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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the LHC Group Second Quarter 2020 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded. (Operator Instructions)

At this time, I would like to turn the conference over to your host for today's meeting, Mr. Eric Elliott. Thank you. Sir, please begin.

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

Thank you, Howard, and good morning, everyone. I'd like to welcome you to LHC Group's Earnings Conference Call for the Second Quarter Ended June 30, 2020. Hopefully, everyone received a copy of our earnings release last night. I would also like to highlight that we have posted some supplemental information on the quarter and the impact of COVID-19 on the quarterly results section of our Investor Relations page. The supplemental deck as well as a copy of the earnings release, the 10-Q, and ultimately, a transcript of this call, when available, can be found on this page. Our supplemental deck includes all of our reconciliations and breakdown of adjustments. We will refer to these non-GAAP measures during our call today. In a moment, we'll have some prepared comments from Keith Myers, Chairman and Chief Executive Officer; and Josh Proffitt, President and Chief Financial Officer. We're also joined by Dr. Ben Doga, our Chief Medical Officer; and Bruce Greenstein, our Chief Strategy and Innovation Officer, who will both be available along with Keith and Josh during Q&A.

Before we start, I'd like to recommend -- remind everyone that statements included in this conference call and our press release and in our supplemental financial information may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These statements include, but are not limited to, comments regarding our financial results for 2020 and beyond. Actual results could differ materially from those projected in forward-looking statements because of a number of risk factors and uncertainties. Certain risks and uncertainties, such as the magnitude of the impact of the COVID-19 pandemic that could cause our actual results to differ materially from our projections and estimates are more fully set forth and described in our annual and quarterly SEC filings, including our earnings release and related Form 8-K, our Form 10-K and our Form 10-Q when filed. LHC Group shall have no obligation to update the information provided on this call to reflect subsequent events.

Now I'm pleased to introduce the Chairman and CEO of LHC Group, Keith Myers.

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

Thank you, Eric, and thank you, everyone, for dialing in and participating in this morning's call. Before we begin, I want to recognize all of our LHC Group family members at every level of our organization for the courageous work you're doing. Thank you all for your perseverance, dedication and extraordinary efforts during these unprecedented times. You are simply amazing, and it's an honor and privilege for me to work with all of you. Thank you so much.

I'll start with a few observations about the past several months, what we've learned, how we've evolved and what is driving our increased confidence as we look ahead to 2021 and beyond. Then I want to focus on the investments we are making in ensuring our greatest asset, our employees, are protected and have all the resources and support necessary on the frontline and throughout our organization. I'll also touch on M&A. And then finally, I'll wrap up my comments with a brief discussion on the regulatory outlook that has become considerably even more favorable for the home health industry.

We've learned a lot about the resiliency of our organization through this public health emergency and have incorporated best practices adopted during this period into our care model and operating strategy. Similar to the experience with our intense preparations prior to the integration of Almost Family and the implementation of PDGM, these challenges have strengthened and improved us at every level of our organization.

Since our first COVID admission on March 13, we have admitted and cared for more than 4,700 COVID-confirmed patients and currently have on census an additional 882 COVID-suspected patients. Our rigorous clinical protocol is an extensive experience with infectious disease patients, along with the significant investments we've made in PPE early on, gave our clinicians the resources and confidence to be on the frontline caring for patients early on and provide the patients and the families peace of mind. As a result, we saw our weekly COVID-related visits -- missed visits decrease from a high of roughly 8,600 to less than 300 by the end of June. The momentum we established with new physician referral sources from January and February accelerated in April and hit double-digit growth in both May and June, resulting in nearly 4,000 new referral sources in the second quarter. Year-to-date, we've seen a 9.3% increase in new referral sources as compared to the same period of 2019. Our proven long-standing strategy of partnering with hospitals and health systems to be their trusted solution for in-home health care and hospice services position us well to play a meaningful role in our nation's response to the COVID pandemic. Our growth from this strategy over the past 20 years speaks for itself, as of the number of new opportunities in our M&A pipeline such as the joint venture we finalized with Orlando Health on August 1. While challenging, the COVID pandemic has provided a unique opportunity to highlight our clinical capabilities, how tightly integrated we are with our partners, how seamlessly we collaborate and the extent to which they are leveraging our unique experience and capabilities to improve health outcomes, efficiency and patient satisfaction. Evidence in the value we have been demonstrating to all stakeholders and communities we serve throughout our country can be seen in the reacceleration of admissions and organic growth since our mid-April low point. Through mid-March, we were experiencing double-digit organic growth in home health admissions. We were able to get back to pre-COVID levels by the end of May and exceeded pre-COVID and year-over-year levels throughout July.

As strong as the home health care industry trends were early in the year prior to the public health emergency, we believe we could be in the early stages of a new normal where patients, families, physicians, discharge planners and other referral sources are increasingly choosing the safety, privacy, comfort and efficiency of in-home health care services over more costly and potentially higher risk congregate inpatient post-acute care setting. We believe that the recent experiences of COVID infections in nursing homes will be a hurdle to fully reverting to past practices in post-acute care, which could have a profound positive implications for the home health care industry and for LHC Group, in particular. We believe this new normal also extends to greater awareness and acknowledgment of the benefits of in-home health care and direct support at the policy level, as evidenced by policies that have been put in place to allow nurse practitioners and PAs to order and follow home health plans of care and conduct face-to-face visits.

The new normal we are seeing extends to our growth opportunities as well. In addition to the organic growth from our continued industry-leading quality and patient satisfaction scores, successful PDGM implementation and market share gains from new referral sources and SNF diversion. We expect an acceleration in the M&A activity in new hospital joint ventures, hospice acquisition and accelerated consolidation in the home health industry due to PDGM and RAP elimination.

Now I want to turn to our greatest asset, our more than 32,000 LHC Group employees. As we noted early on in this public health emergency, ensuring an adequate and reliable supply of quality PPEs to protect our clinicians and patients we serve throughout the country was our top priority. Through the dedicated PPE work stream we put in place in March, we maintain adequate inventory levels to provide full PPE kits for every in-person patient encounter by a clinician caring for a COVID-19 positive or suspected patient. These PPE kits include, among other items, an N95 mask, isolation gown, face shields, gloves and head covering and shoe coverings. In addition, we provide appropriate mask and gloves to all direct care providers for every in-person patient encounter throughout our organization. We have also developed and implemented a more efficient warehousing system and improved our shipping process with more strategic storage locations to ensure timely distribution and receipt of PPE at all locations throughout the country. As a result, we continue to achieve our goal of accepting and treating COVID-19 patients at all locations and continue our universal [mask-and-go] policy for all patients encountered throughout the organization.

