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PRESENTATION

Operator

Good day, and welcome to the LHC Group Fourth Quarter and Year-End 2020 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Eric Elliott, Senior Vice President of Finance. Please go ahead.

Eric C. Elliott - *LHC Group, Inc. - SVP of Finance*

Thank you, Tom, and good morning, everyone. I'd like to welcome you to LHC Group's earnings conference call for the fourth quarter ended December 31, 2020.

We issued our earnings release last night, and I would also like to highlight that we have posted some supplemental information on the quarter -- on the Quarterly Results section of our Investor Relations page. The supplemental deck as well as a copy of the earnings release, the 10-K and, ultimately, a transcript of this call, when available, can be found on this page.

Our supplemental deck includes our full year and first quarter 2021 guidance assumptions, the impact of COVID-19, detail on the breakdown among sector performance and a significant amount of detail on the monthly trends.

We have also included schedules reconciling the trailing 5 quarters, the same-store revenue statistics to all of our non-GAAP reconciliations and breakdown of adjustments are included as well. We will reference this information in our remarks today.

We expect today's prepared comments from Keith Myers, Chairman and Chief Executive Officer; Josh Proffitt, President; and Dale Mackel, Chief Financial Officer, to run for approximately 20 minutes to allow time for Q&A.

Before we start, I would like to point everyone to our forward-looking statements on Page 2 of our supplemental presentation and encourage you to read them carefully. They apply to statements made in this call in our press release and our supplemental financial information.

Now I'll turn the call over to Keith Myers.

Keith G. Myers - *LHC Group, Inc. - Co-Founder, CEO & Chairman*

Thank you, Eric, and good morning, everyone.

On behalf of all of us at LHC Group, I want to acknowledge the hard work and dedication of our frontline employees as well as those who diligently served in supporting roles. It is a privilege for me to work with all of you. Thank you for your commitment to those entrusted to our care and to the excellence in all that we do at every level of our organization.

This morning, I want to provide an update on legislative and regulatory activity impacting our sector and touch on the increasingly important role of LHC Group in our nation's health care delivery system, how it reinforces our value proposition and provide some specific actions of how our differentiated strategy is generating product quality growth. Josh will provide an overview of our growth and operation strategies for 2021, and Dale will provide key metrics that ties to our growth and operational strategies.

We view 2021 as a year of great opportunity, in part due to the unprecedented flexibility afforded home health in the wake of COVID. In particular, 2020 saw a series of significant COVID-related waivers granted home health by CMS as well as groundbreaking legislation benefiting our sector.

Innovative waivers from CMS regarding the homebound requirement, flexibilities for remote certification of home care and legislative relief from the 2% sequestration in the first quarter, plus enactment of nurse practitioner's legislation, allowing nurse practitioners to certify home care for the first time were among the significant policy improvements last year, recognizing the advantages of home care over more costly and potentially higher-risk settings. CMS is giving active consideration to making a number of these waivers permanent reform.

We are equally pleased to see Congress include a significant number of positive references to home care in its report on budget appropriations for 2021. This language encouraging CMS to avoid payment systems that risk patient's access to rural home health providers and calling for a study in this regard, encouraging the rapid expansion of in-home services as alternative to institutional care and urging CMS to place traditional Medicare on a level playing field with Medicare Advantage in terms of access and coverage. We attached a more detailed summary of this language as a policy supplement to our earnings slide deck.

Even further, we are encouraged by the emphasis the Biden administration has announced promoting more care in the home. These proposals include over $450 billion to expand in the home health care services for senior, including funds for innovative care models. We look forward to working with the administration and our contacts on The Hill to advance and properly structure these initiatives.

2021 will also be a year in which we expect to advance Choose Home legislation, which we have begun to socialize with Congress. This initiative is broadly supported by the industry, including The Partnership for Quality Home Healthcare and National Association for Home Care & Hospice. For the first time, this important legislation will provide a time limited cost-effective benefit, which would include Medicare-certified skilled home health services and personal care services. We are pleased to be receiving positive feedback from Congress on this initiative and look forward to seeing it filed for consideration in 2021.

In sum, 2021 is already shaping up to be a year in which lawmakers and CMS give unprecedented emphasis to health care services provided in the home over higher-risk post-acute settings. We believe they are recognizing the many advantages that afford patients and families, while simultaneously proving out reductions to total cost of care with the delivery of high-quality outcomes.

The support and energy we're seeing on The Hill lines up with how our patients, partners, referral sources and payers are valuing at-home care that is a patient preferred, clinically appropriate and cost-effective benefit.

The data backs up this statement. The new physician referral sources we've been highlighting the last few quarters maintained their double-digit pace to end the year with a 22% increase for the full year. We continue to take on COVID-19 confirmed and suspected patients, with that number more than doubling in the fourth quarter in home health and up 70% in hospice.

Since the pandemic began, we've treated 26,600 of these patients. Our institutional admissions have also increased sequentially during the same time frame and are approaching pre-COVID level, which is closer to the norm for us.

Another data point I'd like to highlight is from the recent data on health care spending published by the U.S. Bureau of Economic Analysis. For the second straight year, it has shown the greater share of annual health care spending is going to home health. With the exception of prescription job spending, home health care was the only category that was up in 2020.

