

## ***Financial Review***

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### **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorization of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management, including the President and Chief Executive Officer, and Vice President, Chief Financial Officer, and Controller, has conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2023, based on the framework established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management concluded that internal control over financial reporting was effective as of December 31, 2023, based on criteria in *Internal Control—Integrated Framework* issued by COSO.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2023, as stated in their report which appears on pages 2 through 3.

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Chemed Corporation

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Chemed Corporation and its subsidiaries (the “Company”) as of December 31, 2023 and 2022, and the related consolidated statements of income, of changes in stockholders’ equity and of cash flows for each of the three years in the period ended December 31, 2023, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

### ***Basis for Opinions***

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

***VITAS Revenue Implicit Price Concessions***

As described in Note 2 to the consolidated financial statements, service revenue for VITAS is reported at the amount that reflects the ultimate consideration management expects 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). Management 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. 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 the Company's historical settlement activity. The impact of these estimates is disclosed as implicit price concessions and totaled \$14.2 million for the year-ended December 31, 2023.

The principal considerations for our determination that performing procedures relating to VITAS revenue implicit price concessions is a critical audit matter are the significant judgment by management when developing the estimate of implicit price concessions used in determining the transaction price for each third-party payor. This in turn led to significant auditor judgment, subjectivity, and effort in performing procedures to evaluate the ultimate consideration management expects to receive, related to estimates of implicit price concessions including retroactive adjustments due to audits, reviews or investigations, the assessment of management's evaluation of correspondence from the payor and the Company's historical settlement activity.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls over the VITAS revenue implicit price concessions estimate. These procedures also included, among others, (i) developing an independent estimate of the implicit price concessions by utilizing historical settlement activity; (ii) comparing the independent estimate to management's estimate; and (iii) evaluating and testing management's process for developing the estimate related to retroactive adjustments due to audits, reviews or investigations, which included evaluating the reasonableness of the estimate based on existing correspondence from the payor and the Company's historical settlement activity. Evaluating the reasonableness of the implicit price concessions estimate involved inspecting evidence of correspondence from payors, testing the completeness and accuracy of historical settlement activity on a sample basis, and performing a retrospective review of consideration received subsequent to prior and current year-end to evaluate the reasonableness of the prior and current period estimated implicit price concessions applied by management.

*PricewaterhouseCoopers LLP*

Cincinnati, Ohio  
February 29, 2024

We have served as the Company's auditor since 1971.

**CONSOLIDATED STATEMENTS OF INCOME**

Chemed Corporation and Subsidiary Companies

(in thousands, except per share data)

For the Years Ended December 31,	2023	2022	2021
Service revenues and sales (Note 2)	\$ 2,264,417	\$ 2,134,963	\$ 2,139,261
Cost of services provided and goods sold (excluding depreciation)	1,465,602	1,369,877	1,369,458
Selling, general and administrative expenses	395,120	358,727	366,727
Depreciation	50,802	49,102	49,011
Amortization	10,063	10,070	10,040
Other operating expenses (Note 20)	2,261	3,691	987
Total costs and expenses	1,923,848	1,791,467	1,796,223
Income from operations	340,569	343,496	343,038
Interest expense	(3,108)	(4,584)	(1,868)
Other income/(expense)--net (Note 10)	12,906	(9,233)	9,144
Income before income taxes	350,367	329,679	350,314
Income taxes (Note 11)	(77,858)	(80,055)	(81,764)
<b>Net Income</b>	<b>\$ 272,509</b>	<b>\$ 249,624</b>	<b>\$ 268,550</b>
<b>Earnings Per Share (Note 16)</b>			
Net Income	\$ 18.11	\$ 16.72	\$ 17.14
Average number of shares outstanding	15,050	14,929	15,671
<b>Diluted Earnings Per Share (Note 16)</b>			
Net Income	\$ 17.93	\$ 16.53	\$ 16.85
Average number of shares outstanding	15,200	15,099	15,938

The Notes to Consolidated Financial Statements are integral parts of these statements.

**CONSOLIDATED BALANCE SHEETS**

Chemed Corporation and Subsidiary Companies

(in thousands, except shares and per share data)

December 31,	2023	2022
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 9)	\$ 263,958	\$ 74,126
Accounts receivable	181,511	139,408
Inventories	12,004	10,272
Prepaid income taxes	13,166	18,515
Prepaid expenses	30,204	30,291
Total current assets	500,843	272,612
Investments of deferred compensation plans held in trust (Notes 15 and 17)	106,126	93,196
Properties and equipment, at cost, less accumulated depreciation (Note 13)	203,840	199,714
Lease right of use asset (Note 14)	126,387	135,662
Identifiable intangible assets less accumulated amortization (Note 6)	90,264	99,726
Goodwill	585,017	581,295
Other assets (Note 12)	55,618	59,807
Total Assets	<u>\$ 1,668,095</u>	<u>\$ 1,442,012</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 64,034	\$ 41,884
Current portion of long-term debt (Note 3)	-	5,000
Income taxes (Note 11)	6,858	-
Accrued insurance	58,568	58,515
Accrued compensation	88,381	87,350
Accrued legal	6,386	4,456
Short-term lease liability (Note 14)	38,635	38,996
Other current liabilities (Note 21)	49,188	61,004
Total current liabilities	312,050	297,205
Deferred income taxes (Note 11)	30,321	38,613
Long-term debt (Note 3)	-	92,500
Deferred compensation liabilities (Note 15)	104,069	92,330
Long-term lease liability (Note 14)	100,776	110,513
Other liabilities	13,003	12,136
Total Liabilities	560,219	643,297
<b>Commitments and contingencies (Note 18)</b>		
<b>Stockholders' Equity</b>		
Capital stock - authorized 80,000,000 shares \$1 par; issued 37,183,681 shares (2022 - 36,795,792 shares)	37,184	36,796
Paid-in capital	1,341,273	1,149,899
Retained earnings	2,446,925	2,197,918
Treasury stock - 22,148,927 shares (2022 - 21,920,993 shares), at cost	(2,719,588)	(2,588,145)
Deferred compensation payable in Company stock (Note 15)	2,082	2,247
Total Stockholders' Equity	1,107,876	798,715
Total Liabilities and Stockholders' Equity	<u>\$ 1,668,095</u>	<u>\$ 1,442,012</u>

The Notes to Consolidated Financial Statements are integral parts of these statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Chemed Corporation and Subsidiary Companies

(in thousands)

For the Years Ended December 31,

	2023	2022	2021
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 272,509	\$ 249,624	\$ 268,550
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	60,865	59,172	59,051
Stock option expense	30,082	26,254	22,502
Deferred payroll taxes	-	(18,175)	(18,175)
Noncash portion of long-term incentive compensation	9,267	6,188	7,745
(Benefit)/provision for deferred income taxes	(8,027)	14,827	2,400
Litigation settlements	2,050	4,000	(9,440)
Noncash directors' compensation	1,444	1,170	1,173
Amortization of debt issuance costs	580	342	306
Changes in operating assets and liabilities:			
Increase in accounts receivable	(41,488)	(2,414)	(8,431)
Increase in inventories	(1,732)	(162)	(3,014)
Decrease/(increase) in prepaid expenses	87	2,397	(6,511)
(Decrease)/increase in accounts payable and other current liabilities	(9,348)	15,343	9,832
Change in current income taxes	11,748	(996)	(20,401)
Net change in lease assets and liabilities	(1,424)	1,471	(44)
Increase in other assets	(9,952)	(45,779)	(10,305)
Increase/(decrease) in other liabilities	12,802	(3,350)	12,074
Other sources/(uses)	836	(26)	1,285
Net cash provided by operating activities	<u>330,299</u>	<u>309,886</u>	<u>308,597</u>
<b>Cash Flows from Investing Activities</b>			
Capital expenditures	(56,854)	(57,325)	(58,675)
Business combinations, net of cash acquired	(3,994)	(3,529)	-
Proceeds from sale of fixed assets	640	2,330	904
Other (uses)/sources	(434)	(878)	14
Net cash used by investing activities	<u>(60,642)</u>	<u>(59,402)</u>	<u>(57,757)</u>
<b>Cash Flows from Financing Activities</b>			
Proceeds from exercise of stock options	102,192	44,968	35,848
Payments on other long-term debt	(97,500)	(2,500)	-
Proceeds from other long-term debt	-	100,000	-
Purchases of treasury stock	(67,697)	(114,515)	(576,042)
Dividends paid	(23,502)	(22,017)	(22,016)
Change in cash overdraft payable	15,749	(11,884)	11,884
Capital stock surrendered to pay taxes on stock-based compensation	(9,557)	(15,611)	(15,129)
Payments on revolving line of credit	-	(306,800)	(25,300)
Proceeds from revolving line of credit	-	121,800	210,300
Debt issuance costs	-	(1,586)	-
Other sources/(uses)	490	(1,108)	(165)
Net cash used by financing activities	<u>(79,825)</u>	<u>(209,253)</u>	<u>(380,620)</u>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>189,832</b>	<b>41,231</b>	<b>(129,780)</b>
Cash and cash equivalents at beginning of year	<u>74,126</u>	<u>32,895</u>	<u>162,675</u>
Cash and cash equivalents at end of year	<u>\$ 263,958</u>	<u>\$ 74,126</u>	<u>\$ 32,895</u>