Specific to the safety and well-being of our employees, we conduct daily online screening of every (technical difficulty) from temperature checks on employees entering any office and agency locations, practice social distancing and wear masks in all common areas, enact contact tracing when instances of suspected exposure occur, have maintained in-office staffing between 25% and 50% occupancy depending on specific state mandates, and have sustained thorough cleaning and disinfecting protocols in all offices. In addition to ensuring the safety of our employees through our infection control and PPE initiatives, we have added to and replenished several initiatives to help relieve the financial burden some of our employees may be experiencing due to the COVID-19 pandemic. In March, we began introducing programs that include the addition of a COVID-19-related criteria for LHC Group Purpose Fund to help LHC Group employees receive support when they experience financial and other hardships in their lives; a special PTO cash-in for 100% of a certain amount of an employee's PTO value; enhancements and modifications to the loan and disbursement parameters afforded to our employees under our 401(k) program; an expanded offering of benefits provided by our employee assistance program; a make-whole wage supplement for frontline direct caregiving employees designed to protect and restore gross wages for employees who experienced lower gross wages due to the temporary effects of COVID-19 on patient volumes; resources for all employees to be better prepared and informed through daily communication updates on directives, policy and procedural changes related to COVID-19; and a special 24/7 COVID-19 e-mail inbox to answer questions that arise from our employees.

In June, we introduced a onetime PTO replenishment to frontline direct care giving employees and for any employees who previously donated their PTO hours to these frontline caregivers. Earlier this week, we announced to our employees that we are holding the line on health care benefits planned for our 2020-2021 open enrollment plan by absorbing the majority of the premium increases, resulting in 3 of our 4 health plan options having no premium increase to employees.

With regard to M&A, as I mentioned early, our joint venture with Orlando Health went into effect on August 1. The Orlando Health system spans 9 Florida counties and includes 13 wholly owned hospitals and emergency departments, rehabilitation services, cancer centers, sport institutes, imaging and laboratory services, wound care centers and more than 300 physician offices and 11 urgent care centers. This most recent partnership is yet another example of how we collaborate with hospitals and health systems to more fully leverage our home health capabilities and expertise to grow their in-home services offering and become a more integrated component of their overall continuum of care. During COVID-19, our existing joint venture partners more fully leveraged our capabilities as an integral part of their health care delivery team than ever before. As a result, we fully expect even greater joint venture interest from hospitals and health systems in the future. That said, our pipeline of potential M&A growth opportunities is well balanced between home health and hospice. Our M&A pipeline, combined with historic organic growth opportunity we see ahead from home health market absorption, has us optimistic and bullish on both organic and M&A growth opportunities for the remainder of 2020, 2021 and beyond.

Lastly, I would like to touch on some of the recent regulatory announcements. In late June, CMS proposed its home health payment rule for fiscal 2021. The proposed rule calls for a 2.6% rate increase. And last week, CMS released its final rule for fiscal 2021 as it relates to hospice. The 2.4% market basket increase was slightly below the 2.6% from the proposed rule. But given the 60 basis point cut a year ago, overall we consider this a win for the industry.

And now here's Josh to provide some additional color on our financial results, operational results and outlook. Josh?

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

Thank you, Keith, and good morning, everyone. Thank you all for joining our call. I'll begin my prepared remarks by saying how much I appreciate all of our clinical professionals and support personnel across the country and what they do each and every day. You have truly gone above and beyond during these historic times in our country to put others above self and to be an integral part of the solution for our country during this pandemic. It is a true privilege to serve you as you give so much of yourself serving others. Again, we are humbled and honored to be a part of your team.

Similar to last quarter, this was not a normal reporting period by any means. My time this morning will be focused on the accelerated recovery of our business from the COVID-induced low point in mid-April, provide some context and granularity behind the drivers of this improvement, expand on Keith's comments around what it means to thrive in this new normal with PDGM and COVID-19, and close with some color on our reinstated guidance outlook for the year. Our supplemental financial information is posted on our website with detail on the breakdown among sector performance as well as a lot more detail on the weekly and monthly trends through the end of July. I encourage you all to review the supplemental financial deck as it provides additional details to my comments this morning.

The second quarter, as noted in our earnings release, was impacted by expenses associated with COVID-19 for purchases of PPE, additional supplies and employee-related costs and expenses, including employee bonuses, increased wages, wage supplements and PTO replenishments for frontline caregivers and other categories of costs and expenses incurred in response to the pandemic of approximately $27.3 million or $0.64 per diluted share. I would also like to note that of the $88.7 million in Provider Relief Funds we received in April under the CARES Act, $44.4 million or $27.2 million net of noncontrolling interest and tax was recognized in our P&L with the balance carried on our balance sheet as a deferred liability. We also received $310.7 million in accelerated Medicare payments in April, and CMS will begin recouping these funds later this month and over the following 180-day period. While our full quarter revenues, adjusted EPS and adjusted EBITDA reflected the lower census and admissions that did not return to pre-COVID levels in home health until early May, that is only part of the picture. The real story within the quarter was the weekly improvement through May and June that exceeded our prior year performance throughout the month of June and got us back if not slightly ahead of where we wanted to be with our PDGM care model and our operational strategies. The pace of the improvement has given us even more confidence than we had before that we will have the right exit velocity coming out of the fourth quarter and entering 2021.

Let's break down this pace of recovery a little bit more with some details. Home health admissions hit a weekly low point of 6,169 during the week ending April 18. Our supplemental information shows the progression of admissions from there through June 30, and then again, through the week ending August 1, which saw us have 8,012 admissions that week. For the end of June -- for the week ending June 6 through last week, we have been on an 8,000-plus home health admission pace each week, except for the July 4 week. We have also been closely tracking our missed visits due to COVID-19. Our highest point was the week ending March 28, which resulted in 8,585 missed visits. Since then, we have cut that number down to less than 200 COVID-19-related missed visits per week by quarter end. We have seen that number increase slightly over the last few weeks, and we're at 245 through the week ending August 1. Our expected LUPA rate is between 8% and 9% of total home health episodes. We saw this number spike to 12.5% during the week ending April 4, but it is now trending at the pre-COVID-19 level of around 8.25% last week. Since the week ending May 16, we have been within our expected LUPA rate range, staying between 8% and 9% each week.

We are also tracking the number of patients that declined admission due to COVID-19. We hit a high of 336 patient refusals the week ending March 21, but the number of patient refusals due to COVID-19 had improved to only 18 last week. Home health average daily census went from the low point of 74,936 the week ending April 18 to approximately 82,000 for the week ending June 27, and was up to 83,061 last week. This improvement has come despite some of our states slow to fully lift the ban on elective procedures.