Home health was up by 2% with hospital care, physician and clinical services and nursing home care all down low- to mid-single digits. What this demonstrates is that the pandemic has resulted in a shift in referral patterns, with more patients, families, physicians and discharge planners choosing home health over more costly and potentially higher-risk concrete care settings.

One of the other ways we've been able to differentiate LHC Group is through the real-time demonstration of our value proposition, our range of capabilities and our potential. You've heard us talk about this before, so I won't cover much of that ground again, but I do want to quickly leave you with a specific example.

We began talking to Orlando Health system last April about a joint venture and completed the transition -- transaction on August 1. Orlando's strategy is centered on our ability to grow as the system expands. Capacity [may sustain] reduction and improvement in patient care through the continuum were immediate areas of focus.

We have already initiated the skilled-at-home program and are increasing the acuity level of traditional home health placement to assist with their capacity constraints prior to COVID. In addition, we have strategies and action items identified and underway to address length of stay and patient care improvement. As a result, we've seen 157% increase in census since August 1, despite the challenges of COVID. This is another good example of how we tailor our approach to meet the needs of specific hospital partners in each community we serve.

And with that, I'll turn it over to Josh to provide some high-level comments on growth and operations. Josh?

Joshua L. Proffitt - *LHC Group, Inc. - President*

Thank you, Keith, and good morning, everyone. I would also like to begin my prepared comments by extending a word of sincere appreciation and acknowledgment of the incredible job our team members from across the country have done in Q4 and all of 2020 in the face of a historic pandemic. You never wavered in your commitment to the health, safety and high-quality outcomes and service to our patients. It is a true privilege to serve you as you give so much of yourself serving others.

Picking up from Keith's last comments, I want to spend some time on our revenue and earnings growth and provide more specifics around how that is evolving, how we are creating new opportunities, the quality of that growth and frame up our growth potential.

I want to begin with how our differentiated growth strategy is producing high-quality growth. This strategy is driving organic growth and margin improvement with our JVs and wholly owned locations. We are also seeing an underlying positive sequential trend on episodic admissions and rate improvement on non-Medicare admissions.

The data we've outlined on Slide 14 backs this up with census, admissions and institutional versus community admissions mix, all improving sequentially over the last 3 quarters. Dale will share more of the details of these trends and our key metrics in a moment and build a bridge for you later that takes us from the Q4 results to the sequential progression in Q1 and how it carries forward into Q2.

There's one point I want to make about the sequential growth we are experiencing as we continue to navigate the headwinds from the pandemic, including the latest spike in December and January. Turning to Slide 44 of the supplemental deck, you will see that we posted a sequential increase of 4.6% in organic home health Medicare revenue in Q4, which was on top of a 10.7% sequential increase in Q3. We saw a strong sequential trend in organic census as well. In keeping with our conservative philosophy, we want to outline with as much transparency as we can the primary building blocks for modeling out our long-term growth potential.

You'll see starting on Slide 11 of the supplemental deck that we've put the different layers of growth in several categories. Let's start with organic growth. As you'll see from our full year guidance, we are expecting home health organic admissions to increase 8% to 10% and hospice organic admissions growth also to be 8% to 10%.

As we've outlined in our quarterly breakdown of organic growth across these 2 segments on Slide 15, this would represent continued sequential acceleration in both businesses that we've built back through COVID, providing a very strong baseline for 2021 and beyond. For 3 consecutive weeks at the end of January, we had home health admissions averaging over 8,900 per week, which is our highest weekly admissions since January of last year. With our operational strengths in place, we're very confident in keeping our target ranges for the year.

We have also been able to drive growth by earning share from smaller competitors, as evidenced by the leading quality scores and higher physician referrals, but also through leveraging the presence we already have in a given market. On Slide 12, you'll see that we've broken down the annual revenue for home health and hospice agencies as a standalone and the potential incremental revenue that can be gained from co-locating them. When we add in HCBS as either a second or third service line offering, it's even more compelling. With only 64% of our home health and hospice co-located and only 38% of our HCBS co-located with home health, there's still a lot of room to grow this strategy.

Keith called out our differentiated strategy of joint ventures earlier, and I'll point to more evidence of how impactful it can be. On Slide 10, we've shown that organic growth for JV locations has averaged 100 to 200 basis points higher than wholly owned locations over the past 4 years. New JV's growth rates have also consistently been between 10% and 15% in years 2 and 3, with them reaching corporate EBITDA profile within the first 12 to 18 months. With an average of $65 million to $70 million a year in acquired joint venture revenue for the past 4 years, that's another thick layer of growth for us.

Still another form of inorganic growth, we continue to pursue outside of JVs is through acquisitions. Excluding our largest transaction in 2018 with Almost Family, we've acquired $369 million of annual revenue over the past for years. What I want to highlight, in particular, from that acquired revenue is what we've been able to do with it after our ownership.

If we look at the data on Slide 20, we've outlined the total acquired revenue from 2017 to 2019 and compared it to the 2021 estimated revenue and contribution margin from those acquisitions. One point underlines the growth we can achieve, and that's the increase in contribution margin from $13.5 million to an estimated $78.8 million in 2021.

We're also targeting $150 million to $200 million in acquired annual revenue in 2021, and our current M&A pipeline is over $420 million. As we have discussed in the past, our pipeline is multifaceted as we have the separate JV pipeline, the tuck-in acquisitions and the larger, more strategic opportunities.

