

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-Q

(Mark One)

- Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended September 30, 2023
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 1-8351

CHEMED CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)
255 E. Fifth Street, Suite 2600, Cincinnati, Ohio
(Address of principal executive offices)

31-0791746
(IRS Employer Identification No.)
45202
(Zip code)

(513) 762-6690

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended the extended transition period for complying with a new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on which Registered	Amount	Date
Capital Stock \$1 Par Value	CHE	New York Stock Exchange	15,062,308 Shares	September 30, 2023

**CHEMED CORPORATION AND
SUBSIDIARY COMPANIES**

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	September 30, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 173,150	\$ 74,126
Accounts receivable less allowances	168,031	139,408
Inventories	12,511	10,272
Prepaid income taxes	11,337	18,515
Prepaid expenses	29,510	30,291
Total current assets	394,539	272,612
Investments of deferred compensation plans held in trust	104,410	93,196
Properties and equipment, at cost, less accumulated depreciation of \$347,909 (2022- \$335,920)	205,462	199,714
Lease right of use asset	123,353	135,662
Identifiable intangible assets less accumulated amortization of \$46,449 (2022 - \$67,716)	92,768	99,726
Goodwill	584,977	581,295
Other assets	56,570	59,807
Total Assets	\$ 1,562,079	\$ 1,442,012
LIABILITIES		
Current liabilities		
Accounts payable	\$ 56,508	\$ 41,884
Current portion of long-term debt	-	5,000
Income taxes	5,135	-
Accrued insurance	61,122	58,515
Accrued compensation	74,865	87,350
Accrued legal	6,626	4,456
Short-term lease liability	37,615	38,996
Other current liabilities	55,348	61,004
Total current liabilities	297,219	297,205
Deferred income taxes	30,381	38,613
Long-term debt	-	92,500
Deferred compensation liabilities	102,815	92,330
Long-term lease liability	99,346	110,513
Other liabilities	13,075	12,136
Total Liabilities	542,836	643,297
Commitments and contingencies (Note 10)		
STOCKHOLDERS' EQUITY		
Capital stock - authorized 80,000,000 shares \$1 par; issued 37,013,253 shares (2022 - 36,795,792 shares)	37,013	36,796
Paid-in capital	1,254,356	1,149,899
Retained earnings	2,362,928	2,197,918
Treasury stock - 22,005,711 shares (2022 - 21,920,993 shares)	(2,637,102)	(2,588,145)
Deferred compensation payable in Company stock	2,048	2,247
Total Stockholders' Equity	1,019,243	798,715
Total Liabilities and Stockholders' Equity	\$ 1,562,079	\$ 1,442,012

See Accompanying Notes to Unaudited Consolidated Financial Statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Service revenues and sales	\$ 564,532	\$ 526,472	\$ 1,678,505	\$ 1,588,309
Cost of services provided and goods sold (excluding depreciation)	362,358	346,934	1,107,256	1,020,307
Selling, general and administrative expenses	99,602	83,992	294,684	261,799
Depreciation	12,858	12,154	37,778	37,006
Amortization	2,521	2,520	7,548	7,558
Other operating expense/(income)	343	15	2,064	(530)
Total costs and expenses	<u>477,682</u>	<u>445,615</u>	<u>1,449,330</u>	<u>1,326,140</u>
Income from operations	86,850	80,857	229,175	262,169
Interest expense	(444)	(1,271)	(2,766)	(2,983)
Other income/(expense) - net	<u>6,859</u>	<u>(3,115)</u>	<u>8,365</u>	<u>(11,907)</u>
Income before income taxes	93,265	76,471	234,774	247,279
Income taxes	<u>(18,307)</u>	<u>(19,598)</u>	<u>(52,318)</u>	<u>(59,781)</u>
Net income	<u>\$ 74,958</u>	<u>\$ 56,873</u>	<u>\$ 182,456</u>	<u>\$ 187,498</u>
Earnings Per Share:				
Net income	<u>\$ 4.97</u>	<u>\$ 3.82</u>	<u>\$ 12.14</u>	<u>\$ 12.55</u>
Average number of shares outstanding	<u>15,075</u>	<u>14,888</u>	<u>15,034</u>	<u>14,935</u>
Diluted Earnings Per Share:				
Net income	<u>\$ 4.93</u>	<u>\$ 3.78</u>	<u>\$ 12.02</u>	<u>\$ 12.41</u>
Average number of shares outstanding	<u>15,200</u>	<u>15,042</u>	<u>15,178</u>	<u>15,114</u>
Cash Dividends Per Share	<u>\$ 0.40</u>	<u>\$ 0.38</u>	<u>\$ 1.16</u>	<u>\$ 1.10</u>

See Accompanying Notes to Unaudited Consolidated Financial Statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended September 30,	
	2023	2022
Cash Flows from Operating Activities		
Net income	\$ 182,456	\$ 187,498
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,326	44,564
Stock option expense	22,376	19,343
(Benefit)/provision for deferred income taxes	(8,232)	10,408
Noncash long-term incentive compensation	6,637	4,343
Litigation settlements	2,050	-
Noncash directors' compensation	1,444	1,170
Amortization of debt issuance costs	500	247
Changes in operating assets and liabilities:		
(Increase)/decrease in accounts receivable	(27,843)	16,166
Increase in inventories	(2,239)	(360)
Decrease in prepaid expenses	781	1,257
Decrease in accounts payable and other current liabilities	(15,815)	(15,765)
Change in current income taxes	12,314	(10,277)
Net change in lease assets and liabilities	(892)	313
Increase in other assets	(8,622)	(42,424)
Increase/(decrease) in other liabilities	11,426	(6,555)
Other sources/(uses)	69	(241)
Net cash provided by operating activities	<u>221,736</u>	<u>209,687</u>
Cash Flows from Investing Activities		
Capital expenditures	(45,075)	(39,066)
Proceeds from sale of fixed assets	506	2,037
Business combinations, net of cash acquired	(3,994)	(2,044)
Other uses	(409)	(841)
Net cash used by investing activities	<u>(48,972)</u>	<u>(39,914)</u>
Cash Flows from Financing Activities		
Payments on other long-term debt	(97,500)	(1,250)
Proceeds from other long-term debt	-	100,000
Proceeds from exercise of stock options	58,277	17,128
Purchases of treasury stock	(27,769)	(101,539)
Dividends paid	(17,446)	(16,391)
Change in cash overdrafts payable	16,182	5,535
Capital stock surrendered to pay taxes on stock-based compensation	(5,446)	(12,497)
Debt issuance costs	-	(1,584)
Payments on revolving line of credit	-	(299,400)
Proceeds from revolving line of credit	-	116,500
Other sources/(uses)	(38)	(1,389)
Net cash used by financing activities	<u>(73,740)</u>	<u>(194,887)</u>
Increase/(Decrease) in Cash and Cash Equivalents	<u>99,024</u>	<u>(25,114)</u>
Cash and cash equivalents at beginning of period	74,126	32,895
Cash and cash equivalents at end of period	<u>\$ 173,150</u>	<u>\$ 7,781</u>

See Accompanying Notes to Unaudited Consolidated Financial Statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except per share data)

For the three months ended September 30, 2023 and 2022:

	Capital Stock	Paid-in Capital	Retained Earnings	Treasury Stock- at Cost	Deferred Compensation Payable in Company Stock	Total
Balance at June 30, 2023	\$ 36,996	\$ 1,240,415	\$ 2,294,004	\$ (2,621,657)	\$ 2,321	\$ 952,079
Net income	-	-	74,958	-	-	74,958
Dividends paid (\$0.40 per share)	-	-	(6,034)	-	-	(6,034)
Stock awards and exercise of stock options	17	14,462	-	(1,372)	-	13,107
Purchases of treasury stock	-	-	-	(14,344)	-	(14,344)
Other	-	(521)	-	271	(273)	(523)
Balance at September 30, 2023	<u>\$ 37,013</u>	<u>\$ 1,254,356</u>	<u>\$ 2,362,928</u>	<u>\$ (2,637,102)</u>	<u>\$ 2,048</u>	<u>\$ 1,019,243</u>

	Capital Stock	Paid-in Capital	Retained Earnings	Treasury Stock- at Cost	Deferred Compensation Payable in Company Stock	Total
Balance at June 30, 2022	\$ 36,651	\$ 1,089,129	\$ 2,090,214	\$ (2,533,306)	\$ 2,272	\$ 684,960
Net income	-	-	56,873	-	-	56,873
Dividends paid (\$0.38 per share)	-	-	(5,669)	-	-	(5,669)
Stock awards and exercise of stock options	19	12,295	-	(1,916)	-	10,398
Purchases of treasury stock	-	-	-	(23,884)	-	(23,884)
Other	-	(1,263)	-	(35)	36	(1,262)
Balance at September 30, 2022	<u>\$ 36,670</u>	<u>\$ 1,100,161</u>	<u>\$ 2,141,418</u>	<u>\$ (2,559,141)</u>	<u>\$ 2,308</u>	<u>\$ 721,416</u>

See Accompanying Notes to Unaudited Consolidated Financial Statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except per share data)

For the nine months ended September 30, 2023 and 2022:

	Capital Stock	Paid-in Capital	Retained Earnings	Treasury Stock- at Cost	Deferred Compensation Payable in Company Stock	Total
Balance at December 31, 2022	\$ 36,796	\$ 1,149,899	\$ 2,197,918	\$ (2,588,145)	\$ 2,247	\$ 798,715
Net income	-	-	182,456	-	-	182,456
Dividends paid (\$1.16 per share)	-	-	(17,446)	-	-	(17,446)
Stock awards and exercise of stock options	217	104,457	-	(21,386)	-	83,288
Purchases of treasury stock	-	-	-	(27,769)	-	(27,769)
Other	-	-	-	198	(199)	(1)
Balance at September 30, 2023	<u>\$ 37,013</u>	<u>\$ 1,254,356</u>	<u>\$ 2,362,928</u>	<u>\$ (2,637,102)</u>	<u>\$ 2,048</u>	<u>\$ 1,019,243</u>
					Deferred Compensation Payable in Company Stock	
	Capital Stock	Paid-in Capital	Retained Earnings	Treasury Stock- at Cost		Total
Balance at December 31, 2021	\$ 36,514	\$ 1,044,341	\$ 1,970,311	\$ (2,430,094)	\$ 2,201	\$ 623,273
Net income	-	-	187,498	-	-	187,498
Dividends paid (\$1.10 per share)	-	-	(16,391)	-	-	(16,391)
Stock awards and exercise of stock options	156	57,172	-	(27,842)	-	29,486
Purchases of treasury stock	-	-	-	(101,098)	-	(101,098)
Other	-	(1,352)	-	(107)	107	(1,352)
Balance at September 30, 2022	<u>\$ 36,670</u>	<u>\$ 1,100,161</u>	<u>\$ 2,141,418</u>	<u>\$ (2,559,141)</u>	<u>\$ 2,308</u>	<u>\$ 721,416</u>

See Accompanying Notes to Unaudited Consolidated Financial Statements.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES

Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation

As used herein, the terms “We,” “Company” and “Chemed” refer to Chemed Corporation or Chemed Corporation and its consolidated subsidiaries.

We have prepared the accompanying unaudited consolidated financial statements of Chemed in accordance with Rule 10-01 of SEC Regulation S-X. Consequently, we have omitted certain disclosures required under generally accepted accounting principles in the United States (“GAAP”) for complete financial statements. The December 31, 2022 balance sheet data were derived from audited financial statements but do not include all disclosures required by GAAP. However, in our opinion, the financial statements presented herein contain all adjustments, consisting only of normal recurring adjustments, necessary to state fairly our financial position, results of operations and cash flows. The results of operations for the three and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023 or any other future period, and we make no representations related thereto. These financial statements are prepared on the same basis as and should be read in conjunction with the audited Consolidated Financial Statements and related Notes included in our Annual Report on Form 10-K for the year ended December 31, 2022.

CLOUD COMPUTING

As of September 30, 2023, Roto-Rooter has no significant capitalized implementation costs related to cloud computing.

VITAS utilizes a human resources system that is considered a cloud computing arrangement. We have capitalized approximately \$5.6 million related to implementation of this project which is included in prepaid assets in the accompanying balance sheets. The VITAS human resource system was placed into service in January 2020 and is being amortized over 5.7 years. For the three months ended September 30, 2023 and 2022, \$249,000 has been amortized, respectively. For the nine months ended September 30, 2023 and 2022, \$746,000 has been amortized, respectively.

INCOME TAXES

Our effective income tax rate was 19.6% in the third quarter of 2023 compared to 25.6% during the third quarter of 2022. Excess tax benefit on stock options exercised reduced our income tax expenses by \$225,000 and \$450,000 for the quarters ended September 30, 2023 and 2022, respectively.