Our LTACH continued to be a strong performer in the quarter, climbing from an average daily census of 222 in the first quarter to 257 in the second quarter. Today, the census in our LTACHs is 262 as of this morning. We received full LTACH reimbursement for every patient admission for the entire second quarter, which brought our revenue per patient day to 1,385 as compared to 1,270 last year. The public health emergency-related relief, which was set to expire on July 25 for the LTACHs, was officially extended for an additional 90 days through October 23, 2020. Another area where we have seen both substantial momentum and validation of a key differentiator of our organic growth is in the number of new referral sources. Keith mentioned this earlier, and we broke it down by month on our last call. For the first quarter, we had 3,915 new sources for home health referrals, with the strongest year-over-year pace, obviously, in January and February. That was driving our 12% organic growth for home health admissions pre-COVID. March declined year-over-year as we might expect at the onset of the pandemic. However, if we look at the progression

since then, the trend is more telling and explains why we are so confident on the organic growth pace and exit velocity as we enter 2021. In the second quarter, we had 1,205 new referral sources in April, 1,294 in May, and another 1,497 in the month of June. The months of May and June were year-over-year increases of 10.7% and 37.2%, respectively. This brought us up almost 4,000 new home health referral sources for the second quarter, which is an increase of 16% over the second quarter last year, and we are up 9.3% for the first half of the year.

As I noted before, this trend is an early indicator of market share gain potential, particularly when combined with our industry-leading quality scores and our efforts to continue earning the confidence and trust from these new referring physicians. Another contributor to our momentum in new referral sources and admissions has proven to be our partnering with physicians, hospitals and other health care providers in caring for COVID-19 suspected and confirmed patients. As Keith mentioned earlier, we have provided care for 4,700 confirmed COVID-19 patients, and have an additional 882 COVID-19 suspected patients currently on service. Of the 4,700 COVID-19 confirmed patients, 4,451 have received care from one of our home health agencies, with the remaining 249 patients on hospice care. Of the 882 COVID-19 suspected patients, 820 are currently on home health service and 62 on hospice. Our industry-leading quality and patient satisfaction ratings, along with our best-in-class infection control procedures, makes us the partner of choice for referral sources who desire for their COVID-19 patients to be cared for in the safety and comfort of their home.

Before I turn to the segment performance, I would remind you that among these many provisions that help the industry, the CARES Act temporarily suspended Medicare sequestration for the period of May 1 through December 31, 2020. As a result, health care providers received an increase in fee-for-service Medicare payments by approximately 2%. For LHC Group, we recognized $5 million in additional revenue in the second quarter due to the suspension of sequestration. We estimate this to be an approximately $15 million to $20 million positive impact for revenue for us during 2020. Within home health, I believe it is instructive to break down our revenue per episode and speak to all the factors that influence within the quarter, particularly as it relates to PDGM and the sequestration effect. Our revenue per episode was down approximately 2.5% in the second quarter compared to prior year, which reflects both the impact of PDGM and COVID-19, offset by the suspension of sequestration effective May 1. COVID-19 caused increases in LUPAs and increased our community admissions as a percentage of overall admissions. We also experienced a shift of our patient mix from early payment periods, or as we call them P1s, to late payment periods, or P2s, as we continue to care for vulnerable patients to ensure they continue to receive the care they need while in the safety of their home. All of these factors negatively impacted revenue per episode by approximately 3%. PDGM had an approximate negative impact of 1% in the second quarter, which was an improvement from the 3% negative revenue headwind we experienced from PDGM in the first quarter. These were offset by an approximate 1.5% increase from sequestration or $3.9 million of additional revenue in the second quarter for home health. As a result of our focus on operationalizing PDGM, we continue to see rate improvements on episodes in progress, which gives us confidence in our ability to mitigate the remaining portion of the impact of PDGM as previously planned once the impact from COVID-19 stabilizes. The lower revenue per episode was offset by cost savings associated with greater efficiencies driven by our PDGM care model. As we exited Q2, we are ahead of our original expectation on revenue per episode as well as our cost initiatives associated with PDGM. On hospice and LTACH segment, each continued to perform well with volumes improving year-over-year and sequentially. The revenue impact from sequestration in these segments were $769,000 and $339,000, respectively. The LTACHs also received an additional $2.9 million in revenue from the change to full LTACH payments on site-neutral patients as required by the CARES Act during the PAT. Our home and community-based services segment reported a 260 basis point decline in EBITDA for the second quarter of 2020 as compared to the second quarter of 2019. However, there was a sequential improvement of 390 basis points over the first quarter of this year. During the second quarter, we experienced an impact related to COVID-19 with billable hours in HCBS declining 15% in the second quarter of 2020 as compared to the same period last year. We continue to see this number improve and are currently pacing back over 170,000 billable hours this week. With our recent EMR system conversion and the related headwinds now behind us, and barring no unforeseen digression in this service line from COVID-19, we should see the HCBS service line begin to gain momentum throughout the year and enter 2021 the strongest we have ever seen in this segment.

Now that we are back on or at least close to the pace we were setting pre-COVID, and we believe we are prepared to operate under the new realities of COVID-19 with our PDGM care model, we have elected to reinstate 2020 revenue, adjusted EPS and adjusted EBITDA guidance. We are now expecting net service revenue to be in the range of $2 billion to $2.05 billion, adjusted EPS to be in the range of $4.60 to $4.80, and adjusted EBITDA less NCI to be in the range of $220 million to $230 million.

As we discussed, when we originally gave our initial outlook for this year, we were expecting our performance to be heavily weighted in the second half of the year as we position the company with our new PDGM care model and operational strategies. The main goal is to be positioned with maximum exit velocity in the fourth quarter of this year to fully benefit in 2021 and beyond, and we are still on pace for entering 2021 as planned.

Let me provide an example of what I mean. There are a number of best practices we have incorporated from lessons learned during our response to the coronavirus pandemic. We have taken advantage of technology and remote learning platforms for new hire account executive sales training, new remote leadership development training through a third-party partner and new remote formatted leader training for our Excellence by Design program. These and other lessons started off as necessities, but has become an ingrained mode of operations, enabling us to drive further efficiencies and maintain our momentum.

Turning to Page 27 of the supplemental deck, we have updated all of our debt and liquidity metrics for the quarter end. We have over $507 million of liquidity, with cash availability on our credit facility and an accordion feature for up to $200 million of additional capacity, net of the Medicare advanced accelerated payment funds. I'm very pleased with our adjusted free cash flow that was at $58.7 million for the 3 months ended June 30, 2020. Additionally, from a cash perspective, as I mentioned on our last call, the CARES Act permits employers to defer the deposit and payment of the employer's portion of social security taxes that otherwise would be due between March 27 and December 31 this year, with half deposited by the end of 2021 and the other half by the end of 2022. In the second quarter, we deferred $17.8 million, and we still expect the cash benefit to us to be approximately $50 million in 2020. As expected, DSOs improved to 61 days in the second quarter compared to 62 days in the first quarter. We continue to expect this to settle in to a new normal rate of 55 to 60 days in the remainder of 2020 and a really good momentum of cash collections as we exit Q2.

