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Home again: Demand for industry services will remain high, but funding cuts threaten revenue

IBISWorld Industry Report 62161
Home Care Providers in the US

February 2014

Jocelyn Phillips

About this Industry

Industry Definition

Companies in this industry primarily provide services in the home. These services may be medical or nonmedical and include skilled-nursing care, personal care, homemaker and companion services, physical therapy and medical social services. This industry also includes in-home hospice care providers.

Main Activities

The primary activities of this industry are

- Providing homemaker and companion services
- Administering in-home physical therapy
- Providing in-home hospice care
- Providing 24-hour home care
- Administering in-home occupational and vocational therapy
- Providing in-home dietary and nutritional services
- Administering speech therapy
- Providing in-home medical care

The major products and services in this industry are

- Home hospice
- Home therapy services
- Homemaker and personal services
- Traditional home healthcare and home nursing care
- Other

Similar Industries

62111a Primary Care Doctors in the US
Doctors in this industry provide medical treatment and diagnosis, generally in physician offices.

62111b Specialist Doctors in the US
Doctors in this industry provide specialized medical care or surgery.

62134 Physical Therapists in the US
Practitioners in this industry administer medically prescribed physical therapy.

62142 Mental Health & Substance Abuse Clinics in the US
This industry provides outpatient diagnosis and treatment of mental health disorders and substance abuse issues.

62149 Emergency & Other Outpatient Care Centers in the US
This industry includes companies with medical staff that provides general or specialized outpatient care.

62211 Hospitals in the US
This industry operates general medical and surgical hospitals, which provide diagnostic and medical treatment (both surgical and nonsurgical) to inpatients.

62311 Nursing Care Facilities in the US
This industry includes companies that operate nursing homes with dedicated staff.

About this Industry

Additional Resources

For additional information on this industry

www.cms.gov
Centers for Medicare and Medicaid Services

www.nahc.org
National Association of Home Care and Hospice

www.homehealth4america.org
Partnership for Quality Home Healthcare

Industry at a Glance

Home Care Providers in 2014

Key Statistics Snapshot

Revenue
$74.5bn

Annual Growth 09-14
3.6%

Annual Growth 14-19
-0.2%

Profit
$3.1bn

Wages
$37.4bn

Businesses
304,350

Market Share

There are no Major Players in this industry

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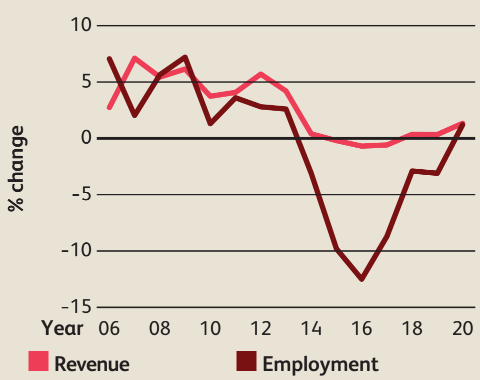
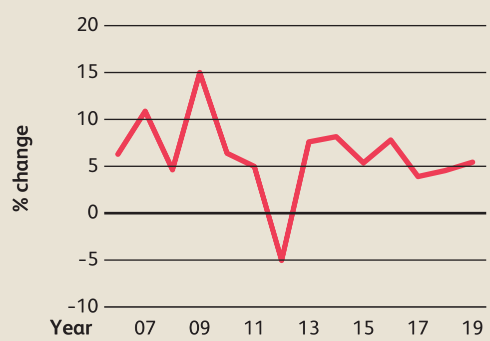
Revenue vs. employment growth



Federal funding for medicare and medicaid



SOURCE: WWW.IBISWORLD.COM

Key External Drivers

- Federal funding for Medicare and Medicaid
- Number of adults aged 65 and older
- Number of people with private health insurance
- Per capita disposable income

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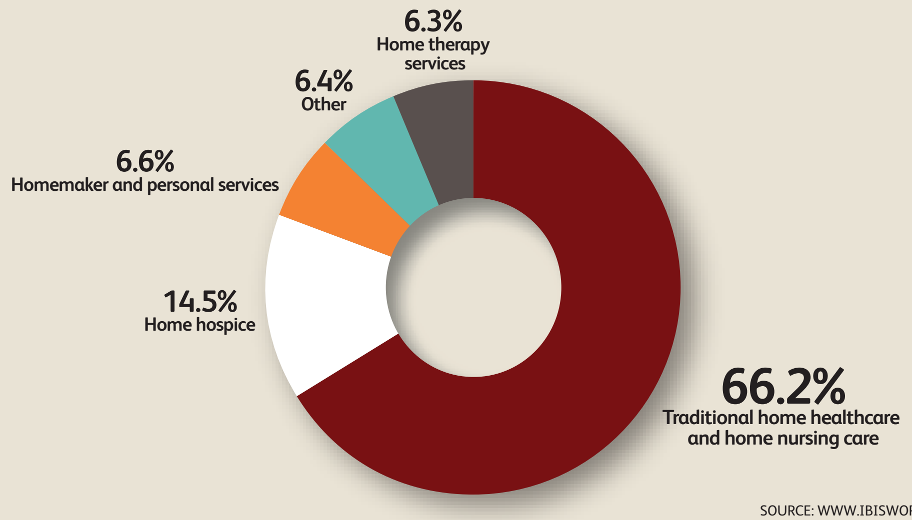
Products and services segmentation (2014)



SOURCE: WWW.IBISWORLD.COM

Industry Structure

Life Cycle Stage	Growth	Regulation Level	Heavy
Revenue Volatility	Low	Technology Change	Medium
Capital Intensity	Low	Barriers to Entry	Low
Industry Assistance	High	Industry Globalization	Low
Concentration Level	Low	Competition Level	High

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 34

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

Prior to December 2013, the Home Care Providers industry was quickly becoming one of the fastest growing healthcare industries in the United States. Home care saves billions of dollars every year by allowing patients to avoid high-cost healthcare settings, such as hospitals. An aging US population, the prevalence of chronic disease, growing physician acceptance of home care, medical advancements and a movement toward cost-efficient treatment options from public and private payers have all fostered industry growth during the past five years, contributing to an annualized 3.6% revenue increase to $74.5 billion in 2014.

Federal rebasing of Medicare payments for industry services has the potential to cripple the industry

However, despite strong past growth, industry funding from government sources has come under intense pressure in recent years. Government programs (including Medicare and Medicaid) generate an estimated 80.0% of industry revenue. Over the past five years, federal and state budgets have been shrinking, and sequestration only exacerbated this decline. Decreasing federal funding has resulted in reimbursement cuts for the industry and has suppressed profitability. Healthcare reform expanded access to insurance for some industry patients, but many states chose not to expand access to federal healthcare.

Moreover, to help pay for other provisions of the recent healthcare legislation, the Centers for Medicare and Medicaid Services announced the implementation of a four-year 3.5% annual reduction to the Medicare base payment for home healthcare services beginning in January 2014. The National Association for Home Care and Hospice estimates that the magnitude of these reductions will likely render three-quarters of all industry operators unable to run profitably by 2017. According to the Partnership for Quality Home Healthcare, the industry experienced its largest job loss in more than a decade in December 2013; although the Medicare reductions were not officially implemented until 2014, CMS's announcement was enough to spur industry operators to begin cutting costs. The industry is aggressively lobbying Congress to reconsider or revoke these reductions, but unless that happens, IBISWorld expects industry revenue to decrease an annualized 0.2% in the five years to 2019, to $74.0 billion. Spurred by slow revenue growth of only 0.4% in 2014, IBISWorld also anticipates significant profit losses across the industry, with average margins decreasing from 5.6% in 2009 to 4.2% in 2014 and 3.3% by 2019.

Key External Drivers

Federal funding for Medicare and Medicaid

Increased federal and state funding of Medicare and Medicaid stimulates demand for healthcare services and determines the prices charged for those services. Although government funding for these programs is expected to increase in 2014, Medicare reimbursement is forecast to decline for home care providers, posing a potential threat to the industry.

Number of adults aged 65 and older

Older adults are major users of healthcare services due to the development of diseases and assistance required later in life. The aging

Industry Performance

Key External Drivers continued

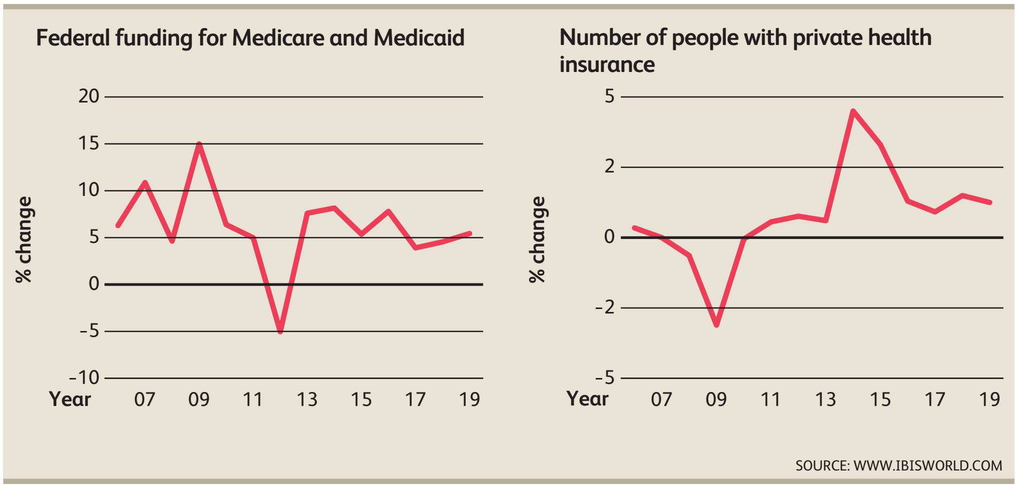
population and its increasing preference for home care over hospital stays are factors that make home care a growing part of the healthcare sector. The number of adults aged 65 and older is expected to increase during 2014, representing a potential opportunity for the industry.

Number of people with private health insurance

People covered by private health insurance are likely to use healthcare services more frequently. Therefore, the extent to which private health insurance covers the US population affects demand for healthcare services. About 8.0% of industry revenue is from private insurance payments. The number of people with private health insurance is expected to increase throughout 2014.

Per capita disposable income

As per capita disposable income rises, individuals are more likely to purchase insurance plans or be able to afford out-of-pocket healthcare expenses, such as home care services. Out-of-pocket payments make up about 10.0% of industry revenue. Per capita disposable income is expected to increase during 2014.