The Notes to Consolidated Financial Statements are integral parts of these statements.

**CONSOLIDATED STATEMENTS OF CHANGES  
IN STOCKHOLDERS' EQUITY**

Chemed Corporation and Subsidiary Companies

(in thousands, except per share data)

	Capital Stock	Paid-in Capital	Retained Earnings	Treasury Stock- at Cost	Deferred Compensation Payable in Company Stock	Total
Balance at December 31, 2020	36,259	961,404	1,723,777	(1,822,579)	2,339	901,200
Net income	-	-	268,550	-	-	268,550
Dividends paid (\$1.40 per share)	-	-	(22,016)	-	-	(22,016)
Stock awards and exercise of stock options (Note 4)	255	82,921	-	(31,037)	-	52,139
Purchases of treasury stock (Note 19)	-	-	-	(576,483)	-	(576,483)
Other	-	16	-	5	(138)	(117)
Balance at December 31, 2021	36,514	1,044,341	1,970,311	(2,430,094)	2,201	623,273
Net income	-	-	249,624	-	-	249,624
Dividends paid (\$1.48 per share)	-	-	(22,017)	-	-	(22,017)
Stock awards and exercise of stock options (Note 4)	282	106,619	-	(43,932)	-	62,969
Purchases of treasury stock (Note 19)	-	-	-	(114,074)	-	(114,074)
Other	-	(1,061)	-	(45)	46	(1,060)
<b>Balance at December 31, 2022</b>	<b>36,796</b>	<b>1,149,899</b>	<b>2,197,918</b>	<b>(2,588,145)</b>	<b>2,247</b>	<b>798,715</b>
Net income	-	-	272,509	-	-	272,509
Dividends paid (\$1.56 per share)	-	-	(23,502)	-	-	(23,502)
Stock awards and exercise of stock options (Note 4)	388	190,835	-	(57,796)	-	133,427
Purchases of treasury stock (Note 19)	-	-	-	(73,813)	-	(73,813)
Other	-	539	-	166	(165)	540
<b>Balance at December 31, 2023</b>	<b>\$ 37,184</b>	<b>\$ 1,341,273</b>	<b>\$ 2,446,925</b>	<b>\$ (2,719,588)</b>	<b>\$ 2,082</b>	<b>\$ 1,107,876</b>

The Notes to Consolidated Financial Statements are integral parts of these statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

#### *NATURE OF OPERATIONS*

We operate through our two wholly-owned subsidiaries: VITAS Healthcare Corporation (“VITAS”) and Roto-Rooter Group, Inc. (“Roto-Rooter”). VITAS focuses on hospice care that helps make terminally ill patients' final days as comfortable as possible. Through its team 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 provides plumbing, drain cleaning and water restoration services to both residential and commercial customers. Through its network of company-owned branches, Independent Contractors and franchisees, Roto-Rooter offers plumbing, drain cleaning service and water restoration to over 90% of the U.S. population.

#### *PRINCIPLES OF ACCOUNTING*

The consolidated financial statements have been prepared on a going-concern basis. The consolidated financial statements include the accounts of Chemed Corporation and its wholly owned subsidiaries. All intercompany transactions have been eliminated. We have analyzed the provisions of the Financial Accounting Standards Board (“FASB”) authoritative guidance on the consolidation of variable interest entities relative to our contractual relationships with Roto-Rooter’s Independent Contractors and franchisees. The guidance requires the primary beneficiary of a Variable Interest Entity (“VIE”) to consolidate the accounts of the VIE. We have concluded that neither the Independent Contractors nor the franchisees are VIEs.

#### *CURRENT EXPECTED CREDIT LOSSES*

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments, Credit Losses. The Company’s only material financial asset subject to ASU No. 2016-13 is accounts receivable, trade and other. The Company recognizes an allowance for credit losses related to accounts receivable to present the net amount expected to be collected as of the balance sheet date. Accounts receivable are written-off when it is determined that the amount is deemed uncollectible. The following presents a detailed discussion of the operating subsidiaries’ accounts receivable and their evaluation of credit risk related to those accounts:

- Roto-Rooter’s trade accounts receivable are comprised mainly of amounts due from commercial entities and commercial insurance carriers. Roto-Rooter’s accounts receivable are generally outstanding for 90 days or less and there are no significant amounts outstanding greater than one year. Roto-Rooter historically has not experienced significant write-offs due to credit losses. For amounts due from commercial entities, Roto-Rooter utilizes a provision matrix based on historical credit losses by aging category. For amounts due from commercial insurance carriers, mainly from water restoration revenue, Roto-Rooter periodically reviews published default tables related to commercial insurance carriers and provides an allowance. As further discussed below, Roto-Rooter assesses on a quarterly basis whether the historical rates used are expected to be representative of credit risk over the life of the account taking into consideration existing economic conditions.
- In excess of 90% of VITAS’ accounts receivable are from the Federal or state governments under Medicare and Medicaid. VITAS believes that it is reasonable to expect that the risk of non-payment as a result of credit issues from these government entities is zero. As such, there is no allowance for credit losses established related to these accounts. The remainder of VITAS’ accounts are from commercial insurance carriers. VITAS’ accounts are generally outstanding for 90 days or less and there are no significant amounts outstanding greater than one year. VITAS historically has not experienced significant write-offs due to credit losses. VITAS periodically reviews published default tables related to commercial insurance carriers and provides an allowance. VITAS assesses on a quarterly basis whether these default rates are expected to be representative of credit risk over the life of the account taking into consideration existing economic conditions.

As further discussed in Note 3, Chemed has \$45.2 million in standby letters of credit outstanding. These letters of credit are with large, highly rated financial institutions. The Company periodically reviews published default tables related to these institutions to assess the need for an allowance. Chemed believes that any expected credit loss related to outstanding letters of credit based on current economic conditions is not material. The allowance for doubtful accounts is not material at December 31, 2023.

#### *CORONAVIRUS IMPACT*

We have closely monitored the impact of the pandemic on all aspects of our business including impacts to employees, customers, patients, suppliers and vendors.



On March 27, 2020, the CARES Act was passed. It provided economic relief to individuals and businesses affected by the coronavirus pandemic. It also contained provisions related to healthcare providers' operations and the issues caused by the coronavirus pandemic.

- Chemed and its subsidiaries deferred \$36.4 million of certain employer payroll taxes as permitted by the CARES Act in 2020. \$18.2 million was paid in 2021 and the remaining \$18.2 million was paid in 2022.
- During the period from May 1, 2020 through March 31, 2022, the 2% Medicare sequestration reimbursement cut was suspended. Sequestration was phased back into place at 1% from April 1, 2022 to June 30, 2022 and the full 2% thereafter. For the years ended December 31, 2022, 2021 and 2020 approximately \$8.6 million, \$23.9 million and \$16.8 million, respectively, was recognized as revenue due to the suspension of sequestration.