Moving now to our joint ventures. Keith discussed how closely we have been integrated with our joint venture partners throughout the pandemic. We have been able to prove time and again how essential we are to them in delivering the highest level of quality in the most cost-effective setting. A few examples that might help drive this point home: one, we have continued communication regarding capacity planning, PPE availability, CMS waiver updates and among other topics, as it relates to our hospitals' current challenges; two, we are constantly collaborating with and sharing development and execution of COVID-19 protocols with our partners; three, we have worked closely with some of our partners on a skilled placement program. With the challenges skilled facilities are facing, we are working with hospital partner case managers and physicians and focusing on accepting patients at the top of the home health acuity capability that historically were discharged to skilled facilities. And four, we are having continued calls with partners to determine real-time needs and determine ways our home health, hospice or HCBS agency could better facilitate care and eliminate patient and family concerns of exposure to the coronavirus.

With regard to our differentiated joint venture strategy, we noted last quarter that we would most likely experience some delays in finalizing new joint ventures during the pandemic, and that was certainly the case. However, it did not take long for us to get back on track with the announcement in late June and subsequent finalization on August 1 of a new joint venture with Orlando Health. We were able to combine 3 of Orlando Health's home health and HCBS service locations with 3 of our own. Our latest partner is one of Florida's largest not-for-profit health care networks, with nearly 450 locations spanning across 9 counties. We believe that we have just scratched the surface with these first few locations, and this new partnership should provide a strong growth opportunity for us for years to come.

I would also echo what Keith mentioned earlier about how the success we have had improving our value proposition during the pandemic has had a positive impact on our M&A pipeline for future joint ventures. The pipeline remains robust with our in-house corporate development team remaining laser-focused on acquisition and JV opportunities across each of home health and our hospice segment. And to the extent that our potential partners are able to focus on this aspect of their business, our pace is expected to pick back up through the back half of this year and into next.

While it has not been on the front page of all the challenges and priorities we have needed to focus on throughout the pandemic, the historic consolidation opportunity within the highly fragmented home health industry is still there and is as compelling as ever. Our increase in the number of new physician referral sources show that we are already capturing some of this opportunity through organic growth and market share gains. Our PDGM care model is in place supplemented with improvements we have added from lessons learned during the COVID-19 pandemic as well as industry-leading quality and patient satisfaction scores. We expect those organic gains will continue, and we believe we are a natural fit for any independent home health or hospice provider, and that should further compel our inorganic growth for M&A activity later this year and in 2021 and beyond. To sit here today with a much better outlook than we did 3 months ago is a true testament to the commitment and dedication of our employees as well as the culture that exists within LHC Group to consistently adapt and grow with new challenges and turn them into opportunities to provide the highest quality of care and compassion for more patients and partner with more referral sources. As a result, our mission is as vital as ever and our value proposition even more compelling.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question come comes from the line of Kevin Fischbeck from Bank of America.

Kevin Mark Fischbeck - *BofA Merrill Lynch, Research Division - MD in Equity Research*

I just wanted to get a little more color about these new referral sources that you're getting. I don't know, is there any way for you to kind of size what the opportunity is still left in your markets as far as where the referral sources are? Are you getting 50%, 70%, 30% of the available referral sources today?

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

I'll take that, Kevin. It's Keith. That's a great question. So we don't have that right now, but it's something that -- we're looking at each other, we can easily run market by market. And we love data. So that's something I think we can start tracking.

Kevin Mark Fischbeck - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Okay. And then, I guess I wanted to understand your commentary a little bit about how you initially view 2020 and how you're currently viewing 2020 as far as that kind of ramp-up and jump-off point when we think about 2021. Are you saying that, more or less, the path that you expect to be on based upon this new guidance as far as ending this year and, therefore, entering next year is pretty much where you thought you would be back in January? And therefore, the view on 2021 should be pretty much the same as it would have been back in January? Is that -- am I thinking that correctly?

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

Yes, Kevin, this is Josh. You are thinking about that correctly. I may put a little fine point on it. So as you recall in our original guide, we had a little bit of a back-end-weighted progression to our year-end 2020 that started to ramp a little bit in Q2 and then really accelerated in Q3 and Q4, as evidenced by our results in the second quarter and some of the things I said during prepared remarks. I couldn't be more pleased with how really our operators throughout the country have operationalized and handled, not only the pandemic, but have really incorporated our key care pathway strategies under PDGM, even at an earlier clip than we expected. So we are -- we've executed on some of the cost strategies that we had coming into the year that we saw what happened more kind of in the third quarter heading into Q4 already. So that gives us a lot of confidence in the trajectory we've got for Q3 and Q4, which led to us feeling confident to reinstate guide. But as I look at it and map it out, Q3 and Q4 will be more similar to each other than we had originally thought, but Q4, to your point, it will still be at or [not] a little bit ahead of pace for entering 2021 from where we thought entering the year.

Kevin Mark Fischbeck - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Okay. So that could be my last question, which was just kind of with the implied guidance, it did kind of seem like there wasn't a lot of necessary improvement in volumes for Q3 to Q4. Is there a reason for why that would be the case?