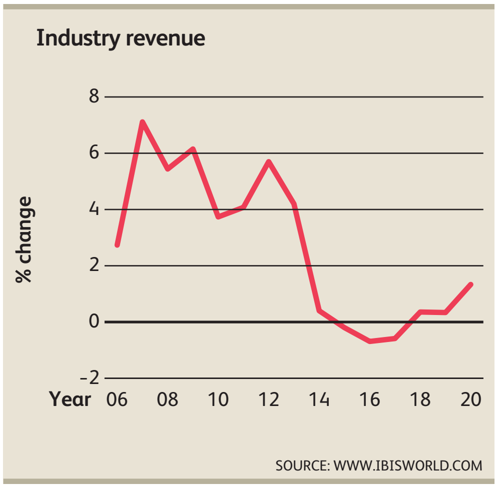


Industry Performance

Current Performance

The Home Care Providers industry, wherein skilled professionals provide medical and caregiver assistance to patients in their own homes, is a highly fragmented industry, with many small players offering a wide variety of home care services to an aging population. Relatively low barriers to entry and increasing demand for services keep the industry competitive; in some states where licensing is not required for nonmedical care, an individual with a personal vehicle may be enough to constitute a business. Larger industry operators do exist, but the nature of industry services (largely labor-intensive, with low capital requirements) provides few incentives to accomplish economies of scale. Nonetheless, the relatively low profit margins that come from serving well-established industry markets (home-bound, largely elderly people paying for services through government reimbursement programs) encourage operators to undertake mergers and acquisitions to boost profitability and cut costs.

Home care providers have expanded their role in the healthcare sector as the population has aged and people have increasingly preferred home care over institutional care. Over the five years to 2014, IBISWorld estimates that the number of people aged 65 and older has expanded at an average annual rate of 2.7% to 45.3 million individuals. People from this generation appreciate the independence of home care versus hospital care, and baby boomers have greater disposable income than previous generations, which has benefited the industry significantly over the past five years. Industry revenue is expected to grow at an average annual rate of 3.6%, reaching $74.5 billion in the five years to 2014. However, in November 2013, the Centers for Medicare and Medicaid Services (CMS) issued a ruling that will slash Medicare funding for home health programs by 3.5% per year on average from 2014 to 2017. Because home care providers are unsure how this ruling will shape the future of the industry, revenue is expected to grow only 0.4% in 2014.



Consolidation and specialization

Increased demand has fostered revenue growth, but reimbursement cuts have pressured the industry's operating profit. The poor economic environment and the state of the US healthcare system have induced the government to reduce spending; home care has been an easy target because the industry is highly fragmented and does not have strong political representation. In response to pressured profitability and the need to differentiate services in this highly competitive industry, operators have consolidated throughout the past five years. Still, because of the industry's low barriers to entry, the number of companies is estimated to increase an average 2.1% per year to 304,350 over the five years to 2014, although this rate is slower than the previous five-year period.

As companies have consolidated, they have also focused on providing specialized services. Prominent industry

Industry Performance

Consolidation and specialization continued

operator Gentiva Health Services has introduced more than 400 specialty programs, including Gentiva Orthopedics, Gentiva Safe Strides, Gentiva Cardiopulmonary and Rehab Without Walls, and now generates more than 40.0% of its revenue from these programs. As Gentiva garnered success through specialized disease management programs, other agencies followed suit, developing their own programs. As a result of this emphasis on specialized labor, total industry wages have grown an annualized 3.1% in the past five years, to $37.5 billion, even as total industry employment has only grown at an annual average rate of 1.4% to just under 1.5 million people.

Reimbursement risk

In recent years, the Home Care Providers industry has been thrust into the government spotlight with repeated reports from the Medicare Payment Advisory Commission about excessive profit margins and accusations of questionable business practices. With the passing of the Patient Protection and Affordable Care Act (PPACA) in March 2010, the government planned to reduce the total reimbursement that Medicare-certified home health agencies receive under the Home Health Prospective Payment System. Payments from Medicare account for about half of industry revenue and, according to the National Association for Home Care and Hospice, the Medicare home health benefit was cut by $78.0 billion between 2009 and 2013.

Medicaid reimbursements, the second-largest source of industry revenue, have also been subject to federal reductions. Government payment rates for Medicaid are determined according to published fee schedules pursuant to statute, law or other regulatory processes. Home and community-based services (HCBS) waivers afford state Medicaid programs the flexibility to develop and implement creative alternatives to placing individuals in hospitals, nursing facilities or intermediate-care facilities. Developing home and community-based alternatives to institutional care has been a priority for many state Medicaid programs in response to consumer demand and cost benefits over the past five years. While the majority of Medicaid long-term care dollars still go toward institutional care, the national percentage of Medicaid spending on HCBS has tripled since 1999 and now comprises 45.0% of Medicaid spending on long-term care.

> Healthcare reform legislation shines light on the political vulnerabilities of this industry

However, operators' dependence on federal funds for home care exposes them to changes in policy from year to year. Home care providers were stunned to learn that other provisions of the PPACA would be paid for using the $22.0 billion cut to the Medicare benefit for home healthcare, and have aggressively lobbied Congress in the months since that decision was made and implemented. As a result of both these reimbursement reductions and the unsure political climate, IBISWorld estimates that despite growing demand for industry services, the industry's average profit margin will remain suppressed in 2014, accounting for just 4.2% of revenue.

Industry Performance

Industry Outlook

Faced with an aging population, increasing interest in home healthcare and expanded access to Medicare and Medicaid under the Patient Protection and Affordable Care Act (PPACA), strong and steady revenue growth seems likely for the Home Care Providers industry. The aging population will continue to foster revenue growth because this demographic requires more healthcare services compared with other age groups and increasingly prefers home care. Payers will also progressively shift to home care because it is more affordable than inpatient hospital and nursing-home care.

Despite these favorable trends, Medicare and Medicaid reimbursement cuts will continue to seriously threaten the industry. In late 2013, the Centers for Medicare and Medicaid Services (CMS) was asked to assess potential reductions to the actual base Medicare payment for home health services. Partly to offset the costs of implementing other PPACA provisions, CMS approved the largest possible reduction of funding to the Home Health Prospective Payment System, equivalent to a 3.5% deduction per year on average from 2014 to 2017. Since the announcement and implementation of this reduction, industry operators and the associations that represent their interests have lobbied hard to convince Congress to reconsider or revoke this decision. However, as of January 1, 2014, this ruling is still applicable, and the future of the home healthcare industry is accordingly in jeopardy. As a result, IBISWorld expects industry revenue to decrease an annualized 0.2% in the next five years, to $74.0 billion. According to Bureau of Labor Statistics data reported on by the Partnership for Quality Home Healthcare, the industry lost 3,700 jobs in December 2013, as a direct result of the announcement of the pending cutback in Medicare funding. Unless the decision to drastically reduce Medicare funding is amended, IBISWorld expects industry-wide uncertainty and job loss to continue in the five years to 2019, with industry revenue expected to decrease an estimated 0.2% in 2015 alone.

Demographic and reform benefits

Home care providers have been benefiting from the aging population, a trend that is forecast to continue in the coming years. According to senior advocacy organization AARP, the majority of people older than 50 want to live in their homes as long as possible. Because this demographic makes up an escalating percentage of patients, the industry will likely introduce more services that address issues commonly faced by individuals aged 65 years and older, such as chronic-disease management. Chronic diseases afflict more than 130.0 million Americans, and the number is anticipated to increase significantly as more aging baby boomers are diagnosed with diseases like congestive heart failure, chronic obstructive pulmonary disease and coronary artery disease. Chronically ill individuals already account for about 76.0% of all hospitalizations, which puts stress on an already-burdened healthcare system. As such, chronic disease management is expected to become an industry mainstay over the next five years and will provide a significant source of revenue for operators.

Chronic-disease management will represent a growth segment due to medical advancements

Industry Performance

Demographic and reform benefits continued

PPACA's guaranteed long-term care insurance, which individuals can pay for through payroll deductions, will likely support some industry growth. Moreover, other provisions of the law will provide additional support for people who want to remain at home, because the law has generated nearly three dozen experimental projects testing ways to help older individuals avoid institutional care. For example, the Independence at Home project is testing whether incentive payments to primary care doctors and nurses will promote better care coordination for Medicare patients with two or more chronic illnesses.

Impact of Medicare cuts

Even as the wave of baby boomers requiring home care services will drive demand volumes higher, the Congressional Budget Office estimates that PPACA will result in an aggregate $39.7 billion reimbursement cut for Medicare-certified home health agencies from 2010 to 2019. Medicare accounts for 50.0% of total industry revenue, and the National Association for Home Care and Hospice estimates that more than 75.0% of industry companies will be severely impacted by the announced reductions. CMS expects that, as a result of these reductions, 40.0% of small home healthcare companies could go into the red by the end of 2017, and IBISWorld similarly expects to see average industry profit margins fall from 4.2% of revenue in 2014 to 3.3% in 2019.

As profit falls, industry observers estimate that up to 500,000 industry employees could lose their jobs by the end of 2017. IBISWorld agrees that drastic cost-cutting measures in the face of significant threats to revenue and profit will likely cause industry employment to drop an estimated 7.5% per year on average, to 989,927 employees in 2019. Total industry spending on labor will likely also drop an annualized 5.9%, to $27.6 million. As industry operators look to reduce costs in the face of significant budget cutbacks, lower paid nonessential workers will likely be the first to be cut, and average industry wage will likely increase somewhat, as industry operators maintain only the most skilled professionals. However, much of the anticipated employment loss will be attributable to business closings. Many small industry companies will likely not be able to survive drastic funding reductions, particularly those specialized, niche operators who cannot rely on other, more steadily funded business segments to keep their companies running profitably. These companies will likely either get acquired by large industry businesses, or leave the industry altogether, causing the total number of home care providers in the industry to decrease an annualized 7.4% in the five years to 2019, to 207,634.

Medicare reimbursement cuts have the potential to transform the landscape of the industry