The Company recognized \$14.0 million of expense in 2021 for COVID-19 related costs. VITAS provided its workers an extra week of paid time off resulting in a \$10.0 million charge. The remaining costs are primarily for personal protection equipment.

#### *CASH EQUIVALENTS*

Cash equivalents comprise short-term, highly liquid investments, including overnight deposits and money market funds that have original maturities of three months or less.

#### *CONCENTRATION OF RISK*

As of December 31, 2023, and 2022, approximately 75% and 64%, respectively, of VITAS' total accounts receivable balances were from Medicare and 19% and 29%, respectively, of VITAS' total accounts receivable balances were due from various state Medicaid or managed Medicaid programs. Combined accounts receivable from Medicare, Medicaid, and managed Medicaid represent approximately 80% of the consolidated net accounts receivable in the accompanying consolidated balance sheets as of December 31, 2023.

VITAS has a pharmacy services contract with one service provider for specified pharmacy services related to its hospice operations. Similarly, effective January 1, 2022, 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.

#### *INVENTORIES*

Substantially all of the inventories are either general merchandise or finished goods. Inventories are stated at the lower of cost or net realizable value. For determining the value of inventories, cost methods that reasonably approximate the first-in, first-out ("FIFO") method are used.

#### *DEPRECIATION AND PROPERTIES AND EQUIPMENT*

Depreciation of properties and equipment is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the remaining lease terms (excluding option terms) or their useful lives. Expenditures for maintenance, repairs, renewals and betterments that do not materially prolong the useful lives of the assets are expensed as incurred. The cost of property retired or sold and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected currently in other operating expense or other income, net.

Expenditures for major software purchases and software developed for internal use are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets. For software developed for internal use, external direct costs for materials and services and certain internal payroll and related fringe benefit costs are capitalized in accordance with the FASB's authoritative guidance on accounting for the costs of computer software developed or obtained for internal use.

The weighted average lives of our property and equipment at December 31, 2023, were:

Buildings and building improvements	14.6 yrs.
Transportation equipment	8.5
Machinery and equipment	5.1
Computer software	3.8
Furniture and fixtures	4.4

*GOODWILL AND INTANGIBLE ASSETS*

The table below shows a rollforward of Goodwill (in thousands):

	<b>Vitas</b>	<b>Roto- Rooter</b>	<b>Total</b>
Balance at December 31, 2021	\$ 333,331	\$ 245,260	\$ 578,591
Business combinations	732	2,061	2,793
Foreign currency adjustments	-	(89)	(89)
Balance at December 31, 2022	\$ 334,063	\$ 247,232	\$ 581,295
Business combinations	-	3,682	3,682
Foreign currency adjustments	-	40	40
Balance at December 31, 2023	<u>\$ 334,063</u>	<u>\$ 250,954</u>	<u>\$ 585,017</u>

Identifiable, definite-lived intangible assets arise from purchase business combinations and are amortized using either an accelerated method or the straight-line method over the estimated useful lives of the assets. The selection of an amortization method is based on which method best reflects the economic pattern of usage of the asset. Reacquired franchise rights are amortized over the remaining term of the franchise agreement at the time of acquisition. The weighted average lives of our identifiable, definite-lived intangible assets at December 31, 2023, were:

Covenants not to compete	6.4 yrs.
Reacquired franchise rights	7.4
Referral networks	14.0
Customer lists	16.8

The date of our annual goodwill and indefinite-lived intangible asset impairment analysis is October 1. The VITAS trade name is considered to have an indefinite life. We also capitalize the direct costs of obtaining licenses to operate either hospice programs or plumbing operations subject to a minimum capitalization threshold. These costs are amortized over the life of the license using the straight-line method. Certificates of Need (“CON”), which are required in certain states for hospice operations, are generally granted without expiration and thus, we believe them to be indefinite-lived assets subject to impairment testing.

We consider that Roto-Rooter Corp. (“RRC”), Roto-Rooter Services Co. (“RRSC”) and VITAS are appropriate reporting units for testing goodwill impairment. We consider RRC and RRSC separate reporting units but one operating segment. This is appropriate as they each have their own set of general ledger accounts that can be analyzed at “one level below an operating segment” per the definition of a reporting unit in FASB guidance.

We completed our qualitative analysis for impairment of goodwill and our indefinite-lived intangible assets as of October 1, 2023. Based on our assessment, we do not believe that it is more likely than not that our reporting units or indefinite-lived assets fair values are less than their carrying values.

*LONG-LIVED ASSETS*

If we believe a triggering event may have occurred that indicates a possible impairment of our long-lived assets, we perform an estimate and valuation of the future benefits of our long-lived assets (other than goodwill, the VITAS trade name and capitalized CON costs) based on key financial indicators. If the projected undiscounted cash flows of a major business unit indicate that properties and equipment or identifiable, definite-lived intangible assets’ have been impaired, a write-down to fair value is made.

### *LEASE ACCOUNTING*

In February 2016, the FASB issued Accounting Standards Update “ASU No. 2016-02 Leases” which introduced a lessee model that brings most leases onto the balance sheet and updates lessor accounting to align with changes in the lessee model and the revenue recognition standard. This standard is also referred to as Accountings Standards Codification No.842 (“ASC 842”).

Our leases have remaining terms of less than 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. We made a policy election to exclude leases with a lease term less than 12 months from being recorded on the balance sheet. We adopted the practical expedient related to the combining of lease and non-lease components, which allows us to account for the lease and non-lease components as a single lease component. We do not currently have any finance leases, all lease information disclosed is related to operating 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.

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 will continue to capitalize the equipment underlying these leases, depreciate the equipment and recognize rental income. See Note 14 for the detail of lease accounting.

### *CLOUD COMPUTING*

As of December 31, 2023, Roto-Rooter has no significant capitalized implementation costs related to cloud computing.

VITAS utilizes a human resource system that is considered a cloud computing arrangement. We have capitalized approximately \$5.6 million related to implementation of this project which are 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 each of the years ending December 31, 2023, 2022 and 2021, amortization expense of \$995,000 has been recognized, respectively.

### *OTHER ASSETS*

Debt issuance costs are included in other assets. Issuance costs related to revolving credit agreements are amortized using the straight-line method, over the life of the agreement. All other issuance costs are amortized using the effective interest method over the life of the debt. See Note 12 for the detail of other assets.

### *SALES TAX*

The Roto-Rooter segment collects sales tax from customers when required by state and federal laws. We record the amount of sales tax collected net in the accompanying consolidated statements of income.

### *OPERATING EXPENSES*

Cost of services provided and goods sold (excluding depreciation) includes salaries, wages and benefits of service providers and field personnel, material costs, medical supplies and equipment, pharmaceuticals, insurance costs, service vehicle costs and other expenses directly related to providing service revenues or generating sales. Selling, general and administrative expenses include salaries, wages, stock-based compensation expense and benefits of selling, marketing and administrative employees, advertising expenses, communications and branch telephone expenses, office rent and operating costs, legal, banking and professional fees and other administrative costs. The cost associated with VITAS sales personnel is included in cost of services provided and goods sold (excluding depreciation).

### *ADVERTISING*

We expense the production costs of advertising the first time the advertising takes place. We pay for and expense the cost of internet advertising and placement on a “per click” basis. Similarly, the majority of our telephone directory listings and certain types of internet advertising are paid for and expensed on a “cost per call” basis. For those directories that are not on this billing basis, the cost of the directory is expensed when the directories are placed in circulation. Advertising expense for the year ended December 31, 2023 was \$72.2 million (2022 – \$68.6 million; 2021 - \$62.1 million).

#### *OTHER CURRENT LIABILITIES*

See Note 21 for the detail of other current liabilities.

#### *STOCK-BASED COMPENSATION PLANS*

Stock-based compensation cost is measured at the grant date, based on the fair value of the award and recognized as expense over the employee's requisite service period on a straight-line basis. See Note 4 for the detail on stock-based compensation.

