0%. The company remains financially strong, ending the year with \$178.4 million in cash and no long-term debt, while aggressively repurchasing 388,235 shares for \$212.8 million.

## Growth on a Per-Share Basis

| Year                      | 2015   | 2016   | 2017   | 2018    | 2019    | 2020    | 2021    | 2022    | 2023    | 2024    | 2025           | 2030           |
|---------------------------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|----------------|----------------|
| <b>EPS</b>                | \$6.33 | \$6.48 | \$8.43 | \$11.93 | \$13.95 | \$18.08 | \$19.35 | \$19.70 | \$17.93 | \$19.89 | <b>\$25.20</b> | <b>\$35.34</b> |
| <b>DPS</b>                | \$0.92 | \$1.00 | \$1.08 | \$1.16  | \$1.24  | \$1.32  | \$1.40  | \$1.48  | \$1.56  | \$1.80  | <b>\$2.00</b>  | <b>\$2.55</b>  |
| <b>Shares<sup>1</sup></b> | 16.8   | 16.2   | 16.0   | 15.9    | 15.9    | 15.9    | 14.9    | 15.0    | 15.1    | 15.2    | <b>15.0</b>    | <b>14.2</b>    |

By 2030, 21% of the population is anticipated to be over 65. This suggests that many more Americans than today will require the healthcare services offered by VITAS. Chemed Corporation has effectively utilized the CARES Act during the pandemic and boosted its operating profits. However, these non-recurring benefits are gone, and we consider a growth rate in the high single digits to be more representative of its prospects. We matched the midpoint of management's

<sup>1</sup> In millions.

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guidance for 2025, forecasting an EPS of \$25.20, and are using a projected annual growth of 7.0% for the next five years, which is lower than the company's 10-year CAGR of 13.6%, to get an EPS estimate of \$35.34 by 2030. Moreover, Chemed Corporation's DPS had a 10-year and five-year CAGR of 7.7% and 20.5%, respectively. CHE has consistently increased its dividend distribution for the past 17 years, and we believe that DPS will grow slightly slower than EPS growth at an annual rate of 5.0%.

## Valuation Analysis

| Year      | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now  | 2030 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 20.9 | 21.5 | 24.2 | 25.2 | 26.8 | 26.0 | 24.8 | 24.5 | 29.7 | 29.0 | 23.8 | 25.0 |
| Avg. Yld. | 0.7% | 0.7% | 0.5% | 0.4% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% |

The company's largest revenue contributor, VITAS, has significant tailwinds, such as the aging US population, that will support its growth for the foreseeable future. Chemed Corporation is trading at a forward P/E of 23.8, lower than its five-year average of 26.8 and 10-year average of 25.3. However, considering the growth prospects, we have assumed a target P/E of 25.0 by 2030, close to its historical averages, suggesting a target price of \$884.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

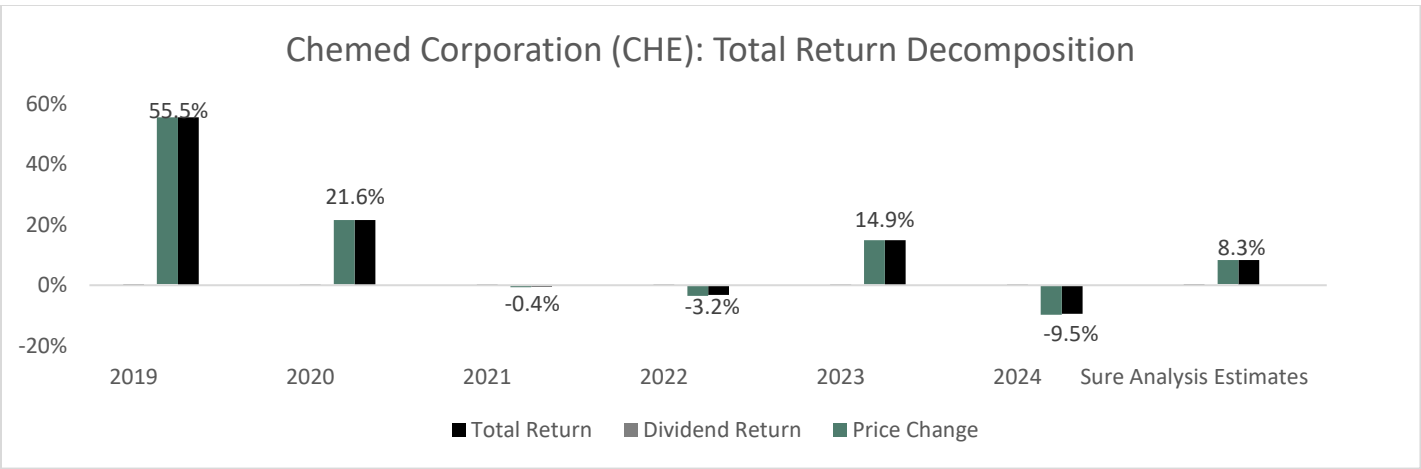
| Year   | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 15%  | 15%  | 13%  | 10%  | 9%   | 7%   | 7%   | 8%   | 9%   | 9%   | 8%   | 7%   |

The company's competitive advantage lies in its ability to provide high-quality hospice care to terminally ill patients through VITAS, one of the largest hospice care providers in the US. The company's recession performance has been relatively stable due to the essential nature of its healthcare services, and it has demonstrated consistent revenue growth and profitability over the years. Chemed Corporation has a moderate level of debt, with a debt-to-equity ratio of around 12.6%, indicating that it has utilized debt financing to some extent but has yet to over-leverage its balance sheet. Chemed continued its shareholder-friendly capital allocation strategy in 2024, repurchasing 388,235 shares for \$212.8 million, reflecting its commitment to enhancing long-term shareholder value.