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

Yes, Kevin, I would say, as it relates to volumes in our implied guidance, from a revenue and a volume perspective, we're still, quite frankly, being a little bit conservative due to the uncertainties around the pandemic. We feel extremely confident from an EBITDA margin perspective and even on perspective -- EPS, those sorts of things. But we wanted to take into consideration on the top line side, the unknowns around potential disruptions from future spikes and that sort of thing as it relates to the pandemic. So I would tell you, we've got a pretty conservative spread of the revenue. If you look just at the midpoint of the guidance range, that would put you somewhere between $510 million to $515 million of revenue each quarter. I would expect that Q4 would be a little bit better, and you'll continue to have that ramp of growth. But again, damping that down a little bit for the unknowns of the pandemic. But Kevin, I want to say one thing around that, as it relates to growth and the momentum. Because, I mean, you can tell, we're very bullish on the kind of market absorption and market share gains that we have been experiencing throughout the year. And we think that's doing, in part to a lot of factors, whether it's PDGM disruption, whether it's COVID-related. Our sales team members, I just want to tip my cap to them here publicly. They have really gone above and beyond and found new ways to still interact with referral sources and create new relationships in the face of some new social distancing protocols and the like. But one thing that we spent a lot of time last week in our MORs, as you know, we have monthly operations reviews here at LHC Group every month. And last week was that session for us here. And one thing I spent a lot of time talking with our division presidents of operations and sales on was the growth potential in the back half of the year. And really, the only item that could potentially be disruptive to that based on where we sit today would be if you had an uptick or an exacerbation in the volume of your visiting clinicians that are in quarantine for any reason due to exposure or potential exposure to the coronavirus, so that really sparked me, as you know, we're very much data-driven around here. We track that every week. We have a tracking mechanism that Dr. Doga, who I'll tag in here in just a minute, has been leading for us since the pandemic began to really watch and monitor our employees across the entire country. And I'm real pleased with, even as the number of positive cases throughout the country have continued to grow, just to put it into perspective for you, Kevin, we have just over 10,500 field clinicians, field visiting staff in home health. And throughout the entirety of the pandemic, we have been anywhere between 100 to just under 200 of those clinicians on quarantine at any point in time. So to put that into percentage, you're anywhere from 0.9% to 1.9% of your field clinicians in home health that might be on quarantine for a few days, pending a test, or upwards of 10 to 14 days, depending on the situation. But what I'm the most encouraged with is since the latest spikes in COVID that have started happening throughout the country and throughout July, we're only having somewhere between 30 to 40 new employees per week that are having to go on quarantine, which is less than 0.5%. And so if you manage your infection control protocols to a point that you can keep that low of a number having to be quarantined on a weekly basis then the ones that have previously been on quarantine are starting to roll off and go back into kind of active duty and able to see patients, that gives me confidence in our systems and in the way we've been taking care of our employees. And then on the hospice front, we've got about 1,602 field employees that see patients, and only about 20 to 30 or so at any point in time have been on quarantine, so about 1%, 1.5%. But Dr. Ben, do you want to maybe provide some color on that topic?

Benjamin N. Doga - *LHC Group, Inc. - Chief Medical Officer*

Certainly. Thank you, Josh. We began a very strict infection control program the first week in March before we accepted our first patients, and we have refined that and kept abreast of all changes from CDC guidelines, World Health Organization and other health systems, which begins first thing every morning, about 1 hour to 2 hours prior to entering work for all 32,000 plus employees undergoing an electronic questionnaire that everyone in this room as well as all of our staff must answer before attending work. Any questions that are answered in a possible exposure immediately goes into an algorithm for our contact tracing team that follows up on every single one of those to guide them and give them advice on a low, medium or high-risk exposure, which may result in a stay at home, full quarantine or seek testing or a physician visit. That continues as they arrive to work, mandatory wearing masks and temperature checks and a person checking temperatures, asking them about their questionnaire to ensure again that, that has been completed and the right people have been notified. As that progresses, all office staff must maintain 6 feet of distance for all their workstations, most of which greater than 6 feet, along with plexiglass dividers, in many cases, as well as any mobility in our agencies or home offices must be done while wearing a mask and anytime you're less than 6 feet apart. This continues on with our clinical staff as they both limit their interaction with our support staff when they come to pick up equipment as far as for PPE. The questionnaire doesn't only extend to our employees but also our patients. Before every visit in the home, a questionnaire is asked of our patients, also their caregivers and family members that may have been present from the last time we have seen them. And upon arrival, that is repeated from a distance in a full PPE, depending on the patient's situation. As Keith mentioned, all visits are done with medical mask and gloves and all suspected COVID-19-positive patients require full PPE for all of our clinicians. And then, of course, any confirmed positive also has full PPE. From a PPE standpoint, I think it was mentioned that we have -- we're very proud of the process that we have put in place that, upon admission of any patient, we assess the entire

episode and how many visits may be made, and we have immediately distribute -- we distribute immediately the total amount of PPE that our clinicians may require for that patient stay, not on a daily or weekly basis, but for an entire episode. That is done automatically and updated and with checks and balances throughout the day. And as mentioned before, our equipment can be shipped from more than one location to ensure any stoppage of work due to those individuals getting COVID-19 or any other natural disaster that we can continue to provide that to all of our clinicians, which improves the health and safety of not only them but all of our employees as well as their family members. But probably the 2 key points that I think both Josh and Keith mentioned was that, one, our contact tracing efforts that are ongoing and begin at the time of questionnaire before work or at time of temperature check or at time of any notification throughout the workday, we have a immediate group on standby that can start breaking down and questioning and starting to assess the situation. Our goal is to do it in 10 minutes or less, which we have been very able to do, especially during working hours. We also have, in addition to do that, the COVID inbox that is manned every day, 7 days a week by our most senior nursing staff, a very select group, overseen by myself, who is a practicing primary care physician following each of these instances so that we can give accurate, up-to-date but more importantly, very consistent information. Again, that occurs with less than an hour during business hours and at the beginning and end of each day, along with ending each day with an all-employee e-mail, giving them any updates or any changes from CDC guidelines or from our own state restrictive guidelines throughout our service areas. We always use the most restrictive policies in place for our company. So as a whole, I see this as a key to both the communication and the assessment of each possible incident that has led us to, as Josh mentioned, less than 2% of our clinicians requiring quarantine at any one given time. And this is what allows us to continue to care for our over 100,000 patients on service as well as be available for new admits each and every day for both COVID-19 and non-COVID-19 patients to decompress hospitals and, in many cases, although we are now admitting higher acuity with more disability patients to avoid congregate living facilities with SNF diversion and high acuity, high skilled process and protocols in place.

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

Great. Thanks, Dr. Ben. And Kevin, I know that was a lot of an answer, but I really wanted to give some color to everything we're doing to maintain our growth momentum and ensure that, that doesn't get in the way in the back half of the year.

Kevin Mark Fischbeck - *BofA Merrill Lynch, Research Division - MD in Equity Research*

That's actually really helpful and pretty impressive. That's it for me.

Operator

Our next question or comment comes from the line of Brian Tanquilut from Jefferies.

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

So I just have a few quick answer -- or short-answer questions. Josh, if I save the guidance that you're giving for the year, what's embedded in there in terms of CARES money? Organic growth assumption? And then, I guess, I know HCI, you recognize ACO benefits or gain share in Q3. Obviously, all the insurance companies are showing low MLRs. So how are you thinking about the uplift from that as we think about the guidance? And I guess kind of related to that, if I look at your visit per episode, down almost 5 year-over-year, like how sustainable is that? Or how much are you thinking that could move from that 13.4 level?