#### *INSURANCE ACCRUALS*

For our Roto-Rooter segment and Corporate Office, we initially self-insure for all casualty insurance claims (workers' compensation, auto liability and general liability). As a result, we closely monitor and frequently evaluate our historical claims experience to estimate the appropriate level of accrual for self-insured claims. Our third-party administrator ("TPA") processes and reviews claims on a monthly basis. Currently, our exposure on any single claim is capped by stop-loss coverage at \$750,000. In developing our estimates, we accumulate historical claims data for the previous 10 years to calculate loss development factors ("LDF") by insurance coverage type. LDFs are applied to known claims to estimate the ultimate potential liability for known and unknown claims for each open policy year. LDFs are updated annually. Because this methodology relies heavily on historical claims data, the key risk is whether the historical claims are an accurate predictor of future claims exposure. The risk also exists that certain claims have been incurred and not reported on a timely basis. To mitigate these risks, in conjunction with our TPA, we closely monitor claims to ensure timely accumulation of data and compare claims trends with the industry experience of our TPA.

For the VITAS segment, we initially self-insure for workers' compensation claims. Currently, VITAS' exposure on any single claim is capped by stop-loss coverage at \$1,000,000. For VITAS' self-insurance accruals for workers' compensation, the valuation methods used are similar to those used internally for our other business units. We are also insured for other risks with respect to professional liability with a deductible of \$1,000,000.

Our casualty insurance liabilities are recorded gross before any estimated recovery for amounts exceeding our stop loss limits. Estimated recoveries from insurance carriers are recorded as accounts receivable. Claims experience adjustments to our casualty and workers' compensation accrual for the years ended December 31, 2023, 2022 and 2021, were net pretax credits of (\$6,862,000), (\$5,790,000), and (\$6,332,000) respectively.

#### *INCOME TAXES*

Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in our opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized due to insufficient taxable income within the carryback or carryforward period available under the tax laws. Deferred tax assets and liabilities are adjusted for the effects of changes in law and rates on the date of enactment.

We are subject to income taxes in Canada, U.S. federal and most state jurisdictions. Judgement is required to determine our provision for income taxes. Our financial statements reflect expected future tax consequences of such uncertain positions assuming the taxing authorities' full knowledge of the position and all relevant facts.

Our effective income tax rate was 22.2%, 24.3% and 23.3% for the years ended December 31, 2023, 2022, and 2021, respectively. Excess tax benefit on stock options reduced our income tax expenses by \$4.3 million, \$5.9 million, and \$9.9 million for the years ended December 31, 2023, 2022 and 2021, 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.

#### *CONTINGENCIES*

As discussed in Note 18, 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 reasonably estimable. We record legal fees associated with legal and regulatory actions as the costs are incurred. We disclose material loss contingencies that are probable but not reasonably estimable and those that are at least reasonably possible.

### *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 7 for discussion of recent acquisitions.

### *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.

## **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 theoretically 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 includes 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 during the years ended December 31, 2023, 2022 and 2021, was \$8.1 million, \$7.8 million and \$8.5 million, respectively and is included in cost of services provided and goods sold. The cost of charity care is calculated by taking the ratio of charity care days to total days of care and multiplying by 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. Compliance with such laws and regulations may be subject to future government review and interpretation. 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 years ended December 31, 2023, 2022, and 2021.

*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 December 31, 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.

In 2013, the U.S. government implemented automatic budget reductions of 2.0% for all government payees, including hospice benefits paid under the Medicare program. In 2015, Centers for Medicare and Medicaid Services (“CMS”) determined that the Medicare cap should be calculated “as if” sequestration did not occur. As a result of this decision, VITAS had received notification from our third-party intermediary that an additional \$9.0 million was owed for Medicare cap in three programs for the 2013 through 2022 measurement periods. The amounts were automatically deducted from our semi-monthly PIP payments and we did not recognize any revenue for these disputed amounts, but recorded a receivable offset by a reserve of equal amount. Due to recent court decisions, we are no longer appealing the CMS’s methodology change. During the year ended December 31, 2022, we reversed the related receivable and reserve.

During the year ended December 31, 2023 we recorded \$8.0 million in Medicare cap revenue reduction related to two programs’ projected 2023 measurement period liability and six programs’ 2024 measurement period liability.

During the year ended December 31, 2022 we recorded \$7.9 million in Medicare cap revenue reduction related to two programs’ projected 2022 measurement period liability and five programs’ 2023 measurement period liability.

During the year ended December 31, 2021 we recorded \$6.6 million in Medicare cap revenue reduction related to two programs’ projected 2021 measurement period liability and two programs’ 2022 measurement period liability.

At December 31, 2023 and 2022, the Medicare cap liability included in other current liabilities on the accompanying balance sheets was \$13.2 million and \$14.4 million, respectively.

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.

Chemed Corporation and Subsidiary Companies

The composition of patient care service revenue by payor and level of care for the year ended December 31, 2023 is as follows (in thousands):

	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Total</u>
Routine home care	\$ 1,067,629	44,833	23,975	\$ 1,136,437
Continuous care	78,994	3,123	3,557	85,674
Inpatient care	97,873	8,698	5,848	112,419
	<u>\$ 1,244,496</u>	<u>\$ 56,654</u>	<u>\$ 33,380</u>	<u>\$ 1,334,530</u>
All other revenue - self-pay, respite care, etc.				13,582
Subtotal				\$ 1,348,112
Medicare cap adjustment				(8,000)
Implicit price concessions				(14,196)
Room and board, net				(10,851)
Net revenue				<u>\$ 1,315,065</u>

The composition of patient care service revenue by payor and level of care for the year ended December 31, 2022 is as follows (in thousands):

	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Total</u>
Routine home care	\$ 973,206	\$ 43,340	\$ 22,665	\$ 1,039,211
Continuous care	70,712	3,159	3,129	77,000
Inpatient care	89,866	7,533	4,962	102,361
	<u>\$ 1,133,784</u>	<u>\$ 54,032</u>	<u>\$ 30,756</u>	<u>\$ 1,218,572</u>
All other revenue - self-pay, respite care, etc.				12,438
Subtotal				\$ 1,231,010
Medicare cap adjustment				(7,868)
Implicit price concessions				(12,004)
Room and board, net				(9,574)
Net revenue				<u>\$ 1,201,564</u>

The composition of patient care service revenue by payor and level of care for the year ended December 31, 2021 is as follows (in thousands):

	<u>Medicare</u>	<u>Medicaid</u>	<u>Commercial</u>	<u>Total</u>
Routine home care	\$ 997,846	\$ 46,785	\$ 25,135	\$ 1,069,766
Continuous care	85,626	4,689	4,023	94,338
Inpatient care	98,243	9,486	5,458	113,187
	<u>\$ 1,181,715</u>	<u>\$ 60,960</u>	<u>\$ 34,616</u>	<u>\$ 1,277,291</u>
All other revenue - self-pay, respite care, etc.				12,142
Subtotal				\$ 1,289,433
Medicare cap adjustment				(6,597)
Implicit price concessions				(11,530)
Room and board, net				(10,060)
Net revenue				<u>\$ 1,261,246</u>



Roto-Rooter

Roto-Rooter provides plumbing, drain cleaning, 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 usually 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 in part 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. The 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 for plumbing, drain care cleaning and water restoration services. 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 years ended December 31, 2023, 2022 and 2021 is as follows (in thousands):

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Drain cleaning	\$ 249,069	\$ 261,606	\$ 254,773
Plumbing	196,695	194,274	176,051
Excavation	233,196	222,945	215,190
Other	<u>936</u>	<u>708</u>	<u>1,138</u>
Subtotal - short term core	679,896	679,533	647,152
Water restoration	185,550	169,434	153,115
Independent contractors	85,749	84,442	76,858
Franchisee fees	5,658	5,591	5,068
Other	<u>19,083</u>	<u>16,859</u>	<u>15,576</u>
Gross revenue	\$ 975,936	\$ 955,859	\$ 897,769
Implicit price concessions and credit memos	<u>(26,584)</u>	<u>(22,460)</u>	<u>(19,754)</u>
Net revenue	<u>\$ 949,352</u>	<u>\$ 933,399</u>	<u>\$ 878,015</u>

### 3. 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 million revolver as well as a five-year \$100 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 December 31, 2023 and 2022, 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 million.