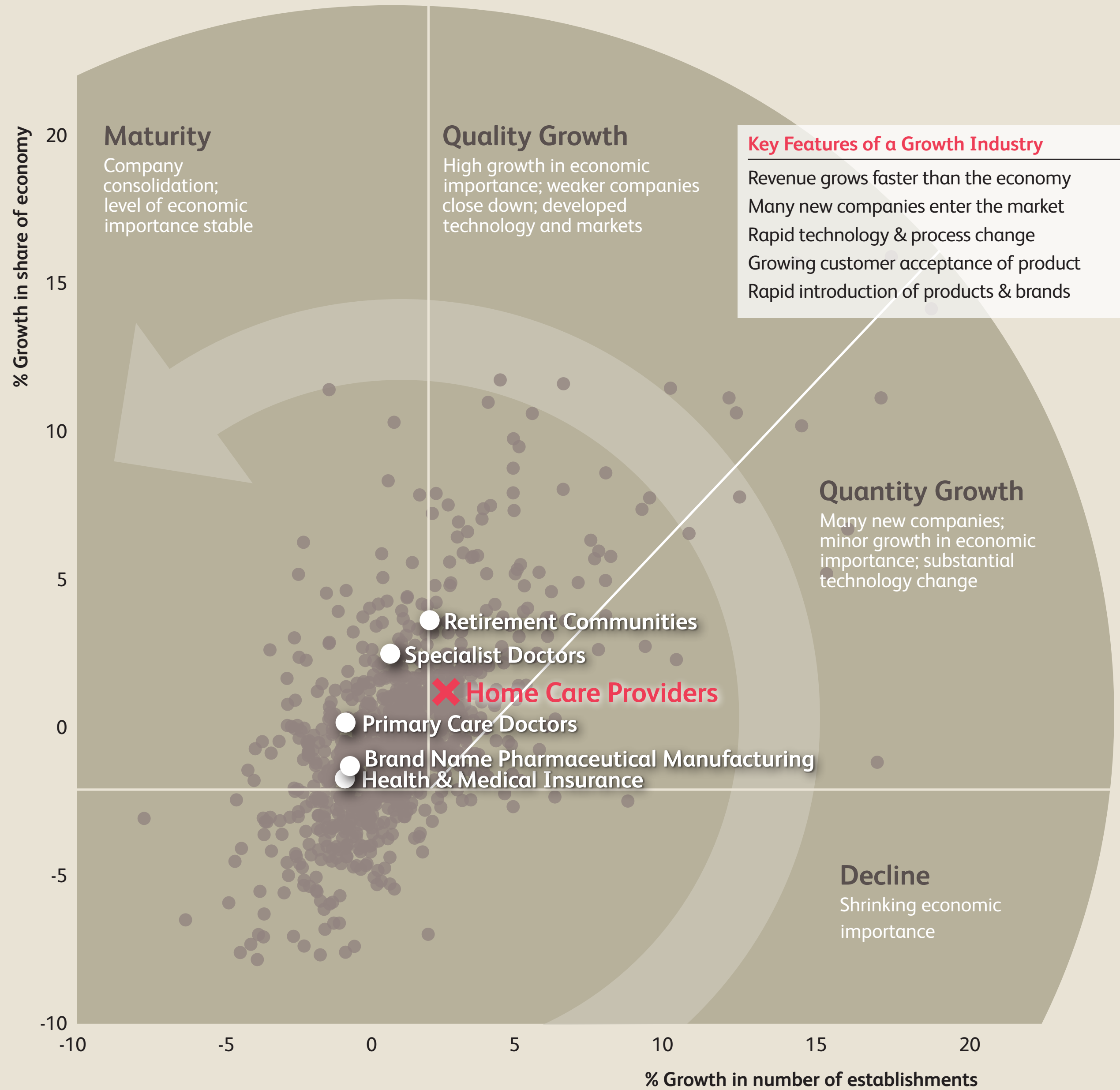
Industry Performance

Life Cycle Stage

Aging demographics and the cost-effectiveness of home healthcare support industry revenue

New technologies increase the range of services that can be provided in the home

Planned reimbursement cuts pose a significant threat to wages and profit



Key Features of a Growth Industry

- Revenue grows faster than the economy
- Many new companies enter the market
- Rapid technology & process change
- Growing customer acceptance of product
- Rapid introduction of products & brands

SOURCE: WWW.IBISWORLD.COM

Industry Performance

Industry Life Cycle

This industry is **Growing**

The Home Care Providers industry is in a growing stage of its life cycle, although pending reimbursement cuts threaten a potential shift to significant decline in coming years. Over the 10 years to 2019, industry value added, or the industry's contribution to the overall economy, is forecast to shrink at an average annual rate of 0.4%. Although this rate is slower than the projected 2.7% annualized growth of US GDP during the same period, industry performance is expected to be significantly different in the next five years than it was during the past five years, and future performance is highly dependent upon the continued implementation of significant Medicare funding cuts.

Prior to December 2013, the industry was growing due to strong demand from the aging population, a shift in patient preferences toward home care rather than institutionalized care and an increasing appreciation for the cost savings of home healthcare relative to hospital care. Home treatment was growing in popularity, partly due to lifestyle preferences of aging baby boomers, and partially due to advances in medicine that are promoting independence among the elderly. Furthermore, advancements in technology were allowing more healthcare procedures to be carried out in homes.

However, the 2013 announcement by the Centers for Medicare and Medicaid Services that Medicare payments for home healthcare services will be cut by 3.5% annually from 2014 to 2017 stopped the industry dead in its tracks. Companies began to close for business and fire employees even before the reductions were implemented in January 2014. Since the announcement and implementation of this rebasing, industry companies and relevant supportive associations and organizations have begun aggressively lobbying Congress to reconsider the reductions. If these efforts are successful, the Home Care Providers industry may well be on track to maintain its growing life cycle stage. However, if the payment reductions stay in place, service innovations and the development of new markets throughout the industry will be severely limited, as companies will be forced to lay off more workers, face reduced profit margins or close their doors altogether.

Products & Markets

Supply Chain | Products & Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

52411b	**Health & Medical Insurance in the US** Insurance companies represent a third-party payer for home care services.
62111a	**Primary Care Doctors in the US** Family doctors and GPs refer patients to home health services and the reverse can also apply where home care providers recommend doctors for patients.
62111b	**Specialist Doctors in the US** Patients will often be referred to specialist doctors by home care providers and vice versa.
62211	**Hospitals in the US** Home care providers will refer patients to be admitted to hospitals and often hospitals will do the same for home care providers.
62331	**Retirement Communities in the US** Providers of home care can also offer services in, and refer patients to, community care facilities.
9901	**Consumers in the US** Individuals aged 65 and over and individuals with certain health conditions are the primary beneficiaries of industry services.

KEY SELLING INDUSTRIES

32541a	**Brand Name Pharmaceutical Manufacturing in the US** This industry supplies home care providers with pharmaceuticals and medicines to treat patients.
32541b	**Generic Pharmaceutical Manufacturing in the US** This industry supplies home care providers with pharmaceuticals and medicines to treat patients.
33911a	**Medical Instrument & Supply Manufacturing in the US** This industry supplies the necessary medical instruments for treating patients in the home. Equipment from this industry can also be sold or leased to patients.
33911b	**Glasses & Contact Lens Manufacturing in the US** This industry supplies products that are necessary for treating patients and for their personal care. The equipment can also be sold or leased directly to patients.
42345	**Medical Supplies Wholesaling in the US** This industry wholesales medical supplies to home care providers.
56131	**Employment & Recruiting Agencies in the US** Employment and recruiting agencies assist home care providers in the recruitment of reliable nursing and other staff.
Jun 0923	**Administration of Government Programs in the US** Administration of Human Resource Programs (except Education, Public Health, and Veterans Affairs Programs), is responsible for Medicare & Medicaid administration, among other things. Medicare & Medicaid are major payers for home care services.

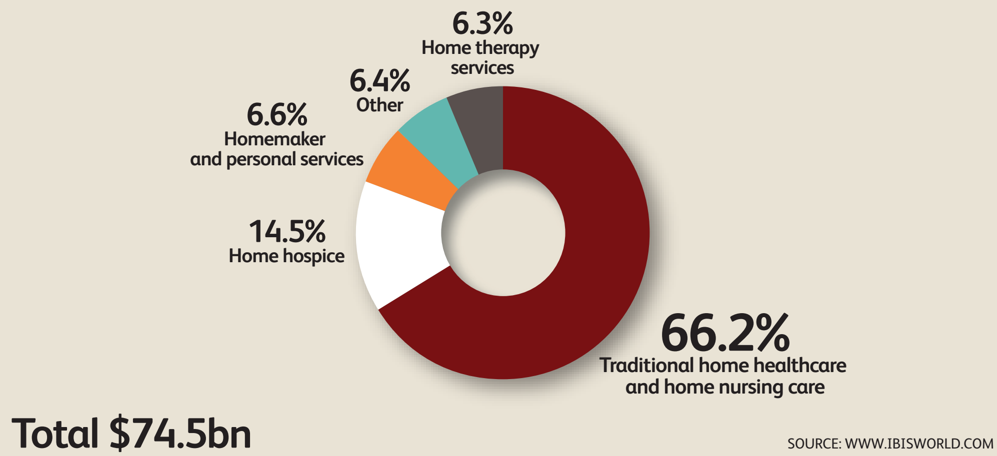
Products & Services

Home care providers include home healthcare agencies, home care aide organizations and hospices. During the five years to 2014, the popularity of services provided by these organizations has been growing as more Americans age and cope with chronic conditions, bolstering demand for industry services. The laws governing these services and what exactly can be performed by home care agencies, home healthcare agencies or hospices vary from state to state. For the most part,

Products & Markets

Products & Services continued

Products and services segmentation (2014)



SOURCE: WWW.IBISWORLD.COM

non-medical senior home care is a private pay service, meaning it is not covered by Medicare or Medicaid programs and must be paid for independently. Medicare, Medicaid, long-term care insurance or veteran's benefits often cover home healthcare services.

Traditional home healthcare and home nursing care

The traditional home healthcare and nursing segment includes medical care provided in a patient's home by healthcare professionals. Medical services potentially provided by home healthcare and nursing care agencies include medical or psychological assessment, wound care, and pain, disease and medication management and education. This type of home care is generally appropriate for those suffering from chronic illness, recovering from acute injury or illness or needing skilled care to remain at home. This segment's services can help to prevent or shorten hospital stays. Traditional home healthcare and home nursing care's share of total industry revenue has slowly increased in recent years as the share of the population over the age of 65 has increased. This slow growth trend is expected to continue in the five years to 2019 as the number of people over the age of 65 is expected to grow an annualized 3.1%.

Home hospice

Hospice care is designed to give supportive care to people in the final phase of a terminal illness and is focused on comfort and quality of life rather than cure. The goal is to enable patients to be comfortable and free of pain, so that they live each day as fully as possible; aggressive methods of pain control may be used. Hospice programs generally are home-based, but they sometimes provide services away from home in freestanding facilities, in nursing homes or within hospitals. Only those companies that provide services in the home are included in this industry. The share of total industry revenue generated by home hospice services has remained steady during the past five years, but is expected to grow during the next five years due to increased demand from the aging population. Revenue growth, however, will be somewhat limited by a healthcare reform provision that is estimated to cut Medicare hospice payment rates by about 11.8% over the next 10 years through the introduction of a productivity adjustment.

Products & Markets

Products & Services continued

Homemaker and personal services

Home care aide organizations provide non-medical care or custodial care, including transportation, errands, light housekeeping, meal preparation, medication reminders and assistance with activities of daily living. This type of home care is usually referred to as personal or companion care and can be a boon to those recovering from an illness or injury, or who are less capable of getting around fully independently. These services are generally not covered by medical insurance or government reimbursement plans, so, during the recession, family members often decided to take on these duties rather than pay out of pocket for companion care. However, as disposable income levels have risen during the past five years, this segment's share of total industry revenue has begun to recover to prerecession levels. As recovery continues slowly, IBISWorld expects this segment to remain relatively stable as a portion of industry revenue during the next five years.

Home therapy services

Home care providers offer an array of services depending on the needs of the patient. Common services include infusion therapy, respiratory therapy, occupational therapy, speech therapy and physical therapy. Home infusion therapy, which accounts for more than 85.0% of this segment's revenue, includes intravenous administration of nutrients, antibiotics, chemotherapy drugs, pain management drugs and other medications, as well as related services. Respiratory therapy services specialize in treating patients that typically suffer from chronic obstructive pulmonary disease (COPD) such as emphysema, chronic bronchitis or asthma. Such patients often require supplemental oxygen or other respiratory services in order to alleviate the symptoms or discomfort of respiratory dysfunction. Patients suffering from sleep apnea are also treated under this segment of the industry. Core home therapy patient volumes are growing at about 6.0% annually, driven by increases in the number of persons afflicted with COPD, demographic trends and the continued trend toward treatment of patients in the home as a lower cost alternative to the acute care setting. However, Medicare reimbursement reductions for medications, equipment and oxygen equipment have slowed growth in respiratory therapy revenue. As a result, this segment's share of total industry revenue has declined somewhat in the five years in the 2014 and is expected to continue to do so during the next five years.