Our effective income tax rate was 22.3% in the first nine months of 2023 compared to 24.2% during the first nine months of 2022. Excess tax benefit on stock options exercised reduced our income tax expenses by \$3.4 million and \$4.4 million for the first nine months ended September 30, 2023 and 2022, respectively.

During the third quarter of 2023, the Company recognized a tax benefit from realignment of its state and local corporate tax structure based on the location of operating resources and profitability by business segment. This benefit includes a reduction in current state and local tax expense and a one time benefit of \$4.2 million in reduction of deferred tax liabilities reflecting the lower tax rates.

NON-CASH TRANSACTIONS

Included in the accompanying Consolidated Balance Sheets are \$744,000 and \$1.9 million of capitalized property and equipment which were not paid for as of September 30, 2023 and December 31, 2022, respectively. Accrued property and equipment purchases have been excluded from capital expenditures in the accompanying Consolidated Statements of Cash Flow. There are no material non-cash amounts included in interest expense for any period presented.

BUSINESS COMBINATIONS

We account for acquired businesses using the acquisition method of accounting. All assets acquired and liabilities assumed are recorded at their respective fair values at the date of acquisition. The determination of fair value involves estimates and the use of valuation techniques when market value is not readily available. We use various techniques to determine fair value in accordance with accepted valuation models, primarily the income approach. The significant assumptions used in developing fair values include, but are not limited to, revenue growth rates, the amount and timing of future cash flows, discount rates, useful lives, royalty rates and future tax rates. The excess of purchase price over the fair value of assets and liabilities acquired is recorded as goodwill. See Note 17 for discussion of recent acquisitions.

Quarterly amortization of intangible assets is mainly driven by two Roto-Rooter franchise acquisitions completed in 2019. The total purchase price of these acquisitions was \$138.0 million. As part of the purchase price allocation, approximately \$59.2 million was determined to be the value of reacquired franchise rights which are being amortized over the remaining life of each franchise agreement. The average remaining life on the reacquired franchise agreements was approximately seven years. Quarterly amortization of reacquired franchise rights for these two acquisitions is approximately \$2.0 million (\$8.1 million annualized through 2026). This contrasts to quarterly franchise fees historically collected from these two franchisees of approximately \$470,000 (\$1.9 million annualized).

ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying Notes. Actual results could differ from those estimates. Disclosures of after-tax expenses and adjustments are based on estimates of the effective income tax rates for the applicable segments.

2. Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update “ASU No. 2014-09 – Revenue from Contracts with Customers.” The standard and subsequent amendments are intended to develop a common revenue standard for removing inconsistencies and weaknesses, improve comparability, provide for more useful information to users through improved disclosure requirements and simplify the preparation of financial statements. The standard is also referred to as Accounting Standards Codification No. 606 (“ASC 606”).

VITAS

Service revenue for VITAS is reported at the amount that reflects the ultimate consideration we expect to receive in exchange for providing patient care. These amounts are due from third-party payors, primarily commercial health insurers and government programs (Medicare and Medicaid), and include variable consideration for revenue adjustments due to settlements of audits and reviews, as well as certain hospice-specific revenue capitations. Amounts are generally billed monthly or subsequent to patient discharge. Subsequent changes in the transaction price initially recognized are not significant.

Hospice services are provided on a daily basis and the type of service provided is determined based on a physician’s determination of each patient’s specific needs on that given day. Reimbursement rates for hospice services are on a *per diem* basis regardless of the type of service provided or the payor. Reimbursement rates from government programs are established by the appropriate governmental agency and are standard across all hospice providers. Reimbursement rates from health insurers are negotiated with each payor and generally structured to closely mirror the Medicare reimbursement model. The types of hospice services provided and associated reimbursement model for each are as follows:

Routine Home Care occurs when a patient receives hospice care in their home, including a nursing home setting. The routine home care rate is paid for each day that a patient is in a hospice program and is not receiving one of the other categories of hospice care. For Medicare patients, the routine home care rate reflects a two-tiered rate, with a higher rate for the first 60 days of a hospice patient’s care and a lower rate for days 61 and after. In addition, there is a Service Intensity Add-on payment which covers direct home care visits conducted by a registered nurse or social worker in the last seven days of a hospice patient’s life, reimbursed up to 4 hours per day in 15 minute increments at the continuous home care rate.

General Inpatient Care occurs when a patient requires services in a controlled setting for a short period of time for pain control or symptom management which cannot be managed in other settings. General inpatient care services must be provided in a Medicare or Medicaid certified hospital or long-term care facility or at a freestanding inpatient hospice facility with the required registered nurse staffing.

Continuous Home Care is provided to patients while at home, including a nursing home setting, during periods of crisis when intensive monitoring and care, primarily nursing care, is required in order to achieve palliation or management of acute medical symptoms. Continuous home care requires a minimum of 8 hours of care within a 24-hour day, which begins at midnight. The care must be predominantly nursing care provided by either a registered nurse or licensed nurse practitioner. While the published Medicare continuous home care rates are daily rates, Medicare pays for continuous home care in 15 minute increments. This 15 minute rate is calculated by dividing the daily rate by 96.

Respite Care permits a hospice patient to receive services on an inpatient basis for a short period of time in order to provide relief for the patient’s family or other caregivers from the demands of caring for the patient. A hospice can receive payment for respite care for a given patient for up to five consecutive days at a time, after which respite care is reimbursed at the routine home care rate.

Each level of care represents a separate promise under the contract of care and is provided independently for each patient contingent upon the patient's specific medical needs as determined by a physician. However, the clinical criteria used to determine a patient's level of care is consistent across all patients, given that, each patient is subject to the same payor rules and regulations. As a result, we have concluded that each level of care is capable of being distinct and is distinct in the context of the contract. Furthermore, we have determined that each level of care represents a stand ready service provided as a series of either days or hours of patient care. We believe that the performance obligations for each level of care meet criteria to be satisfied over time. VITAS recognizes revenue based on the service output. VITAS believes this to be the most faithful depiction of the transfer of control of services as the patient simultaneously receives and consumes the benefits provided by our performance. Revenue is recognized on a daily or hourly basis for each patient in accordance with the reimbursement model for each type of service. VITAS' performance obligations relate to contracts with an expected duration of less than one year. Therefore, VITAS has elected to apply the optional exception provided in ASC 606 and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially satisfied performance obligations referred to above relate to bereavement services provided to patients' families for at least 12 months after discharge.

Care is provided to patients regardless of their ability to pay. Patients who meet our criteria for charity care are provided care without charge. There is no revenue or associated accounts receivable in the accompanying Consolidated Financial Statements related to charity care. The cost of providing charity care for the quarter ended September 30, 2023 and 2022 was \$2.0 million and \$1.9 million, respectively. The cost of providing charity care during the first nine months ended September 30, 2023 and 2022 was \$6.1 million and \$5.9 million, respectively. The cost of charity care is included in cost of services provided and goods sold and is calculated by taking the ratio of charity care days to total days of care and multiplying by the total cost of care.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance which vary in amount. VITAS also provides service to patients without a reimbursement source and may offer those patients discounts from standard charges. VITAS estimates the transaction price for patients with deductibles and coinsurance, along with those uninsured patients, based on historical experience and current conditions. The estimate of any contractual adjustments, discounts or implicit price concessions reduces the amount of revenue initially recognized. Subsequent changes to the estimate of the transaction price are recorded as adjustments to patient service revenue in the period of change. Subsequent changes that are determined to be the result of an adverse change in the patients' ability to pay (i.e. change in credit risk) are recorded as bad debt expense. VITAS has no material adjustments related to subsequent changes in the estimate of the transaction price or subsequent changes as the result of an adverse change in the patient's ability to pay for any period reported.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation and change over time. Medicare and Medicaid programs have broad authority to audit and review compliance with such laws and regulations and impose payment suspensions or modifications when merited. Additionally, the contracts we have with commercial health insurance payors provide for retroactive audit and review of claims. Settlement with third party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. The variable consideration is estimated based on the terms of the payment agreement, existing correspondence from the payor and our historical settlement activity. These estimates are adjusted in future periods, as new information becomes available.

We are subject to certain limitations on Medicare payments for services which are considered variable consideration, as follows:

Inpatient Cap. If the number of inpatient care days any hospice program provides to Medicare beneficiaries exceeds 20% of the total days of hospice care such program provided to all Medicare patients for an annual period beginning September 28, the days in excess of the 20% figure may be reimbursed only at the routine homecare rate. None of VITAS' hospice programs exceeded the payment limits on inpatient services during the three months ended September 30, 2023 and 2022.

Medicare Cap. We are also subject to a Medicare annual per-beneficiary cap ("Medicare cap"). Compliance with the Medicare cap is measured in one of two ways based on a provider election. The "streamlined" method compares total Medicare payments received under a Medicare provider number with respect to services provided to all Medicare hospice care beneficiaries in the program or programs covered by that Medicare provider number with the product of the per-beneficiary cap amount and the number of Medicare beneficiaries electing hospice care for the first time from that hospice program or programs from September 28 through September 27 of the following year. At September 30, 2023, all our programs except one are using the "streamlined" method.

The "proportional" method compares the total Medicare payments received under a Medicare provider number with respect to services provided to all Medicare hospice care beneficiaries in the program or programs covered by the Medicare provider number between September 28 and September 27 of the following year with the product of the per beneficiary cap amount and a pro-rated number of Medicare beneficiaries receiving hospice services from that program during the same period. The pro-rated number of Medicare beneficiaries is calculated based on the ratio of

days the beneficiary received hospice services during the measurement period to the total number of days the beneficiary received hospice services.

We actively monitor each of our hospice programs, by provider number, as to their specific admission, discharge rate and median length of stay data in an attempt to determine whether revenues are likely to exceed the annual per-beneficiary Medicare cap. Should we determine that revenues for a program are likely to exceed the Medicare cap based on projected trends, we attempt to institute corrective actions, which include changes to the patient mix and increased patient admissions. However, should we project our corrective action will not prevent that program from exceeding its Medicare cap, we estimate revenue recognized during the government fiscal year that will require repayment to the Federal government under the Medicare cap and record an adjustment to revenue of an amount equal to a ratable portion of our best estimate for the year.

For VITAS' patients in the nursing home setting in which Medicaid pays the nursing home room and board, VITAS serves as a pass-through between Medicaid and the nursing home. We are responsible for paying the nursing home for that patient's room and board. Medicaid reimburses us for 95% of the amount we have paid. This results in a 5% net expense for VITAS related to nursing home room and board. This transaction creates a performance obligation in that VITAS is facilitating room and board being delivered to our patient. As a result, the 5% net expense is recognized as a contra-revenue account under ASC 606 in the accompanying financial statements.

The composition of patient care service revenue by payor and level of care for the quarter ended September 30, 2023 is as follows (in thousands):

	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Total</u>
Routine home care	\$ 269,954	\$ 11,187	\$ 6,248	\$ 287,389
Continuous care	20,160	870	1,002	22,032
Inpatient care	23,983	2,197	1,638	27,818
	<u>\$ 314,097</u>	<u>\$ 14,254</u>	<u>\$ 8,888</u>	<u>\$ 337,239</u>
All other revenue - self-pay, respite care, etc.				<u>3,562</u>
Subtotal				\$ 340,801
Medicare cap adjustment				(125)
Implicit price concessions				(4,302)
Room and board, net				<u>(2,646)</u>
Net revenue				<u>\$ 333,728</u>

The composition of patient care service revenue by payor and level of care for the quarter ended September 30, 2022 is as follows (in thousands):

	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Total</u>
Routine home care	\$ 239,670	\$ 10,822	\$ 5,761	\$ 256,253
Continuous care	17,083	787	730	18,600
Inpatient care	21,391	1,838	1,297	24,526
	<u>\$ 278,144</u>	<u>\$ 13,447</u>	<u>\$ 7,788</u>	<u>\$ 299,379</u>
All other revenue - self-pay, respite care, etc.				<u>3,240</u>
Subtotal				\$ 302,619
Medicare cap adjustment				(618)
Implicit price concessions				(2,952)
Room and board, net				<u>(2,513)</u>
Net revenue				<u>\$ 296,536</u>

The composition of patient care service revenue by payor and level of care for nine months ended September 30, 2023 is as follows (in thousands):

	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Total</u>
Routine home care	\$ 781,639	\$ 33,143	\$ 17,772	\$ 832,554
Continuous care	58,071	2,384	2,599	63,054
Inpatient care	73,402	6,477	4,433	84,312
	<u>\$ 913,112</u>	<u>\$ 42,004</u>	<u>\$ 24,804</u>	<u>\$ 979,920</u>
All other revenue - self-pay, respite care, etc.				<u>9,738</u>
Subtotal				\$ 989,658
Medicare cap adjustment				(5,625)
Implicit price concessions				(10,650)
Room and board, net				<u>(8,317)</u>
Net revenue				<u>\$ 965,066</u>

The composition of patient care service revenue by payor and level of care for the nine months ended September 30, 2022 is as follows (in thousands):

	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Total</u>
Routine home care	\$ 722,035	\$ 32,848	\$ 16,637	\$ 771,520
Continuous care	53,103	2,337	2,277	57,717
Inpatient care	66,412	5,608	3,694	75,714
	<u>\$ 841,550</u>	<u>\$ 40,793</u>	<u>\$ 22,608</u>	<u>\$ 904,951</u>
All other revenue - self-pay, respite care, etc.				<u>9,461</u>
Subtotal				\$ 914,412
Medicare cap adjustment				(5,118)
Implicit price concessions				(8,992)
Room and board, net				<u>(6,796)</u>
Net revenue				<u>\$ 893,506</u>

Roto-Rooter

Roto-Rooter provides plumbing, drain cleaning, excavation, water restoration and other related services to both residential and commercial customers primarily in the United States. Services are provided through a network of company-owned branches, independent contractors and franchisees. Service revenue for Roto-Rooter is reported at the amount that reflects the ultimate consideration we expect to receive in exchange for providing services.