We made prepayments totaling \$75.0 million plus a regularly scheduled payment of \$1.25 million in the first quarter of 2023 on the \$100.0 million term loan. We paid the remaining balance of \$21.3 million in April 2023. There were no prepayment penalties associated with repayments. 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 as of December 31, 2023.

The debt outstanding at December 31, 2023 and 2022 consists of the following (in thousands):

	December 31,	
	2023	2022
Revolver	\$ -	\$ -
Term loan	-	97,500
Total	-	97,500
Current portion of long-term debt	-	(5,000)
Long-term debt	<u>\$ -</u>	<u>\$ 92,500</u>

Capitalized interest was not material for any of the periods shown. Summarized below are the total amounts of interest paid during the years ended December 31 (in thousands):

2023	\$ 2,645
2022	3,704
2021	1,403

The 2022 Credit Facilities contains the following quarterly financial covenants effective as of December 31, 2023:

Description	Requirement	Chemed December 31, 2023
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00	<b>(0.06) to 1.00</b>
Interest Coverage Ratio (Consolidated Adj. EBITDA/Consolidated Interest Expense)	> 3.00 to 1.00	<b>151.10 to 1.00</b>

We are in compliance with all debt covenants as of December 31, 2023. We have issued \$45.2 million in standby letters of credit as of December 31, 2023 for insurance purposes. Issued letters of credit reduce our available credit under the 2022 Credit Facilities. As of December 31, 2023, we have approximately \$404.8 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility.

#### 4. Stock-Based Compensation Plans

We have four stock incentive plans under which a total of 6.1 million shares were able to be issued to key employees and directors through a grant of stock options, stock awards and/or performance stock units (“PSUs”). The Compensation/Incentive Committee (“CIC”) of the Board of Directors administers these plans.

We grant stock options, stock awards and PSUs to our officers, other key employees and directors to better align their long-term interests with those of our shareholders. We grant stock options at an exercise price equal to the market price of our stock on the date of grant. Options vest ratably annually over a three year period. Those granted after 2014 have a contractual life of 5 years; those granted prior to 2014 have a contractual life of 10 years. Unrestricted stock awards generally are granted to our non-employee directors annually at the time of our annual meeting. PSUs are contingent upon achievement of multi-year earnings per share (“EPS”) targets or total shareholder return (“TSR”) targets. Upon achievement of targets, PSUs are converted to unrestricted shares of stock.

We recognize the cost of stock options, stock awards and PSUs on a straight-line basis over the service life of the award, generally the vesting period. We include the cost of all stock-based compensation in selling, general and administrative expense.

In May 2023, the CIC granted 2,646 unrestricted shares of stock to the Company’s outside directors.

#### *PERFORMANCE AWARDS*

The CIC determines a targeted number of PSUs to be granted to each participant. A participant can ultimately receive up to 200% of the targeted PSUs based upon exceeding the respective EPS and TSR targets.

## Chemed Corporation and Subsidiary Companies

In February 2021, 2022, and 2023, the CIC granted PSUs contingent upon the achievement of certain TSR targets as compared to the TSR of a group of peer companies for the three-year measurement period, at which date the awards may vest. We utilize a Monte Carlo simulation approach in a risk-neutral framework with inputs including historical volatility and the risk-free rate of interest to value these TSR awards. We amortize the total estimated cost over the service period of the award.

In February 2021, 2022, and 2023, the CIC granted PSUs contingent on the achievement of certain EPS targets over the three-year measurement period. At the end of each reporting period, we estimate the number of shares of stock we believe will ultimately vest and record that expense over the service period of the award.

Comparative data for the PSUs include:

	<u>2023 Awards</u>	<u>2022 Awards</u>	<u>2021 Awards</u>
<b>TSR Awards</b>			
Shares of stock granted - target	<b>8,107</b>	7,983	6,277
Per-share fair value	\$ <b>633.32</b>	\$ 595.70	\$ 599.04
Volatility	<b>25.5 %</b>	30.4 %	30.2 %
Risk-free interest rate	<b>4.3 %</b>	1.7 %	0.2 %
<b>EPS Awards</b>			
Shares of stock granted - target	<b>8,107</b>	7,983	6,277
Per-share fair value	\$ <b>515.12</b>	\$ 459.77	\$ 491.34
<b>Common Assumptions</b>			
Service period (years)	<b>2.9</b>	2.9	2.9
Three-year measurement period ends December 31,	<b>2025</b>	2024	2023

The following table summarizes total stock option, stock award and PSU activity during 2023:

	<u>Stock Options</u>				<u>Stock Awards</u>		<u>Performance Units (PSUs)</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value (thousands)</u>	<u>Number of Awards</u>	<u>Weighted Average Grant-Date Per-Share Fair Value</u>	<u>Number of Target Units</u>	<u>Weighted Average Grant-Date Price</u>
Outstanding at December 31, 2022	1,181,154	\$ 432.75			-	\$ -	37,490	\$ 543.11
Granted	315,555	509.46			2,646	545.69	21,802	557.23
Exercised/Vested	(370,105)	406.45			(2,646)	545.69	(15,138)	544.36
Canceled/ Forfeited	(9,381)	455.42			-	-	-	-
Outstanding at December 31, 2023	<u>1,117,223</u>	\$ 462.94	3.3	\$ 134,531	<u>-</u>	<u>-</u>	<u>44,154</u>	\$ 549.65
Vested and expected to vest								
at December 31, 2023	1,117,223	\$ 462.94	3.3	\$ 134,531	-	-	49,231*	\$ 546.47
Exercisable at December 31, 2023	494,064	437.24	2.2	72,191	n.a.	n.a.	n.a.	n.a.

\* Amount includes 9,918 share units which vested and were converted to shares of stock and distributed in the first quarter of 2024.

We estimate the fair value of stock options using the Black-Scholes valuation model. We determine expected term, volatility, and dividend yield and forfeiture rate based on our historical experience. We believe that historical experience is the best indicator of these factors.

Comparative data for stock options, stock awards and PSUs include (in thousands, except per-share amounts):

	Years Ended December 31,		
	2023	2022	2021
Total compensation expense of stock-based compensation plans charged against income	\$ 40,793	\$ 33,613	\$ 31,420
Total income tax benefit recognized in income for stock based compensation expense charged against income	9,709	8,487	7,918
Total intrinsic value of stock options exercised	54,681	53,339	62,038
Total intrinsic value of stock awards vested during the period	1,444	1,170	1,173
Per-share weighted average grant-date fair value of stock awards granted	545.69	496.25	482.66

The assumptions we used to value stock option grants are as follows:

	2023	2022	2021
Stock price on date of issuance	\$ 509.46	\$ 462.04	\$ 445.35
Grant date fair value per option	\$ 111.24	\$ 104.69	\$ 96.91
Number of options granted	315,555	312,598	326,806
Expected term (years)	3.5	3.5	3.5
Risk free rate of return	4.99%	4.39%	0.87%
Volatility	19.24%	22.29%	28.81%
Dividend yield	0.3%	0.3%	0.3%
Forfeiture rate	-	-	-

Other data for stock options, stock awards and PSUs for 2023 include (dollar amounts in thousands):

	Stock Options	Stock Awards	PSUs
Total unrecognized compensation at the end of the year	\$ 60,819	\$ -	\$ 10,125
Weighted average period over which unrecognized compensation to be recognized (years)	2.2	-	1.6
Actual income tax benefit realized	\$ 12,139	\$ 321	\$ 1,478
Aggregate intrinsic value vested and expected to vest	\$ 134,531	\$ -	\$ 28,719

#### EMPLOYEE STOCK PURCHASE PLAN ("ESPP")

The ESPP allows eligible participants to purchase shares of stock through payroll deductions at current market value. We pay administrative and broker fees associated with the ESPP. Shares of stock purchased for the ESPP are purchased on the open market and credited directly to participants' accounts. In accordance with the FASB's guidance, the ESPP is non-compensatory.

## 5. Segments and Nature of the Business

Our segments include the VITAS segment and the Roto-Rooter segment. Relative contributions of each segment to service revenues and sales were 58% and 42% in 2023, 56% and 44% in 2022 and 59% and 41% in 2021. The vast majority of our service revenues and sales from continuing operations are generated from business within the United States. Service revenues and sales by business segment are shown in Note 2.