Slide 12 breaks down the composition of the pipeline, and you'll note there is a larger percentage than in years past for hospice. We made our first hospice acquisition in 1998, 4 years after our founding. We've intentionally executed on a hospice differentiation strategy for several years by putting in place the co-location strategy and making operational and leadership changes to improve the business.

Slide 13 highlights how much growth we have had in hospice since 2016, with compounded annual growth rate of 17% in revenue and locations, 13% in average daily census and 23% in our co-locations. During 2018, we had EBITDA margins of 18.1% in this segment, and that's improved to 13.2%, as you saw in Q4. This strategy created a solid foundation that we can now layer on additional growth and pursue new hospice opportunities as a major priority.

If we go back to comments we made on our call this last February, we envisioned a historic consolidation opportunity in home health brought by PDGM and the RAP elimination. The influx of stimulus money may have forestalled that consolidation in 2020, but we have focused on capturing market share organically. And we still believe the inevitable will occur as smaller agencies will struggle with the continued transition to more value-based care models.

Closing out the building blocks of our growth outlook, let me conclude with highlighting our value-based strategy. We have unique assets and are in the right place to lead the continued transition to value-based care. The goal is to improve overall value and quality of care through improved

outcomes at a lower total cost. We have the right mix of quality based program innovation and rigorous clinical protocols to create care plans that deliver what payers need to reduce readmissions, lower length of stay and episodes, while, at the same time, improving the patient experience and outcomes.

We are also the only one of our peers with an ACO management business and the insights of that experience brings in working with value-based relationship to reduce total cost of care, as evidenced by the $9.6 million Medicare shared savings payment this subsidiary earned in the third quarter.

We have the ability to bring all of our core services to bear to provide the access to the right level of care and to do so across the national footprint. Our investments in technology with leading partners and our proprietary clinical decision support tools also facilitate data sharing and interoperability to drive provider engagement and actionable insights.

All of these components are necessary to work with payers to move to episodic care and successfully contract for utilization of all of our full capabilities. If there ever was a time to look ahead and see more room to grow and a wealth of organic, inorganic and strategic growth opportunities, it's today. Our core mission of taking care of patients has made LHC Group a leader in the industry. It will guide us to the right opportunities in 2021 and beyond.

Dale, I'll turn the call over to you to add additional color on the results and our guidance.

Dale Gerard Mackel - *LHC Group, Inc. - Executive VP, CFO & Treasurer*

Thank you, Josh, and good morning, everyone. As is customary, we provided a lot of detail in our earnings release and supplemental deck on the quarterly consolidated and by segment results, with corresponding explanations on the margin and revenue drivers.

While I'm not going to revisit those details in my remarks, I would like to acknowledge that we are pleased with our Q4 and full year results, especially in light of the unprecedented challenge the pandemic presented throughout 2020.

With full year adjusted earnings per share of $5.01 per diluted share, which is up 12.1% versus 2019, and full year adjusted EBITDA of $238.7 million, which is up 12.5% versus 2019, we exceeded the high end of our original pre-COVID guidance, reinforcing the growing importance of the home as a clinically appropriate, patient preferred, cost-effective setting for health care.

Our earnings release and supplemental also outlined key assumptions for our full year and first quarter 2021 guidance. During my prepared remarks this morning, I will spend most of my time discussing our 2021 guidance, but first, I will highlight a few important key metric trends that support our guidance and growth initiatives. I will close out my comments by highlighting our current strong liquidity position.

I will point you to Page 30 of the supplemental deck, where we've broken out the key revenue factors for the home health business. As Josh mentioned, you will see that we've made consistent sequential improvement in our revenue for Medicare episodes since the COVID-induced low point. We've also seen our percentage of institutional advents start to climb back towards where they were pre-pandemic.

While our LUPA percent has maintained stability since May of 2020, it is in line with our expectations of 8% to 9%. Given all the pandemic-related challenges experienced in 2020, we feel good about our exit point on these metrics heading into 2021.

Now turning to our guidance. I'll start with the full year. We are at the midpoint, and we're expecting an 8.1% year-over-year increase in net revenue, a 15.3% increase in adjusted EPS and a 14.8% increase in adjusted EBITDA less noncontrolling interest. Based on the sequential organic admissions growth we had experienced since last April, we are projecting strong growth in 2021 for both home health and hospice. As mentioned by Josh, we expect home health admission growth in the 8% to 10% range and hospice growth to also be in the 8% to 10% range.

From a reimbursement perspective, we've built a 1.7% increase for home health Medicare rates and a 2.4% increase for hospice Medicare rates. We are projecting that sequestration is suspended only through March 31, and although HHS has sent a letter to governors earlier this year indicating

that the public health emergency is likely to remain in place for the entirety of 2021, we are assuming it won't be extended past its current expiration date set for April 20.

If the PHE is extended through December 31, we would expect a positive incremental impact of approximately $13 million in revenue and $5 million in EBITDA for our LTAC service line. The full year gross margin assumption reflects a range of 41.5% to 42.5% of net revenue, and G&A reflects a range of 28.5% to 29.5% of revenue.

