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PRESENTATION

Operator

Greetings, and welcome to LHC Group Third Quarter 2021 Earnings Conference Call.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Mr. Eric Elliott, Senior Vice President of Finance and Investor Relations. Thank you. You may begin.

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

Thank you, Rob, and good morning, everyone. I'd like to welcome you to LHC Group's earnings conference call for the third quarter ended September 30, 2021. Last night, we issued our earnings release and posted a copy of our prepared commentary and a supplemental deck on the Quarterly Results section of our Investor Relations page.

In addition to the earnings release and supplemental information, a copy of the 10-Q, and ultimately, a transcript of this call, when available, can be found on this page. Our supplemental deck includes our full year 2021 guidance, assumptions, the impact of COVID-19 and detail on the breakdown among sector performance. All of our non-GAAP reconciliations and breakdown of adjustments are included as well.

We will reference this information in our remarks today. In response to feedback from investors and analysts, the majority of our time on this morning's call will be devoted to Q&A. With me today is Keith Myers, Chairman and Chief Executive Officer; Josh Proffitt, President; and Dale Mackel,

Chief Financial Officer. 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 the statements made in this call, in our press release, in our prepared commentary and in our supplemental financial information. Now I'll turn the call over to Keith.

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

Thank you, Eric, and good morning, everyone. Before we begin, I'd like to acknowledge the hard work and dedication of our growing LHC Group family of nurses, physician extenders, allied health professionals and administrative support staff. They work tirelessly on behalf of the patients' families and communities we are privileged to serve throughout our country. Thank you for all that you do sincerely.

I hope that everyone had a chance to review the commentary and supplemental information we posted last night. As Eric mentioned, this is in response to request and feedback from analysts and investors. Our intent is to adopt this practice in our calls going forward to allow more time for thorough discussion during Q&A.

There are a few points I want to reinforce this morning before we go further. The first is that it's been a very long time since this industry had the cumulative tailwinds it does to date from a demand legislative and policy perspective. While there are some entrenched lobbying efforts working to slow down the progress, the overwhelming desire among patients and their families is to be treated in the home. We need to get that right from a policy standpoint, and I'm confident that we will.

Second, the challenge is our headwinds we faced in the third quarter were related to temporary issues that were caused by the hurricane and a spike in COVID cases, impacting our capacity to meet the demand for our care. Yes, the higher labor cost will be a hill to overcome for us all. But again, I'm confident we will, and we'll talk more about that this morning, I'm sure.

And lastly, I would note that we are laser focused on remaining a leader in this industry for quality, patient satisfaction, employee retention, joint ventures with hospitals and health systems and organic growth in -- in both organic and inorganic growth. So we'll be happy to take your questions and look forward to a robust discussion around all of the issues on the table. At this point, I'd like to open the call up to questions for Josh, Dale or myself. Operator, we're ready to go to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from the line of Frank Morgan with RBC Capital Markets.

Frank George Morgan - *RBC Capital Markets, Research Division - MD of Healthcare Services Equity Research & Analyst*

I guess looking at the third quarter results, how do you think about the puts and takes? Obviously, I know the MSSP would not be in a fourth quarter number. But I'm just curious, kind of how you'd make that bridge from the third quarter to that fourth quarter guidance? And then maybe any color on from fourth quarter maybe some of the puts and takes and how you bridge that when we start thinking about growth for 2022?

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

Yes. Frank, this is Dale. Thank you for the question, and good morning, everyone. Your question is an important one, and I'm sure it's a question that's on most, if not all, of your minds. And so -- what I would like to do is take a few minutes to really deliberately talk through this and make sure

we give you how we explain to you how we're thinking about the jump-off point from Q3, the run rate of Q4 and then how that plays out into next year.

So bear with me as we go through this for a few minutes. But as you said, Frank, Q3 -- the important thing to remember for everyone in Q3 is the unique item for us every third quarter is the Medicare Shared Savings payment. And it was a very good result for us this year at $11.7 million compared to $9.6 million a year ago.

But that is a third quarter only event. And so you have to take that out of the run rate from the reported results. So if you do that, just a baseline, our third quarter jump-off point from a revenue perspective is $565.5 million. And from an adjusted EBITDA perspective, I'm sorry, $553.8 from a revenue perspective and $57.1 million from an EBITDA perspective. So that's backing out the $11.7 million.

As we look to Q4 and you look at our full year guidance, you can see the implied midpoint for Q4 is a revenue number of about $581.3 million, and an implied midpoint EBITDA number of about $63.6 million. The revenue numbers or growth of about $27.5 million or 5%. And the EBITDA growth is about $6.5 million or 11%.

And so here are the components or the building blocks of where that's coming from. From a revenue perspective, we expect that we'll recover the $3.1 million that we lost in Q3 from Ida, right? All facilities are back online, services are restored. And so that revenue should return to us.

When you look at the lost revenue from COVID, we are seeing an improvement in our clinicians coming off of quarantine and our capacity responding to that obviously. And so -- there still are some clinicians that are in quarantine, so it's not going to be a flip the switch. But we expect that we will recover about 60% to 65% of that Q3 impact from the COVID spike. So that's another $7 million to $8 million of revenue in home health. So home health is roughly $10 million to $11 million revenue recovery.

If you look at hospice, we're expecting about a 1% to 2% sequential growth in census there. That will add $1 million to $2 million in revenue. And then from a final building block from a revenue perspective is really -- as you all know, we closed the HCA Brookdale deal on November 1. That should add $15 million to $20 million of revenue in Q4 for the 2 months of Q4.