Roto-Rooter owns and operates branches focusing mainly on large population centers in the United States. Roto-Rooter's primary lines of business in company-owned branches consist of plumbing, sewer and drain cleaning, excavation and water restoration. For purposes of ASC 606 analysis, plumbing, sewer and drain cleaning, and excavation have been combined into one portfolio and are referred to as "short-term core services". Water restoration is analyzed as a separate portfolio. The following describes the key characteristics of these portfolios:

Short-term Core Services are plumbing, drain and sewer cleaning and excavation services. These services are provided to both commercial and residential customers. The duration of services provided in this category range from a few hours to a few days. There are no significant warranty costs or on-going obligations to the customer once a service has been completed. For residential customers, payment is received at the time of job completion before the Roto-Rooter technician leaves the residence. Commercial customers may be granted credit subject to internally designated authority limits and credit check guidelines. If credit is granted, payment terms are generally 30 days or less.

Each job in this category is a distinct service with a distinct performance obligation to the customer. Revenue is recognized at the completion of each job. Variable consideration consists of pre-invoice discounts and post-invoice discounts. Pre-invoice discounts are given in the form of coupons or price concessions. Post-invoice discounts consist of credit memos generally granted to resolve customer service issues. Variable consideration is estimated based on historical activity and recorded at the time service is completed.

Water Restoration Services involve the remediation of water and humidity after a flood. These services are provided to both commercial and residential customers. The duration of services provided in this category generally ranges from 3 to 5 days. There are no significant warranties or on-going obligations to the customer once service has been completed. The majority of these services are

paid by the customer's insurance company. Variable consideration relates primarily to allowances taken by insurance companies upon payment. Variable consideration is estimated based on historical activity and recorded at the time service is completed.

For both short-term core services and water restoration services, Roto-Rooter satisfies its performance obligation at a point in time. The services provided generally involve fixing plumbing, drainage or flood-related issues at the customer's property. At the time service is complete, the customer acknowledges its obligation to pay for service and its satisfaction with the service performed. This provides evidence that the customer has accepted the service and Roto-Rooter is now entitled to payment. As such, Roto-Rooter recognizes revenue for these services upon completion of the job and receipt of customer acknowledgement. Roto-Rooter's performance obligations for short-term core services and water restoration services relate to contracts with an expected duration of less than a year. Therefore, Roto-Rooter has elected to apply the optional exception provided in ASC 606 and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Roto-Rooter does not have significant unsatisfied or partially unsatisfied performance obligations at the time of initial revenue recognition for short-term core or water restoration services.

Roto-Rooter owns the rights to certain territories and contracts with independent third-parties to operate the territory under Roto-Rooter's registered trademarks ("Independent Contractors"). Such contracts are for a specified term but cancellable by either party without penalty with 90 days' advance notice. Under the terms of these arrangements, Roto-Rooter provides certain back office support and advertising along with a limited license to use Roto-Rooter's registered trademarks. The Independent Contractor is responsible for all day-to-day management of the business including staffing decisions and pricing of services provided. All performance obligations of Roto-Rooter cease at the termination of the arrangement.

Independent Contractors pay Roto-Rooter a standard fee calculated as a percentage of their cash collection from weekly sales. The primary value for the Independent Contractors under these arrangements is the right to use Roto-Rooter's registered trademarks. Roto-Rooter recognizes revenue from Independent Contractors over-time (weekly) as the Independent Contractor's labor sales are completed and payment from customers are received. Payment from Independent Contractors is also received on a weekly basis. The use of Roto-Rooter's registered trademarks and advertising provides immediate value to the Independent Contractor as a result of Roto-Rooter's nationally recognized brand. Therefore, over-time recognition provides the most faithful depiction of the transfer of services as the customer simultaneously receives and consumes the benefits provided. There is no significant variable consideration related to these arrangements.

Roto-Rooter has licensed the rights to operate under Roto-Rooter's registered trademarks in other territories to franchisees. Each such contract is for a 10 year term but cancellable by Roto-Rooter for cause with 60 day advance notice without penalty. The franchisee may cancel the contract for any reason with 60 days advance notice without penalty. Under the terms of the contract, Roto-Rooter provides national advertising and consultation on various aspects of operating a Roto-Rooter business along with the right to use Roto-Rooter's registered trademarks. The franchisee is responsible for all day- to-day management of the business including staffing decisions, pricing of services provided and local advertising spend and placement. All performance obligations of Roto-Rooter cease at the termination of the arrangement.

Franchisees pay Roto-Rooter a standard monthly fee based on the population within the franchise territory. The standard fee is revised on a yearly basis based on changes in the Consumer Price Index for All Urban Consumers. The primary value for the franchisees under this arrangement is the right to use Roto-Rooter's registered trademarks. Roto-Rooter recognizes revenue from franchisees over-time (monthly). Payment from franchisees is also received on a monthly basis. The use of Roto-Rooter's registered trademarks and advertising provides immediate value to the franchisees as a result of Roto-Rooter's nationally recognized brand. Therefore, over-time recognition provides the most faithful depiction of the transfer of services as the customer simultaneously receives and consumes the benefits provided. There is no significant variable consideration related to these arrangements.

The composition of disaggregated revenue for the third quarter is as follows (in thousands):

	September 30,	
	2023	2022
Drain cleaning	\$ 59,164	\$ 62,764
Plumbing	49,113	48,737
Excavation	56,904	54,164
Other	334	193
Subtotal - short term core	165,515	165,858
Water restoration	45,435	43,645
Independent contractors	20,509	20,474
Franchisee fees	1,457	1,559
Other	4,246	4,030
Gross revenue	237,162	235,566
Implicit price concessions and credit memos	(6,358)	(5,630)
Net revenue	<u>\$ 230,804</u>	<u>\$ 229,936</u>

The composition of disaggregated revenue for the first nine months is as follows (in thousands):

	September 30,	
	2023	2022
Drain cleaning	\$ 186,016	\$ 193,983
Plumbing	148,285	145,294
Excavation	174,032	164,898
Other	711	513
Subtotal - short term core	509,044	504,688
Water restoration	141,176	127,678
Independent contractors	65,684	62,897
Franchisee fees	4,195	4,246
Other	13,292	12,462
Gross revenue	733,391	711,971
Implicit price concessions and credit memos	(19,952)	(17,168)
Net revenue	<u>\$ 713,439</u>	<u>\$ 694,803</u>

3. Segments

Service revenues and sales by business segment are shown in Note 2. After-tax income/(loss) by business segment are as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
VITAS	\$ 44,331	\$ 26,086	\$ 95,223	\$ 97,779
Roto-Rooter	50,327	47,586	142,354	138,595
Total	94,658	73,672	237,577	236,374
Corporate	(19,700)	(16,799)	(55,121)	(48,876)
Net income	<u>\$ 74,958</u>	<u>\$ 56,873</u>	<u>\$ 182,456</u>	<u>\$ 187,498</u>

We report corporate administrative expenses and unallocated investing and financing income and expense not directly related to either segment as "Corporate".

4. Earnings per Share

Earnings per share (“EPS”) are computed using the weighted average number of shares of capital stock outstanding. Earnings and diluted earnings per share are computed as follows (in thousands, except per share data):

	For the Three Months Ended September 30,	Net Income		
		Income	Shares	Earnings per Share
2023				
Earnings		\$ 74,958	15,075	\$ 4.97
Dilutive stock options		-	82	
Nonvested stock awards		-	43	
Diluted earnings		<u>\$ 74,958</u>	<u>15,200</u>	<u>\$ 4.93</u>
2022				
Earnings		\$ 56,873	14,888	\$ 3.82
Dilutive stock options		-	118	
Nonvested stock awards		-	36	
Diluted earnings		<u>\$ 56,873</u>	<u>15,042</u>	<u>\$ 3.78</u>
	For the Nine Months Ended September 30,	Net Income		
		Income	Shares	Earnings per Share
2023				
Earnings		\$ 182,456	15,034	\$ 12.14
Dilutive stock options		-	98	
Nonvested stock awards		-	46	
Diluted earnings		<u>\$ 182,456</u>	<u>15,178</u>	<u>\$ 12.02</u>
2022				
Earnings		\$ 187,498	14,935	\$ 12.55
Dilutive stock options		-	140	
Nonvested stock awards		-	39	
Diluted earnings		<u>\$ 187,498</u>	<u>15,114</u>	<u>\$ 12.41</u>

For the three and nine months ended September 30, 2023, there were 309,336 stock options excluded from the computation of dilutive earnings per share because they would have been anti-dilutive.

For the three and nine months ended September 30, 2022, there were 592,000 and 593,000, respectively, stock options excluded from the computation of dilutive earnings per share because they would have been anti-dilutive.

5. Long-Term Debt and Lines of Credit

On June 28, 2022, we replaced our existing credit facility with a fifth amended and restated Credit Agreement (“2022 Credit Facilities”). Terms of the 2022 Credit Facilities consist of a five-year \$450.0 million revolver as well as a five-year \$100.0 million term loan. Principal payments of \$1.25 million on the term loan are due on the last day of each fiscal quarter, with a final payment due at the end of the agreement. The 2022 Credit Facilities have a floating interest rate that is generally the secured overnight financing rate (“SOFR”) plus an additional tiered rate which varies based on our current leverage ratio. As of September 30, 2023, the interest rate is SOFR plus 100 basis points. The 2022 Credit Facilities include an expansion feature that provides the Company the opportunity to increase its revolver and or term loan by an additional \$250.0 million.

We made prepayments totaling \$75.0 million in the first quarter of 2023, on the \$100.0 million term loan. We paid the remaining balance of \$21.3 million on April 28, 2023. There were no prepayment penalties associated with this repayment. There are no significant deferred debt issuance costs capitalized related to the term loan. This prepayment reduced the total borrowing capacity of the 2022 Credit Facilities from \$550.0 million to \$450.0 million.

The 2022 Credit Facilities contain the following quarterly financial covenants effective as of September 30, 2023:

Description	Requirement
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00
Interest Coverage Ratio (Consolidated Adj. EBITDA/Consolidated Interest Expense)	> 3.00 to 1.00

We are in compliance with all debt covenants as of September 30, 2023. We have issued \$45.3 million in standby letters of credit as of September 30, 2023, mainly for insurance purposes. Issued letters of credit reduce our available credit under the 2022 Credit Facilities. As of September 30, 2023, we have approximately \$404.8 million of unused lines of credit available and eligible to be drawn down under the revolving credit facility.

6. Other Income/(Expense) – Net

Other income/(expense) – net comprises the following (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Market value adjustment on assets held in deferred compensation trust	\$ 4,257	\$ (3,176)	\$ 5,441	\$ (12,196)
Interest income	2,600	62	2,863	288
Other-net	2	(1)	61	1
Total other income/(expense) - net	<u>\$ 6,859</u>	<u>\$ (3,115)</u>	<u>\$ 8,365</u>	<u>\$ (11,907)</u>

7. Leases

Chemed and each of its operating subsidiaries are service companies. As such, real estate leases comprise the largest lease obligation (and conversely, right of use asset) in our lease portfolio. VITAS has leased office space, as well as space for inpatient units (“IPUs”) and/or contract beds within hospitals. Roto-Rooter mainly has leased office space. Our leases have remaining terms of under 1 year to 10 years, some of which include options to extend the lease for up to 5 years, and some of which include options to terminate the lease within 1 year.

Roto-Rooter purchases equipment and leases it to certain of its Independent Contractors. We analyzed these leases in accordance with ASC 842 and determined they are operating leases. As a result, Roto-Rooter capitalizes the equipment underlying these leases, depreciates the equipment and recognizes rental income.

We do not currently have any finance leases, therefore all lease information disclosed is related to operating leases.