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

Sure, sure. And thanks, Brian. So I'll try and hit everything you just mentioned on. So for the back half of the year, I would say a few things to be cognizant of, and I'll touch on the last one you just mentioned first. So of our in-person VPE at kind of run rate right now, 13.5 or so in-person visits per episode, we have factored in a progressive kind of uptick throughout the last 6 months of the year in that of anywhere from 0.5 to another 1, 1.5 visits. So you could put anywhere from $10 million to $15 million of incremental direct visit costs from a home health perspective into that model. That kind of lends itself to our guide midpoint, if you will. On the CARES Act, we have nothing in our guide for the rest of the year that

contemplates new CARES Act money or expenses. We will continue throughout the year to be monitoring that, and as we did in Q2, we will adjust those results out. We'll adjust out any COVID-related increase in expenses as well as any CARES Act Provider Relief Fund offsets. We'll adjust both numbers out for the remainder of this year. So our guide does not contemplate any of that. And then as it relates to HCI, I mean, as you noted, we traditionally receive the Medicare shared savings payments in Q3. And we've got that factored into our guide. And I would say the past few years, it's been around the $3 million level. So somewhere between $3 million and $5 million is what our team is optimistically projecting. But as you know, those calculations kind of come in at the very end, so we've got some of that baked in as well.

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

I appreciate that. And then I guess, Josh, as I think about organic growth heading into next year, you talked about how Q3 and Q4 kind of flattish there, right? But if I'm looking at your weekly admissions on Page 10, it's been flat since the beginning of June, hovering around the 8,000 admissions per week mark. So are you expecting that to accelerate to get to that exit run rate that you were talking about that you need to get to that 2021 kind of goal starting the year?

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

Yes. And I would say, one, Brian, as I mentioned when I answered Kevin's question, there are some unknowns and some conservatism in our revenue and top line guide. But if you ask me, do I expect to have positive organic growth in Q3 and Q4? The answer would be yes based on where we're sitting here right now. If you just look at June and July, in the most recent months, even with the spikes in coronavirus throughout the country, in home health, we've had anywhere from 7% to 8.5% organic growth month-over-month, and hospice is running between 10%, 10.5%. So I do expect some growth in the back half of the year. And in our model, we've got pretty flattish, conservative, that $510 million, $515 million per quarter. But I think if we continue on this growth momentum and that 8,000 per week continues to not only stay firm, but if it gets up to 8,500, even 8,500 to 9,000, which is where we were at in January, February, then you would see even more momentum as we exit Q4.

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

Got it. And then I guess my last question for Keith. Obviously, the proposed rule has come out. There's a little bit of a headwind there for the rural add-on. How are you thinking about that? And maybe if you guys could share what percentage of your business now is rural? I know that's diversified down quite a bit over the years.

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

Yes. I'll let Josh take the second part of that. I feel really good about the -- from a policy perspective, that supports our rural reimbursement. Whether it's the rural, the add-on or something more permanent, that's been one of the very consistent policy perspectives that -- or policy initiatives that we have support on both sides of the aisle from. So it's kind of a constant -- it's a constant fight, Brian. And even in the partnership, we have a -- whenever our -- when our agenda items move around, there's a special initiative in some assets that are focused just on the rural add-on piece and certain key champions on the hill from rural areas that support that. But it's just -- it's something you have to pay a lot of attention to because it's not -- it's an easy place to cut.

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

Yes. And Brian, on the kind of relative proportion of our episodes, we're now pretty consistently around 30% of our patients. And our patient episodes are in rural MSAs, which if you go back even pre the acquisition of Almost Family, that number would have been a lot higher for LHC. So we have diversified our MSA reach as we've grown the company. So it's a lot less material than it once was.

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

Let me say one other thing, while we're on this, Brian. We don't -- I really appreciate the question. We don't talk about it very often. So for the benefit of everyone, just want to remind everyone that the issue is that the home health rates are based off of the hospital wage index. And in rural areas, that isn't appropriate because their wages are lower in rural areas, of course. But in rural home health, patients have to drive many miles between patient homes. So the number of visits you can make per day as a clinician are much lower than they are in more populated urban areas. So the -- from the outset of PPS for home health, the rates have been set on the hospital wage index, and that's why we always have the need for something, for lack of a better term, to patch or make up for that inadequacy in reimbursement for rural home health.

Operator

Our next question or comment comes from the line of Whit Mayo from UBS.

Benjamin Whitman Mayo - *UBS Investment Bank, Research Division - Equity Research Analyst of Healthcare Facilities and Managed Care*

So I'll keep it at one question since we're already at the top of the hour. The Florida numbers that you guys disclosed are pretty crazy in June and July. I thought that might have been a typo at first. But can you maybe spend a minute just decomposing that 18%, 19% growth? I think the comparisons are a little distorted, given some of the disruption. But how much of this is market share gains, the SNF diversion, new referrals? Maybe any help framing how to put that 18%, 19% in perspective?

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

Sure. Thanks, Whit. And I assure you, it's not a typo. As you all know, we've been laser-focused on the growth strategy in Florida since prior to the transaction with Almost Family. And we have been talking about it ever since we closed the transaction, and really spoke coming out of last year as this year, 2020, was going to be a really strong growth year for us there. And it goes back to a lot of the strategies we implemented toward the end of last year. We added more AEs, more sales team members. We've really increased our relationships with a lot of the hospitals throughout the Florida market. Obviously, we just announced our Orlando Health joint venture, but even throughout hospitals that we're not joint venture partnered with, we have strengthened and the reputation of LHC Group working with hospitals now that we go wall-to-wall carpet in Florida with home health providers, we have really gotten in with case management and the C-suites of a lot of big hospitals down there, and there's untapped new referral sources from that kind of referral flow. We've also really had a nice increase in physician -- new physician referrals in the state of Florida. So I mean, will we continue with 18% organic growth in the state of Florida forever? Obviously, no. But I will remind you, in Q1, prior to the onset of the pandemic in the middle of March, we were pacing at around 15% in the state of Florida in the first quarter. Then COVID hit, it started going down. But you see the recovery in Florida. We were back positive by May. And then as you referenced, such strong numbers in June and July. So I've got a real high degree of confidence for not only the back half of this year but going forward with our growth momentum in Florida.

Operator

Our next question or comment comes from the line of Justin Bowers from Deutsche Bank.

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

Really appreciate all the disclosures you guys can provide. They're top-notch. So I'm just going to piggyback on Whit's question, and you guys are also putting up some impressive numbers in Texas too, like up 22%; and Louisiana, 26%. And I was just trying to get a better sense of when you talk about the increased referral relationships too, are they tied -- like are they disproportionately more weighted to where you're seeing some of this increased activity? Or is there something else going on? And then I have a quick follow-up.