Looking at first quarter guidance compared with the reported fourth quarter results, I will point you to Page 38 in our supplemental, as we have provided a bridge from Q4 2020 to Q1 2021, followed by a progressive bridge to Q2 2021. I will point out that the fourth quarter and to date in the first quarter.

We've also tracked the percentage of our clinicians on quarantine. You can see from the same slide, the recent post-holiday wave of COVID had a real impact on admissions and census. Clinicians on quarantine had averaged approximately 1% for Q2 and Q3 of 2020, but that accelerated to the holidays and into January to a high of 4.1%, further exacerbating the seasonality impact.

Next, we experienced over 200 agency closures due to severe winter weather in February, with the majority occurring during the week of February 15. The closures affected revenue associated with new admissions, managed care per visit activity and home and community-based service billable hours.

On a positive note, home health average daily census is now back above 86,000 from the low point of 80,000 in early January, and the percentage of clinicians on quarantine has trended back down to 2.4%.

Two other variables on the Q1 assumptions that come up every year and are unique to the first quarter. First, we have the higher payroll taxes compared with Q4. This year, it's expected to be $6 million higher than Q4. Second, we have a lower effective tax rate due to the excess tax benefit from the vesting of restricted stock. We are forecasting an effective tax rate of 23% to 23.5% for the first quarter.

The last comment I will make with respect to our 2021 guidance is related to COVID expenses. We will treat these expenses consistent with how we did in 2020 and adjust them out of our numbers. For 2021, we are currently estimating full year COVID-related cost of $20 million to $25 million, of which $8 million to $12 million is expected to be incurred in the first quarter. Again, all pertinent details relating to our 2021 guidance are covered on Pages 36 through 39 of our supplemental.

Lastly, I wanted to highlight our balance sheet. We have nearly $530 million of total liquidity, and that's net of the Medicare Advance payments and Provider Relief Fund, the latter of which we previously announced we intend to return to the federal government.

We also made great strides in improving our days sales outstanding as they're down to 52 days in Q4 compared to 62 days in the first quarter of 2020 and 54 days in the third quarter of 2020. This has led to continued improvement in our adjusted free cash flow, which was a strong $64 million in the fourth quarter compared to $46 million in the third quarter.

Our liquidity position, strong free cash flow and virtually no debt positions us well to pursue an active M&A pipeline in 2021 as well as continue to execute on the co-location strategies Josh mentioned earlier. We look forward to reporting on that activity as the year progresses.

That concludes our prepared remarks. Operator, we are ready to open the floor for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from Scott Fidel with Stephens.

Scott J. Fidel - *Stephens Inc., Research Division - MD & Analyst*

First question, just interested, and appreciate all the color you gave in the slide deck, there's a lot in there. If you could maybe just flesh out for us your thinking around trends in visits and cost per visit for 2021 and maybe if you could also help us think about the sequencing in terms of how you're thinking about that embedded in the 1Q '21 guide and then how that progresses over the course of the year.

Joshua L. Proffitt - *LHC Group, Inc. - President*

Great. Thanks, Scott. This is Josh. I'll start at a high level with just kind of trends in visits, and I'll hand it off to Dale to get into the details on kind of the cost per visit trending and what we're seeing there.

As you can see, throughout the year, we've -- when you look at our visits per episode, as we projected going through the PDGM transition, we're very pleased with where we've kind of landed and concluded with that. There still could be a little bit of variation with COVID because you see our missed visits due to COVID ramping up in Q4.

So our VPE ended up just under [13], but I would highlight, and we've really emphasized this throughout our PDGM planning and execution phase that we've also added approximately 3 virtual visits per episode as well. So our total VPE, combined with in-person and virtual is running around 16, which is down from 17 or so prior year. So I feel like we're in a really good place from just a visits perspective.

I'll also just add before I hand it off to Dale to talk about the cost per visit. As you all know, we monitor and track, very closely, kind of the quality outcomes and the performance. And just like the model predicted, when our clinical team put our care pathways in place, we continue to see very strong performance on the quality and outcomes side connected to that progression. Dale?

Dale Gerard Mackel - *LHC Group, Inc. - Executive VP, CFO & Treasurer*

Yes. Thanks, Scott. I would add and reinforce in terms of -- as we look to 2021 that we -- as Josh mentioned that we've assumed that our VPEs are very sustainable and good place. So we continue to carry that assumption into 2021 throughout 2021.

From a cost per visit perspective, I'll highlight a few things. One is we've assumed pretty normalized low single-digit increase year-over-year around normal things like salaries and benefit increases. When we look at the impact of contract labor, if you will, because that's been a pretty big topic around our industry with the COVID pandemic throughout 2020, I would say that, that impact is mainly isolated in a material sense in our LTAC unit, and I'll come back and tell you about that.

But from a home health and hospice, we've managed really well around the contract labor impacts, and I think we've changed -- last year, with PDGM, we changed our model where we brought our therapists on full -- rather than per visit, we brought them on a full time salary because a lot of our contract labor was going into therapy, and that was getting quite costly.

So we've been able to manage the contract labor component really well, and the impact on our home health and hospice business has not been material in 2020. We don't expect it to be material in 2021.

Where the biggest impact it comes is in LTAC. That's the hardest place to find skilled nursing, and that's where we are being impacted. We saw contract labor rates there impact us by about 33% year-over-year increases in those rates, and it impacts us to the tune of about $0.5 million a quarter or $2 million annually in terms of our cost structure. So we've assumed that, that essentially continues at least into the first half of 2021, and we expect that to temper in the back half of 2021.