So when you add those components together, you come up with essentially a $27.5 million of revenue sequential growth. From an EBITDA perspective, we're expecting from the home health volume about $3 million to $4 million of EBITDA improvement in Q4, again, from the Ida and COVID recovery. From the hospice growth about $0.5 million of EBITDA growth.

And then for cost improvements -- operational cost improvements, which we'll be bringing -- playing into next year as well, and Josh will give a little bit more color on this after me, we're expecting $2 million to $2.5 million of cost improvements from Q3 to Q4.

And we are expecting no contribution from the HCA Brookdale closure in the fourth quarter, as we integrate that business, and start to work on the contribution from that business into next year. So those are the building blocks that build up to $27.5 million and $6.5 million of revenue and EBITDA, respectively, from Q3 to Q4.

When you look forward then from how does that play out into 2022, if you take our Q4 adjusted EBITDA number of roughly $64 million or $65 million based on mid point to high point, annualize that out, you get to 2022 baseline of about $260 million of EBITDA.

On top of that, we are now pretty much locked down on our M&A at about $300 million of acquired revenue. And so that revenue will contribute roughly $20 million to $25 million of EBITDA for 2022. We've softened that EBITDA margin a bit. As you guys know, we always take about 12 to 18 months to get our newly acquired entities to the corporate standards. But we softened it 100, 150 basis points because of -- as Keith mentioned in his comments, there are a lot of labor headwinds that we're dealing with right now.

So we're being realistic about how those are going to play out in terms of our acquired businesses next year. And then if you look at what our expectations are around organic growth, right, mainly for home health and hospice, we expect organic admission growth and top line growth in the mid-single digit range next year. That will contribute roughly $10 million to $15 million of additional organic EBITDA growth.

And then the operational cost improvement initiatives that Josh will provide a little bit more color on after I get done here, we expect about $10 million to $15 million of incremental operational cost improvements in next year. You add on top of that MSSP, next year, we expect a very similar result to what we were awarded this year. So that's another $10 million to $12 million. The final rate updates, we see those as essentially offsetting the return of Medicare sequestration and the expiration of PAT. So those are neutralizing events.

And then lastly, as a takeaway, next year, we are going to be baking COVID-related costs into our numbers and into our guidance. As you guys know, we're adjusting those out this year. And so our expectation right now around COVID expenditures for 2022 are $25 million to $30 million. So that would be a takeaway from the bridge.

And so you add all of those together, and what you come up with is our view right now of 2022 of an EBITDA number of $280 million to $300 million. So that represents roughly a 9% to 10% growth over this year's adjusted EBITDA number, which obviously -- our year-over-year comps are kind of like an apples and oranges because this year's number has COVID expenditures adjusted out, and we're going to bake those in for next year.

So that's our runway, Frank, and I'll let Josh provide a little color on the operational cost improvements.

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

Yes, Frank, good morning. Good morning, everyone. I'll be real brief and then I can get into any more specifics or details. As Dale alluded to and a few points as he was going through the buildup for 2022, there's clearly a lot of operational cost saving initiatives that we are working for as well as a lot of initiatives on the labor and supply side. A few that I'll just hit now and can get into more as more Q&A kind of builds throughout the morning.

One is for us to reduce our dependence on contract labor. I think that one is going to come as a surprise to anyone. We're running in Q3 around 4% of our home health visits were made on the nursing side, utilizing contract labor, which is up significantly from our historical norms of around 1%. And just to put that into context, for every 100 basis points we can reduce our dependence on contract labor for nursing, we would save around $1.25 million per quarter net savings.

That's net between the difference of the contract labor cost and the employed labor cost. So that's a real needle mover as we go into next year and a real focus of ours on the operations side. And then maybe the other 2 I would point out quickly is just the continued opportunity for extended utilization on the LPN and PTA front, as well as we're working to really identify some areas to gain some G&A efficiencies.

Because as we enter into next year and have the top line growth that Dale just described we're laser focused on continuing to leverage our G&A going into next year as well.

Operator

Our next question comes from A.J. Rice with Credit Suisse.

Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

I might just drill down on the labor topic. It's gotten so much play this quarter. I mean, some of it, obviously, you're talking about nurses out on quarantine and the need to replace those with contract labor and scrambling. And then other aspects of it are more long-term in nature of just the tight supply versus burning out from the COVID pandemic and retiring or starting families, whatever.

Can you just parse out a little bit how much do you think as the surge comes down, if we don't have another surge, would ease up? And how much do you think is sort of more of a continuing thing that will persist for a while?

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

Yes. Sure, A.J. This is Josh. So I guess, I may start out sounding a little bit more positive than you would expect for that question because when I think about your question, it's -- is there available supply out there? And when I look at the last 3 quarters for us, we have had record numbers of hires.

So although there is a contraction in the nursing labor market across health care, I do think due to our flexible scheduling and some other benefits of the home health industry in general and just care in the home. I think we're seeing an uptick in the number of applicants and the number of hires we've made. We went from almost 4,200 hires across home health and hospice in Q1 up to over 5,000 in Q3. So from a supply standpoint, yes, I mean, this is an issue we're all facing. But I feel encouraged by the trends we're seeing.

But I want to maybe touch on a few of the recruiting initiatives that we have that are going on, some of which we started earlier this year, that I think is helping to bear that fruit. And then, A.J., I think the other piece is retention.

So once you hire all those employees, what are your initiatives and what are we doing to retain them. But on the recruiting side, we've really done a lot throughout the year this year and have some new strategies that we're going to roll out next year as well to keep that momentum going.

On the talent acquisition front, we've hired a new senior leader that's going to be helping to set our strategy and drive our recruitment, our in-house recruitment department. She comes with a lot of experience and talent acquisition for some very large organizations. She just joined us this past month, so very excited about that.