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

Sure. So Justin, I guess I would probably have to go slice the data a little bit more finely to be able to directly answer your question as it relates to the specific markets. I know because I remember looking at it last week during MORs that the new referral sources are definitely up in Texas and in Florida, for sure. So that is a contributor to this. But I would also say, in some of those -- those 2 states alone right there have been where there has been some recent surges in the coronavirus pandemic. And I do believe that while new cases of the pandemic rise in certain markets, the health care kind of infrastructure is a lot more comfortable now with taking care of patients in the home. So we are prepared. We've got all the PPE. We've got all the infection control protocols in place. So I think in states where you're seeing more surges, we're actually starting to gain more market share and not one-to-one for COVID patients, but you build those relationships with the referral source when you're willing and able to partner with them for those patients, and then you get more following that. So I think you're seeing some of that, too.

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

Yes. Thanks, Josh. That's kind of where I was going to. It was more -- the next was going to be like, is it -- are we seeing increases from your existing JV partners in those markets too? Or is it like -- is there just a broader capture going on? And it sounds like the latter. And then just a quick follow-up on PDGM, pretty positive commentary there. Is it -- do you guys feel like you're in a good place now with respect to the revenue side in the care plan? Or is there some more wood to chop? And then -- and is there still some room on the table on the rate? Or is like the down 1% where you guys wanted to be by year-end? And then I'll stop there.

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

Thanks, Justin. I'll start, and then I'll kick it over to Dr. Ben again. On the PDGM rate headwind side, 3% headwind, Q1; 1% headwind in Q2. I feel really good about being at the only negative 1% for Q2. If there are more wood to chop, I would say that we said all along that as we exit 2020 going into next year, we believe that we had a real good opportunity to implement our care pathways in a way to mitigate the reimbursement headwind from that. So that extra 1%, we would expect that to be mitigated throughout the back half of this year. But whether it settles in at 0.5% or somewhere in where we're at right now, we feel really good about it. On your first question, let me just say, generally, yes, we are receiving an increased referral flow from our hospital partners in those key states you mentioned. In Texas, you've got Texas Health Resources, Methodist, a lot of our CHRISTUS footprint as well. And then in Florida, obviously, we've got Baptist in the Panhandle and some hospital partners in that state. But Dr. Ben, why don't you talk a little bit about what we're doing with some of those partners in those states that's leading to some of that referral flow?

Benjamin N. Doga - *LHC Group, Inc. - Chief Medical Officer*

Absolutely. Thank you, Josh. As mentioned before, much of the COVID numbers have given us an opportunity to increase our conversation with our partners and other hospitals that are in our geographical areas. This conversation, as Josh mentioned, extends beyond COVID-19 patients and it gives us the opportunity to shorten length of stays and give the availability for patients to move from inpatient into the home. And at that time, our goal is to create a seamless transition where we are a true partner that is able to continue the care to begin in the hospital in the home. This is something -- at any time of transition, there's always a point at which there's some difficulty continuing forward and having a true partner and having that conversation goes a long way in providing that care seamlessly. Along with that, we've been able to brainstorm together at coming up with solutions for some of the higher acuity patients that may have gone to a congregate living facility or skilled nursing facility to let them know what our capacity is to care for those patients and often extend not only our own protocol that we have worked quite a bit on, but also utilizing the cardiology, pulmonology protocols used in the hospital that are in our own service line once they return to home. This has been created to the point where, as an example, we have a leader in Florida who actually contacts our joint venture hospital on a daily basis, almost as part of the bed delivery service line, saying how many patients that we're available to take that day based on staffing as well as capacity that we have on our end. So that creates that transition period or that option of transition for those patients from the hospital to the home in a more seamless pattern.

Operator

Our next question or comment comes from the line of Frank Morgan from RBC Capital.

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

You talked about some of your pandemic-related cost reduction efforts. I'm just curious, how much of those do you think are really permanent so that as this volume recovery continues, you really see some nice margin leverage from that? And when I was looking at your segment margins, they already look fairly impressive with home health care back up over 13%; and hospice, almost 16%. So how much -- I know you did mention more -- or said about the potential for an increase in visits per episode. But how do you think about the opportunity to see margin leverage as this volume recovery continues?

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

Yes. Thanks, Frank. This is Josh. I'll -- what I'll say there is, as with any trying situation, it really forces high-performing teams to get around the conference table and spend a lot of time doing post-mortem or lessons learned. And I've got to tell you, we have spent an inordinate amount of time doing that throughout the pandemic. And we're not done learning yet. There's a lot more that I think we will learn from this experience, not just from an infection control and protocol standpoint to be ready and nimble whenever future spikes or -- I pray not, but any other infection control pandemics might ever occur, but it goes beyond that. And things like the way we are incorporating more technology and remote learning, remote team interactions, some of the things we're doing to continue to onboard new sales team members as we continue to have opportunities to grow, we used to bring them all in to Lafayette and have a week of "downtime" while they are training. We've now incorporated a virtual element to how we're getting them trained along with some of their in-person ride-alongs to get them actually out on the street sooner. So there's a lot of those types of things that when you think about travel, you think about airfare, hotel rooms, I think that will help our G&A and our margins continue to look good going forward. But I want to reiterate, Frank, the lessons that we have and we'll continue to learn from this, you know us well. We almost end every week with lessons learned and what can we do to hardwire those into our operations. So to the margins, we feel really good about home health and hospice, with the caveat that you already alluded to, with a slight uptick in visits per episode on the home health side. And I wouldn't be surprised if the hospice margins came down just a little bit in the back half of the year where possibly, a little bit uptick in in-person visits could occur there as well.

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

Maybe one quick follow-up. As I look at your revenue factors you described in home health care on Slide 20, when you're looking at the percentage of P2s, institutional admits, LUPAs and case mix rates, which of those -- I mean, it looks like when I think about which of those are essentially back to normal, should we see more movement in the percentage of P2 days going down and P1s coming back up? Or it looks like institutional admits would be one area that you could still see some reversion back to normal. So any commentary about any of those 4 factors? And which ones would drive a rate change the most?

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

Yes, Frank. So you can see, and I mentioned in my prepared remarks, that we feel -- we're kind of in an expected normal range on the LUPA side. The case mix is showing a good trajectory there month-over-month, back up over one in the month of July. So that's very positive. But you hit the 2. The 2 that really will help overcome the rate pressure we're feeling right now, that negative 2.5% on the revenue per episode that I described, are really in the institutional admit percentage and then the percentage of, I would say, the betterment of the rate comes from the percentage of P1s on more front-end admissions. So on the institutional, we really kind of dipped down into that 57%, 58% range. We're pleased that we're back up over 60%, but you've got 400 or 500 basis points at least of continued improvement there as more elective procedures occur and things of that nature. And then on the percentage of P2s, as we -- now that we've got that 8,000-plus new patient admit run rate going, we're seeing the percentage of P1s slowly improve. But once we get back up to the 8,500 and above that I described earlier, you're going to see that kind of move back better as well.