The reportable segments have been defined along service lines, which is consistent with the way the businesses are managed. In determining reportable segments, the RRSC and RRC operating units of the Roto-Rooter segment have been aggregated on the basis of possessing similar operating and economic characteristics. The characteristics of these operating segments and the basis for aggregation are reviewed annually.

Chemed Corporation and Subsidiary Companies

We report corporate administrative expenses and unallocated investing and financing income and expense not directly related to either segment as “Corporate”. Corporate administrative expense includes the stewardship, accounting and reporting, legal, tax and other costs of operating a publicly held corporation. Corporate investing and financing income and expenses include the costs and income associated with corporate debt and investment arrangements.

Segment data are set forth below (in thousands):

	<b>For the Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b><u>After-tax Segment Earnings/(Loss)</u></b>			
VITAS	\$ 158,509	\$ 131,452	\$ 162,431
Roto-Rooter	188,241	186,120	166,333
Total	<u>346,750</u>	<u>317,572</u>	<u>328,764</u>
Corporate	(74,241)	(67,948)	(60,214)
Net income	<u>\$ 272,509</u>	<u>\$ 249,624</u>	<u>\$ 268,550</u>
<b><u>Interest Income</u></b>			
VITAS	\$ 20,478	\$ 19,119	\$ 18,378
Roto-Rooter	12,043	9,483	7,304
Total	<u>32,521</u>	<u>28,602</u>	<u>25,682</u>
Corporate	5,067	(1)	-
Intercompany eliminations	(31,318)	(28,246)	(25,305)
Total interest income	<u>\$ 6,270</u>	<u>\$ 355</u>	<u>\$ 377</u>
<b><u>Interest Expense</u></b>			
VITAS	\$ 180	\$ 172	\$ 160
Roto-Rooter	442	396	595
Total	<u>622</u>	<u>568</u>	<u>755</u>
Corporate	2,486	4,016	1,113
Total interest expense	<u>\$ 3,108</u>	<u>\$ 4,584</u>	<u>\$ 1,868</u>
<b><u>Income Tax Provision</u></b>			
VITAS	\$ 46,115	\$ 43,000	\$ 52,426
Roto-Rooter	50,125	58,695	51,420
Total	<u>96,240</u>	<u>101,695</u>	<u>103,846</u>
Corporate	(18,382)	(21,640)	(22,082)
Total income tax provision	<u>\$ 77,858</u>	<u>\$ 80,055</u>	<u>\$ 81,764</u>
<b><u>Identifiable Assets</u></b>			
VITAS	\$ 778,950	\$ 750,483	\$ 693,490
Roto-Rooter	523,450	512,424	513,191
Total	<u>1,302,400</u>	<u>1,262,907</u>	<u>1,206,681</u>
Corporate	365,695	179,105	136,042
Total identifiable assets	<u>\$ 1,668,095</u>	<u>\$ 1,442,012</u>	<u>\$ 1,342,723</u>
<b><u>Additions to Long-Lived Assets</u></b>			
VITAS	\$ 17,450	\$ 22,580	\$ 28,583
Roto-Rooter	43,514	39,111	30,249
Total	<u>60,964</u>	<u>61,691</u>	<u>58,832</u>
Corporate	274	177	24
Total additions to long-lived assets	<u>\$ 61,238</u>	<u>\$ 61,868</u>	<u>\$ 58,856</u>
<b><u>Depreciation and Amortization</u></b>			
VITAS	\$ 20,063	\$ 22,056	\$ 23,185
Roto-Rooter	40,749	37,044	35,785
Total	<u>60,812</u>	<u>59,100</u>	<u>58,970</u>
Corporate	53	72	81
Total depreciation and amortization	<u>\$ 60,865</u>	<u>\$ 59,172</u>	<u>\$ 59,051</u>

## 6. Intangible Assets

Amortization of definite-lived intangible assets for the years ended December 31, 2023, 2022, and 2021, was \$10.1 million, \$10.1 million and \$10.0 million, respectively. The following is a schedule by year of projected amortization expense for definite-lived intangible assets (in thousands):

2024	\$	10,049
2025		10,035
2026		9,688
2027		458
2028		308
Thereafter		1,768

The balance in identifiable intangible assets comprises the following (in thousands):

	Gross Asset	Accumulated Amortization	Net Book Value
<b>December 31, 2023</b>			
Referral networks	\$ 1,228	\$ (413)	\$ 815
Covenants not to compete	2,476	(2,354)	122
Customer lists	4,746	(2,220)	2,526
Reacquired franchise rights	72,821	(43,978)	28,843
Subtotal - definite-lived intangibles	81,271	(48,965)	32,306
VITAS trade name	51,300	-	51,300
Roto-Rooter trade name	150	-	150
Operating licenses	6,508	-	6,508
Total	<u>\$ 139,229</u>	<u>\$ (48,965)</u>	<u>\$ 90,264</u>
<b>December 31, 2022</b>			
Referral networks	\$ 22,368	\$ (21,458)	\$ 910
Covenants not to compete	10,141	(9,928)	213
Customer lists	4,746	(2,005)	2,741
Reacquired franchise rights	72,609	(34,325)	38,284
Subtotal - definite-lived intangibles	109,864	(67,716)	42,148
VITAS trade name	51,300	-	51,300
Roto-Rooter trade name	150	-	150
Operating licenses	6,128	-	6,128
Total	<u>\$ 167,442</u>	<u>\$ (67,716)</u>	<u>\$ 99,726</u>

## 7. Acquisitions

In 2023, Roto-Rooter completed the acquisition of one franchise in South Carolina for \$305,000 in cash and one franchise in Georgia for \$3.689 million in cash.

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

No acquisitions were completed during the year ended December 31, 2021.

Revenue and net income from acquisitions made in 2023, 2022, and 2021 was not material.

On August 2, 2019, we entered into an Asset Purchase Agreement (the "Agreement") to purchase substantially all of the assets of HSW RR, Inc., a Delaware corporation ("HSW") and certain related assets of its affiliates, for \$120.0 million, subject to a working capital adjustment that resulted in an additional \$1.4 million payment to HSW. HSW owned and operated fourteen Roto-Rooter franchises mainly in the southwestern section of the United States, including Los Angeles, Dallas and Phoenix.

On July 1, 2019, we completed the acquisition of a Roto-Rooter franchise and the related assets in Oakland, CA for \$18.0 million in cash.

Included in the allocation of the purchase price for these 2019 acquisitions was \$59.2 million related to reacquired franchise rights. Reacquired franchise rights, included in identifiable intangibles on the Consolidated Balance Sheets, are amortized over the period remaining in each individual franchise agreement. The average amortization period for reacquired franchise rights for the acquisitions made in 2019 is 7.4 years. In 2023, amortization expense from the reacquired franchise rights for these two acquisitions was \$8.1 million compared to the franchise fee revenue recognized from all other Roto-Rooter franchises, nationwide, of \$5.7 million.

Goodwill is assessed for impairment on a yearly basis as of October 1. The primary factor that contributed to the purchase price resulting in the recognition of goodwill is operational efficiencies expected as a result of consolidating stand-alone franchises and Roto-Rooter’s network of nationwide branches. All goodwill recognized is deductible for tax purposes.

## 8. Discontinued Operations

At December 31, 2023 and 2022, the accrual for our estimated liability for potential environmental cleanup and related costs arising from the 1991 sale of DuBois amounted to \$1.7 million. Of the 2023 balance, \$826,000 is included in other current liabilities and \$896,000 is included in other liabilities (long-term). The estimated amounts and timing of payments of these liabilities follows (in thousands):

2024	\$	826
2025		300
Thereafter		596
	<u>\$</u>	<u>1,722</u>

We are contingently liable for additional DuBois-related environmental cleanup and related costs up to a maximum of \$14.9 million. On the basis of a continuing evaluation of the potential liability, we believe it is not probable this additional liability will be paid. Accordingly, no provision for this contingent liability has been recorded. The potential liability is not insured, and the recorded liability does not assume the recovery of insurance proceeds. Also, the environmental liability has not been discounted because it is not possible to reliably project the timing of payments. We believe that any adjustments to our recorded liability will not materially adversely affect our financial position, results of operations or cash flows.