The components of balance sheet information related to leases were as follows:

	September 30, 2023	December 31, 2022
Assets		
Operating lease assets	\$ 123,353	\$ 135,662
Liabilities		
Current operating leases	37,615	38,996
Noncurrent operating leases	99,346	110,513
Total operating lease liabilities	<u>\$ 136,961</u>	<u>\$ 149,509</u>

The components of lease expense for the third quarter are as follows (in thousands):

	Three months ended September 30,	
	2023	2022
<u>Lease Expense (a)</u>		
Operating lease expense	\$ 14,999	\$ 12,936
Sublease income	(23)	(45)
Net lease expense	<u>\$ 14,976</u>	<u>\$ 12,891</u>

The components of lease expense for the first nine months are as follows (in thousands):

	Nine months ended September 30,	
	2023	2022
<u>Lease Expense (a)</u>		
Operating lease expense	\$ 44,811	\$ 39,230
Sublease income	(70)	(136)
Net lease expense	<u>\$ 44,741</u>	<u>\$ 39,094</u>

(a) Includes short-term leases and variable lease costs, which are immaterial. Included in both cost of services provided and goods sold and selling, general and administrative expenses.

The components of cash flow information related to leases were as follows:

	Nine months ended September 30,	
	2023	2022
<u>Cash paid for amounts included in the measurement of lease liabilities</u>		
Operating cash flows from leases	\$ 37,352	\$ 37,650
<u>Leased assets obtained in exchange for new operating lease liabilities</u>	\$ 21,630	\$ 41,855

Weighted Average Remaining Lease Term at September 30, 2023

Operating leases 4.39 years

Weighted Average Discount Rate at September 30, 2023

Operating leases 2.87%

Maturity of Operating Lease Liabilities (in thousands)

2023	\$	11,649
2024		41,093
2025		33,289
2026		26,016
2027		15,005
Thereafter		19,234
Total lease payments	\$	146,286
Less: interest		(9,325)
Total liability recognized on the balance sheet	<u>\$</u>	<u>136,961</u>

For leases commencing prior to April 2019, minimum rental payments exclude payments to landlords for real estate taxes and common area maintenance. Operating lease payments include \$2.7 million related to extended lease terms that are reasonably certain of being exercised and exclude \$201,000 of lease payments for leases signed but not yet commenced.

8. Stock-Based Compensation Plans

On February 17, 2023, the Compensation/Incentive Committee of the Board of Directors (“CIC”) granted 6,078 Performance Stock Units (“PSUs”) that vest contingent upon the achievement of certain total shareholder return (“TSR”) targets as compared to the TSR of a group of peer companies for the three-year period ending December 31, 2025, the date at which such awards vest. The cumulative compensation cost of the TSR-based PSU award to be recorded over the three-year service period is \$5.1 million.

On February 17, 2023, the CIC also granted 6,078 PSUs that vest contingent upon the achievement of certain earnings per share (“EPS”) targets for the three-year period ending December 31, 2025. At the end of each reporting period, the Company estimates the number of shares that it believes will ultimately be earned and records the corresponding expense over the service period of the award. We currently estimate the cumulative compensation cost of the EPS-based PSUs to be recorded over the three-year service period is \$4.2 million.

9. Retirement Plans

All of the Company’s plans that provide retirement and similar benefits are defined contribution plans. These expenses include the impact of market gains and losses on assets held in deferred compensation plans and are recorded in selling, general and administrative expenses. Net gains for the Company’s retirement and profit-sharing plans, excess benefit plans and other similar plans are as follows (in thousands):

Three months ended September 30,		Nine months ended September 30,	
2023	2022	2023	2022
\$ 8,551	\$ 2,091	\$ 19,974	\$ 5,647

10. Legal and Regulatory Matters

The VITAS segment of the Company’s business operates in a heavily-regulated industry. As a result, the Company is subjected to inquiries and investigations by various government agencies, which can result in penalties including repayment obligations, funding withholding, or debarment, as well as to lawsuits, including *qui tam* actions. The following sections describe the various ongoing material lawsuits and investigations of which the Company is currently aware. Other than as described below, it is not possible at this time for us to estimate either the timing or outcome of any of those matters, or whether any potential loss, or range of potential losses, is probable or reasonably estimable.

Regulatory Matters and Litigation

On October 30, 2017, the Company entered into a settlement agreement to resolve civil litigation under the False Claims Act brought by the United States Department of Justice (“DOJ”) on behalf of the OIG and various relators concerning VITAS, filed in the U.S. District Court of the Western District of Missouri. The Company denied any violation of law and agreed to settlement without admission of wrongdoing.

In connection with the settlement, VITAS and certain of its subsidiaries entered into a corporate integrity agreement (“CIA”) on October 30, 2017 with a five-year term. The CIA formalized various aspects of VITAS’ already existing Compliance Program and contained requirements designed to document compliance with federal healthcare program requirements. On June 22, 2023, the OIG confirmed that VITAS has satisfied its requirements under the CIA and that the CIA was concluded.

On October 16, 2020, VITAS received a Civil Investigative Demand (“CID”) issued by the U.S. Department of Justice (“DOJ”) pursuant to the False Claims Act concerning allegations of the submission of false claims for hospice services for which reimbursement was sought from federal healthcare programs, including Medicare. The CID requested information regarding 32 patients from our Florida operations. On November 30, 2022, VITAS received a Letter of Declination from the DOJ, informing VITAS that the United States was declining to intervene in this case giving rise to the CID, *United States Ex. Rel. O’Keefe v VITAS Healthcare Corporation, et al.* that was unsealed on November 15, 2022. On April 6, 2023, the relator dismissed the case, without prejudice, with the consent of the United States.

VITAS is one of a group of hospice providers selected by the OIG’s Office of Audit Services (“OAS”) for inclusion in an audit of the provision of elevated level-of-care hospice services. On July 14, 2022, VITAS received the final audit report from OAS. Per this report, the OAS audit examined VITAS inpatient and continuous care claims for the period April 2017 to March 2019. The audit covered a total population of 50,850 claims representing total Medicare reimbursement of \$210.0 million during this two-year time period. From this population, OAS selected 100 claims, representing \$688,000 of reimbursement, for detailed review. The final OAS audit report includes a series of recommendations, including that VITAS repay approximately \$140.0 million of the \$210.0 million VITAS received from Medicare for hospice services during this two-year period, despite the fact that at the time of the release of the

results of the audit, many of the disputed claims were time-barred from being challenged. VITAS believes that the OAS audit process and related final report contains significant flaws including its methodology, medical reviews, technical reviews, proposed extrapolation methodology, and contravenes the “reasonable physician standard” set forth in the applicable Aseracare precedent.

On August 29, 2022, six weeks subsequent to the OAS finalizing its audit, VITAS received a demand letter from its Medicare Administrative Contractor (“MAC”) seeking repayment of \$50.3 million. This demand letter is \$90.0 million lower than the final OAS audit recommendation, as a significant portion of the 100 claims reviewed are closed pursuant to applicable law and ineligible to be reopened. VITAS timely filed its initial appeal of the overpayment decision and deposited \$50.3 million under the “Immediate Recoupment” process to preserve its appeal rights. To date, VITAS has been refunded \$2.5 million of the amount deposited and continues to appeal the remaining claims. The amount deposited has been recorded as an “other long-term asset” in the consolidated balance sheets, as detailed in Note 13.

Regardless of the outcome of any of the preceding matters, dealing with the various regulatory agencies and opposing parties can adversely affect us through defense costs, potential payments, withholding of governmental funding, diversion of management time, and related publicity. Although the Company intends to defend them vigorously, there can be no assurance that those suits will not have a material adverse effect on the Company.

11. Concentration of Risk

As of September 30, 2023, and December 31, 2022, approximately 73% and 64%, respectively, of VITAS’ total accounts receivable balance were from Medicare and 21% and 29%, respectively, of VITAS’ total accounts receivable balance were due from various state Medicaid or managed Medicaid programs. Combined accounts receivable from Medicare, Medicaid, and managed Medicaid represent approximately 79% of the consolidated net accounts receivable in the accompanying consolidated balance sheets as of September 30, 2023.

VITAS has a pharmacy services contract with one service provider for specified pharmacy services related to its hospice operations. Similarly, VITAS obtains the majority of its medical supplies from a single vendor. A large majority of VITAS’ pharmaceutical and medical supplies purchases are from these vendors. The pharmaceutical and medical supplies purchased by VITAS are available through many providers in the United States. However, a disruption from VITAS’ main service providers could adversely impact VITAS’ operations, including temporary logistical challenges and increased cost associated with getting medication and medical supplies to our patients.

12. Cash Overdrafts and Cash Equivalents

There are \$16.2 million in cash overdrafts payable included in accounts payable at September 30, 2023. There were no cash overdrafts payable included in accounts payable at December 31, 2022.

From time to time throughout the year, we invest excess cash in money market funds with major commercial banks. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds. In the third quarter of 2023, Chemed began investing excess cash in a money market fund holding US Treasuries. Deposits and withdrawals are made daily, based on the Company’s excess cash balance. There are no penalties associated with withdrawals. The accounts bear interest at a normal market rate.

13. Other Assets

Other assets comprise the following (in thousands):

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Deposit with OAS	\$ 47,756	\$ 50,274
Cash surrender value life insurance	3,647	3,636
Noncurrent advances and deposits	2,223	2,368
Other long-term receivable	1,718	1,826
Deferred debt costs	1,226	1,703
	<u>\$ 56,570</u>	<u>\$ 59,807</u>

14. Other Current Liabilities

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Healthcare worker retention bonus	\$ 14,638	\$ 19,634
Medicare Cap	10,870	14,380
Accrued advertising	2,899	2,516
All other	26,941	24,474
	<u>\$ 55,348</u>	<u>\$ 61,004</u>

There are no individual amounts exceeding 5% of the total current liabilities in the “all other” line item for either period presented.

15. Financial Instruments

FASB’s authoritative guidance on fair value measurements defines a hierarchy which prioritizes the inputs in fair value measurements. Level 1 measurements are measurements using quoted prices in active markets for identical assets or liabilities. Level 2 measurements use significant other observable inputs. Level 3 measurements are measurements using significant unobservable inputs which require a company to develop its own assumptions. In recording the fair value of assets and liabilities, companies must use the most reliable measurement available.

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of September 30, 2023 (in thousands):

	<u>Carrying Value</u>	<u>Fair Value Measure</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments of deferred compensation plans held in trust	\$ 104,410	\$ 104,410	\$ -	\$ -

The following shows the carrying value, fair value and the hierarchy for our financial instruments as of December 31, 2022 (in thousands):

	<u>Carrying Value</u>	<u>Fair Value Measure</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments of deferred compensation plans held in trust	\$ 93,196	\$ 93,196	\$ -	\$ -
Long-term debt and current portion of long-term debt	97,500	-	97,500	-

For cash and cash equivalents, accounts receivable and accounts payable, the carrying amount is a reasonable estimate of fair value because of the liquidity and short-term nature of these instruments. As further described in Note 5, our outstanding long-term debt has a floating interest rate that is reset at short-term intervals, generally 30 or 60 days. The interest rate we pay also includes an additional amount based on our current leverage ratio. As such, we believe our borrowings reflect significant nonperformance risks, mainly credit risk. Based on these factors, we believe the fair value of our long-term debt approximates its carrying value.

16. Capital Stock Repurchase Plan Transactions

We repurchased the following capital stock:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Total cost of repurchased shares (in thousands)	\$ 14,344	\$ 23,884	\$ 27,769	\$ 101,098
Shares repurchased	28,457	50,000	53,457	207,500
Weighted average price per share	\$ 504.07	\$ 477.68	\$ 519.46	\$ 487.22

In May and November 2021, the Board of Directors authorized a total of \$600.0 million for additional stock repurchase under Chemed's existing share repurchase program. We currently have \$60.1 million of authorization remaining under this share repurchase plan.

17. Acquisitions

On June 1, 2023 Roto-Rooter completed the acquisition of one franchise in South Carolina for \$305,000 in cash. On September 26, 2023 Roto-Rooter completed the acquisition of one franchise in Georgia for \$3.689 million in cash.

In 2022, VITAS purchased the hospice assets of one Florida provider for \$1.24 million in cash. Roto-Rooter completed the acquisition of three franchises and the related assets in New Jersey for a total of \$2.29 million in cash.

Goodwill is assessed for impairment on a yearly basis as of October 1. All goodwill recognized is deductible for tax purposes.

Shown below is movement in Goodwill (in thousands):

	VITAS	Roto-Rooter	Total
Balance at December 31, 2022	\$ 334,063	\$ 247,232	\$ 581,295
Business combinations	-	3,682	3,682
Balance at September 30, 2023	\$ 334,063	\$ 250,914	\$ 584,977

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

We operate through our two wholly-owned subsidiaries, VITAS Healthcare Corporation and Roto-Rooter Group, Inc. VITAS focuses on hospice care that helps make terminally ill patients’ final days as comfortable as possible. Through its teams of doctors, nurses, home health aides, social workers, clergy and volunteers, VITAS provides direct medical services to patients, as well as spiritual and emotional counseling to both patients and their families. Roto-Rooter’s services are focused on providing plumbing, drain cleaning, water restoration and other related services to both residential and commercial customers. Through its network of company-owned branches, Independent Contractors and franchisees, Roto-Rooter offers plumbing and drain cleaning service to over 90% of the U.S. population.