Operator

Our next question or comment comes from the line of Mr. Matthew Larew from William Blair.

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

Okay, thanks. Thanks for all the detail on some of the work you do with your JV partners. I wanted to ask about work with one of your other constituents, which is on the payer side because it does look like the MA business was very strong in the quarter. And I know there's a lot of site of care redirection efforts going on there. So just curious what the conversations you've had intra-quarter with payers, not only about -- again, site of care direction near term, but perhaps how this might catalyze more SNF at home or other more value-based relationships moving forward?

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

Great, Matt. So I'll say a few things, and I'll kick it over to Bruce. Very pleased with, as we've talked year-over-year, it seems like for the past few years, with our continued -- just fundamental rate per visit improvements that we're seeing on our entire managed care book of business. And I want to acknowledge and tip my cap to our leaders that are really driving that effort. We've got just such a top-notch team that is day-to-day in the trenches of entering into new contracts, negotiating improvements in rates and that sort of thing. So we've seen continued rate improvements year-over-year just in the underlying mix of our business that we have. Now as it relates to value-based arrangements, we have seen an uptick in those. And our -- it's still not a material portion of our revenue, but super excited. We have a biweekly meeting every 2 weeks that Bruce leads that -- Bruce and our team that drives that effort with myself and some of our operators, and he comes in just so excited and gets the rest of us excited about where that's headed. So Bruce, why don't you give an update on where we're on in value-based?

Bruce D. Greenstein - *LHC Group, Inc. - Executive VP and Chief Strategy & Innovation Officer*

Yes. So value-based continues to make up sort of a larger portion of our activity. And as Josh said, it may not be material in terms of the percentage of our overall activity. It becomes more and more influential because it's a larger portion of each of the arrangements that we have when we set it up from the beginning. And we like the way that payers and the health systems that are under full-cap arrangements from payers are starting to think about it. Maybe you just consider in the first wave, it was more process-oriented or more measurement-oriented around starts, timely initiation of care. But now we're seeing the second wave, which I think is even more important for the U.S. health care system and better for us because we're able to address it. And that is in managing total cost of care. Today, we're around the measurements associated with reducing unnecessary emergency department visits and hospital -- rehospitalizations. But now we're in discussions on managing total cost of care for a period of time. That I think will be the next phase, the third phase of value-based relationships. We already are so data-oriented that we're measuring the total cost of care during the time that we are working with the patient in our episode. We are already managed -- we're already measuring the cost going out to 180 days from the time of admission. So whether it's the largest payers in the country that we're working with today, we're paying attention to that. And we're in relationships where we're starting to get -- we're starting to get our bonus checks from even non-obvious markets like Medicaid, where we've had a lot of success. But we're already looking at the BPCI bundled payments. We're working with our hospital JV partners that are under full-cap arrangements, and we're starting to harvest those bonuses right now. And that's just leading to more sophisticated discussions about taking over a larger, say, share of the management of those patients going forward. Matt, I also want to touch on, you mentioned SNF diversion. And SNF diversion has become an exceedingly hot topic since COVID started, and it's something that we've been talking about for at least the last 2 years at LHC. And despite how enthusiastic I am about being able to work with our hospital partners today and jump in to take patients to the safer place and a place that they want to be, where we can take care of them clinically appropriately, the business is something that I think is sort of a half generational change. As we've gotten deeper and deeper with our health systems on SNF diversion, we're unlocking relationships that have been beyond arm's reach for us that are about working with discharge planners and case management teams in corporate offices all the way down to the hospitals where maybe we haven't had the same kind of reach that we want to. We haven't had the ability to bring home more clinically complex patients that we want to. So when we measure the number of SNF diversion patients that we're taking, it's not in the thousands. But what's happening is as we take in dozens and dozens, we're also bringing in new patients that would not have come to us otherwise. And I think even when COVID is over soon, I hope that it could go on for a year longer. Those relationships will continue to spin off, not

just the SNF diversion patients, but also our -- in middle 50 percentile patients, but also a lot more in the upper 10% patients. And we're convincing clinicians throughout the health care system that home is not just where patients want to go. Home is not just the safer place to go. But it's also the clinically appropriate place to go. And that's -- we couldn't be happier about that transition as well.

Operator

Our next question or comment comes from the line of Matthew Gillmor from Baird.

Matthew Dale Gillmor - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I just had one last one for either Keith or Josh. But could you just sort of update us on where you are with the CFO search? I know you had a little bit of a false start, but just kind of give us a sense where you are on that process.

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

So yes, this is Keith, I'll go first. As you know, we have Russell Reynolds engaged. We've worked with Russell Reynolds for a long time. Sarah Eames, in particular, does most of the work for us. So it was -- we're quite disappointed that Robert didn't work out for personal reasons in the end. He was a great fit, we thought. But Russell Reynolds was already engaged, and they just continued the engagement. And so I would say, often, we find us a silver lining on a lot of things that don't look great upfront. The cast of candidates now that we're looking at is much more impressive, I would say, not to take anything away from Robert, but the search is more public. And I think that's what's given Russell Reynolds more success. So happy with the process. And we have the benefit -- the blessing of being able to take our time and make the right decision. It's unique to have Josh in this position as maybe we have this long and been -- headed up a number of important departments. He's an attorney and an accountant, so -- and we have a very experienced staff that's all around him. So there's -- we don't need to make a knee-jerk decision. But I appreciate the question. Josh, do you want to add anything to that?

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

Yes. No. Maybe the only thing I would add to what Keith just said is how excited we are about the candidates that are inbounding with interest. When we are first doing the search, obviously, it wasn't public at that point so that -- there's one way to search in that arena. But once it became public, Russell Reynolds is actually receiving inbound inquiries now that LHC Group's CFO position is available and being marketed. So we have a weekly call with Russell Reynolds, where they're giving us feedback of the candidate pool. And not only do we have strong candidates, we have a broader number of candidates than we had the first go-around as well. So I agree with Keith. No huge rush, because we're going to get the right person to complement the team.

Operator

I'm showing no additional questions in the queue at this time. I'd like to turn the conference over back to Mr. Keith Myers for any closing comments.

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

Okay. Thanks, operator. Thanks, everyone, for dialing in to the call. And thanks for your support and confidence in LHC Group. As always, we want to be available to you at any time if you have questions. Please contact Eric Elliott, and Eric will make other members of the management team available to you as needed. So thanks again, and look forward to talking to you next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. You may now disconnect. Everyone, have a wonderful day.