Scott J. Fidel - *Stephens Inc., Research Division - MD & Analyst*

Okay. Got it. And just as my follow-up question, interested in all the disclosures you gave us about the M&A pipe and the targeted annual revenues from acquisitions that you laid out.

And one thing I was just intrigued about was just around the M&A pipeline, just how weighted that is in the slide for hospice at around 84%. And I thought it would be helpful maybe if you just want to flesh that out in terms of sort of -- does that represent just how much M&A activity has been playing out in hospice?

And just interested as maybe we think about that $150 million to $200 million of annual rev that you're targeting, would it be that weighted toward hospice? Or do you think, ultimately, it will be more balanced between hospice and home health?

Joshua L. Proffitt - *LHC Group, Inc. - President*

Yes. Scott, this is Josh. So clearly, we have a high volume of hospice opportunities that's in our active pipeline that we are either in discussions or in diligence on. I'll also just tell you, in Q4, we diligence a couple of fairly sizable hospice opportunities and have really been active in that market.

We've been talking now for quite some time about wanting to further grow out our hospice platform. You see some good stuff and information in our supplemental deck, and I even commented on some of them in my prepared comments on just the trajectory that we've already had within our hospice segment.

But I would tell you, as of right now, it's 84% hospice. I wouldn't expect that to be necessarily the mix that you see close throughout the year. That's just the current composition of the $420 million or so in the pipeline. I would think you might see more of a balance mix.

But if you think about our mix of company at 70% home health and 11% or so hospice, if we can have a more balanced approach to M&A, you'll see that mix of our service lines come closer together over time, and we're really pleased with the learnings and what we've been able to develop in our co-location strategy. So in addition to some larger deals that we're looking at, we're also really focused on bringing in some tuck-in hospice deals like we did in the back half of last year.

Operator

The next question comes from Brian Tanquilut with Jefferies.

Brian Gil Tanquilut - *Jefferies LLC, Research Division - Senior Equity/Stock Analyst*

I guess, Josh, I'll ask about admission trends, right? So obviously, negative 6% Medicare in Q4, positive 2% for the quarter. I mean, is there anything there that you're seeing that's impacting the business?

And I guess, as I relate it to guidance, looking at current admission trends, calling the 8,500 per week level, it seems like you need to get that up to like 9,200 to hit that 8% to 10% range. So can you walk us through the plan or the strategy to get that admission number up to that level?

Joshua L. Proffitt - *LHC Group, Inc. - President*

Yes. Brian, thanks. So I guess, I'll just start with what have we been seeing in the admissions trend in general, and we've been very transparent over the whole life of the pandemic and seeing where the admissions have really, for the most part, even throughout Q4, vibrated between 8,300, 8,500 in several weeks throughout Q4.

And then as we moved into Q1, we really started getting back up to that almost 9,000 a week run rate in those 3 weeks in January, north of 8,900 per week. And we had been signaling all along that if we could get back up near the 9,000 a week mark, that would be really strong and really fuel our growth.

As it relates to kind of Medicare and kind of some other growth that we've experienced, one thing I'm incredibly proud of with the team is kind of the sequential improvement in Medicare revenue period over period is one measure of success that we've been watching closely because as I've been saying a lot, It's real hard in 2020 and then even into 2021 to look at organic comps and interpret too much out of those.

So I would tell you that, from a sequential standpoint, we're really pleased with what we're seeing there and continuing to see kind of period-over-period improvement from Q2 to 3 and then Q3 to 4.

The other area that I'm very pleased with is the ability to grow at a rate we've never done before our non-Medicare episodic business. You see in our decks and bullets on almost 30% growth in non-Medicare episodic that grew -- that paved that Medicare equivalency. So as there's been somewhat of a contraction of Medicare through COVID for all kinds of COVID-induced reasons, our team has done a great job of focusing on not only contracting and getting better contracts, but then pointing our sales force in the direction of going and securing those, which, from an overall mix standpoint, our episodic mix is still hanging in right where we expected it to be.

And then lastly, I would just point to kind of the -- one of the things that we've got in our plan for this year that gives us extreme confidence in hitting that 8% to 10%, and Brian, with kind of how 2020 went, even the 8% to 10% is going to be varying through the year, with Q1 being soft, Q2 probably be in high double digits, and then Q3 and 4 being high singles to low double digits to kind of blend to that 8% to 10% because of the comps from last year.

But we have really put an emphasis on growing our feet on the street. Right now, in Q1, we set a goal of increasing feet on the street by 10%, and we've already increased it by 5% by this point in February. And the other 5% are in the process at some stage of either being interviewed or onboarded with open requisitions. So we're on track to hit our 10% growth in this quarter, and we've already scheduled out an additional 10% incremental growth in feet on the street for Q2 to really give more fuel to that back end.

Brian Gil Tanquilut - *Jefferies LLC, Research Division - Senior Equity/Stock Analyst*

No, I appreciate that. Very helpful. Keith, I guess my question for you, seeing that HCA is coming into the home nursing space with the acquisition of the Brookdale asset, obviously, very heavy in Florida. I mean, how are you seeing that?