## 9. Cash Overdrafts, Cash Equivalents, and Supplemental Cash Flow Disclosure

Included in the accompanying Consolidated Balance Sheets are \$690,000, \$1.9 million, and \$1.9 million of capitalized property and equipment which were not paid for as of December 31, 2023, 2022, and 2021, respectively. These amounts have been excluded from capital expenditures in the accompanying Consolidated Statements of Cash Flows. There are no material non-cash amounts included in interest expense for any period presented.

There is \$15.7 million of cash overdrafts included in accounts payable as of December 31, 2023. There were no cash overdrafts included in accounts payable as of December 31, 2022.

From time to time throughout the year, we invest excess cash in money market funds directly with major commercial banks. We closely monitor the creditworthiness of the institutions with which we invest our overnight funds. In 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.



## 10. Other Income/(Expense) -- Net

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

	For the Years Ended December 31,		
	2023	2022	2021
Market value gains/(losses) related to deferred compensation trusts	\$ 6,404	\$ (9,970)	\$ 8,310
Interest income	6,270	355	377
Other	232	382	457
Total other income/(expense)	<u>\$ 12,906</u>	<u>\$ (9,233)</u>	<u>\$ 9,144</u>

The market value gain or loss relates to realized and unrealized activity on the assets in the deferred compensation trust. There is an offsetting amount in selling, general and administrative expense to reflect the corresponding increase or decrease in the liability.

## 11. Income Taxes

The provision for income taxes comprises the following (in thousands):

	For the Years Ended December 31,		
	2023	2022	2021
Current			
U.S. federal	\$ 75,333	\$ 52,910	\$ 64,620
U.S. state and local	9,983	11,813	14,233
Foreign	569	505	511
Deferred			
U.S. federal, state and local	(8,029)	14,821	2,358
Foreign	2	6	42
Total	<u>\$ 77,858</u>	<u>\$ 80,055</u>	<u>\$ 81,764</u>

A summary of the temporary differences that give rise to deferred tax assets/ (liabilities) follows (in thousands):

	December 31,	
	2023	2022
Accrued liabilities	\$ 39,436	\$ 38,620
Lease liabilities	34,028	39,057
Stock compensation expense	9,023	9,102
Implicit price concessions	7,294	7,572
State net operating loss carryforwards	1,652	1,443
Other	1,259	1,330
Deferred income tax assets	<u>92,692</u>	<u>97,124</u>
Amortization of intangible assets	(40,747)	(43,205)
Accelerated tax depreciation	(32,411)	(36,519)
Right of use lease assets	(30,891)	(35,514)
Deposit with OAS	(11,413)	(12,769)
Currents assets	(4,272)	(5,064)
State income taxes	(2,552)	(2,634)
Market valuation of investments	(600)	102
Other	(127)	(134)
Deferred income tax liabilities	<u>(123,013)</u>	<u>(135,737)</u>
Net deferred income tax liabilities	<u>\$ (30,321)</u>	<u>\$ (38,613)</u>

## Chemed Corporation and Subsidiary Companies

At December 31, 2023 and 2022, state net operating loss carryforwards were \$36.0 million and \$41.9 million, respectively. These net operating losses will expire, in varying amounts, between 2024 and 2043. Based on our history of operating earnings, we have determined that our operating income will, more likely than not, be sufficient to ensure realization of our deferred income tax assets.

A reconciliation of the beginning and ending of year amount of our unrecognized tax benefit is as follows (in thousands):

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Balance at January 1,	\$ 1,313	\$ 1,379	\$ 1,304
Decrease due to expiration of statute of limitations	(355)	(422)	(258)
Unrecognized tax benefits due to positions taken in current year	263	356	333
Balance at December 31,	<u>\$ 1,221</u>	<u>\$ 1,313</u>	<u>\$ 1,379</u>

We file tax returns in the U.S. federal jurisdiction and various states. The years ended December 31, 2020 and forward remain open for review for federal income tax purposes. The earliest open year relating to any of our major state jurisdictions is the fiscal year ended December 31, 2018. During the next twelve months, we do not anticipate a material net change in unrecognized tax benefits.

We classify interest related to our accrual for uncertain tax positions in separate interest accounts. As of December 31, 2023, and 2022, we have approximately \$145,000 and \$112,000, respectively, accrued in interest payable related to uncertain tax positions. These accruals are included in other current liabilities in the accompanying consolidated balance sheet. Net interest expense related to uncertain tax positions included in interest expense in the accompanying consolidated statement of income is not material.

The difference between the actual income tax provision for continuing operations and the income tax provision calculated at the statutory U.S. federal tax rate is explained as follows (in thousands):

	<u>For the Years Ended December 31,</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Income tax provision calculated using the statutory rate of 21%	\$ 73,577	\$ 69,233	\$ 73,566
State and local income taxes, less federal income tax effect	2,306	10,207	10,025
Nondeductible expenses	6,600	6,958	7,443
Excess stock compensation tax benefits	(4,330)	(5,928)	(9,884)
Other--net	(295)	(415)	614
Income tax provision	<u>\$ 77,858</u>	<u>\$ 80,055</u>	<u>\$ 81,764</u>
Effective tax rate	<u>22.2 %</u>	<u>24.3 %</u>	<u>23.3 %</u>

Summarized below are the total amounts of income taxes paid during the years ended December 31 (in thousands):

<b>2023</b>	<b>\$</b>	<b>73,876</b>
2022		65,894
2021		99,430

Provision has not been made for additional taxes on \$35.1 million of undistributed earnings of our domestic subsidiaries. Should we elect to sell our interest in these businesses rather than to affect a tax-free liquidation, additional taxes amounting to approximately \$8.0 million would be incurred based on current income tax rates.

## 12. Other Assets

Other assets comprise of the following (in thousands):

	December 31,	
	2023	2022
Deposit with OAS (Note 18)	\$ 46,968	\$ 50,274
Cash surrender value life insurance	3,651	3,636
Noncurrent advances and deposits	2,139	2,368
Deferred debt costs (Note 3)	1,197	1,703
Other	1,663	1,826
	<u>\$ 55,618</u>	<u>\$ 59,807</u>

## 13. Properties and Equipment

A summary of properties and equipment follows (in thousands):

	December 31,	
	2023	2022
Land	\$ 14,356	\$ 11,862
Buildings and building improvements	130,695	123,845
Transportation equipment	89,910	79,810
Machinery and equipment	164,249	154,603
Computer software	72,646	69,283
Furniture and fixtures	78,068	76,042
Projects under development	8,788	20,189
Total properties and equipment	<u>558,712</u>	<u>535,634</u>
Less accumulated depreciation	<u>(354,872)</u>	<u>(335,920)</u>
Net properties and equipment	<u>\$ 203,840</u>	<u>\$ 199,714</u>

The net book value of computer software at December 31, 2023 and 2022, was \$8.0 million and \$8.9 million, respectively. Depreciation expense for computer software was \$4.5 million, \$5.5 million and \$5.8 million for the years ended December 31, 2023, 2022 and 2021, respectively.

## 14. 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 IPUs and/or contract beds within hospitals. Roto-Rooter has leased office space.

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

	December 31,	
	2023	2022
<b><u>Assets</u></b>		
Operating lease assets	\$ 126,387	\$ 135,662
<b><u>Liabilities</u></b>		
Current operating leases	38,635	38,996
Noncurrent operating leases	100,776	110,513
Total operating lease liabilities	<u>\$ 139,411</u>	<u>\$ 149,509</u>

The components of lease expense were as follows:

	December 31,	
	2023	2022
<b>Lease Expense (a)</b>		
Operating lease expense	\$ 59,769	\$ 59,530
Sublease income	(93)	(181)
Net lease expense	<u>\$ 59,676</u>	<u>\$ 59,349</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:

	December 31,	
	2023	2022
<b>Cash paid for amounts included in the measurement of lease liabilities</b>		
Operating cash flows from leases	\$ 49,777	\$ 49,571

<b>Leased assets obtained in exchange for new operating lease liabilities</b>	\$ 37,111	\$ 57,551
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**Weighted Average Remaining Lease Term**

Operating leases	4.32 yrs
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**Weighted Average Discount Rate**

Operating leases	3.09%
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**Maturity of Operating Lease Liabilities (in thousands)**

2024	\$ 44,928
2025	37,248
2026	28,897
2027	16,525
2028	11,285
Thereafter	10,597
Total lease payments	<u>\$ 149,480</u>
Less: interest	(10,069)
Total liability recognized on the balance sheet	<u>\$ 139,411</u>

For leases commencing prior to 2019, minimum rental payments exclude payments to landlords for real estate taxes and common area maintenance. Operating lease payments include \$3.8 million related to extended lease terms that are reasonably certain of being exercised and exclude \$740,000 of lease payments for leases signed but not yet commenced.