The vast majority of the Company’s operations are located in the United States. As both operations are service companies, our employees are the most critical resource of the Company. We have very little exposure related to customers, vendors, or employees in other regions of the world.

The following is a summary of the key operating results (in thousands except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Service revenues and sales	\$ 564,532	\$ 526,472	\$ 1,678,505	\$ 1,588,309
Net income	\$ 74,958	\$ 56,873	\$ 182,456	\$ 187,498
Diluted EPS	\$ 4.93	\$ 3.78	\$ 12.02	\$ 12.41
Adjusted net income	\$ 80,866	\$ 64,116	\$ 207,701	\$ 209,986
Adjusted diluted EPS	\$ 5.32	\$ 4.26	\$ 13.68	\$ 13.89
Adjusted EBITDA	\$ 115,836	\$ 99,169	\$ 312,253	\$ 320,283
Adjusted EBITDA as a % of revenue	20.5 %	18.8 %	18.6 %	20.2 %

Adjusted net income, adjusted diluted EPS, earnings before interest, taxes and depreciation and amortization (“EBITDA”), Adjusted EBITDA and Adjusted EBITDA as a percent of revenue are not measures derived in accordance with US GAAP. We provide non-GAAP measures to help readers evaluate our operating results and to compare our operating performance with that of similar companies that have different capital structures. Our non-GAAP measures should not be considered in isolation or as a substitute for comparable measures presented in accordance with GAAP. A reconciliation of our non-GAAP measures is presented on pages 35-37.

Starting with the September 30, 2023 quarter, Chemed is no longer excluding the cost of the Retention Program when presenting non-GAAP operating metrics in current or prior periods.

In the September 30, 2023 quarter, there is zero expense related to the Retention Program. In the September 30, 2022 quarter, the pretax and after-tax Retention Program expense was \$9.6 million and \$7.1 million, respectively.

For the nine months ended September 30, 2023 pretax and after-tax expense for the retention program is \$23.8 million and \$18.0 million, respectively. For the nine months ended September 30, 2022 pretax and after-tax expense for the Retention Program was \$9.6 million and \$7.1 million, respectively

For the three months ended September 30, 2023, the increase in consolidated service revenues and sales was driven by a 12.5% increase at VITAS and a 0.4% increase at Roto-Rooter. The increase in service revenues at Roto-Rooter was driven mainly by an increase in plumbing, excavation and water restoration offset by a decrease in drain cleaning. The increase in service revenues at VITAS is comprised primarily of a 9.4% increase in days-of-care and a geographically weighted average Medicare reimbursement rate increase of approximately 2.7%. Acuity mix shift positively impacted revenue growth 24-basis points in the quarter when compared to the prior year revenue and level-of-care mix. The combination of Medicare cap and other contra revenue changes increased revenue growth by 20-basis points.

For the nine months ended September 30, 2023, the increase in consolidated service revenues and sales was driven by an 8.0% increase at VITAS and a 2.7% increase at Roto-Rooter. The increase in service revenues at Roto-Rooter was driven mainly by an increase in plumbing, excavation, and water restoration, offset by a decrease in drain cleaning. The increase in service revenues at VITAS is comprised primarily of a 6.2% increase in days-of-care and a geographically weighted average Medicare reimbursement rate increase of approximately 2.8%, partially offset by 100-basis points as a result of CMS reimplementing sequestration that was suspended at the start of the pandemic in 2020. Acuity mix shift had minimal impact in the quarter when compared to the prior year revenue and level-of-care mix.

The pandemic resulted in a significant shortage of licensed healthcare workers industry wide. VITAS has not been immune to this shortage. As a result, on July 1, 2022, VITAS implemented a hiring and retention bonus program for its licensed healthcare workers. It is a temporary program intended to help VITAS attract and retain licensed healthcare workers in light of the pandemic-induced healthcare worker shortage. An eligible employee must continue in employment for a period of one-year from July 1st to receive a bonus. Additionally, employees hired between July 1, 2022 and June 30, 2023 are eligible if they continue employment for a one-year period from their hire date. A total of \$43.4 million has been accrued since the start of the program. A payment of \$28.6 million was made in July 2023 related to the employed workers as of July 1, 2022. The remaining accrued amount will be paid over the following four quarters. See page 38 for additional VITAS operating metrics.

While significant continuing issues related to the COVID-19 pandemic appear to be over or materially mitigated, we will continue to monitor any impact on our business including employees, customers, patients, and vendors.

VITAS 2023 revenue, prior to Medicare Cap, is estimated to increase 9.3% to 9.5% when compared to 2022. Forecasted revenue growth is negatively impacted by 75-basis points as a result of the sequestration relief in the first half of 2022 compared to a full year of sequestration in 2023. ADC is estimated to increase 7.3% to 7.5%. Full year adjusted EBITDA margin, prior to Medicare Cap, is estimated to be 15.4% to 15.7%. The total pretax cost of the Retention Program in 2023 is estimated at \$23.8 million, reducing adjusted EBITDA margin by 180-basis points. We are currently estimating \$8.0 million for Medicare Cap billing limitations in calendar year 2023.

Roto-Rooter is forecasted to achieve full-year 2023 revenue growth of 1.6% to 2.0%. Roto-Rooter's adjusted EBITDA margin for 2023 is expected to be 28.4% to 28.6%.

Based upon the above, full-year 2023 earnings per diluted share, excluding: non-cash expense for stock options, tax benefits from stock option exercises, costs related to litigation, and other discrete items, is estimated to be in the range of \$19.82 to \$20.02. This guidance includes \$1.18 per share of after-tax costs related to the 2023 portion of the Retention Program.

This revised 2023 guidance compares to previous guidance, as recast to no longer exclude costs associated with the Retention Program, of \$18.72 to \$18.92. Current 2023 guidance assumes an effective corporate tax rate on adjusted earnings of 23.6% and a diluted share count of 15.2 million shares. Chemed's 2022 adjusted earnings per diluted share was \$18.78, including \$0.97 per share for costs associated with the 2022 portion of the Retention Program.

On June 28, 2022, we replaced our existing credit facility with a fifth amended and restated Credit Agreement ("2022 Credit Facilities"). Terms of the 2022 Credit Facilities consist of a five-year \$450.0 million revolver as well as a five-year \$100.0 million term loan. Principal payments of \$1.25 million on the term loan are due on the last day of each fiscal quarter, with a final payment due at the end of the agreement. The 2022 Credit Facilities have a floating interest rate that is generally SOFR plus an additional tiered rate which varies based on our current leverage ratio. As of September 30, 2023, the interest rate is SOFR plus 100 basis points. The 2022 Credit Facilities include an expansion feature that provides the Company the opportunity to increase its revolver and/or term loan by an additional \$250.0 million.

We made prepayments totaling \$75.0 million in the first quarter of 2023, on the \$100.0 million term loan. We paid the remaining balance of \$21.3 million on April 28, 2023. There were no prepayment penalties associated with this repayment. This prepayment reduced the total borrowing capacity of the 2022 Credit Facilities from \$550.0 million to \$450.0 million.

We have issued \$45.3 million in standby letters of credit as of September 30, 2023, mainly for insurance purposes. Issued letters of credit reduce our available credit under the 2022 Credit Facilities. As of September 30, 2023, we have approximately \$404.8 million of unused lines of credit available and are eligible to be drawn down under our revolving credit facility. Management believes its liquidity and sources of capital are satisfactory for the Company's needs in the foreseeable future.

We anticipate that our operating income and cash flows will be sufficient to operate our business and meet any commitments for the foreseeable future.

Financial Condition

Liquidity and Capital Resources

Material changes in the balance sheet accounts from December 31, 2022 to September 30, 2023 include the following:

A \$28.6 million increase in accounts receivable due to timing of receipts. See discussion below.

A \$11.2 million increase in investments of deferred compensation plans due to market valuation gains. This resulted in a similar increase in the liability associated with deferred compensation plans.

A \$12.3 million decrease in lease right of use asset due to lease amortization.

A \$14.6 million increase in accounts payable due to timing of payments.

A \$12.5 million decline in accrued compensation due to payment of 2022 bonuses in the first quarter of 2023.

A \$97.5 million decrease in total long-term debt due to early repayments.

A \$12.5 million decrease in lease liabilities due to lease amortization.

Net cash provided by operating activities increased \$12.0 million from September 30, 2022 to September 30, 2023. The main driver is an increase of \$44.0 million attributable to changes in accounts receivable, offset by a decrease of \$33.8 million of outflows related to other assets, driven primarily by the OAS deposit made in 2022. Significant changes in our accounts receivable balances are typically driven by the timing of payments received from the Federal government at our VITAS subsidiary. We typically receive a payment in excess of \$42.0 million from the Federal government for hospice services every other Friday. The timing of a period end will have a significant impact on the accounts receivable at VITAS. These changes generally normalize over a two-year period, as cash flow variations in one year are offset in the following year.

Management continually evaluates cash utilization alternatives, including share repurchase, debt repurchase, acquisitions and increased dividends to determine the most beneficial use of available capital resources.

Commitments and Contingencies

Collectively, the terms of the 2022 Credit Facilities require us to meet various financial covenants, to be tested quarterly. We are in compliance with all financial and other debt covenants as of September 30, 2023 and anticipate remaining in compliance throughout the foreseeable future.

We are subject to various lawsuits and claims in the normal course of our business. In addition, we periodically receive communications from governmental and regulatory agencies concerning compliance with Medicare and Medicaid billing requirements at our VITAS subsidiary. We establish reserves for specific, uninsured liabilities in connection with regulatory and legal action that we deem to be probable and estimable. We disclose the existence of regulatory and legal actions when we believe it is reasonably possible that a loss could occur in connection with the specific action. In most instances, we are unable to make a reasonable estimate of any reasonably possible liability due to the uncertainty of the outcome and stage of litigation. We record legal fees associated with legal and regulatory actions as the costs are incurred.

See Note 10 in the Notes to the Unaudited Consolidated Financial Statements in Item 1 above for a description of current material legal matters.

Results of Operations

Three months ended September 30, 2023 versus 2022 - Consolidated Results

Our service revenues and sales for the third quarter of 2023 increased 7.2% versus services and sales revenues for the third quarter of 2022. Of this increase, a \$37.2 million increase was attributable to VITAS, and an \$868,000 increase was attributable to Roto-Rooter. The following chart shows the components of revenue by operating segment (in thousands):

	Three months ended September 30,		Increase/(Decrease)
	2023	2022	Percent
VITAS			
Routine homecare	\$ 287,389	\$ 256,253	12.2
Continuous care	22,032	18,600	18.5
General inpatient	27,818	24,526	13.4
Other	3,562	3,240	9.9
Subtotal	340,801	302,619	12.6
Medicare cap adjustment	(125)	(618)	79.8
Room and board - net	(2,646)	(2,513)	(5.3)
Implicit price concessions	(4,302)	(2,952)	(45.7)
Net revenue	\$ 333,728	\$ 296,536	12.5
Roto-Rooter			
Drain cleaning	\$ 59,164	\$ 62,764	(5.7)
Plumbing	49,113	48,737	0.8
Excavation	56,904	54,164	5.1
Other	334	193	73.1
Subtotal - short term core	165,515	165,858	(0.2)
Water restoration	45,435	43,645	4.1
Independent contractors	20,509	20,474	0.2
Outside franchisee fees	1,457	1,559	(6.5)
Other	4,246	4,030	5.4
Gross revenue	237,162	235,566	0.7
Implicit price concessions	(6,358)	(5,630)	(12.9)
Net revenue	230,804	229,936	0.4
Total Revenues	\$ 564,532	\$ 526,472	7.2

Days of care at VITAS during the quarters were as follows:

	Three months ended September 30,		Increase/(Decrease)
	2023	2022	Percent
Routine homecare	1,391,377	1,271,678	9.4
Nursing home	287,785	264,407	8.8
Respite	7,292	6,635	9.9
Subtotal routine homecare and respite	1,686,454	1,542,720	9.3
General inpatient	25,493	23,435	8.8
Continuous care	23,071	20,097	14.8
Total days of care	1,735,018	1,586,252	9.4

The increase in service revenues at VITAS is comprised primarily of a 9.4% increase in days-of-care and a geographically weighted average Medicare reimbursement rate increase of approximately 2.7%. Acuity mix shift positively impacted revenue growth 24-basis points in the quarter when compared to the prior year revenue and level-of-care mix. The combination of Medicare cap and other contra revenue changes increased revenue growth by 20-basis points.