Other

Industry firms generate some revenue by renting and selling durable medical equipment (DME) such as wheelchairs, hospital beds, ambulatory aids, bathroom aids and safety equipment and rehabilitation equipment. DME can reduce demand for, and save costs associated with, institutionalized healthcare services. However, recent Medicare reimbursement reductions for durable medical equipment have slowed growth in this segment. Home care providers also make some revenue from the resale of prescription and nonprescription drugs, herbal remedies, vitamins, orthopedic supplies and optical goods.

Products & Markets

Demand Determinants

The main driver for rising demand in the industry is the affordability of home care in comparison to substitute services, particularly inpatient hospital care. According to Gentiva Health Services, a major provider of home healthcare services, Medicare Part A and Part B payments for home care averaged $50 per day, which compares favorably with payments for hospice care ($135), skilled nursing facilities ($303) and hospitals ($1,479).

The proportion of the population covered by public and private insurance programs also affects demand for industry services. The extent to which these programs cover home health services and the level of reimbursement offered for particular services impacts the affordability of industry services. Similarly, personal disposable income can make home care more affordable. This is particularly true for services that are not covered by insurance companies. For instance, many services that are not provided by medical professionals must be paid for out of pocket. Therefore, as income levels rise, demand also increases.

Additionally, the demographics of the United States are developing favorably for the industry. The share of the total US population aged 65 and older has steadily increased since 2009, with more than 500,000 people joining this age group each year, according to US Census Bureau data. More specifically, the aging population is fostering a mounting need for more healthcare services. In general, elderly individuals are more likely to develop health issues. According to the Assisted Living Federation of America, the need for living assistance increases with age, rising from 20.9% of the 75 to 84 years of age population to 50.2% of the 85 years of age population. Therefore, when the elderly demographic grows, demand for industry services increases as well. Changes in family structures also affect demand for industry products; families with fewer individuals available at home to care for ailing family members will be more likely to seek out industry services. Consumer awareness and interest in home health services, and preferences among patients for being treated in their own homes also affect demand for this industry.

Major Markets

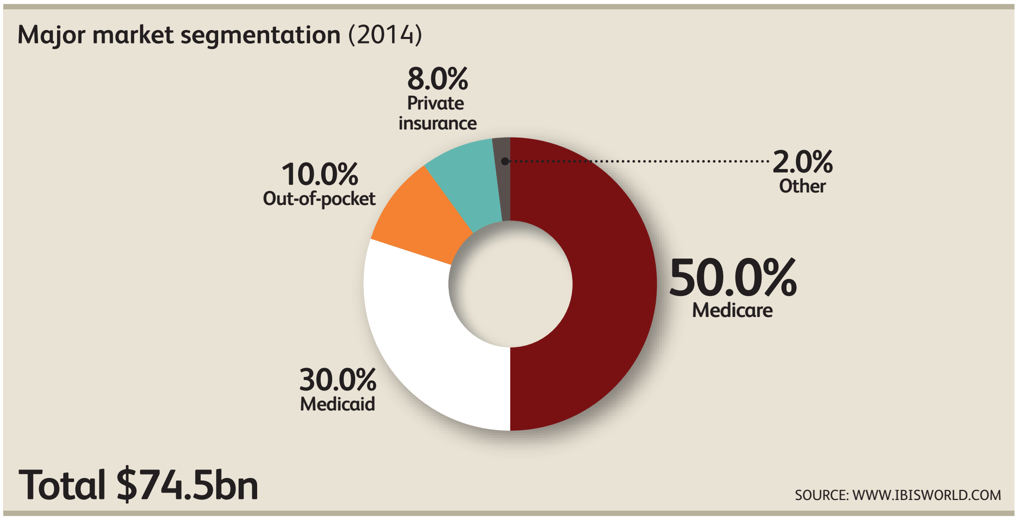
Medicare and Medicaid

Industry revenue primarily comes from government reimbursement programs such as Medicare and Medicaid, which together account for an estimated 65.0% of total revenue. Medicare, a federal healthcare program for those aged 65 years and older or with qualifying disabilities, is the largest single payer of home healthcare services. Medicaid is a state-run healthcare program for individuals with qualifying low incomes. According to the Centers for Medicare and Medicaid Services, about 3.5 million Medicare beneficiaries receive home care services.

Payment sources vary by industry service segment. For example, Medicare accounts for about 58.0% of revenue generated by home respiratory services, while Gentiva Health Services, a major provider of home health agency services, reported that Medicare constituted about 79.0% of the company's home health segment revenue in 2012. While Medicare pays the largest share for home care, combined federal-state Medicaid outlays for in-home services are actually greater. Medicaid is expected to surpass Medicare to become the largest payer of home care services in 2016, following nearly a decade of double-digit growth associated with shifting preferences away

Products & Markets

Major Markets continued



from institutional care toward home and community-based settings. Medicare and Medicaid's share of total industry revenue has dipped over the past five years, due to federal reimbursement cuts. Government spending on home health will likely continue to be strained as the effects of healthcare reform impact funding availability, likely limiting growth in the segment of industry revenue paid for by Medicare and Medicaid during the five years to 2019.

Out-of-pocket payments and private insurance

Private health insurance payments account for about 8.0% of industry revenue and typically cover some home care services for acute needs, with benefits varying from plan to plan. Most private plans cover comprehensive hospice services, such as nursing, social work, therapies, personal care, medication and medical supplies. Some individuals purchase Medigap insurance or long-term care insurance policies for additional home care coverage. Medigap insurance covers gaps in Medicare coverage, with some policies offering at-home recovery benefits that pay for some personal care services. This type of coverage is designed to help individuals recovering from acute illness, injuries or surgery. Private insurance's share of total industry revenue grew slowly during the past five years, as individuals who lost their access to employer-provided health insurance during the recession have slowly begun returning to the workforce.

If home care services fail to meet criteria of third-party payers (e.g., homemaker services), individuals will have to pay out of pocket. Out-of-pocket payments are estimated to make up about 10.0% of industry revenue; this segment's share of total industry revenue has grown during the past five years as disposable income levels have recovered since the recession.

Other

Managed care organizations (MCOs) also sometimes include coverage for home care services. MCOs contracting with Medicare are required to provide the full range of Medicare-covered home care services available in a particular geographic area. Also, individuals who require home care services due to job-related injury are eligible to receive coverage through workers' compensation.

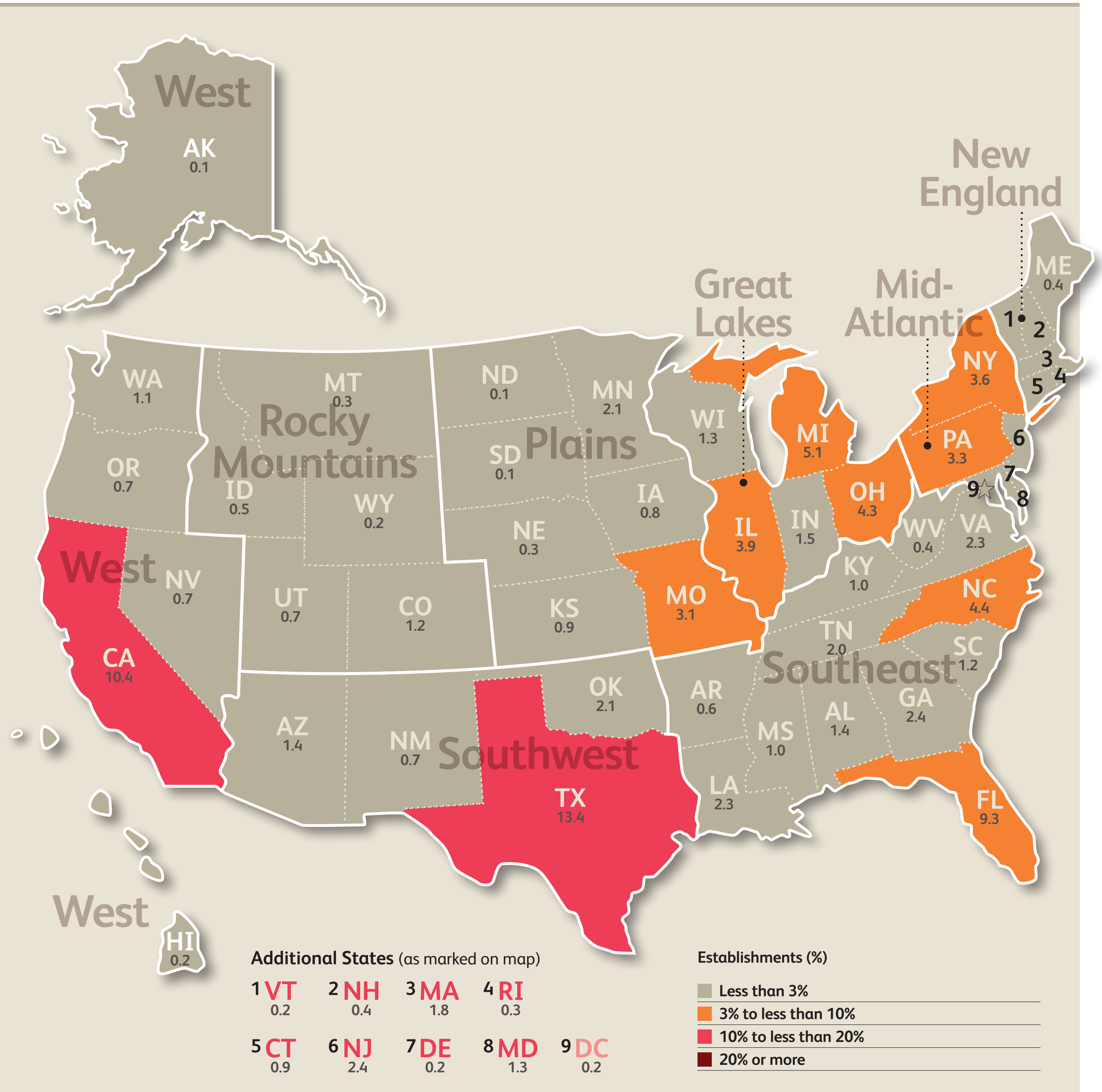
Products & Markets

International Trade

There are no imports or exports in this industry. Home care providers principally carry out their work in the home of the patient, who is usually a US resident and often receives government-subsidized care. Employees of relatively small regional and local providers provide most care. Some equipment used by industry providers is imported, but the effects of international trade on the prices of these products will be accounted for at the manufacturing level.