We've also increased our recruiting team over 65% year-over-year. So we're now up to 56 dedicated recruiters. And as you know, A.J., all healthcare is local. So those recruiters are very much targeted at the local market level, trying to make sure that we are competitive from a wage perspective, a benefit perspective and all the other areas around bringing on and attracting and retaining new talent. So I really like what we've done on the talent acquisition front. We've also done things to improve our velocity of hiring.

I won't get into all the details there because for obvious reasons, but we've really accelerated the time period from when a qualified candidate applies all the way through the interview, onboarding and getting them started process.

And I think that's critical when you're trying to compete out there with a tighter labor supply. The quicker you can get them onboard and started, the better. And then a couple of other smaller initiatives that we've done that's really started to bear some fruit. We've redeployed our employee referral program earlier this year, and we're on track to hire almost 2,000 new employees through that effort.

We, just last quarter, launched a talent ambassador program, where our account executives, our sales team members are actually incentivized not only to go out and grow the business, but to also help identify and bring on talent. And we've brought in almost 60 new employees in just a very short amount of time through that effort.

And then our alumni recruiting efforts. We've got a dedicated team that's focused on re-recruiting former LHC Group family members, and we've already hired almost 600 of those just since June of this year. And then there's a few other things that I won't belabor the point, A.J., but on the recruiting side, I do think we're doing some things there that are really moving the needle.

We do have some longer-term strategies in place, whether it's the development of our internal traveler program or whether it's something as big as building a future pipeline for more nurses. Some of the initiatives we've got going on with University of Louisiana and trying to partner with some other universities across the country. So that's on the supply side.

And then on the retention front, A.J., I would tell you, we are laser-focused on making sure that our turnover continues to be very much below kind of the industry norms and driving that down. And the best data point I would give you there is if you look at Page 17, our supplemental deck, you'll see quarter-over-quarter, our net hires continue to grow. So not only is our gross hires and the applicant is growing, but our net numbers, we are netting positive in all of our service lines right now.

Operator

Our next question is from Joanna Gajuk with Bank of America.

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

So I guess, to stay on that topic. And (inaudible) you definitely focused on that, and I appreciate all the color around the efforts to improve recruitment or retention. But just thinking about just numbers obviously here, how should we think about the outlook into next year? And I guess, afterwards, in terms of wage growth? Because obviously, we see in the slides, which is helpful -- you talk about the employed direct labor cost per visit was up almost 6% year-over-year in the home health segment and was up almost 6% sequentially.

So how should we think about that? Is it the run rate in terms of going forward wage inflation? Should we think about this growth to be above the historical because I guess historically, it was maybe more like 2%, 3% growth? So thanks for kind of trying to quantify that for us?

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

Yes, Joanna, thank you. This is Dale. So you're right. I think historically, we're (inaudible) to 2% to 3% increase annually. And I think the environment we're in today, which everybody is familiar with, so we won't get into the details of that, but with the challenges in the labor headwinds, we're really probably looking more like at least into next year at a 3% to 5% type of increase in terms of those.

I think the important thing to understand, like what Josh was talking about earlier, so we've got some real costs from labor out there, but we've also got some real levers that we're going to be pulling to mitigate those cost increases. And that's through how we deploy our resources in a more optimized manner around utilization of our extenders, more optimizing our productivity. There's always pockets of productivity improvement, using Telehealth more all those things, right?

We've got opportunities to -- and again, not to under-mention the recruiting and retention efforts, right, because one of the biggest levers is to lessen our dependence on contract visit utilization. So all of those combined together, we feel really good that we have levers in place and plans in place to be able to neutralize or manage effectively the cost increases. But we're definitely expecting a 3% to 5% environment for next year like we've been seeing so.

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

And if I may, just a follow-up on that. When you talk about the wage inflation, are you taking into account the vaccination mandate for the health care workers that I guess is coming -- the release just came out. And I guess on that front, can you remind us the percent of employees that are vaccinated?

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

Yes, Joanna, this is Josh. Yes, I think it was like 2 minutes before we went live, the vaccine mandate got released. So obviously, we haven't digested all of the details yet, but are aware that it's out there for employers of greater than 100, which is the OSHA mandate, and then you've got the health care mandate as well.

So on the vaccine front, first and foremost, I would say we continue to be a strong supporter and an advocate throughout our entire workforce to get our workforce vaccinated, and have really been driving that initiative ever since the vaccines were made readily available.

Specifically, where are we, to your question. We're approximately 65% company-wide on the vaccination rates throughout our company. Now I will tell you, Joanna, that very much follows kind of the national geographical patterns. So if you look up in our Northeastern division, for example, we're north of 80% across that entire geography.

Out in the West, we're more closely like 70%, and then down in the Gulf South state regions were more down in the upper 50s. But what we continue to see, really, I would say, almost even week-over-week improvements in that even in some of our Gulf South states, we've really started to see that move recently. And across the board, we range anywhere from 5% to high teens percentage above the state averages in those states. We're watching it that closely to make sure that we are outperforming at least the marketplace.

So in a state like Alabama, the state's in the upper 40s of vaccination, we're in the low 50s. And in a state up in the Northeast, the state averages in the upper 60s and we're in the mid-80s. So we're tracking it in that kind of a way.

As it relates to the mandate, I would point out for you, Joanna, we've got some experience, obviously, not on the national scale, but we have 7 states in the District of Columbia that we operate in today that have already instituted mandates that we're complying with.

And in those states, as we sit here today, I confirmed these numbers last night, we are 100% vaccinated of our clinicians with the exception of those that have a qualifying exemption, and certain states have medical exemptions or religious exemptions. So we're either vaccinated or exempted in a qualifying way.