I mean, how is your -- how are you looking at that move from a strategic perspective? And what does it mean, either to the home nursing industry or to you guys who are going to be competing with HCA on the ground in Florida and Texas?

Keith G. Myers - *LHC Group, Inc. - Co-Founder, CEO & Chairman*

Well. Thanks, Brian, for that question. And as you might imagine, you're not the first person to ask me that question.

We have a very close working relationship with HCA, as you know, and worked with them in a lot of markets and including a lot in Florida. They have 47 hospitals there, so there's so much business there.

But I can't think of a better validation for our hospital joint venture strategy, and I've said that to some of the friends at HCA. In November of 1998, when we did the first hospital joint venture, it was a pretty lonely place back then, so we've come a long way.

So I view it as a positive where we do a lot of business with HCA, but with -- just like every other hospital that we do partners -- that we partner with, whether through a joint venture or partner as a discharge option, we have to earn the business every day. And we do that through quality scores, rehospitalization rate, patient satisfaction and customer service. I mean, it's just blocking and tackling.

And so I really -- I view it as a positive. I'm a glass-half-full guy, right? We're -- I think it will help drive acceleration in our hospital joint venture strategy. In fact, a few of the calls we received already validate that.

Operator

The next question comes from A.J. Rice with Crédit Suisse.

Robert Don Moon - *Crédit Suisse AG, Research Division - Research Analyst*

This is Rob Moon on for A.J. Rice. I just was wondering, I know you said you haven't seen a lot of cost pressure from contract labor. We've also been hearing in the market that volumes have been pressured from a limit on staffing, and some have had to use contract labor to improve the staffing to help attract some of those volumes. Have you seen any volume pressure just because you didn't have the staff to fill the positions over the last couple of months?

Joshua L. Proffitt - *LHC Group, Inc. - President*

Yes. This is Josh. I'll definitely take that one. So the short answer is yes. Part of what you even see in the dip in census toward the end of December and early January that created a headwind in the beginning of the fourth -- in the first quarter, rather, was we went from about a run rate of 1% to 2% of our employees -- frontline employees on quarantine, up to hitting a high point of 4%. So that also added to the staffing pressures, if you will.

We're very pleased to see that trend be back down to 2.4% last week and week-over-week continuing to trend down, partly with vaccinations rolling out and partly with just getting past the post-holiday surge of COVID that just impacted the entire country.

The other thing I would point you to is just all the efforts that we have been putting into staffing, in general. We have been talking about this market share gain opportunity and consolidation in front of us. And it's not only about increasing your feet on the street from a sales infrastructure standpoint, but you've also got to be adding clinical workforce to take that volume and to take that additional growth.

So in Q4, we saw our voluntary turnover in home health went back down to 17%, which we're extremely pleased with the progression there, decreased about 1 percentage point in Q4 back down to 17%. And then in Q4, we hired -- we had an increase of 19.5% of new hires of clinical staff in our home health service line. And in January alone, we had our single largest hire month in the company's history for new hires of clinicians.

So I think I'll tip my cap to our recruiting and our talent acquisition departments and really all of our operators to be forward-thinking in adding staff in the face of upcoming growth. But the last thing I'll say is with the pandemic, as future spikes occur or -- this notion of staffing pressures is real across the industry.

Dale Gerard Mackel - *LHC Group, Inc. - Executive VP, CFO & Treasurer*

Yes. And Rob, this is Dale. I would add on to that in my previous comments is we were really able to manage contract labor well in 2020 because we had pretty low amount of clinicians on quarantine, right, as Josh referenced and we referenced in the prepared remarks, around 1%.

Clearly, when you have a period of time when that goes to quadruples to 4, you're then relying on contract labor to fill some of those gaps. So we do see small pockets when it does pressure, but we don't see extended periods, right? Once -- so now that we're back down to 2.4%, we're able to manage much better with our staff.

So it's not that there's no cost pressures there from the contract labor. We've been able to manage it and contain it to small periods of time.

Robert Don Moon - *Crédit Suisse AG, Research Division - Research Analyst*

Great. That was thorough. Just one more for me. When I look at the guidance, and I take kind of the $70 million adjusted EBITDA rate in Q2, and I back out the MSSP payments expected in Q3, it looks like it's kind of assuming EBITDA will be flat in that back half from that $70 million rate ex the MSSP payments. Is there any chance -- if we have COVID subside more than expected, I guess, and clear up in that back half, is there some upside or conservatism there?

Dale Gerard Mackel - *LHC Group, Inc. - Executive VP, CFO & Treasurer*

Yes. I mean, I think -- we believe there's probably some upside there. I think, as we look at this guidance, we feel it appropriate -- we feel it's good guidance, appropriate guidance given the amount of uncertainty that has persisted around COVID, right?

With it -- we used to refer to the height of COVID in March and April, and now we actually had a higher emergence of COVID in December and January, right? So I think it reflects some of just that uncertainty. And clearly, the more back to normality we can get, the more opportunity there is. So I believe your perspective on that is correct that there could be some upside.

Operator

The next question comes from Andrew Mok with Barclays.

Andrew Mok - *Barclays Bank PLC, Research Division - Analyst*

I wanted to follow up on the monthly home health volume trends on Slide 15. The progression is somewhat surprising because it looks like December volumes were the strongest at the same time that COVID cases surged. Can you provide a bit more context with that dynamic in Q4 and early into Q1?