The increase in plumbing revenues for the third quarter of 2023 versus 2022 is attributable to a 7.9% increase in price and service mix shift offset by a 7.1% decrease in job count. The decrease in drain cleaning revenues for the third quarter of 2023 versus 2022 is attributable to a 6.6% increase in price and service mix offset by a 12.3% decrease in job count. The decline in drain cleaning

volume is mainly the result of macro-economic consumer caution, as seen by many consumer-facing businesses. Excavation and water restoration jobs are generally sold as a result of initial calls from customers regarding drain cleaning issues. As a result, the 5.1% increase in excavation revenue and the 4.1% increase in water restoration revenue are mainly a function of the numbers and size of drain cleaning issues we encounter on a quarterly basis.

The consolidated gross margin was 35.8% in the third quarter of 2023 as compared with 34.1% in the third quarter of 2022. On a segment basis, VITAS' gross margin was 24.0% in the third quarter of 2023 as compared with 19.1%, in the third quarter of 2022. The increase in gross margin at VITAS is mostly the result of increased revenues and the expiration of the licensed healthcare worker retention bonus program. The Roto-Rooter segment's gross margin was 52.9% for the third quarter of 2023 as compared with 53.4% in the third quarter of 2022. This decline was mainly the result of relatively flat revenue and increased advertising cost.

Selling, general and administrative expenses ("SG&A") comprise (in thousands):

	Three months ended September 30,	
	2023	2022
SG&A expenses before long-term incentive compensation and the impact of market value adjustments related to deferred compensation trusts	\$ 91,792	\$ 85,118
Impact of market value adjustments related to assets held in deferred compensation trusts	4,257	(3,176)
Long-term incentive compensation	3,553	2,050
Total SG&A expenses	<u>\$ 99,602</u>	<u>\$ 83,992</u>

SG&A expenses before long-term incentive compensation and the impact of market value adjustments related to deferred compensation trusts for the third quarter of 2023 were up 7.8% when compared to third quarter of 2022. This increase was mainly a result of an increase in variable selling and general administrative expenses and salary increases.

Other income/(expense) – net comprise (in thousands):

	Three months ended September 30,	
	2023	2022
Market value adjustment on assets held in deferred compensation trusts	\$ 4,257	\$ (3,176)
Interest income	2,600	62
Other	2	(1)
Total other income/(expense) - net	<u>\$ 6,859</u>	<u>\$ (3,115)</u>

From time to time throughout the year, we invest excess cash in money market funds with major commercial banks. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds. In the third quarter of 2023, Chemed began investing excess cash in a money market fund holding US Treasuries. Deposits and withdrawals are made daily, based on the Company's excess cash balance. There are no penalties associated with withdrawals. The accounts bear interest at a normal market rate.

Our effective tax rate reconciliation is as follows (in thousands):

	Three months ended September 30,	
	2023	2022
Income tax provision calculated at the statutory federal rate	\$ 19,586	\$ 16,059
Stock compensation tax benefits	(225)	(450)
State and local income taxes	2,105	2,877
Effect of rate change on deferred tax	(4,241)	-
Other--net	1,082	1,112
Income tax provision	<u>\$ 18,307</u>	<u>\$ 19,598</u>
Effective tax rate	<u>19.6 %</u>	<u>25.6 %</u>

During the third quarter of 2023, the Company recognized a tax benefit from realignment of its state and local corporate tax structure based on the location of operating resources and profitability by business segment. This benefit includes a reduction in current state and local tax expense and a one time benefit of \$4.2 million in reduction of deferred tax liabilities reflecting the lower tax rates.

Net income for both periods included the following after-tax items/adjustments that (reduced) or increased after-tax earnings (in thousands):

	Three months ended September 30,	
	2023	2022
VITAS		
Impact of deferred rate tax change	\$ 1,772	\$ -
Roto-Rooter		
Impact of deferred rate tax change	3,559	-
Amortization of reacquired franchise agreements	(1,954)	(1,729)
Litigation settlements	(286)	-
Corporate		
Stock option expense	(4,924)	(4,060)
Long-term incentive compensation	(3,210)	(1,836)
Impact of deferred rate tax change	(1,090)	-
Excess tax benefits on stock compensation	225	450
Direct costs related to COVID-19	-	(68)
Total	<u>\$ (5,908)</u>	<u>\$ (7,243)</u>

Three months ended September 30, 2023 versus 2022 - Segment Results

Net income/(loss) for the third quarter of 2023 versus the third quarter of 2022 by segment (in thousands):

	Three months ended September 30,	
	2023	2022
VITAS	\$ 44,331	\$ 26,086
Roto-Rooter	50,327	47,586
Corporate	(19,700)	(16,799)
	<u>\$ 74,958</u>	<u>\$ 56,873</u>

After-tax earnings as a percent of revenue at VITAS in the third quarter of 2023 was 13.3% as compared to 8.8% in the third quarter of 2022. VITAS' after-tax earnings increased primarily due to increased revenues and the tax benefit from the realignment of its state and local corporate tax structure change.

Roto-Rooter's net income was impacted in the third quarter of 2023 compared to the third quarter of 2022 primarily due to tax benefit from the realignment of its state and local corporate tax structure change. After-tax earnings as a percent of revenue at Roto-Rooter in the third quarter of 2023 was 21.8%, as compared to 20.7% in the third quarter of 2022.

After-tax Corporate expenses for the third quarter of 2023 increased 17.3% when compared to 2022 due primarily to a \$2.2 million increase in stock-based compensation.

Results of Operations

Nine months ended September 30, 2023 versus 2022 - Consolidated Results

Our service revenues and sales for the first nine months of 2023 increased 5.7% versus services and sales revenues for the first nine months of 2022. Of this increase, a \$71.6 million increase was attributable to VITAS and a \$18.6 million increase was attributable to Roto-Rooter. The following chart shows the components of revenue by operating segment (in thousands):

	<u>Nine months ended September 30,</u>		<u>Increase/(Decrease)</u>
	<u>2023</u>	<u>2022</u>	<u>Percent</u>
VITAS			
Routine homecare	\$ 832,554	\$ 771,520	7.9
Continuous care	63,054	57,717	9.2
General inpatient	84,312	75,714	11.4
Other	9,738	9,461	2.9
Subtotal	<u>989,658</u>	<u>914,412</u>	<u>8.2</u>
Medicare cap adjustment	(5,625)	(5,118)	(9.9)
Room and board - net	(8,317)	(6,796)	(22.4)
Implicit price concessions	(10,650)	(8,992)	(18.4)
Net revenue	<u>\$ 965,066</u>	<u>\$ 893,506</u>	<u>8.0</u>
Roto-Rooter			
Drain cleaning	\$ 186,016	\$ 193,983	(4.1)
Plumbing	148,285	145,294	2.1
Excavation	174,032	164,898	5.5
Other	711	513	38.6
Subtotal - short term core	<u>509,044</u>	<u>504,688</u>	<u>0.9</u>
Water restoration	141,176	127,678	10.6
Independent contractors	65,684	62,897	4.4
Outside franchisee fees	4,195	4,246	(1.2)
Other	13,292	12,462	6.7
Gross revenue	<u>733,391</u>	<u>711,971</u>	<u>3.0</u>
Implicit price concessions	(19,952)	(17,168)	(16.2)
Net revenue	<u>713,439</u>	<u>694,803</u>	<u>2.7</u>
Total Revenues	<u>\$ 1,678,505</u>	<u>\$ 1,588,309</u>	<u>5.7</u>

Days of care at VITAS during the nine months ended September 30 were as follows:

	<u>Nine months ended September 30,</u>		<u>Increase/(Decrease)</u>
	<u>2023</u>	<u>2022</u>	<u>Percent</u>
Routine homecare	4,018,469	3,796,954	5.8
Nursing home	833,112	771,921	7.9
Respite	19,211	18,098	6.1
Subtotal routine homecare and respite	<u>4,870,792</u>	<u>4,586,973</u>	<u>6.2</u>
General inpatient	76,987	71,177	8.2
Continuous care	65,630	61,981	5.9
Total days of care	<u>5,013,409</u>	<u>4,720,131</u>	<u>6.2</u>

The increase in service revenues at VITAS is comprised primarily of a 6.2% increase in days-of-care and a geographically weighted average Medicare reimbursement rate increase of approximately 2.8%, partially offset by 100-basis points as a result of CMS reimplementing sequestration that was suspended at the start of the pandemic in 2020. Acuity mix shift had minimal impact in the quarter when compared to the prior year revenue and level-of-care mix.

The increase in plumbing revenues for the first nine months of 2023 versus 2022 is attributable to a 10.1% increase in price and service mix shift and 8.0% decrease in job count. Drain cleaning revenues for the first nine months of 2023 versus 2022 reflect a 7.1% increase in price and service mix shift offset by a 11.2% decrease in job count. The decline in drain cleaning volume is mainly the result of macro-economic consumer caution, as seen by many consumer-facing businesses. Excavation and water restoration jobs are

generally sold as a result of initial calls from customers regarding drain cleaning issues. As a result, the 5.5% increase in excavation revenue and the 10.6% increase in water restoration revenue are mainly a function of the numbers and size of drain cleaning issues we encounter on a quarterly basis. Independent Contractor revenue increased 4.4% due mainly to increased expansion into water restoration.

The consolidated gross margin was 34.0% in the first nine months of 2023 as compared with 35.8% in the first nine months of 2022. On a segment basis, VITAS' gross margin was 20.2% in the first nine months of 2023 as compared with 22.3%, in the first nine months of 2022. The decrease in gross margin at VITAS is mostly the result of the \$23.8 million expense recorded in the first nine months of 2023 for the licensed healthcare worker retention bonus program compared to \$9.6 million recorded for the program in the first nine months of 2022. The Roto-Rooter segment's gross margin was 52.8% for the first nine months of 2023 as compared with 53.1% in the first nine months of 2022.

Selling, general and administrative expenses ("SG&A") comprise (in thousands):

	Nine months ended September 30,	
	2023	2022
SG&A expenses before long-term incentive compensation and the impact of market value adjustments related to deferred compensation trusts	\$ 281,426	\$ 269,118
Long-term incentive compensation	7,817	4,877
Impact of market value adjustments related to assets held in deferred compensation trusts	5,441	(12,196)
Total SG&A expenses	<u>\$ 294,684</u>	<u>\$ 261,799</u>

SG&A expenses before long-term incentive compensation and the impact of market value adjustments related to deferred compensation trusts for the first nine months of 2023 were up 4.6% when compared to the first nine months of 2022. This increase was mainly a result of the increase in variable selling expenses and normal salary increases.

Other income/(expense) – net comprise (in thousands):

	Nine months ended September 30,	
	2023	2022
Market value adjustment on assets held in deferred compensation trusts	\$ 5,441	\$ (12,196)
Interest income	2,863	288
Other	61	1
Total other income/(expense) - net	<u>\$ 8,365</u>	<u>\$ (11,907)</u>

From time to time throughout the year, we invest excess cash in money market funds with major commercial banks. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds. In the third quarter of 2023, Chemed began investing excess cash in a money market fund holding US Treasuries. Deposits and withdrawals are made daily, based on the Company's excess cash balance. There are no penalties associated with withdrawals. The accounts bear interest at a normal market rate.

Our effective tax rate reconciliation is as follows (in thousands):

	Nine months ended September 30,	
	2023	2022
Income tax provision calculated at the statutory federal rate	\$ 49,303	\$ 51,929
Stock compensation tax benefits	(3,376)	(4,390)
State and local income taxes	7,333	8,296
Effect of rate change on deferred tax	(4,241)	-
Other--net	3,299	3,946
Income tax provision	<u>\$ 52,318</u>	<u>\$ 59,781</u>
Effective tax rate	<u>22.3 %</u>	<u>24.2 %</u>

During the third quarter of 2023, the Company recognized a tax benefit from realignment of its state and local corporate tax structure based on the location of operating resources and profitability by business segment. This benefit includes a reduction in current state and local tax expense and a one time benefit of \$4.2 million in reduction of deferred tax liabilities reflecting the lower tax rates.

