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## LHC Group, Inc. Q1 2008 Earnings Call Transcript

### Question-and-Answer Session

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#### Operator

(Operator instructions) Our first question comes from the line of Brian Tanquilut with Jefferies and Company. Please proceed.

#### Brian Tanquilut – Jefferies & Co.

Hi, good morning, guys. Congratulations on the good quarter. Keith, just the first question. Thank you for providing us an update on the acquisition pipeline and what you guys are doing there, but can you give us some color on what you are seeing in the field in terms of the reaction of the sellers? Are we seeing increased distress from smaller providers, or it's just an increased willingness to sell? And if you can give us – if you can characterize what these agencies are, whether they are rural or hospital-owned, or just a little more color in that.

#### Keith Myers

Okay. First of all, I think from a pricing standpoint, we are seeing price expectations on the seller's side being more realistic or more in line with where we think valuations are, so we are coming to the terms more quickly than we did in the past, perhaps. I think, quite frankly, some of the smaller providers that we target are tired [ph]. This new reimbursement methodology is complex for a small provider if they don't have the systems to manage through it. I think that contributes to the increased opportunities we are seeing.

With regard to the make up, I don't think our distribution has changed any. I mean, we have a mix of hospital-based agencies. I'd say probably 50% of the locations being considered, roughly, are hospital locations, and about 50% are freestanding locations, and a consistent distribution between rural and urban. Nothing in our strategy has changed as far as our focus. We continue to look – we are more interested in the upside potential, as we have always been. We are looking for opportunities where there is significant upside potential for internal growth within existing markets and then geographic expansion in licensed areas that aren't being served.

#### Brian Tanquilut – Jefferies & Co.

Got you. All right. And then second question, just if you can give us an update on the commercial relationships. I know last quarter you guys talked about moving away from the commercial or the private payors. If you can just give us an update on that one.

#### Keith Myers

Okay, sure. Well, as you saw, we are doing a really good job, our team is, of turning that around. I just can't say enough about the job they are doing. But to be clear, what we said last quarter was that we wanted to stay away from or try to avoid payors that did not reimburse us adequately. We don't – we welcome commercial business or managed care business that pays us fairly. So what we were doing is shifting away from those that pay us 20%, 25%, 30% below cost, and trying to increase those that pay fairly such as the commercial PPS plans. And the result is a 19% decrease in admissions in that category, but a 17% increase in revenue.

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