And we're tracking very closely in those states to ensure that our turnover isn't changing from pre-mandate to post because I think that's the big fear that everyone has is it going to result in an exodus of your workforce in the backdrop of all the labor issues we just described. And we've not seen any real movement in our turnover rates. We saw a very late adoption by a lot of workforce that we're waiting to the end to see if the mandate was going to go live, but then we saw a good healthy compliance in those states.

I would mention there is one additional state we have experience in where the mandate is either vaccine or weekly testing. So if that ends up being what is in, what just released about 20 minutes ago, then we do have not only protocols in place to monitor that, but we've developed some internal proprietary tools where it's real easy for our operations team in the field to be uploading and tracking and monitoring that so that we remain compliant. So I know it's a lot to your question, Joanna, but I wanted to really give you some color because clearly, we're very focused on this whole effort.

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

No, thank you. I appreciate it. I'm -- very good to hear that. I guess you did not see a real movement on the turnover in those states.

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

I might -- before we go to the next question, I might just add. I was asked this question several times last week when I was in Washington, D.C. by members in both [chambers] and -- I think this helps us. I really do because a lot of our hospitals and health system partners have wanted to go in that direction. Some did and asked us to follow.

But our concern was that if we went out and implemented something like this, then we could have employees leaving us and going to other providers who are more lax in this area. So by leveling the playing field, where it's either vaccine or test for everyone, I really do believe this helps us.

Operator

Our next question is from Justin Bowers with Deutsche Bank.

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

So I just want to follow up on the DC topic. Keith, can you provide us an update on some of the Choose Home legislation and maybe how that relates to the SCP strategy? And then I have a follow-up on as it relates to cost.

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

Okay, sure. So first, I guess, start with Choose Home legislation. Most of you probably know, but I'll just recap. So we currently have 19 sponsors in the Senate and 22 in the House. And that support is growing every day, maybe more now. This update was yesterday.

But I think what's more important is the support from those in leadership positions who wouldn't get appropriate to them to sign on to the bill, of course, but are giving us indications about committing their support when it does get to their level. So what's the path forward?

First, of course, is the current reconciliation process. We're in play and we're in those conversations. I think that's the most challenging one because of all of the efforts to limit what goes into that package. But beyond that, we have 2 more opportunities in 2021.

One being an expected Medicare extenders package and then a year-end omnibus budget package that we think is likely. But I would also say that with this strong support, some people don't realize that this bill was introduced into the 117th Congress, which is 2021 and 2022. So the bill didn't play for all the way through 2022. So we're going to have those opportunities again in 2022 and reconciliation packages or whatever moves through that.

The -- I want to just give a couple of nuggets about support, though, to back this up. Within -- of the sponsors -- let's talk about the Senate first. One of our sponsors on the bill is Senator Casey, who is Chair of the Aging Committee. And the lead sponsor, Senator Stabenow, is Chair of the Health Subcommittee of the Senate Finance Committee.

I mean, who the sponsors are, are very important. Other good indications are -- I met with Senator Wyden with a partnership group. And so he's now the Chair of the Senate Finance Committee and it's good for us that he began his career in -- as an attorney in Oregon where he was the Head of the Oregon Legal Services center for the elderly. And was the founder of the Gray Panthers in Oregon. So this has been his life's work is to provide these type options to seniors.

So he naturally voiced his support in that. When it reaches his level that he would advocate for the scoring and all the things that we need to do to move it forward. So that's why we're quite encouraged about it. We're in play now, again, in this reconciliation package and you're probably hearing some noise about that.

I don't know. That I would say is less than a 50-50 chance that we get into this current reconciliation package. So -- but I think we have a really good chance at -- this year and even extended package or a year-end package.

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

Got it. Maybe just 1 quick follow-up. With respect to PDGM, has there been -- what's kind of the -- and with the final rule coming out earlier this week, what's kind of the latest on that and the thinking as it relates to -- next year or 2024?

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

Josh, do you want to take that?

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

Yes, Justin, this is Josh. As it relates to the final rule, we're very pleased with kind of the ultimate rate update that came through all in around the 3.2%. And even some of the underlying kind of points underneath that, that signal an appreciation for the cost environment, I think, that we are faced with and in. So all in all, we were pleased with kind of the increased update in the rate.

And when Dale was building all of his building blocks earlier for the 2022 outlook, that's kind of factored in that to help offset the sequestration going away and the PHE expiration and some of those things. So all in all, I think it was a real positive signal to, again, just at the macro level, the support for health care delivery in the home and a lot of the tailwinds that Keith talked about and that we've even put in our supplemental deck.

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

And I would add -- Justin, this is Dale. I think obviously, there was no adjustment to the behavioral factor, right? And that's still being studied. And I think, obviously, we believe that should be a more favorable going forward, but that's got a lot of analytics around it. And so at least it stayed neutral, and we're hopeful that, that will continue to get the right focus and the right data on it to make the right decision, especially in this kind of a cost environment.

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

Justin, I think I left one part. You asked how this connected also to our -- through our new partnership with SCP around Advanced Care@Home. And here's how. I mean, Choose Home is just another vehicle that moves higher acuity patients from inpatient settings to the home. So the way we view it is whether you choose to call it hospital at home, or SNF-at-home, Choose Home, Advanced Care@Home. We see all of those as the same. We're moving higher acuity patients that now go to hospitals, we're moving them to the home. And the way we think of our Advanced Care@Home initiative is each hospital is unique.