Net income for both periods included the following after-tax items/adjustments that (reduced) or increased after-tax earnings (in thousands):

	Nine months ended September 30,	
	2023	2022
VITAS		
Impact of deferred rate tax change	\$ 1,772	\$ -
Direct costs related to COVID-19	-	(231)
Medicare cap sequestration adjustment	-	(103)
Roto-Rooter		
Amortization of reacquired franchise agreements	(5,412)	(5,186)
Impact of deferred rate tax change	3,559	-
Litigation settlements	(1,577)	-
Direct costs related to COVID-19	-	(727)
Corporate		
Stock option expense	(18,884)	(16,220)
Long-term incentive compensation	(6,989)	(4,343)
Impact of deferred rate tax change	(1,090)	-
Excess tax benefits on stock compensation	3,376	4,390
Direct costs related to COVID-19	-	(68)
Total	<u>\$ (25,245)</u>	<u>\$ (22,488)</u>

Nine months ended September 30, 2023 versus 2022 - Segment Results

Net income/(loss) for the first nine months of 2023 versus the first nine months of 2022 by segment (in thousands):

	Nine months ended September 30,	
	2023	2022
VITAS	\$ 95,223	\$ 97,779
Roto-Rooter	142,354	138,595
Corporate	(55,121)	(48,876)
	<u>\$ 182,456</u>	<u>\$ 187,498</u>

After-tax earnings as a percent of revenue at VITAS in the first nine months of 2023 was 9.9% as compared to 10.9% in the first nine months of 2022. VITAS' after-tax earnings decreased primarily due to the \$18.0 million in after-tax expense related to VITAS' licensed healthcare worker retention bonus program recorded in 2023 compared to the \$7.1 million recorded for the program in 2022.

Roto-Rooter's after-tax earnings as a percent of revenue for the first nine months of 2023 was 20.0%, as compared to 19.9% in the first nine months of 2022.

After-tax Corporate expenses for the first nine months of 2023 increased 12.8% when compared to the first nine months of 2022 due to an \$5.3 million increase in stock-based compensation.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2023
(in thousands)(unaudited)

2023 (a)	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Service revenues and sales	\$ 333,728	\$ 230,804	\$ -	\$ 564,532
Cost of services provided and goods sold	253,731	108,627	-	362,358
Selling, general and administrative expenses	25,256	55,141	19,205	99,602
Depreciation	5,009	7,836	13	12,858
Amortization	26	2,495	-	2,521
Other operating (income)/expense	(53)	396	-	343
Total costs and expenses	<u>283,969</u>	<u>174,495</u>	<u>19,218</u>	<u>477,682</u>
Income/(loss) from operations	49,759	56,309	(19,218)	86,850
Interest expense	(52)	(131)	(261)	(444)
Intercompany interest income/(expense)	4,935	3,040	(7,975)	-
Other income—net	849	34	5,976	6,859
Income/(expense) before income taxes	55,491	59,252	(21,478)	93,265
Income taxes	(11,160)	(8,925)	1,778	(18,307)
Net income/(loss)	<u>\$ 44,331</u>	<u>\$ 50,327</u>	<u>\$ (19,700)</u>	<u>\$ 74,958</u>

(a) The following amounts are included in net income (in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	\$ -	\$ -	\$ (5,495)	\$ (5,495)
Long-term incentive compensation	-	-	(3,553)	(3,553)
Amortization of reacquired franchise agreements	-	(2,352)	-	(2,352)
Litigation settlements	-	(300)	-	(300)
Total	<u>\$ -</u>	<u>\$ (2,652)</u>	<u>\$ (9,048)</u>	<u>\$ (11,700)</u>

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	\$ -	\$ -	\$ (4,924)	\$ (4,924)
Impact of deferred rate tax change	1,772	3,559	(1,090)	4,241
Long-term incentive compensation	-	-	(3,210)	(3,210)
Amortization of reacquired franchise agreements	-	(1,954)	-	(1,954)
Litigation settlements	-	(286)	-	(286)
Excess tax benefits on stock compensation	-	-	225	225
Total	<u>\$ 1,772</u>	<u>\$ 1,319</u>	<u>\$ (8,999)</u>	<u>\$ (5,908)</u>

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2022
(in thousands)(unaudited)

2022 (a)	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Service revenues and sales	\$ 296,536	\$ 229,936	\$ -	\$ 526,472
Cost of services provided and goods sold	239,755	107,179	-	346,934
Selling, general and administrative expenses	21,581	53,225	9,186	83,992
Depreciation	5,281	6,855	18	12,154
Amortization	26	2,494	-	2,520
Other operating expense/(income)	26	(11)	-	15
Total costs and expenses	266,669	169,742	9,204	445,615
Income/(loss) from operations	29,867	60,194	(9,204)	80,857
Interest expense	(44)	(91)	(1,136)	(1,271)
Intercompany interest income/(expense)	4,842	2,371	(7,213)	-
Other (expense)/income—net	26	36	(3,177)	(3,115)
Income/(expense) before income taxes	34,691	62,510	(20,730)	76,471
Income taxes	(8,605)	(14,924)	3,931	(19,598)
Net income/(loss)	<u>\$ 26,086</u>	<u>\$ 47,586</u>	<u>\$ (16,799)</u>	<u>\$ 56,873</u>

(a) The following amounts are included in net income (in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	\$ -	\$ -	\$ (4,676)	\$ (4,676)
Amortization of reacquired franchise agreements	-	(2,352)	-	(2,352)
Long-term incentive compensation	-	-	(2,050)	(2,050)
Direct costs related to COVID-19	-	-	(89)	(89)
Total	<u>\$ -</u>	<u>\$ (2,352)</u>	<u>\$ (6,815)</u>	<u>\$ (9,167)</u>

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	\$ -	\$ -	\$ (4,060)	\$ (4,060)
Long-term incentive compensation	-	-	(1,836)	(1,836)
Amortization of reacquired franchise agreements	-	(1,729)	-	(1,729)
Direct costs related to COVID-19	-	-	(68)	(68)
Excess tax benefits on stock compensation	-	-	450	450
Total	<u>\$ -</u>	<u>\$ (1,729)</u>	<u>\$ (5,514)</u>	<u>\$ (7,243)</u>

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATING STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023
(in thousands)(unaudited)

2023 (a)	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Service revenues and sales	\$ 965,066	\$ 713,439	\$ -	\$ 1,678,505
Cost of services provided and goods sold	770,470	336,786	-	1,107,256
Selling, general and administrative expenses	71,248	171,966	51,470	294,684
Depreciation	14,907	22,830	41	37,778
Amortization	78	7,470	-	7,548
Other operating (income)/expense	(15)	2,079	-	2,064
Total costs and expenses	856,688	541,131	51,511	1,449,330
Income/(loss) from operations	108,378	172,308	(51,511)	229,175
Interest expense	(154)	(387)	(2,225)	(2,766)
Intercompany interest income/(expense)	14,393	8,652	(23,045)	-
Other income—net	1,109	96	7,160	8,365
Income/(expense) before income taxes	123,726	180,669	(69,621)	234,774
Income taxes	(28,503)	(38,315)	14,500	(52,318)
Net income/(loss)	<u>\$ 95,223</u>	<u>\$ 142,354</u>	<u>\$ (55,121)</u>	<u>\$ 182,456</u>

(a) The following amounts are included in net income (in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	\$ -	\$ -	\$ (22,376)	\$ (22,376)
Long-term incentive compensation	-	-	(7,817)	(7,817)
Amortization of reacquired franchise agreements	-	(7,056)	-	(7,056)
Litigation settlements	-	(2,056)	-	(2,056)
Total	<u>\$ -</u>	<u>\$ (9,112)</u>	<u>\$ (30,193)</u>	<u>\$ (39,305)</u>

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	\$ -	\$ -	\$ (18,884)	\$ (18,884)
Long-term incentive compensation	-	-	(6,989)	(6,989)
Amortization of reacquired franchise agreements	-	(5,412)	-	(5,412)
Impact of deferred rate tax change	1,772	3,559	(1,090)	4,241
Litigation settlements	-	(1,577)	-	(1,577)
Excess tax benefits on stock compensation	-	-	3,376	3,376
Total	<u>\$ 1,772</u>	<u>\$ (3,430)</u>	<u>\$ (23,587)</u>	<u>\$ (25,245)</u>

CONSOLIDATING STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022
(in thousands)(unaudited)

2022 (a)	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Service revenues and sales	\$ 893,506	\$ 694,803	\$ -	\$ 1,588,309
Cost of services provided and goods sold	694,528	325,779	-	1,020,307
Selling, general and administrative expenses	67,181	165,162	29,456	261,799
Depreciation	16,894	20,058	54	37,006
Amortization	76	7,482	-	7,558
Other operating (income)/expense	(929)	399	-	(530)
Total costs and expenses	<u>777,750</u>	<u>518,880</u>	<u>29,510</u>	<u>1,326,140</u>
Income/(loss) from operations	115,756	175,923	(29,510)	262,169
Interest expense	(142)	(319)	(2,522)	(2,983)
Intercompany interest income/(expense)	14,181	6,751	(20,932)	-
Other income/(expense)—net	183	107	(12,197)	(11,907)
Income/(expense) before income taxes	129,978	182,462	(65,161)	247,279
Income taxes	(32,199)	(43,867)	16,285	(59,781)
Net income/(loss)	<u>\$ 97,779</u>	<u>\$ 138,595</u>	<u>\$ (48,876)</u>	<u>\$ 187,498</u>

(a) The following amounts are included in net income (in thousands):

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	\$ -	\$ -	\$ (19,343)	\$ (19,343)
Amortization of reacquired franchise agreements	-	(7,056)	-	(7,056)
Long-term incentive compensation	-	-	(4,877)	(4,877)
Direct costs related to COVID-19	(310)	(988)	(89)	(1,387)
Medicare cap sequestration adjustment	(138)	-	-	(138)
Total	<u>\$ (448)</u>	<u>\$ (8,044)</u>	<u>\$ (24,309)</u>	<u>\$ (32,801)</u>

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	\$ -	\$ -	\$ (16,220)	\$ (16,220)
Amortization of reacquired franchise agreements	-	(5,186)	-	(5,186)
Long-term incentive compensation	-	-	(4,343)	(4,343)
Direct costs related to COVID-19	(231)	(727)	(68)	(1,026)
Medicare cap sequestration adjustment	(103)	-	-	(103)
Excess tax benefits on stock compensation	-	-	4,390	4,390
Total	<u>\$ (334)</u>	<u>\$ (5,913)</u>	<u>\$ (16,241)</u>	<u>\$ (22,488)</u>

Unaudited Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies

(in thousands)

For the three months ended September 30, 2023

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$ 44,331	\$ 50,327	\$ (19,700)	\$ 74,958
Add/(deduct):				
Interest expense	52	131	261	444
Income taxes	11,160	8,925	(1,778)	18,307
Depreciation	5,009	7,836	13	12,858
Amortization	26	2,495	-	2,521
EBITDA	<u>60,578</u>	<u>69,714</u>	<u>(21,204)</u>	<u>109,088</u>
Add/(deduct):				
Intercompany interest expense/(income)	(4,935)	(3,040)	7,975	-
Interest income	(847)	(34)	(1,719)	(2,600)
Stock option expense	-	-	5,495	5,495
Long-term incentive compensation	-	-	3,553	3,553
Litigation settlements	-	300	-	300
Adjusted EBITDA	<u>\$ 54,796</u>	<u>\$ 66,940</u>	<u>\$ (5,900)</u>	<u>\$ 115,836</u>

For the three months ended September 30, 2022

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$ 26,086	\$ 47,586	\$ (16,799)	\$ 56,873
Add/(deduct):				
Interest expense	44	91	1,136	1,271
Income taxes	8,605	14,924	(3,931)	19,598
Depreciation	5,281	6,855	18	12,154
Amortization	26	2,494	-	2,520
EBITDA	<u>40,042</u>	<u>71,950</u>	<u>(19,576)</u>	<u>92,416</u>
Add/(deduct):				
Intercompany interest expense/(income)	(4,842)	(2,371)	7,213	-
Interest income	(27)	(35)	-	(62)
Stock option expense	-	-	4,676	4,676
Long-term incentive compensation	-	-	2,050	2,050
Direct costs related to COVID-19	-	-	89	89
Adjusted EBITDA	<u>\$ 35,173</u>	<u>\$ 69,544</u>	<u>\$ (5,548)</u>	<u>\$ 99,169</u>

Unaudited Consolidating Summary and Reconciliation of Adjusted EBITDA

Chemed Corporation and Subsidiary Companies

(in thousands)

For the nine months ended September 30, 2023

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$ 95,223	\$ 142,354	\$ (55,121)	\$ 182,456
Add/(deduct):				
Interest expense	154	387	2,225	2,766
Income taxes	28,503	38,315	(14,500)	52,318
Depreciation	14,907	22,830	41	37,778
Amortization	78	7,470	-	7,548
EBITDA	<u>138,865</u>	<u>211,356</u>	<u>(67,355)</u>	<u>282,866</u>
Add/(deduct):				
Intercompany interest expense/(income)	(14,393)	(8,652)	23,045	-
Interest income	(1,046)	(96)	(1,720)	(2,862)
Stock option expense	-	-	22,376	22,376
Long-term incentive compensation	-	-	7,817	7,817
Litigation settlements	-	2,056	-	2,056
Adjusted EBITDA	<u>\$ 123,426</u>	<u>\$ 204,664</u>	<u>\$ (15,837)</u>	<u>\$ 312,253</u>