## Final Thoughts & Recommendation

We remain confident in Chemed Corporation's prospects, as its outlook is still favorable, and there are some strong tailwinds. However, we believe that investors should wait for a better entry point. Thus, the hold rating is premised upon the 8.3% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 7.0%, the 0.3% dividend yield, and a small valuation tailwind.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue          | 1,456 | 1,543 | 1,577 | 1,667 | 1,783 | 1,939 | 2,080 | 2,139 | 2,135 | 2,264 |
| Gross Profit     | 422   | 456   | 461   | 516   | 555   | 617   | 701   | 770   | 765   | 799   |
| Gross Margin     | 29.0% | 29.5% | 29.3% | 31.0% | 31.1% | 31.8% | 33.7% | 36.0% | 35.8% | 35.3% |
| SG&A Exp.        | 223   | 238   | 248   | 277   | 271   | 306   | 330   | 367   | 359   | 395   |
| D&A Exp.         | 31    | 33    | 35    | 36    | 39    | 45    | 57    | 59    | 59    | 61    |
| Operating Profit | 168   | 184   | 179   | 204   | 245   | 267   | 390   | 344   | 347   | 343   |
| Op. Margin       | 11.6% | 12.0% | 11.3% | 12.2% | 13.7% | 13.7% | 18.7% | 16.1% | 16.3% | 15.2% |
| Net Profit       | 99    | 110   | 109   | 98    | 206   | 220   | 319   | 269   | 250   | 273   |
| Net Margin       | 6.8%  | 7.1%  | 6.9%  | 5.9%  | 11.5% | 11.3% | 15.4% | 12.6% | 11.7% | 12.1% |
| Free Cash Flow   | 67    | 127   | 96    | 98    | 234   | 248   | 430   | 250   | 253   | 273   |
| Income Tax       | 63    | 70    | 68    | 19    | 34    | 42    | 77    | 82    | 80    | 78    |

## Balance Sheet Metrics

| Year               | 2014 | 2015 | 2016 | 2017 | 2018 | 2019  | 2020  | 2021  | 2022  | 2023  |
|--------------------|------|------|------|------|------|-------|-------|-------|-------|-------|
| Total Assets       | 860  | 852  | 880  | 920  | 976  | 1,268 | 1,435 | 1,343 | 1,442 | 1,668 |
| Cash & Equivalents | 14   | 15   | 15   | 11   | 5    | 6     | 163   | 33    | 74    | 264   |
| Acc. Receivable    | 125  | 106  | 132  | 114  | 120  | 144   | 127   | 137   | 139   | 182   |
| Inventories        | 6    | 6    | 6    | 5    | 6    | 7     | 7     | 10    | 10    | 12    |
| Goodwill & Int.    | 523  | 527  | 527  | 532  | 579  | 704   | 697   | 687   | 681   | 675   |
| Total Liabilities  | 409  | 339  | 356  | 380  | 384  | 542   | 534   | 719   | 643   | 560   |
| Accounts Payable   | 47   | 44   | 40   | 48   | 50   | 51    | 54    | 73    | 42    | 48    |
| Long-Term Debt     | 148  | 91   | 109  | 101  | 89   | 90    | -     | 185   | 98    | 16    |
| Total Equity       | 451  | 513  | 524  | 540  | 591  | 727   | 901   | 623   | 799   | 1,108 |
| LTD/E Ratio        | 0.33 | 0.18 | 0.21 | 0.19 | 0.15 | 0.12  | -     | 0.30  | 0.12  | 0.01  |

## Profitability & Per Share Metrics

| Year             | 2014  | 2015  | 2016  | 2017  | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   |
|------------------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|
| Return on Assets | 11.3% | 12.9% | 12.6% | 10.9% | 21.7%  | 19.6%  | 23.6%  | 19.3%  | 17.9%  | 17.5%  |
| Return on Equity | 22.1% | 22.9% | 21.0% | 18.4% | 36.3%  | 33.4%  | 39.3%  | 35.2%  | 35.1%  | 28.6%  |
| ROIC             | 16.1% | 18.3% | 17.6% | 15.4% | 31.1%  | 29.4%  | 37.2%  | 31.4%  | 29.3%  | 27.0%  |
| Shares Out.      | 16.9  | 16.8  | 16.2  | 16.0  | 15.9   | 15.9   | 15.9   | 14.9   | 15.0   | 15.2   |
| Revenue/Share    | 81.63 | 88.59 | 93.92 | 99.55 | 106.09 | 117.30 | 126.82 | 134.22 | 141.40 | 148.97 |
| FCF/Share        | 3.74  | 7.31  | 5.70  | 5.87  | 13.94  | 15.02  | 26.25  | 15.68  | 16.73  | 17.99  |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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