Some hospitals want to move just a handful of their lower acuity patients to the home. Some of the larger systems that are at capacity always with a waiting list, want to move as much as 30% of their lower acuity patients to the home, which requires a different program and much greater capability and cost to do that.

So each one is tailored. But I think it does fit into this whole movement that's geared towards and it's consumer driven. People want to be cared for at home, if they can, and it's payer preferred and for hospitals, it allows them to backfill those beds with higher acuity patients that are better for them financially.

Operator

Our next question comes from Scott Fidel with Stephens.

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

First question, just wanted to get back to thinking about the waste pressure relative to some of the saves. And maybe if you can help us think about with the cost per visit stat and where you reported that in the third quarter, and the [1 21]. How should we be thinking about that? Or how are you thinking about that as you go into 4Q and then moving into 2022 as well?

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

So Scott, this is Dale. I think specifically with respect to -- so the [1 20] number, what you saw there was sort of an all-in contract per visit number in home health, right? So that's nursing, non-nursing everything. And so we did see that slope, right? That slope actually -- that was about a 10% -- or 5% increase in the quarter. So we're seeing that starting to temper a bit.

It's obviously 23.5% higher than a year ago, but again, tempered in the quarter. So we're encouraged and hopeful that, that continues to be somewhat stable. I think, again, I think our greatest opportunity because we can't control what those rates are, right? What we can try to control is how much we utilize. And I think that's really where our focus is going to be on. Again, through all the levers we discussed is how we lessen our dependence on contract visits. And that's our biggest opportunity.

But it's hard to predict where that's going. We're seeing it. Like I said, right now, it looks like it's tempered a bit, but there's a lot of people buying for clinicians out there.

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

And Scott, this is Josh. I may go 1 layer a little bit deeper. And coming out of our most recent monthly operations reviews as we were really analyzing our contract labor spend in certain geographies, not all contract labor is created equal either. I mean these are some aggregated numbers. But I mean, when you look at it, there's the traveler component of contract labor that even looks different than the more traditional component of contract labor. So we're focusing on the higher cost contract labor first, as we continue to alleviate some of that capacity.

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

Got it. And do you have sort of an update on where, I guess, the best contract labor percentage is trending in October so far relative to that 4% staff for 3Q?

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

For nursing? I think it's relatively stagnant right now. Yes. So for nursing, yes, we're at 4% nursing. Overall, for home health, we're -- 6.7% of our visits are contract. We don't have a strong data point yet on that, that lags a little bit. But we'll have visibility into that in the next -- the next week or so.

We would expect to see a little bit of improvement based on what Josh just said is through the MBRs and so forth, there's been a lot of focus on how we can more optimize around the use of contract labor.

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

Understood. And then just my follow-up question would just be -- would be interested if you could maybe just give us some insights as to how you're thinking about the margin progression on the acquired business from the Brookdale HCA. Obviously, that's a pretty big block of revenue. And I know you mentioned that you're not assuming much contribution initially. So how are those margins sort of coming online initially? And then how do you see that progression in that book of business? Do you ultimately expect that to get to your corporate average? And how long do you think that will take?

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

Yes, Scott, this is Josh. I do expect it to get to the corporate average. But I mean, these assets -- and when you look at the full $130 million of revenue, call it, $65 million or so is home health and about $45 million is hospice and then the remaining is in the therapy services area. So I would say they're in good markets, which is one of the primary drivers why we were so excited to do this transaction.

And I would signal and highlight the relationship that we have had and continue to strengthen and build with Brookdale. So -- from a margin perspective, I think this one is going to take that 12 to 18 months to kind of get it there. I think you're going to see progression quarter-over-quarter through next year. We're finalizing some of the budget pieces to it.

We've -- as we go into next year and did a review of that earlier this week and really saw some nice progression and what our team is building together in the budget. But I would also tell you that as we continue to get in and dig deeper, there's some really good growth upside in this asset as well. So as we grow it, those margins will get even healthier. So all in all, I think this is a good transaction for us that's going to contribute in 2022 and be part of that bridge that Dale described, but really be a big opportunity for us in 2023 and beyond.

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

And I would echo that as well. I think that we see a lot of operational opportunity around that asset, and then as well as the growth. Those combinations are very exciting. We're always staying tempered about is the labor environment that we're facing. So while we're working all those improvements, we're also dealing with some headwinds, right? So all of those probably just slow it down a little bit.

Operator

Our next question comes from Andrew Mok with UBS.

Andrew Mok - *UBS Investment Bank, Research Division - Analyst*

COVID costs that are excluded from current guidance are expected to be around $45 million this year. And I think you called out $25 million to $30 million reentering the guide next year. Can you remind us what the bucket of those costs are and how much visibility you have on those COVID costs -- that COVID cost number be entering the guide next year?

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

Yes, absolutely. So if you look at the COVID costs, in sort of high-level context as well, we had $53 million of COVID-incurred costs in 2020. Expect that to be $45 million this year is what you just said, $45 million, and then next year coming down to $25 million to $30 million.

If you look at the buckets, there's kind of 3 main components to it. The largest component is around labor, right? It's piping bonuses, hazard pay, all of those kinds of things. I mean that's about 45% of the cost. About 35% of the cost is what we're incurring in our own health expense for our employees and their dependents around COVID testing and COVID diagnosis, all the treatments. And so it's been very expensive lift on our health expense as well. That's about 35% of the cost.

And then the remaining of it is the PPE, right? And then the PPE is becoming a lesser of a cost for us because we obviously did a real nice job inventorying up plenty of PPE. So we have adequate supply for any uncertainties going forward. So that's the remainder, but that's becoming a lesser impact.