Products & Markets

Business Locations 2014



SOURCE: WWW.IBISWORLD.COM

Products & Markets

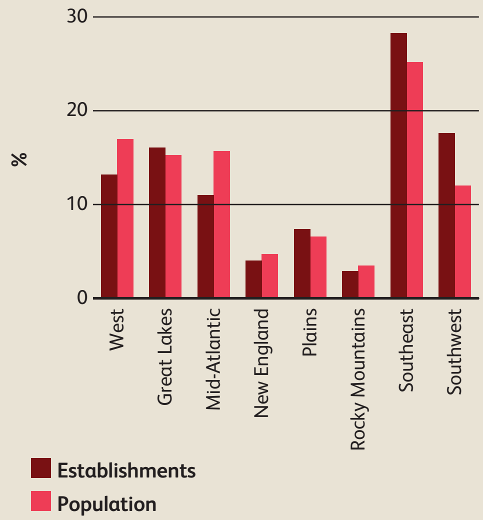
Business Locations

The location of home care providers in the United States is influenced by the size of the local population; the regional age distribution; the level of urbanization in, and the geographic size of a region; home health supply levels; the presence of alternative sources of care; sources of referrals; and levels of state government resources. On the regional level, the Southeast, Southwest, Great Lakes and West regions have the highest concentration of business locations. On the state level, the three states with the largest number of industry establishments are Texas, California and Florida, accounting for about 13.3%, 10.3% and 9.3% of the total number of establishments, respectively. These three states also have the greatest number of older citizens, with 25.3% of the total number of individuals aged 65 and over across the United States calling one of these three states home. According to The Commonwealth Fund Commission's Scorecard on Health System Performance, Vermont leads the nation in the delivery of its healthcare, while Mississippi is rated the worst. One of the reasons that Vermont scores well in its healthcare performance is its home care industry: with the second oldest state population in the nation, Vermont subsidizes care for seniors and the disabled to defray the costs of home care.

Despite an overall growth in the number of home health agencies nationwide, rural areas of the country are disproportionately underserved by home care providers. For example, although there are about 37 home health agencies in Montana, home care is not available in 13 of Montana's 56 counties. The need for home healthcare in rural areas across the nation continues to grow, but lack of financial support has hampered the ability of many rural counties to meet the needs of their residents. Rural home health agencies are generally smaller in terms of total number of patients and are less able to benefit from economies of scale. A rural agency with a small patient census is less able to sustain losses from higher cost patients, and maintaining a full staff of qualified nurses and therapists can be difficult. Moreover, employees of rural agencies generally must travel farther per visit to deliver services, and much of this rural travel is not "highway miles," but on dirt and gravel roads, which adds to mileage costs and general vehicle wear and tear. Inclement weather only increases the difficulties of service delivery.

However, the federal government has recently taken steps to recognize this heath need and acknowledge the cost savings that home health can provide (compared to hospital care) in rural areas. The Patient Protection and Affordable Care Act includes a provision offering payment incentives to home health aides who provide services to chronically underserved rural areas, which may increase the presence of industry companies in these areas in coming years. Increasing use of mobile health technology (such as telehealth apps) will likely further facilitate the development of industry services in hard-to-reach areas.

Distribution of establishments vs. population



SOURCE: WWW.IBISWORLD.COM

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

Market Share Concentration

Level
Concentration in this industry is **Low**

The Home Care Providers industry is highly fragmented, with the largest four firms generating only 10.1% of total industry revenue in 2013. As hospitalization costs have increased and more aging consumers have embraced the home healthcare trend, many new firms have entered the industry in the past five years. The total number of industry companies has grown at an annual average rate of 3.8% during this period, a rate only slightly behind that of the industry's 4.8% revenue growth over the same period. The discrepancy between growth in number of companies and growth in revenue is largely due to the mergers and acquisitions that the largest industry companies have undertaken in the past five years; Gentiva Health Systems, for instance, acquired home hospice provider Odyssey in 2010 to increase their share of the hospice market. IBISWorld expects growth in the total number of industry firms to slow in the next five years, indicating that companies will continue to consolidate, the market will become more concentrated and the largest industry firms will control increasingly larger shares of the total home healthcare market.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Recommendation/accreditation from authoritative sources
Accreditation, such as with the Joint Commission on the Accreditation of Healthcare Organizations, can assist with reputation, attracting staff and gaining access to reimbursement programs.

Effective quality control
Companies must effectively practice quality control to optimize the incidence of good patient outcomes and to minimize medical liabilities.

Ability to take advantage of government subsidies and other grants
Despite many agencies providing services to organizations that already have access to government reimbursement programs, access to programs like Medicare and Medicaid will assist home care providers.

Proximity to key markets
Providing services in an area of need is a key success factor for operators in this industry. The closer the home care providers operate to patients most in need of care, the more likely these patients will utilize their services.

Ability to attract local support/ patronage and frequent referrals
Referral networks are important for home care providers. Referrers include hospitals, physicians, insurers and the public.

Ability to alter goods and services produced in favor of market conditions
Revenue and profitability can be affected by the mix of services provided by an agency, the mix of patients treated (by case mix) and the rate of reimbursement among payers for the services.

Cost Structure Benchmarks

Profit
Profitability within the industry varies based on the size of a company and its specific healthcare offerings. Generally, respiratory therapy businesses have the highest profit margins, followed by infusion therapy businesses and home health agencies, which operate on significantly lower operating margins. Profit margins are further influenced by patient volumes and payer reimbursement. According to the

Competitive Landscape

Cost Structure Benchmarks continued

Government Accountability Office, some industry agencies prefer Medicare to private or commercial-pay patients, because the Medicare system results in fewer visits per episode of treatment and a higher proportion of users categorized into higher payment groups. These factors increase a company's profitability; however, not all industry operators are shifting patient mix toward Medicare. Gentiva, one of the largest companies in the industry, has historically received about 79.0% of its revenue from Medicare and has not increased its patient mix. Instead, the company leverages its size to negotiate managed care contracts.

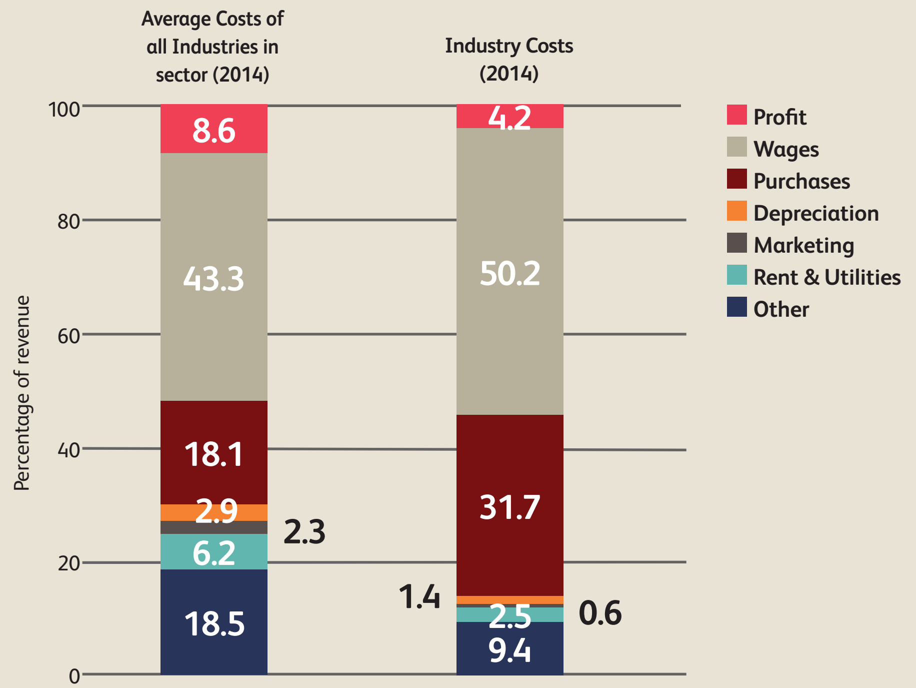
During the five years to 2014, operating profit, measured by earnings before interest and taxes, has generally remained steady, accounting for 4.2% of industry revenue. Significant profit growth has been largely suppressed by healthcare reform-related reimbursement cuts.

According to the National Association for Home Care and Hospice (NAHC), the Medicare home healthcare benefit will face $22.0 billion in cuts by the end of 2017. NAHC estimates that about three-quarters of industry enterprises will be unable to operate profitably by 2017 if these payment reductions remain on the books. Therefore, although demand from baby boomers will grow in coming years, Medicare reimbursement cuts will likely cause average industry profit margins to decline to 3.3% by 2019.

Purchases

The Home Care Providers industry has only recently begun to view technology as a strategic asset, and, as a result, is several years behind other healthcare industries and has only recently begun to invest significantly in electronic data interchange (EDI). The Administrative Simplification provisions of the Health Insurance

Sector vs. Industry Costs



SOURCE: WWW.IBISWORLD.COM

Competitive Landscape

Cost Structure Benchmarks continued

Portability and Accountability Act of 1996 require the Department of Health and Human Services to establish national standards for electronic healthcare transactions and national identifiers for providers, health plans and employers. The act also addresses the security and privacy of individually identifiable health information. Adopting these standards will improve the efficiency and effectiveness of the nation's healthcare system by encouraging the widespread use of EDI in healthcare. Electronic processing of transactions is expected to significantly reduce labor and error-related costs, but the initial investment in information technology may be a significant cost to many home care agencies.

Purchases currently account for 31.7% of industry revenue, up slightly from 2009. In addition to growing purchase costs due to EDI implementation, this increase is partially due to a 2.3% excise tax on medical devices included in the Patient Protection and Affordable Care Act. Industry operators often purchase medical devices (such as respiratory aides) to provide home healthcare to patients and some device manufacturers have chosen to pass this cost on to customers (including home care providers) in the form of higher-priced devices. Although these prices will likely remain high in the five years to 2019, IBISWorld expects industry companies to undertake drastic cost-cutting measures in the face of planned Medicare reimbursement cuts and accordingly purchase fewer medical devices. As such, purchases' share of industry revenue will likely remain steady during the next five years.

Wages

Home healthcare is considered a cost-effective alternative to extended hospitalizations, lengthy rehabilitation or nursing facility stays. Because the service is rendered in the patient's home, some of the large capital costs associated with facility-based care are avoided. As a result, home care costs are substantially labor-oriented. Wages account for 50.2% of industry revenue in 2014, down slightly from 2009, as labor costs have fallen slightly over the past five years due to cost-cutting initiatives. Unstable profit and revenue resulting from planned Medicare reimbursement cuts beginning in 2014 will likely force industry operators to continue to keep labor costs low. According to the Bureau of Labor Statistics, industry companies already began firing employees as early as December 2013, prior to the formal implementation of the Medicare payment reductions. As industry-wide cost-cutting causes employment to fall an expected 7.5% during the next five years IBISWorld expects labor costs to decrease dramatically as well.

Other

Depreciation expenses vary depending on the equipment intensity of the business. For example, respiratory therapy businesses tend to invest highly in equipment. Gentiva Health Services, a provider of home health agency services, has depreciation and amortization expenses that consumer 1.7% of revenue, while Apria Healthcare, which mainly provides home respiratory services, has depreciation and amortization expenses that represent about 8.5% of revenue.

Other major costs for home care providers include administrative expenses (including those for legal and accounting services) and traveling expenses, which have increased over the past five years. A 2009 study by the National Association for Home Care and Hospice shows that the nurses, therapists, home care aides and others who serve elderly and disabled patients in their homes drive, on average, more miles annually than many driving professionals, including UPS drivers. This exposes the industry to rising gasoline prices and other transportation expenses, such as vehicle repairs and leases.