Joshua L. Proffitt - *LHC Group, Inc. - President*

Yes. So I mean, again, I hate to keep beating the drum of looking at the organic comps can be a little skewed, so we had a little bit of a lower hurdle to jump from December of '19. We had a strong overall quarter in '19, but that helped with our December.

But I really think most of the spike activity started to impact admissions more so in January. And kind of coming into February, we started dipping down in census. And then in the end of January, it picked back up. So the phenomenon was really kind of late December through kind of early January, if you will. And then you've got the winter effect that occurred in February. But hopefully, that helps kind of make some sense of it.

But you can see, if you look at Slide 40, that really gives you the weekly admit kind of progression. You see Christmas week, obviously, was down to 6,166, and then the first week of January was down under 6,000. So early December was still 8,500, 8,300, and then it dipped hard in the last couple of weeks of December, which is both holiday as well as COVID. And then it started climbing back up in January.

Operator

The next question comes from Justin Bowers with Deutsche Bank.

Justin D. Bowers - *Deutsche Bank AG, Research Division - Research Associate*

And welcome aboard, Dale. So just kind of taking a step back, you guys have grown EBITDA -- or compound your EBITDA north of 20% over the last 3 years. And looking at the organic tailwinds, kind of your historic above the average market growth, and then the cash that the business throws off. Is there any reason why you can't continue to grow in the mid- to high teens over the next, like, 3-plus years? Is that...

Dale Gerard Mackel - *LHC Group, Inc. - Executive VP, CFO & Treasurer*

That's -- I think that's our expectation. I think that's a fair assessment. And I think it goes back to, again, some of the information we shared with you around the robustness of our inorganic strategy, whether it be JV or wholly owned, and what we're able to do with the business when we integrate it into our home health and hospice models.

And so yes, absolutely, we think we're -- I think Josh said it in his prepared remarks, it's probably not a better time or opportunity for us as a company to continue with that kind of robust growth.

Joshua L. Proffitt - *LHC Group, Inc. - President*

Yes. Justin, this is Josh. I mean, absolutely, if you look at the midpoint of our guide this year, it is an additional almost 15% growth in adjusted EBITDA, and that doesn't even assume any inorganic, so there's no additional incremental acquisitions in that.

So if we continue to be a market consolidator and really execute upon our inorganic targets, I would tell you, that is sustainable for years to come as we continue to grow the business. And I would point you -- I won't spend a lot of time, so we can get other questions out, but I would definitely point you to Slide 20 in our deck that shows the improvement experience we've had over the last 4 years in the acquired revenue. And if you just extrapolate that and apply that even to the $55 million that we bought last year, there's some further upside that you could see growing, in addition to the inorganic opportunities that we're going to close on this year.

Justin D. Bowers - *Deutsche Bank AG, Research Division - Research Associate*

Got it. And just one quick one before I hop offline, but can you just provide us with an update on the life -- on kind of the LifePoint relationship JV? And how much greenfield is left in all that? I know they -- obviously, they've had their hands full, along with the rest of the world, but it's -- it hasn't been talked about in a while, but I think there's still some opportunity there.

Joshua L. Proffitt - *LHC Group, Inc. - President*

Justin. I mean, that is a welcome question. I wasn't expecting to get that one. I'm so glad you asked it. I've got to tell you, from the time we consummated our joint venture with LifePoint back in 2017 until now, they are definitely on the short list of most engaged and -- not just in kind of the day-to-day, week-to-week, month-to-month execution of the joint venture, but engaged and growing with us.

And it's partly because of the size and the footprint and the greenfield space that was in front of us. But I can circle back with you on exactly where we are because I don't have that in front of me. But I do know, in our most recent Board meeting with our JV Board with LifePoint that we had multiple opportunities and markets that we have on the Board that we were going out together to source, both home health and hospice within, and continue to be working to grow that out. So excited to report back to you on that one, Justin, but it's got a lot of opportunities still left in it.

Operator

(Operator Instructions) The next question comes from Joanna Gajuk with Bank of America.

Joanna Sylvia Gajuk - *BofA Securities, Research Division - VP*

So first, my follow-up question, talking about the non-Medicare episodic revenue, right, very strong growth, 30%. So can you talk about what exactly is happening there in terms of the Medicare Advantage contracting? Are you winning more volumes under your existing episodic contracts? Or are you renegotiating these contracts?

From per visit to episodic, I suspect it's probably a mix, but can you kind of just talk about where you are on those fronts with MA contracting and how much there is still room to grow there?

Joshua L. Proffitt - *LHC Group, Inc. - President*

Joanna, so it's both. And then I want to tag Dale in. With his background and experience, he's already bringing even more innovative thought to how we engage with our payer partners going forward.

But in the growth that you've seen us experience from 2019 to 2020, we have done a good job. We've secured a handful or so new episodic contracts and a few that had quite a bit of volume within them, so converting them from per visit to episodic.

And then we've done a better job of kind of pointing and focusing on growing the share within the ones that we already had. So I think it is kind of multi-pronged, if you will, on how we've experienced that level of growth.