As you look at going into 2022, it's -- we would expect the health care component to come down some. We would expect the labor component also to come down. But I'd say the heaviest components are still going to be labor and health care, but clearly see -- expect improvement. We can't predict the new variant, obviously. But we're definitely looking and expecting that improved curve.

And then hopefully, '23, we can get -- well, we know there's going to be some level of permanent cost, but we expect that to be much lower than what we're forecasting for next year.

Andrew Mok - *UBS Investment Bank, Research Division - Analyst*

Okay. That's helpful. And then just a follow-up on M&A. Based on everything we're hearing, private market multiples and deal flow remain elevated even though public market valuations have contracted meaningfully. How does that widening spread in valuation influence your desire to do deals right now?

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

Yes. So that's a great question. The -- what it's done is it's refocus us on our hospital joint venture strategy because that's an area where hospitals that we go to typically don't have very good margins. So they have turnarounds, if you will. There's a lot of revenue and a lot of volume and upside for us. And what we do really well for a long time now is to turn those around and to be able to deliver the care more efficiently.

So we're focused in there. With -- and while we're on M&A, when you look forward, the hospice activity that you've seen from us this year will not be at the same level next year. I feel like we've said that, but let me say it again, in this year because of all of the delay in pipeline activity for home health related to COVID, we chose to take this opportunity to build out our hospice footprint. And it's consistent with our strategy dating back to the late '90s to have hospice and home health co-located in every market.

Going -- we put a big dent in that this year. So going forward, I think we'll still be adding hospice, but it will be at a much lower percentage, and we'll be filling in markets where we already have home health. And we're really refocused on hospital joint ventures. That is our sweet spot and always has been and even more so now that we're moving into Advanced Care in the home, being able to move higher acuity patients downstream.

Maybe I'll add, and as evidenced by -- I'm just doing some quick math. In our pipeline, as of now, more than 75% of our pipeline is hospital joint venture activity.

Operator

Our next question is from Sarah James of Barclays.

Sarah Elizabeth James - *Barclays Bank PLC, Research Division - Research Analyst*

I wanted to try to put together some figures around how sustained the inflation and wages is going to be? Do you have an idea of how much of the pressure that you're seeing is retention bonus related, signing bonus related versus actual increases in hourly costs? And then, I guess, how much is just from the higher short-term contract waiver so we can sort of isolate those buckets as they have different duration points?

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

Yes. So when you look at the first part of the question, right, which is I'd say the most of the pressure there is obviously on more of the bonus retention, bonus in sign on bonus area, right? So one of the things we definitely try to follow as best we can normalize merit like increases to keep our base rates, if you will, from a permanent -- that permanent cost increasing in compounding each year.

So I would say probably 90% -- over 90% of the pressure is coming more from the bonus area because I think we're keeping our wage increases pretty much in line with historical, maybe a little bit higher, obviously, as we mentioned there, but you also have some market adjustments going on that put some pressure on it as well. But I think very heavy in the bonus area. And then Josh highlighted some strategies around that, right?

So we're looking at multiyear type retention arrangements that provide more stickiness and help defer some costs. In terms of contract labor, I think that one simply is more around -- because contract labor is the quickest lever to add, quickest lever to take off, right? So it's kind of binary. And it really is dependent upon our internal capacity and our internal staffing.

And so the more we can do around the recruiting and the retention -- and as Josh said, just optimizing not every contract labor is born equal, all of that, those are the -- not the quickest lever we have on anything, quite honestly.

Sarah Elizabeth James - *Barclays Bank PLC, Research Division - Research Analyst*

Got it. And we found a divergence in accounting policies for the bonuses. So some companies are expensing them right away for the signing and retention bonuses, the full amount and others are spreading it out over the retention period. What's your accounting policy for that?

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

Well, we haven't started those yet. We're evaluating those at this point, right? So I think the -- we haven't really gotten to that point of making that decision. But we will evaluate what the appropriate accounting for it is.

Operator

Our next question is from Matt Larew with William Blair.

Matthew Richard Larew - *William Blair & Company L.L.C., Research Division - Analyst*

So in hospice, you've had now 5 consecutive months of normalized line, to say, despite delta variant here in the third quarter. So maybe can you just give us a sense for how that's been able to stabilize, what your access into senior living facilities has looked like, and more generally, what the referral mix looks like?

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

Yes, Matt, this is Josh. I would say our referral mix has stayed pretty consistent over the last 3 quarters. We're still down from our historical norms by, what, they're probably 300 basis points on SNFs and IRFs and the facility type hospice patients which would further kind of bolster that length of stay.

But I want to recognize our hospice growth teams and our operators for really focusing a lot on patients in the community that also have a longer length of stay because we've had a lessening in the referrals coming out of hospitals, which tend to have the shorter length of stay. So when you look at kind of the referral composition, I think that's helping to make that healthy consistency in the length of stay on the hospice side.

Matthew Richard Larew - *William Blair & Company L.L.C., Research Division - Analyst*

Okay. And then on the home health side, non-Medicare growth, up nearly 13% on emissions and 4% on rate, any new contracts or changes to relationships, inclusion in limited networks, to call out there?

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

Yes. Matt, if you don't mind, I may take that question and expand it just a little bit and just talk about [side] growth in general because I'll get to the piece on the MA front because I'm excited to kind of share some of the efforts we're making there. But I want to maybe just give you everyone

an update on how laser-focused we continue to be on the traditional Medicare growth side as well. So much so -- I'm not going to get into a lot of the specifics for obvious reasons of some of the strategies and tactics we're deploying, but I do want to maybe even mention from an organizational perspective, some things we've done that I think is going to bear a lot of fruit for the Medicare growth and the continued opportunity to take market share.