Competitive Landscape

Basis of Competition

Level & Trend
Competition in this industry is **High** and the trend is **Steady**

Internal competition

Home care providers mainly compete on the basis of price, quality of services offered to patients and brand reputation. Obtaining accreditation from an applicable regulatory body can also be a competitive advantage in the industry. Prices are not the most critical basis of competition, because many industry services are rendered under government reimbursement programs such as Medicare. However, pricing is important in instances of bidding. Effective April 10, 2007, the Centers for Medicare and Medicaid Services began implementing a program of competitive bidding for Medicare Part B Durable Medical Equipment (DME), which means that companies can lose their ability to bill and be reimbursed by Medicare for DME items supplied in a competitive bidding area for the time covered by the competitive bidding program. There is also an expectation that the competitive bidding process for DME under Medicare will become a new benchmark for reimbursement from private payers.

Reputation is earned through providing quality services. Agencies that offer quality and consistent care can have a competitive advantage over players that do not. Companies that offer quick response times, quality service professional personnel and reliable quality assurance systems will also enjoy beneficial reputations. Reputation can also be promoted by marketing operations directly to potential patients, referrers and payers; home care providers often have a dedicated sales force to drive referrals.

Some companies have sought to grow market share, including through acquisition activity, in order to better penetrate key geographic markets and more efficiently market products and services to physicians, hospital discharge planners and managed care organizations. Some operators believe that some referral sources and payers have a preference to purchase similar services from one provider. Gentiva Health Services, for example, indicates that its nationwide network of providers and financial resources is a valuable asset in seeking opportunities with managed care organizations. Some industry players align themselves with other health-care providers to raise their profile among managed care providers and provider networks.

External competition

Home care providers compete with alternative care settings, including hospitals, skilled nursing facilities and hospices. Generally, home care is cost competitive compared with other settings. This is particularly true for individuals who do not require extensive medical assistance. In contrast, during the recession, home care by industry operators met mounting competition from budget-strapped family members who opted to provide home care to their parents. As unemployment and disposable incomes have begun to recover, industry competition from family home care has decreased because professional home healthcare has become relatively more affordable. However, hospitals and other traditional alternative clinical care settings have similarly become more affordable as well, potentially threatening industry growth.

Similarly, for individuals living alone who are self-sufficient, a phone call or occasional visit to the home from a friend, neighbor, or family member may be sufficient to help. An in-home alert system, which allows the individual to easily call for assistance, is a cost-effective alternative to home care. Technology is increasingly being used to aid seniors and other individuals who need basic help with daily activities at home or who require monitoring. For

Competitive Landscape

Basis of Competition continued

instance, if a senior is having difficulty with taking medications on time, automated medication dispensers (pill organizers that help ensure that medications and vitamins are taken properly and on time) are an easy and affordable solution. Other types of technologies, such as oxygen supplies, can be provided by companies that specialize in producing these products. Some industrial gas companies compete with home healthcare providers to provide oxygen to patients with respiratory illnesses.

Barriers to Entry

Level & Trend
Barriers to Entry in this industry are **Low** and **Steady**

Barriers to entry for the Home Care Providers industry are low, as evidenced by the large number of industry players. The industry is highly fragmented with more than 310,000 different companies. A few companies hold significant market share positions in the respiratory and home infusion therapy markets; nonetheless, there are also large numbers of regional and local providers in these market segments. Most segments of this industry are characterized by low capital costs (with the possible exception of the home respiratory therapy market segment) and the personalized nature of the services provided. These low capital costs make it relatively easy for a new firm to enter the industry because, instead of large upfront investments in equipment or property, most industry costs are limited to those associated with labor, including wage and transportation costs.

Potentially significant barriers to industry entry include licensing and accreditation requirements, as well as the regulations required to obtain reimbursement from third party payers. These barriers vary by geographic business location: some US states have licensing requirements, while others do not. For instance, California is not a licensure state for non-medical or custodial care services and therefore there are low barriers to entry in that state; consumers and their families adopt a "buyer beware" approach and hire caregivers that are bonded and insured. In contrast, Florida is a licensure state that requires different levels of licensing depending upon the services provided. This requirement makes it more costly, time consuming and difficult to open an industry firm in that state.

Barriers to Entry checklist	Level
Competition	High
Concentration	Low
Life Cycle Stage	Growth
Capital Intensity	Low
Technology Change	Medium
Regulation & Policy	Heavy
Industry Assistance	High

SOURCE: WWW.IBISWORLD.COM

Industry Globalization

Level & Trend
Globalization in this industry is **Low** and the trend is **Steady**

The Home Care Providers industry has a low level of globalization. None of the major players in this industry have significant foreign interests. In November 2002, Gentiva Health Services Inc. sold its home healthcare services business in Canada which reduced the already limited level of globalization for the industry. Import and export fluctuations may affect the price of some equipment (such as respiratory machines) that industry operators use, but these effects will be more directly influential to product manufacturers.

Major Companies

There are no Major Players in this industry | Other Companies

Other Companies

The Home Care Providers industry is highly fragmented. No player in the industry accounts for more than 5.0% of industry revenue.

Apria Healthcare Group

Estimated market share: 3.4 %

Apria Healthcare Group (Apria) is one of the nation's largest home health firms, with 504 branches across the country. Apria employs about 11,000 people and is headquartered in Lake Forest, CA. In addition to providing home respiratory services, which account for about 42.0% of the company's revenue, Apria also provides home infusion therapy (50.0%) and home medical equipment (5.0%).

Apria is aiming to increase its market share through acquisitions while focusing on the respiratory market. To this end, the company acquired Praxair's US home-care business in 2011, which expanded Apria's home respiratory services, home medical equipment and enteral nutrition therapy offerings. After two years of revenue declines, the company began to recover in 2011 and revenue is estimated to have grown 2.3% in 2013 to $2.5 billion. In recent years, the company's operating profit has increased as a result of Apria's focus on growing its profitable core home infusion therapy and home respiratory therapy service lines. In order to further bolster this profit, and to counteract revenue pressure caused by Medicare and Medicaid reimbursement changes, Apria has also engaged in a range of cost-saving initiatives designed to improve customer service, enhance delivery and vehicle routing services, streamline the billing and payment process and effectively manage purchasing costs.

Lincare Holdings Inc.

Estimated market share: 2.7 %

Lincare Holdings (Lincare) is a provider of oxygen and other respiratory therapy services to patients. Lincare also provides a variety of durable medical equipment and home infusion therapies in certain geographic markets. Its principal products include home oxygen equipment, oxygen concentrators and liquid oxygen systems. Lincare operates 1,108 facilities in 48 states and differentiates itself from competitors by running small, lean branches with seven or eight employees (rather than the typical 20 to 25 employees) to increase labor productivity.

In 2013, Lincare is generated an estimated $2.0 billion in revenue. Lincare's growth strategy includes expansion through acquisitions and opening new locations. Over the five years to 2013, the company has acquired local suppliers that have had trouble absorbing the Medicare cuts. However, the company's most recent large transaction was the purchase of Gentiva's oxygen and home infusion therapy business in February 2010. Lincare purchased roughly 45 Gentiva facilities in the deal, which is more facilities than the company has acquired in any single year in the past five years. In 2012, Lincare was acquired by German industrial company Linde Group.

Gentiva Health Services

Estimated market share: 2.2 %

Gentiva Health Services (Gentiva) is one of the largest publicly traded operators in the industry. The company employs about 14,600 people and is headquartered in Atlanta. Gentiva's home health segment includes both direct home nursing and therapy services operations, and the company also delivers home health services through their smaller specialty brands, such as Gentiva Orthopedic Services, which provides individualized home orthopedic rehabilitation services.

Major Companies

Other Companies continued

In recent years, Gentiva has used acquisitions and divestitures to cut costs, increase profit and maintain its competitive advantage in both home healthcare and hospice. In 2010, the company acquired hospice provider Odyssey, which boosted Gentiva's position in the hospice industry and made Gentiva the largest provider of combined home and hospice care in the United States. In addition, Gentiva has focused on making acquisitions in high-growth regions; in 2009, the company purchased five companies in California, New Mexico and Texas. As part of its plan to increase its operating profit by lowering its costs, Gentiva sold its healthcare consulting business in 2012.

In 2013, IBISWorld estimates that Gentiva generated $1.6 billion in revenue. During the past five years, revenue growth has been supported by acquisitions, organic volume growth and process enhancement changes, partially offset by the impact of dispositions of businesses. However, the company's revenue has dropped 3.8% since 2012, largely due to the 2013 reduction in home health Medicare reimbursements, which account for 79.0% of Gentiva's home health revenue.

Amedisys Inc.

Estimated market share: 1.8 %

Amedisys operates 409 Medicare-certified home health centers and 97 Medicare-certified hospice centers in 38 states, the District of Columbia and Puerto Rico. Home health revenue accounts for about 80.0% of the company's revenue, while hospice revenue makes up the additional 20.0%. The company employs about 15,200 people.

Amedisys's services are primarily paid for by Medicare, which generates about 84.0% of the company's revenue. Medicare reimbursement cuts and decreasing patient volumes led to estimated revenue declines of $1.3 billion in 2013. Company profit also likely decreased in 2013. Amedisys's volume growth has been notably slow compared with its competitors, although the company has recently attempted to boost revenue by expanding its service offerings, developing referral relationships with physicians and hospitals and adding service centers in existing markets. Over the longer term, the company plans to develop from a home healthcare company into a post-acute chronic care company, to both better serve the needs of seniors and diversify the company's sources of payment, so the company will be less reliant on Medicare.