For the nine months ended September 30, 2022

	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$ 97,779	\$ 138,595	\$ (48,876)	\$ 187,498
Add/(deduct):				
Interest expense	142	319	2,522	2,983
Income taxes	32,199	43,867	(16,285)	59,781
Depreciation	16,894	20,058	54	37,006
Amortization	76	7,482	-	7,558
EBITDA	<u>147,090</u>	<u>210,321</u>	<u>(62,585)</u>	<u>294,826</u>
Add/(deduct):				
Intercompany interest expense/(income)	(14,181)	(6,751)	20,932	-
Interest income	(181)	(107)	-	(288)
Stock option expense	-	-	19,343	19,343
Long-term incentive compensation	-	-	4,877	4,877
Direct costs related to COVID-19	310	988	89	1,387
Medicare cap sequestration adjustment	138	-	-	138
Adjusted EBITDA	<u>\$ 133,176</u>	<u>\$ 204,451</u>	<u>\$ (17,344)</u>	<u>\$ 320,283</u>

RECONCILIATION OF ADJUSTED NET INCOME
(in thousands, except per share data)(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income as reported	\$ 74,958	\$ 56,873	\$ 182,456	\$ 187,498
Add/(deduct) pre-tax cost of:				
Stock option expense	5,495	4,676	22,376	19,343
Long-term incentive compensation	3,553	2,050	7,817	4,877
Amortization of reacquired franchise agreements	2,352	2,352	7,056	7,056
Litigation settlements	300	-	2,056	-
Direct costs related to COVID-19	-	89	-	1,387
Medicare cap sequestration adjustment	-	-	-	138
Add/(deduct) tax impacts:				
Tax impact of the above pre-tax adjustments (1)	(1,326)	(1,474)	(6,443)	(5,923)
Tax impact of deferred tax rate change	(4,241)	-	(4,241)	-
Excess tax benefits on stock compensation	(225)	(450)	(3,376)	(4,390)
Adjusted net income	<u>\$ 80,866</u>	<u>\$ 64,116</u>	<u>\$ 207,701</u>	<u>\$ 209,986</u>
Diluted Earnings Per Share As Reported				
Net income	<u>\$ 4.93</u>	<u>\$ 3.78</u>	<u>\$ 12.02</u>	<u>\$ 12.41</u>
Average number of shares outstanding	<u>15,200</u>	<u>15,042</u>	<u>15,178</u>	<u>15,114</u>
Adjusted Diluted Earnings Per Share				
Adjusted net income	<u>\$ 5.32</u>	<u>\$ 4.26</u>	<u>\$ 13.68</u>	<u>\$ 13.89</u>
Adjusted average number of shares outstanding	<u>15,200</u>	<u>15,042</u>	<u>15,178</u>	<u>15,114</u>

(1) The tax impact of pre-tax adjustments was calculated using the effective tax rate of the operating unit for which each adjustment is associated.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES
OPERATING STATISTICS FOR VITAS SEGMENT

(unaudited)

OPERATING STATISTICS	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net revenue (\$000)				
Homecare	\$ 287,389	\$ 256,253	\$ 832,554	\$ 771,520
Inpatient	27,818	24,526	84,312	75,714
Continuous care	22,032	18,600	63,054	57,717
Other	3,562	3,240	9,738	9,461
Subtotal	\$ 340,801	\$ 302,619	\$ 989,658	\$ 914,412
Room and board, net	(2,646)	(2,513)	(8,317)	(6,796)
Contractual allowances	(4,302)	(2,952)	(10,650)	(8,992)
Medicare cap allowance	(125)	(618)	(5,625)	(5,118)
Total	\$ 333,728	\$ 296,536	\$ 965,066	\$ 893,506
Net revenue as a percent of total before Medicare cap allowances				
Homecare	84.3%	84.7%	84.1%	84.4%
Inpatient	8.2	8.1	8.5	8.3
Continuous care	6.5	6.1	6.4	6.3
Other	1.0	1.1	1.0	1.0
Subtotal	100.0	100.0	100.0	100.0
Room and board, net	(0.8)	(0.8)	(0.8)	(0.7)
Contractual allowances	(1.3)	(1.0)	(1.1)	(1.0)
Medicare cap allowance	-	(0.2)	(0.6)	(0.6)
Total	97.9%	98.0%	97.5%	97.7%
Days of care				
Homecare	1,391,377	1,271,678	4,018,469	3,796,954
Nursing home	287,785	264,407	833,112	771,921
Respite	7,292	6,635	19,211	18,098
Subtotal routine homecare and respite	1,686,454	1,542,720	4,870,792	4,586,973
Inpatient	25,493	23,435	76,987	71,177
Continuous care	23,071	20,097	65,630	61,981
Total	1,735,018	1,586,252	5,013,409	4,720,131
Number of days in relevant time period	92	92	273	273
Average daily census (days)				
Homecare	15,124	13,823	14,720	13,908
Nursing home	3,128	2,874	3,052	2,828
Respite	79	72	70	66
Subtotal routine homecare and respite	18,331	16,769	17,842	16,802
Inpatient	277	255	282	261
Continuous care	251	218	240	227
Total	18,859	17,242	18,364	17,290
Total Admissions	15,774	14,680	47,564	45,945
Total Discharges	15,328	14,603	45,837	46,139
Average length of stay (days)	103.1	106.2	100.8	104.9
Median length of stay (days)	17.0	17.0	16.0	16.0
ADC by major diagnosis				
Cerebro	42.0%	39.3%	42.2%	38.5%
Neurological	14.7	22.0	15.9	22.3
Cancer	10.6	10.7	10.6	11.0
Cardio	16.4	15.4	16.1	15.6
Respiratory	7.2	7.2	7.1	7.3
Other	9.1	5.4	8.1	5.3
Total	100.0%	100.0%	100.0%	100.0%
Admissions by major diagnosis				
Cerebro	26.6	25.9%	26.3%	24.2%
Neurological	8.8	12.4	9.9	12.7
Cancer	26.1	26.6	26.0	26.2
Cardio	16.0	14.9	16.2	14.8
Respiratory	9.7	9.5	10.1	10.3
Other	12.8	10.7	11.5	11.8
Total	100.0%	100.0%	100.0%	100.0%
Estimated uncollectible accounts as a percent of revenues	1.3%	1.0%	1.1%	1.0%
Accounts receivable --				
Days of revenue outstanding- excluding unapplied Medicare payments	36.4	33.8	n.a.	n.a.
Days of revenue outstanding- including unapplied Medicare payments	33.8	24.9	n.a.	n.a.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995 Regarding Forward-Looking Information

Certain statements contained in this report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The words “believe”, “expect”, “hope”, “anticipate”, “plan” and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. These forward-looking statements are based on current expectations and assumptions and involve various known and unknown risks, uncertainties, contingencies and other factors, which could cause Chemed’s actual results to differ from those expressed in such forward-looking statements. Variances in any or all of the risks, uncertainties, contingencies, and other factors from our assumptions could cause actual results to differ materially from these forward-looking statements and trends. In addition, our ability to deal with the unknown outcomes of these events, many of which are beyond our control, may affect the reliability of projections and other financial matters. Investors are cautioned that such forward-looking statements are subject to inherent risk and there are no assurances that the matters contained in such statements will be achieved. Chemed does not undertake and specifically disclaims any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company’s primary market risk exposure relates to interest rate risk exposure through its variable interest line of credit. At September 30, 2023, the Company had no variable rate debt outstanding. For each \$10 million borrowed under the credit facility, an increase or decrease of 100 basis points (1%), increases or decreases the Company’s annual interest expense by \$100,000.

The Company continually evaluates this interest rate exposure and periodically weighs the cost versus the benefit of fixing the variable interest rates through a variety of hedging techniques.

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision of our President and Chief Executive Officer and with the participation of the Executive Vice President and Chief Financial Officer and the Vice President and Controller, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President and Controller have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. There has been no change in our internal control over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding the Company’s legal proceedings, see Note 10, Legal and Regulatory Matters, under Part I, Item I of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have been no other material changes from the risk factors previously disclosed in the Company’s most recent Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Item 2(c). Purchases of Equity Securities by Issuer and Affiliated Purchasers**

The following table shows the activity related to our share repurchase program for the first nine months of 2023:

	<u>Total Number of Shares Repurchased</u>	<u>Weighted Average Price Paid Per Share</u>	<u>Cumulative Shares Repurchased Under the Program</u>	<u>Dollar Amount Remaining Under The Program</u>
<u>February 2011 Program</u>				
January 1 through January 31, 2023	-	\$ -	10,458,154	\$ 87,867,735
February 1 through February 28, 2023	-	-	10,458,154	87,867,735
March 1 through March 31, 2023	-	-	10,458,154	\$ 87,867,735
First Quarter Total	<u>-</u>	<u>\$ -</u>		
April 1 through April 30, 2023	-	\$ -	10,458,154	\$ 87,867,735
May 1 through May 31, 2023	16,620	537.12	10,474,774	78,940,805
June 1 through June 30, 2023	<u>8,380</u>	<u>536.71</u>	<u>10,483,154</u>	<u>\$ 74,443,156</u>
Second Quarter Total	<u>25,000</u>	<u>\$ 536.98</u>		
July 1 through July 31, 2023	-	\$ -	10,483,154	\$ 74,443,156
August 1 through August 31, 2023	11,206	508.01	10,494,360	68,750,411
September 1 through September 30, 2023	<u>17,251</u>	<u>501.52</u>	<u>10,511,611</u>	<u>\$ 60,098,765</u>
Third Quarter Total	<u>28,457</u>	<u>\$ 504.07</u>		

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
<u>31.1</u>	<u>Certification by Kevin J. McNamara pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.</u>
<u>31.2</u>	<u>Certification by David P. Williams pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.</u>
<u>31.3</u>	<u>Certification by Michael D. Witzeman pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act of 1934.</u>
<u>32.1</u>	<u>Certification by Kevin J. McNamara pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u>	<u>Certification by David P. Williams pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.3</u>	<u>Certification by Michael D. Witzeman pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101	The following materials from Chemed Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) The Condensed Consolidated Balance Sheet, (ii) The Condensed Consolidated Statement of Income, (iii) The Condensed Consolidated Statement of Cash Flows, (iv) The Condensed Statement of Equity, and (v) Notes to the Condensed Consolidated Financial Statements.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in iXBRL and contained in Exhibit 101.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Chemed Corporation

(Registrant)

Dated: October 27, 2023

By: /s/ Kevin J. McNamara
Kevin J. McNamara
(President and Chief Executive Officer)

Dated: October 27, 2023

By: /s/ David P. Williams
David P. Williams
(Executive Vice President and Chief Financial Officer)

Dated: October 27, 2023

By: /s/ Michael D. Witzeman
Michael D. Witzeman
(Vice President and Controller)

CERTIFICATION PURSUANT TO RULES 13a-14(a)/15d-14(a) OF THE EXCHANGE ACT OF 1934

I, Kevin J. McNamara, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chemed Corporation (“registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors or persons performing the equivalent function:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 27, 2023

/s/ Kevin J. McNamara
Kevin J. McNamara
(President and Chief Executive Officer)

CERTIFICATION PURSUANT TO RULES 13a-14(a)/15d-14(a) OF THE EXCHANGE ACT OF 1934

I, David P. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chemed Corporation (“registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors or persons performing the equivalent function:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 27, 2023

/s/ David P. Williams
David P. Williams
(Executive Vice President and Chief
Financial Officer)

CERTIFICATION PURSUANT TO RULES 13a-14(a)/15d-14(a) OF THE EXCHANGE ACT OF 1934

I, Michael D. Witzeman., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chemed Corporation (“registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles,
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors or persons performing the equivalent function:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 27, 2023

/s/ Michael D. Witzeman
Michael D. Witzeman
(Vice President and Controller)

CERTIFICATION BY KEVIN J. MCNAMARA
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as President and Chief Executive Officer of Chemed Corporation (“Company”), does hereby certify that:

- 1) the Company’s Quarterly Report on Form 10-Q for the quarter ending September 30, 2023 (“Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 27, 2023

/s/ Kevin J. McNamara
Kevin J. McNamara
(President and Chief Executive Officer)

CERTIFICATION BY DAVID P. WILLIAMS
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Executive Vice President and Chief Financial Officer of Chemed Corporation (“Company”), does hereby certify that:

- 1) the Company’s Quarterly Report on Form 10-Q for the quarter ending September 30, 2023 (“Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 27, 2023

/s/ David P. Williams
David P. Williams
(Executive Vice President and Chief
Financial Officer)

CERTIFICATION BY MICHAEL D. WITZEMAN
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Vice President and Controller of Chemed Corporation (“Company”), does hereby certify that:

- 1) the Company’s Quarterly Report on Form 10-Q for the quarter ending September 30, 2023 (“Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 27, 2023

/s/ Michael D. Witzeman
Michael D. Witzeman
(Vice President and Controller)