Although MA penetration continues to build, there's opportunities for market share gains on the Medicare side. So what I'm saying, organizationally, we have done some restructuring and some reorgs on the operations side, I'm not going to talk about on the sales side just this second. But on the operations side, Matt, where we've got across the board from the area, regional, all the way up through the organization of leadership on the operations side.

We do a great job across the board at really managing core ops from quality outcomes, patient satisfaction, to marginalizing the business that we have. But there are clearly some leaders that are, I would say, more growth-minded and have proven to really do more in the area of Medicare growth. So some of our restructure is just to give those leaders a little bit more responsibility to be more successful and help really launch that Medicare growth in a bigger sphere of influence and partner them with some of the others so that they can work with them and learn from them in that way.

I would also highlight, again, on the Medicare growth side that we've brought in some additional senior leaders that are really going to be helping to lead our sales efforts. So the first group of kind of leaders and reorg I described was on the operations side.

The second group is more leaders on the sales side that are focusing on our sales strategies and our data analytics around sales and really elevating that. And then lastly, I would say the incentives and the structure that we're going to be rolling out for next year is really going to continue to drive a lot of that behavior. So I feel really good about the opportunity and emphasis that we're placing on the Medicare growth.

Then on the non-Medicare growth, Matt, I would tell you, we're at this point now in the discussions with the larger MA providers and payers in the space where we're having much more sophisticated risk-based discussions. And at the end of the day, you've got to be willing to really move the needle to take on a portion of risk. So take on a little bit of downside risk, where there's an opportunity to then gain on the upside for the total cost of care savings that you can generate.

And the reason I'm personally so excited about this, this is one of my top priorities as we exit this year and go into next year. And myself, along with Dale with his background, are going to be at the table driving a lot of these discussions. But from an operations perspective, I go into those discussions with confidence because of our experience with Imperium and what we've learned there and the year-over-year improvements we've been able to drive in the Medicare Shared Savings Program from our experience with the value-based purchasing state that we've operated in from our years of experience, frankly, of taking on risk with some of our larger health system partners.

So across the board, Matt, I feel really good. We've been saying this for a while, it's a journey. But we've got a seat at the table to really bring our risk experience to bear that will pay huge dividends going into the future.

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

Before we go to the next question -- this is Dale. Sarah, if you're still on, I actually think I misunderstood your question around the accounting for bonuses. I read your question as how are we treating for multiyear agreements, we're evaluating multiyear agreements. We're not doing those right now. All of our retention and sign-on bonuses are 100% expensed when paid out. So I just wanted to clarify that. I think I may have misunderstood your question.

Operator

Our next question comes from Brian Tanquilut with Jefferies.

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

I guess I'll follow up to the question that Matt just asked. So as we think about your organic growth -- and here in the press release or the prepared remarks, you talked about the fundamental shift that's underway. How are you thinking about sort of the post-COVID growth outlook or growth trajectory for the business? I mean I know it's 5% to 7% organic for 2021, but -- or for Q4. But how should we be thinking about kind of like once you get post maybe recovery back half of next year? Where is your mind in terms of the right growth trajectory for home health?

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

Yes, Brian. This is Josh. I'm glad you asked that question because we sit here poised in an environment where once we get through some of these, I'll call it, temporary headwinds. And this is based on data, not just a gut feeling, that there is more volume and more growth than we've had in years past when we've been in high-single digits.

If you looked at what we -- some of the data we put out there in the pre-release, year-over-year, just referral growth in home health, '20 over '19 was 8% up. And that was in the first year of the pandemic. And then '21 over '20 is 14% up. So that tells you the growth trajectory and just the demand for our services.

So as we continue to solve the staffing and the labor situation, I would tell you in the out years, once you get past 2022, that we should definitely be in the high-single digits, if not knocking on double digits in organic growth potential because there's so much volume coming our way right now.

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

Got it. And then, Josh, you talked about Imperium briefly there. So just wondering, as we see more and more interest or demand for physicians to go into value-based care, the Oak Street [of the world] are getting aggressive trying to recruit clinicians and the other Agilents of the world are partnering with doc groups. How are you thinking about the growth opportunity or the ability to drive new contract or new relationship growth in Imperium?

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

And that's a great question, Brian. So historically, our Imperium kind of growth model was definitely geared for the MSSP type arrangements. And I would say it's pretty blended. Most of it is in hospitals and health systems, but there are large physician practice groups that are in ACOs that we manage.

We're seeing more and more kind of pipeline activity in that space, to your point. And then we're also really driving a lot more growth in Imperium on more of the PMPM basis as well, where you've got large physician practice groups that have a cost share or a cost savings potential upside with a payer outside of an ACO that we're engaging with them.

So we have -- we don't talk about it a lot, but we have a separate and dedicated growth team and a relationship team with Imperium that have their own growth goals for next year and feel really, really good about the macro environment and where some of those conversations are leading to. So thanks for asking that question.

Operator

Our next question is from Bill Sutherland with the Benchmark Company.

William Sutherland - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

I was wondering, I guess, for Josh, if you have -- it is an expectation that we should have about the impact of the SCP partnership next year? Just kind of taking -- is going to have some traction by them?

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

Yes. I would say from the timing of the rollout -- I would even maybe use the word as overwhelmingly positive, but we've had an overwhelmingly positive response from our JV partners and interest in the program. But I mean, even as Keith alluded to earlier, each program is different, and they're going to be size different. So I don't want to try and project some material financial impact from that into next year at all. I think you'll see us start rolling those programs out in first quarter of next year.