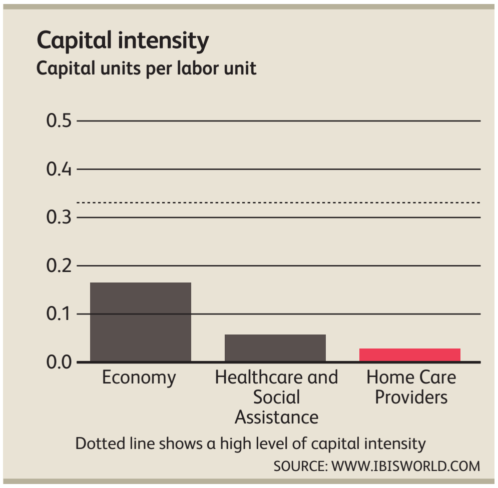
Operating Conditions

Capital Intensity | Technology & Systems | Revenue Volatility
Regulation & Policy | Industry Assistance

Capital Intensity

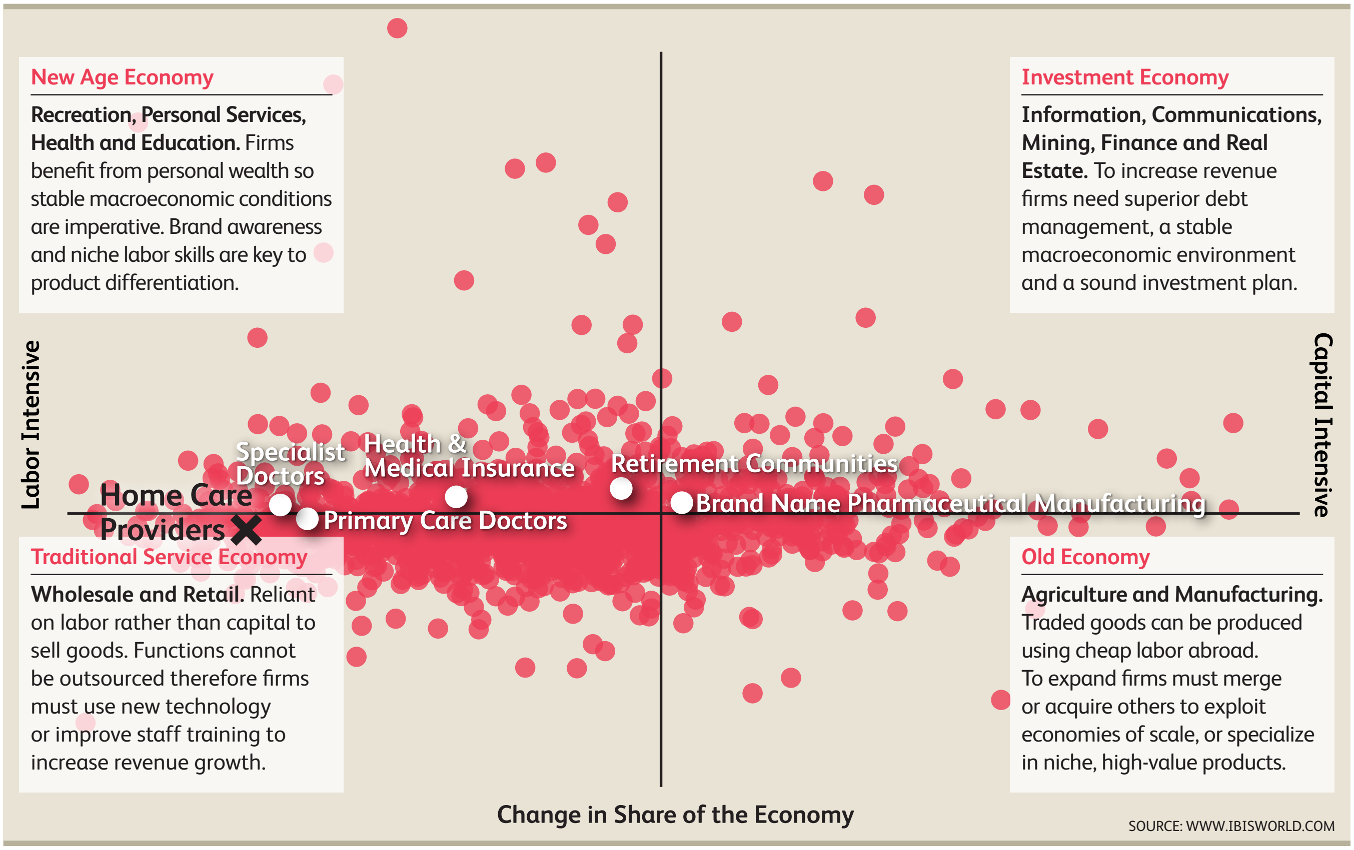
Level
The level of capital intensity is **Low**

The Home Care Providers industry is labor intensive, with most companies relying on skilled care providers to deliver services. The nature of healthcare services depends highly on labor, with personal interaction required for most services. The average firm in this industry spends only about $0.03 on capital for every $1.00 spent on labor. The level of personal care is high and typically raises labor-related costs. Driving and other transportation expenses can further increase labor costs, as many industry professionals make house calls and therefore spend a lot of on-the-job time traveling. Furthermore, the fact that the care is provided in the home avoids the need for institutionalized facilities, which will reduce capital costs.



Capital intensity varies by industry segment depending on the level of equipment needed to perform the job.

Tools of the Trade: Growth Strategies for Success



Operating Conditions

Capital Intensity continued

For example, respiratory therapy and home medical equipment businesses generally have higher equipment investment levels compared with other segments. Respiratory therapy includes the delivery of oxygen therapy, respiratory medications, and sleep disorder products to patients with conditions such as chronic obstructive pulmonary disease, asthma, lung cancer and sleep apnea. Home respiratory therapy companies invest significantly in oxygen systems, consisting of oxygen concentrators, liquid oxygen systems and high-pressure oxygen cylinders, as well as home ventilators that sustain a patient's respiratory function mechanically when a patient can no longer breathe normally, sleep apnea equipment, nebulizers that deliver aerosol medication to patients and respiratory medications.

Technology & Systems

Level
The level of Technology Change is **Medium**

Advances in technology and new equipment are increasingly allowing more healthcare procedures to be carried out in the home, which in turn has increased demand for industry services. In particular, innovations promoting industry growth include the use of technology to convey information between patients and caregivers; new monitoring equipment; drug development; and home equipment innovations. Moreover, crossovers from other industries bolster research and the development of home health technologies; for instance, sensors that keep track of prisoner activity can be modified for patients with dementia, noting changes in their behavior and informing doctors if symptoms get worse.

Technology for home health monitoring has been a part of American medicine since 1987, when Life Alert and Life Call began marketing pendants that linked to an automated dialer, allowing people to be connected to an operator without a phone line and giving them a connection to emergency services they otherwise would not have. The telemedicine field now includes more advanced home and mobile health monitoring technology, such as teleretinal imaging, sensors for remote diagnosis and advice to patients, teleradiology, remote cardiac monitoring and video conferencing. Portal devices have become popular for monitoring cardiac patients, but the technology is also increasingly used for cancer or diabetes patients whose vital signs can suddenly fluctuate.

Improving rural access

Technology can provide the means to overcome geographical distances that often hinder access to healthcare. Health technology and telehealth (delivery of health-related services and information via telecommunication technologies) are powerful tools to improve access to home healthcare in rural, remote and other underserved areas. Historically, home healthcare has involved nurses traveling to patients' homes several times a week to monitor their condition and provide appropriate treatment. Telehealth, or the use of audio and video technology, allows home health agencies to monitor patients' blood pressure, heart rate, and other vital signs to fill gaps between visits. It also allows patients to communicate with their providers remotely. Supporters say this technology will reduce hospital readmission, give patients greater independence, and improve health by allowing senior citizens to live at home longer prior to or instead of requiring nursing home care. They also believe the monitoring

Operating Conditions

Technology & Systems continued

technologies themselves could help reduce home health visits overall, saving Medicare money.

Broadband wireless communications networks have significantly advanced the efficiency of rural home healthcare. Digital technologies can also be used to train healthcare professionals, link remote healthcare providers, provide telemedicine and telehealth consultations using video conferencing, serve people with disabilities and provide direct patient care. Barriers to using these technologies include restrictive licensure and scope-of-practice restrictions that can impede development of technology-based services. In addition, public and private payers of healthcare costs often do not cover or reimburse for electronic health and telehealth services.

Revenue Volatility

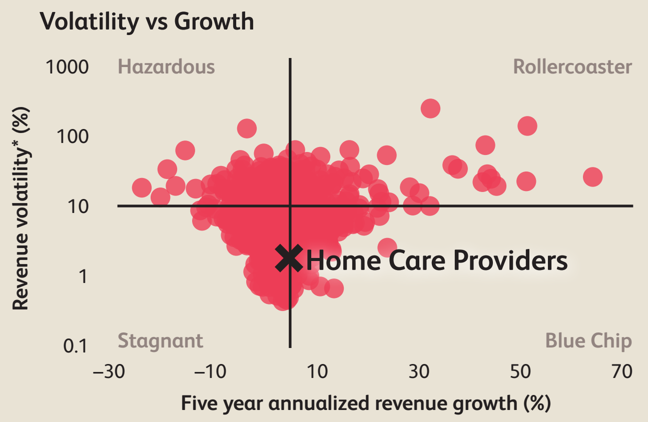
Level
The level of Volatility is **Low**

This industry has a low level of revenue volatility. During the five years to 2014, industry revenue is expected to increase at an average annual rate of 4.6%. While reimbursement policies implemented by insurers and government programs can increase volatility, many services are high priority or essential for medical purposes. This reduces the likelihood that people will delay or forego services. Furthermore, home healthcare services are cost-effective relative to institutional care, reducing industry vulnerability to fluctuations in consumer disposable income. Health insurance can also reduce the patients' out-of-pocket costs, which will support sustained demand.

The aging population also buffers revenue growth. The population over the age of 65 has been growing at a

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment.

When a firm makes poor investment decisions it may face underutilized capacity if demand suddenly falls, or capacity constraints if it rises quickly.



* Axis is in logarithmic scale

SOURCE: WWW.IBISWORLD.COM

Operating Conditions

Revenue Volatility continued

consistent rate during the five years to 2014 and that group's share of total US population will likely continue to grow in coming years. Individuals aged 65 and older face more age-related health problems and therefore demand more healthcare. Moreover, age-related illnesses are typically more able to be addressed by home care providers than healthcare issues that younger age groups experience are. Many older individuals prefer to stay in their homes as long as possible, and all of these factors add up to more members of the aging population consistently preferring home care over institutionalized care.

Regulation & Policy

Level & Trend
The level of Regulation is **Heavy** and the trend is **Increasing**

Regulation shapes various aspects of America's fragmented healthcare sector, from the flow of funds to the communication between physicians and patients. Government agencies at the federal, state and local levels direct portions of the industry, and hundreds of private organizations also influence home care. Home care providers are subject to extensive federal and state regulations that govern Medicare, Medicaid and other government-funded reimbursement programs and are intended to prevent fraud and abuse.

The healthcare sector is an area of rapid regulatory change. Due to growing demand for home healthcare services, as well as overall healthcare reform, regulations that impact this industry have increased during the five years to 2014. The increasing popularity of home healthcare has shone light on recent incidences of abuse, neglect and fraud by home healthcare providers in the United States. According to the *Wall Street Journal*, the majority of these abuse cases involve aides hired to provide non-medical assistance, which does not require training or, in at least 22 states, licensing. The increased public attention paid to abuse cases has caused regulatory bodies to keep a closer eye on home healthcare providers.

In addition to abuse concerns, regulation regarding reimbursement is on the rise. In 2011, the US Senate Finance Committee investigated four for-profit home healthcare agencies, including Amedisys and Gentiva Health Services, over billing practices lawmakers say raised questions about reimbursement from the Medicare insurance program. Lawmakers assert that when Medicare changed its payment rules to provide additional reimbursement to patients depending on the number of visits they received, the home care industry apparently changed their utilization patterns. As home healthcare continues to grow in popularity, and Medicare and Medicaid increasingly seek to expose waste and fraud in the reimbursement system, home healthcare utilization policies and billing practices will likely continue to be a target for federal regulators.

Healthcare reform

The Patient Protection and Affordable Care Act (PPACA) went into effect on October 1, 2011 and is designed to increase access to services at home and in the community. This initiative directly benefits the Home Care Providers industry by increasing Medicaid payments. Two new optional programs have given states financial incentives to expand home and community-based services offered through Medicaid. First, the State Balancing Incentive Payments Program (which runs from October 1, 2011 through September 30, 2015) gives participating states added federal money to invest in expanding the options for home- and community-based care in Medicaid overall. Second, the

Operating Conditions

Regulation & Policy continued

Community First Choice Option (started October 1, 2011) allows states to offer home and community-based services to disabled people through Medicaid rather than institutional care in nursing homes. States that take up this option receive a six-percentage point increase in federal matching payments for costs associated with the program.