And I would tell you, at a high level, the engagement and the conversations we're having with a lot of our payer partners right now on payment innovation is in the forms of everything ranging from episodic. And episodic now might even be easier for them to kind of move toward now that even PDGM is a 30-day payment period. So instead of a 60-day payment period, now it's a 30-day payment period.

And then you've got per member per month discussions that are going on. You've got more case rate discussions that are going on based on certain diagnosis groups. So really excited about the progress there. Dale, you want to add?

Dale Gerard Mackel - *LHC Group, Inc. - Executive VP, CFO & Treasurer*

Yes. I think Josh covered it really well, Joanna, but I would say a couple of things, reinforce what Josh said. Absolutely, the growth is coming from both. It's a mix of new contracts as well as gaining share under existing payer contracts. And so we think we have a lot of runway there to go, obviously, so we're excited about that.

As we look forward, really exciting conversations going on around, as Josh mentioned, more episodic and variance of it, right, case rates kinds of opportunities and PMPM opportunities, right? What -- the models that we're interested in that the payers are receptive to is where we take on the home health continuum of care, right? We want that whole home health continuum of care.

And so that puts the responsibility and the accountability and the risk on us, which we're comfortable with, and we perform very well under those situations as well as it creates administrative efficiencies to do business together. And so you start to get away from things like we become a gold standard, and there's no free off required in some cases.

So we're able to -- we've got a number of these conversations going on with a lot of excitement that are beneficial to both parties, and that's how you win when it's a win-win to both parties.

Joanna Sylvia Gajuk - *BofA Securities, Research Division - VP*

That's very helpful color. Just to close the outlook. So can you talk about kind of average, I guess, MA rate per episode per visit? We used to talk about big discounts. So how far along are you now, on average, to closing that gap?

Dale Gerard Mackel - *LHC Group, Inc. - Executive VP, CFO & Treasurer*

Yes. In our deck, I think we said we've made about an 8% improvement year-over-year, 12% over the last 3 years. So we continue to work on that.

When you look at the episodic business, as we said, right, it's very Medicare equivalent, so we're very happy there. The per visit areas, we had actually a sequential improvement Q3 to Q4 of 1.5%.

So some of that is contracting. Some of that is mix of payer. But we continue to work on that. But honestly, our real focus there is, while we work on that, it's converting that per visit to a different form of reimbursement.

Joanna Sylvia Gajuk - *BofA Securities, Research Division - VP*

Yes. I think that make sense. And if I may just ask, I guess, just as a follow-up, but maybe a new topic to introduce. You mentioned legislation that could be introduced in Congress. And I guess, you're doing some work already with one of the hospital systems that seems like that, like a SNF-at-home type.

So can you talk about the Choose Home proposal? Seems to me, at least, that the larger providers would be better equipped, the small ones to actually do something like this. So -- but with that, how LHCG is positioned to participate in programs like that? Would you have to add more personal care capabilities in your markets? Any additional color around the SNF-at-home concept will be great.

Keith G. Myers - *LHC Group, Inc. - Co-Founder, CEO & Chairman*

Thanks for that question, Joanna. This is Keith. I'll take that one. For quite a while now, you all have heard us speak about SNF-at-home and SNF diversion. Some of you may recall, we first started that years ago at Ochsner Health System in New Orleans as a pilot to reduce SNF utilization.

In many ways, the Choose Home legislation is, the foundation of it is that work that we did way back then. Added to that, though, back then, we didn't have a time limit on it necessarily. The Choose Home legislation is a 30-day episode that's proposed, and it would be reserved for patients who are eligible for SNF placement after discharge from acute care Hospital.

That's how they qualify for it. But it would be a 30-day episode and that would include, in addition to skilled home health services, personal care, food, transportation, in-home supplies and remote monitoring if that's required. And it has a guaranteed savings built into it.

So we feel very good about it. It's -- I think it's work that we've been doing, but adding the personal care and the other, food and transportation, to the benefit is huge because the social determinants were one of the challenges we faced back in the early days of initiating this with the Ochsner Health System.

I'm sorry. Let me -- you asked about personal care and what is...

Joanna Sylvia Gajuk - *BofA Securities, Research Division - VP*

Yes. Is it -- whether you actually need to have more or you're thinking about you have enough coverage to be able to participate.

Keith G. Myers - *LHC Group, Inc. - Co-Founder, CEO & Chairman*

Yes, yes. I'm sorry, I missed. I'm sorry if I'm not following on that. Yes, the short answer is yes. We're big into co-located strategies, and the personal care has been challenging for us because, unlike the home health or hospice, which is largely either Medicare reimbursed or a national contract, much of the personal care business is built on state-by-state Medicaid contracts. So this benefits would draw more personal care expansion for us in co-located markets with home health.

Joanna Sylvia Gajuk - *BofA Securities, Research Division - VP*

All right. But it sounds like it's part of consideration when you talk about [100] to [200] incremental revenue that you expect to out of the year.

Operator

This concludes our question-and-answer session. I would now like to turn the conference back over to Keith Myers for any closing remarks.

Keith G. Myers - *LHC Group, Inc. - Co-Founder, CEO & Chairman*

Okay. Thank you, operator. And as always, thanks, everyone, for dialing into the call. And please know that we're available to you at anytime in between calls. If you have any questions, contact Eric Elliott, and he will connect you with the appropriate member of the management team. Thanks, again.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