But none of what Dale described earlier for our 2022 EBITDA build and bridge and revenue build and bridge has any real material number from the Advanced Care@Home in it. So if we do gain more momentum, then that would be a little bit of upside to it, but I wouldn't make a whole lot of that in.

William Sutherland - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Okay. And then, I guess, on the cost side, is one of the levers going to be visits per episode or are you pretty optimized there?

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

No, that's a good question. I mean, I think we're pretty optimized there, quite honestly. We're very tight around the model. Current quarter, our visits per episode were 12.57. That's a slight improvement sequentially and a slight improvement year-over-year.

But we've been pretty tight around there. You may have temp or 2 change here and there, just depending on the mix, the patient, the acuity of the patient. But we feel like we're pretty tight around that. And that's where I guess I get back to productivity. You always have pockets, right, where some -- there's some opportunity for certain locations to tighten up around it.

So there's always some opportunities. But holistically, we feel very good about where we're at with respect to VPE. And what we don't have is that on top of that -- and the important thing is our quality scores continue to improve, right? So that's a very important data point to go with it.

And then what we don't really count is we do average a little over 3 Telehealth visits per episode as well, which complements the in-person.

William Sutherland - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

And then last one, I know you're working down the quarantine number, it seems like it's a little stickier than I've seen for some others. Are you -- do you have a sense of when you can get it down sub-1% again?

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

Yes. I mean I would hate to look into the crystal ball and try and give a date to that. We are seeing it really week over week, and in some ways, we track this data daily. So day-over-day improvement. And what I would really look at is -- again, even this is a little bit geographic based. And in the data we put out there previously in the Southeastern states where we have -- more than half of our business is located, it had gotten up to 4%, and that's now down to 1.7% as of 2 days ago.

So as those states continue to come down, that drives the overall number down. But we were back well under 1% back in Q2, Bill. So I mean, I do expect and have kind of line of sight that we'll get back there, hopefully here in the coming weeks or next month or so, barring no additional kind of spikes or anything.

But I'm very encouraged. We put some good data out there in our deck on the COVID cases in all the markets we serve, and they have really come down over this last month, and that will be a direct contributor to bringing that number down as well.

William Sutherland - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Yes, and the mandates have to help.

Operator

Our next question is from Whit Mayo with SVB Leerink.

Benjamin Whitman Mayo - *SVB Leerink LLC, Research Division - MD of Equity Research & Senior Research Analyst*

I'll just keep it with 1 question for the sake of time here. Just looking at 2022, I wouldn't think that we should apply normal seasonal patterns to the quarterly progression next year. I mean, presumably, labor challenges and other headwinds are more weighted towards the first half in some of the growth is more second half loaded. You've got the payroll taxes. I think that impacts you in the first quarter. But just off the top of your head, is there any way to frame kind of first half versus second half?

I got to think that the first quarter next year could be down a good bit sequentially off of the fourth quarter. So I'm just trying to proactively relieve some future heartburn here. So any thoughts you have would be helpful.

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

Yes. No, I mean I think you're right on, right? Obviously, we're still in -- from a budgeting perspective, we're still in the midst of our budgeting process for next year, which is all about not just the numbers, but the timing of the numbers as you referred to. So I mean, I think our expectations are just as you've laid it out, right?

You expect Q1 to be kind of our toughest year because of the toughest quarter because of coming off of the holiday hangover as we refer to it as well as the payroll tax headwinds around unemployment tax, Q2 being a stronger quarter, Q3, stable and Q4, good front-end and then falling off on the back-end because of the holidays again.

So I think the seasonal perspective to our history is pretty applicable is the way I would say it.

Benjamin Whitman Mayo - *SVB Leerink LLC, Research Division - MD of Equity Research & Senior Research Analyst*

Okay. Actually, can I just sneak one more in? And just a quick number question. The rural add on, is there a -- I know it's a small headwind next year, but just any way to quantify it? And then I'll hop off.

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

$2 to $3 million is kind of what we think -- yes, based on that. $2 million, 3 million, in fact. $2 million to $3 million.

Operator

Our next question is from Justin Bowers with Deutsche Bank.

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

I just wanted to ask the labor -- or address the labor and staffing a little differently. Just based on kind of the current clinical workforce you have now in home health and hospice, what type of growth could you accommodate? Or maybe another way would be, what sort of census levels could your current staffing load accommodate if we were to go back to, say, like 2% of staff on quarantine or 1% to 2% on quarantine, for example?

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

Yes, Justin, I don't have an exact census number to get you. We could probably come up with that and circle back. I would tell you there is, even -- again, through last week in MORs, there are opportunities for census growth in the current kind of model, if you will.

Some of those are productivity opportunities. Some of those are extender utilization opportunities because as you shift certain visits over to your LPMS, for example, that frees up some capacity to do some more admission visits.

So I do think we have census growth potential in the current staffing we have today to give us confidence kind of going into the rest of this quarter to deliver what Dale said. And then continued momentum in bringing on net new hires quarter-over-quarter will fuel that census growth into next year.

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

Yes. And the only other color I would add, Justin, is if you look back to Q3, at the COVID impact that we had, right, that was about a 2,400 ADC impact to us. So that's one component to look at if we can get our clinicians back to where it was pre-Q3 spike, there's roughly 2,400 ADC.

As Josh said, there's more opportunity there as we continue to work around optimizing our resource utilization.

Operator

We have reached the end of the question-and-answer session. I would now like to turn the call back over to Keith Myers for closing comments.

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

Okay. Well, thank you, everyone, for participating in this new format, sitting here and listening to it. I think it was very productive, and I look forward to future calls and more of the same. We really appreciate your questions and input. It helps us a lot. Thanks.

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

Thank you.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.