However, only 25 states and the District of Columbia have opted to expand Medicaid under PPACA, leaving low-income residents of many states in the same coverage position they were in prior to the act's passage and implementation.

Moreover, in order to help offset the costs associated with PPACA-related expansion of federal programs, the Centers for Medicare and Medicaid Services recently announced a 3.5% annualized cut to Medicare funding for home health services applicable from 2014 to 2017. Although industry operators and supportive associations are lobbying Congress to reconsider this damaging blow to funding, the policy decision is currently in effect and will have a significant impact on industry revenue and profit in coming years, potentially drastically altering the industry landscape.

Industry Assistance

Level & Trend
The level of Industry Assistance is **High** and the trend is **Steady**

A significant portion of industry revenue is derived from government healthcare programs, including Medicare and Medicaid. Medicare is a social insurance program administered by the United States government, providing health insurance coverage to people who are aged 65 and over, or who meet other special criteria. Medicaid is the United States health program for eligible individuals and families with low incomes and resources. The Centers for Medicare and Medicaid Services projects that Medicare will account for about 41.0% of home healthcare expenditure in 2013, while Medicaid will account for about 24.0%.

Medicare's Hospital Insurance Trust Fund (Part A) provides funding used to cover the medical bills (hospital, skilled nursing, hospice and some home healthcare) of the people who are enrolled in the Medicare program (mainly people aged 65 years and over, and disabled people). Home health agencies must be certified by Medicare. Since October 1, 2000, the reimbursement of Medicare home health agency services has been based on a prescribed payment system (PPS) which provides a fixed reimbursement for a specified treatment period for each patient. The reimbursement rate is established based on a clinical assessment for the severity of the patient's condition, service needs and certain other factors. While there have been few structural changes in Medicare's reimbursement methodology since the adoption of PPS, periodical adjustments have been made to reimbursement rates.

Medicare's Supplemental Medical Insurance Program (Part B) pays 80.0% of the approved amount for physician services, outpatient hospital services and some home healthcare services (including home medical equipment and oxygen therapy equipment) after the payment of a deductible amount. Recent legislation, including the US Medicare Improvements for Patients and Providers Act of 2008 and the US Medicare, Medicaid and SCHIP Extension Act of 2007, contain provisions that directly impact reimbursement for the primary respiratory and other DME products. Medicare Part B covers a limited number of infusion therapies, supplies and equipment. The MMA, through the

Operating Conditions

Industry Assistance continued

new Medicare Part D program, provided expanded coverage of certain home infusion therapy drugs, but excluded coverage for the corresponding supplies and clinical services needed to safely and effectively administer these drugs.

Proposed new legislation has been introduced in Congress to cover all aspects of home infusion therapy under Medicare Part B, which, if passed into law, could promote growth in the home infusion therapy segment.

Key Statistics

Industry Data

	Revenue ($m)	Industry Value Added ($m)	Establish-ments	Enterprises	Employment	Exports	Imports	Wages ($m)	Domestic Demand	Adults 65 years and over (Mils)
2005	50,694.6	26,526.1	207,068	201,396	1,100,398	--	--	25,005.3	N/A	36.8
2006	52,080.7	28,118.9	227,126	220,879	1,178,061	--	--	26,556.5	N/A	37.3
2007	55,785.6	33,279.5	240,907	234,332	1,202,001	--	--	27,868.3	N/A	37.9
2008	58,819.4	35,145.8	258,833	251,728	1,269,823	--	--	30,028.6	N/A	38.9
2009	62,437.2	38,049.5	282,138	274,674	1,361,261	--	--	32,180.4	N/A	39.6
2010	64,770.0	39,070.0	286,088	278,794	1,378,957	--	--	32,920.5	N/A	40.4
2011	67,410.3	39,820.8	296,959	289,667	1,428,600	--	--	34,632.4	N/A	41.5
2012	71,252.7	40,995.3	305,868	297,198	1,468,601	--	--	35,948.4	N/A	42.7
2013	74,245.3	43,410.4	314,126	303,440	1,506,784	--	--	38,213.2	N/A	44.0
2014	**74,542.3**	**41,838.2**	**307,529**	**304,350**	**1,460,074**	**--**	**--**	**37,448.9**	**N/A**	**45.3**
2015	74,393.2	40,134.0	291,082	286,089	1,316,986	--	--	36,640.3	N/A	46.7
2016	73,880.2	39,405.0	267,352	252,331	1,152,363	--	--	35,834.4	N/A	48.2
2017	73,446.8	37,252.9	232,228	220,789	1,052,108	--	--	34,924.3	N/A	49.7
2018	73,708.1	35,933.3	223,102	209,308	1,021,596	--	--	34,039.1	N/A	51.3
2019	73,956.9	36,446.2	215,133	207,634	989,927	--	--	34,646.6	N/A	52.9
Sector Rank	**9/76**	**7/76**	**2/76**	**2/76**	**5/76**	**N/A**	**N/A**	**6/76**	**N/A**	**N/A**
Economy Rank	**129/1301**	**67/1301**	**28/1300**	**27/1300**	**27/1301**	**N/A**	**N/A**	**41/1301**	**N/A**	**N/A**

Annual Change

	Revenue (%)	Industry Value Added (%)	Establish-ments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)	Adults 65 years and over (%)
2006	2.7	6.0	9.7	9.7	7.1	N/A	N/A	6.2	N/A	1.4
2007	7.1	18.4	6.1	6.1	2.0	N/A	N/A	4.9	N/A	1.6
2008	5.4	5.6	7.4	7.4	5.6	N/A	N/A	7.8	N/A	2.6
2009	6.2	8.3	9.0	9.1	7.2	N/A	N/A	7.2	N/A	1.8
2010	3.7	2.7	1.4	1.5	1.3	N/A	N/A	2.3	N/A	2.0
2011	4.1	1.9	3.8	3.9	3.6	N/A	N/A	5.2	N/A	2.7
2012	5.7	2.9	3.0	2.6	2.8	N/A	N/A	3.8	N/A	2.9
2013	4.2	5.9	2.7	2.1	2.6	N/A	N/A	6.3	N/A	3.0
2014	**0.4**	**-3.6**	**-2.1**	**0.3**	**-3.1**	**N/A**	**N/A**	**-2.0**	**N/A**	**3.0**
2015	-0.2	-4.1	-5.3	-6.0	-9.8	N/A	N/A	-2.2	N/A	3.1
2016	-0.7	-1.8	-8.2	-11.8	-12.5	N/A	N/A	-2.2	N/A	3.2
2017	-0.6	-5.5	-13.1	-12.5	-8.7	N/A	N/A	-2.5	N/A	3.1
2018	0.4	-3.5	-3.9	-5.2	-2.9	N/A	N/A	-2.5	N/A	3.2
2019	0.3	1.4	-3.6	-0.8	-3.1	N/A	N/A	1.8	N/A	3.1
Sector Rank	**73/76**	**76/76**	**74/76**	**52/76**	**76/76**	**N/A**	**N/A**	**75/76**	**N/A**	**N/A**
Economy Rank	**1138/1301**	**1221/1301**	**1195/1300**	**756/1300**	**1238/1301**	**N/A**	**N/A**	**1207/1301**	**N/A**	**N/A**

Key Ratios

	IVA/Revenue (%)	Imports/ Demand (%)	Exports/ Revenue (%)	Revenue per Employee ($'000)	Wages/Revenue (%)	Employees per Est.	Average Wage ($)	Share of the Economy (%)
2005	52.33	N/A	N/A	46.07	49.33	5.31	22,723.87	0.19
2006	53.99	N/A	N/A	44.21	50.99	5.19	22,542.55	0.19
2007	59.66	N/A	N/A	46.41	49.96	4.99	23,184.92	0.22
2008	59.75	N/A	N/A	46.32	51.05	4.91	23,647.86	0.24
2009	60.94	N/A	N/A	45.87	51.54	4.82	23,640.14	0.26
2010	60.32	N/A	N/A	46.97	50.83	4.82	23,873.48	0.26
2011	59.07	N/A	N/A	47.19	51.38	4.81	24,242.20	0.26
2012	57.54	N/A	N/A	48.52	50.45	4.80	24,477.99	0.26
2013	58.47	N/A	N/A	49.27	51.47	4.80	25,360.77	0.28
2014	**56.13**	**N/A**	**N/A**	**51.05**	**50.24**	**4.75**	**25,648.63**	**0.26**
2015	53.95	N/A	N/A	56.49	49.25	4.52	27,821.33	0.24
2016	53.34	N/A	N/A	64.11	48.50	4.31	31,096.45	0.23
2017	50.72	N/A	N/A	69.81	47.55	4.53	33,194.60	0.21
2018	48.75	N/A	N/A	72.15	46.18	4.58	33,319.53	0.20
2019	49.28	N/A	N/A	74.71	46.85	4.60	34,999.15	0.19
Sector Rank	**29/76**	**N/A**	**N/A**	**69/76**	**11/76**	**59/76**	**64/76**	**7/76**
Economy Rank	**172/1301**	**N/A**	**N/A**	**1224/1301**	**71/1301**	**983/1300**	**1081/1301**	**67/1301**

Figures are inflation-adjusted 2014 dollars. Rank refers to 2014 data.

SOURCE: WWW.IBISWORLD.COM

Jargon & Glossary

Industry Jargon

CHRONIC DISEASE MANAGEMENT A system of coordinated healthcare interventions and communications for populations with long-term conditions in which patient self-care is significant.

DURABLE MEDICAL EQUIPMENT (DME) Medical equipment used in the course of treatment or home care.

ELECTRONIC DATA INTERCHANGE (EDI) The transmission of electronic documents between businesses from one computer system to another.

HOME INFUSION THERAPY The administration of medication through a needle or catheter.

HOMEMAKER AND COMPANION SERVICES Helping patients with shopping, preparing and serving meals, housekeeping, taking clients to appointments and other daily chores.

HOSPICE A program or facility that provides special care for people who are near the end of life and for their families

PERSONAL CARE SERVICES Nonskilled assistance provided to individuals in their homes, such as bathing, dressing and light housework.

TELEHEALTH The delivery of health-related services and information between patients and providers via telecommunications technologies.

IBISWorld Glossary

BARRIERS TO ENTRY High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labor; medium is $0.125 to $0.333 of capital to $1 of labor; low is less than $0.125 of capital for every $1 of labor.

CONSTANT PRICES The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the “real” growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the US Bureau of Economic Analysis’ implicit GDP price deflator.

DOMESTIC DEMAND Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS Total value of industry goods and services sold by US companies to customers abroad.

IMPORTS Total value of industry goods and services brought in from foreign countries to be sold in the United States.

INDUSTRY CONCENTRATION An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA) The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry’s contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%, medium is 5% to 20%, and high is more than 20%. Imports/domestic demand: low is less than 5%, medium is 5% to 35%, and high is more than 35%.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry’s life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry’s products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

Jargon & Glossary

IBISWorld Glossary continued

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.