**15. Retirement Plans**

Retirement obligations under various plans cover substantially all full-time employees who meet age and/or service eligibility requirements. All plans providing retirement benefits to our employees are defined contribution plans. Expenses for our retirement and profit-sharing plans, excess benefit plans and other similar plans are as follows (in thousands):

	For the Years Ended December 31,		
	2023	2022	2021
\$	26,475	\$ 11,533	\$ 28,554

These expenses include the impact of market gains and losses on assets held in deferred compensation plans.

Trust assets invested in shares of our stock are included in treasury stock, and the corresponding liability is included in a separate component of stockholders' equity. At December 31, 2023, these trusts held 54,833 shares at historical average cost of \$2.1 million (2022 – 63,032 shares or \$2.2 million).

We have excess benefit plans for key employees whose participation in the qualified plans is limited by U.S. Employee Retirement Income Security Act requirements. Benefits are determined based on theoretical participation in the qualified plans. Benefits are only invested in mutual funds, and participants are not permitted to diversify accumulated benefits in shares of our capital stock.

## 16. Earnings Per Share

The computation of earnings per share follows (in thousands, except per share data):

For the Years Ended December 31,	Net Income	Shares	Earnings per Share
<b>2023</b>			
Earnings	\$ 272,509	15,050	\$ <u>18.11</u>
Dilutive stock options	-	103	
Nonvested stock awards	-	47	
<b>Diluted earnings</b>	<b>\$ <u>272,509</u></b>	<b><u>15,200</u></b>	<b>\$ <u>17.93</u></b>
<b>2022</b>			
Earnings	\$ 249,624	14,929	\$ <u>16.72</u>
Dilutive stock options	-	130	
Nonvested stock awards	-	40	
<b>Diluted earnings</b>	<b>\$ <u>249,624</u></b>	<b><u>15,099</u></b>	<b>\$ <u>16.53</u></b>
<b>2021</b>			
Earnings	\$ 268,550	15,671	\$ <u>17.14</u>
Dilutive stock options	-	221	
Nonvested stock awards	-	46	
<b>Diluted earnings</b>	<b>\$ <u>268,550</u></b>	<b><u>15,938</u></b>	<b>\$ <u>16.85</u></b>

During 2023, 601,000 stock options were excluded from the computation of diluted earnings per share as their exercise prices were greater than the average market price during most of the year. During 2022, 891,000 stock options were excluded. During 2021, 617,000 stock options were excluded.

## 17. 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 December 31, 2023 (in thousands):

	Fair Value Measure			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments of deferred compensation plans held in trust	\$ 106,126	\$ 106,126	\$ -	\$ -
Cash equivalents	257,343	257,343	-	-

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

	Fair Value Measure			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments of deferred compensation plans held in trust	\$ 93,196	\$ 93,196	\$ -	\$ -
Cash equivalents	101	101	-	-
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 3, our outstanding long-term debt and current portion of long-term debt have floating interest rates that are 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 and current portion of long-term debt approximate the carrying value.

## 18. 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 \$3.34 million of the amount deposited and continues to appeal the remaining claims through the Office of Medicare Hearings and Appeals process. The amount deposited has been recorded as an “other long-term asset” in the consolidated balance sheets, as detailed in Note 12.

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.

## 19. Capital Stock Transactions

We repurchased the following capital stock:

	<b>For the Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Total cost of repurchased shares (in thousands):	\$ 73,813	\$ 114,074	\$ 576,483
Shares repurchased	132,969	232,500	1,195,529
Weighted average price per share	\$ 555.12	\$ 490.64	\$ 482.20

In November 2023, the Board of Directors authorized \$300.0 million for additional stock repurchase under the February 2011 repurchase program. In May and November 2021, the Board of Directors authorized a total of \$600.0 million for additional stock repurchase under the February 2011 repurchase program. We currently have \$314.1 million of authorization remaining under this share purchase plan.

## 20. Other Operating Expenses

	<b>December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Litigation settlements	\$ 2,050	\$ 4,000	\$ -
Loss/(gain) on disposal of property and equipment	211	(309)	987
Total other operating expenses	<u>\$ 2,261</u>	<u>\$ 3,691</u>	<u>\$ 987</u>

## 21. Other Current Liabilities

	December 31,	
	2023	2022
Medicare cap	\$ 13,245	\$ 14,380
Retention bonus	8,901	19,634
Accrued advertising	3,971	2,516
All other	23,071	24,474
	<u>\$ 49,188</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.

## 22. Recent Accounting Standards

In November 2023, the FASB issued Accounting Standards Update “ASU 2023-07 – Reportable Segments”. The guidance provides enhanced disclosures about significant segment expenses. The purpose of the amendment is to provide investors with a better understanding of an entity’s overall performance and assess potential future cash flows. The guidance is effective for fiscal periods beginning after December 31, 2023, and interim periods within fiscal years beginning after December 31, 2024. The Company is currently analyzing the impact of the ASU on the current footnote disclosures.

In December 2023, the FASB issued Accounting Standards Update “ASU 2023-09 – Income Tax Disclosure”. The guidance provides increased transparency related to tax risk and tax planning through (1) disclosure in specific categories in the rate reconciliation and (2) provide additional information for reconciling items when a quantitative threshold is met. The guidance is effective for fiscal periods beginning after December 31, 2024. The Company is currently analyzing the impact of the ASU on the current footnote disclosures.



**CHEMED CORPORATION AND SUBSIDIARY COMPANIES**  
**UNAUDITED CONSOLIDATING STATEMENTS OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**  
(in thousands)(unaudited)

	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
<b>2023</b>				
Service revenues and sales	\$ 1,315,065	949,352	-	\$ 2,264,417
Cost of services provided and goods sold	1,017,623	447,979	-	1,465,602
Selling, general and administrative expenses	93,296	231,587	70,237	395,120
Depreciation	19,959	30,790	53	50,802
Amortization	104	9,959	-	10,063
Other operating expenses/(income)	(12)	2,273	-	2,261
Total costs and expenses	1,130,970	722,588	70,290	1,923,848
Income/(loss) from operations	184,095	226,764	(70,290)	340,569
Interest expense	(180)	(442)	(2,486)	(3,108)
Intercompany interest income/(expense)	19,400	11,918	(31,318)	-
Other income—net	1,309	126	11,471	12,906
Income/(loss) before income taxes (a)	204,624	238,366	(92,623)	350,367
Income taxes	(46,115)	(50,125)	18,382	(77,858)
Net income/(loss) (a)	\$ 158,509	\$ 188,241	\$ (74,241)	\$ 272,509

(a) The following amounts are included in income from continuing operations (in thousands):

	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
<b>Pretax benefit/(cost):</b>				
Stock option expense	\$ -	-	(30,082)	\$ (30,082)
Long-term incentive compensation	-	-	(11,689)	(11,689)
Amortization of reacquired franchise agreements	-	(9,408)	-	(9,408)
Litigation settlements	-	(2,056)	-	(2,056)
Total	\$ -	\$ (11,464)	\$ (41,771)	\$ (53,235)

	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
<b>After-tax benefit/(cost):</b>				
Stock option expense	\$ -	-	(25,405)	\$ (25,405)
Long-term incentive compensation	-	-	(10,379)	(10,379)
Amortization of reacquired franchise agreements	-	(7,216)	-	(7,216)
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	-	-	4,330	4,330
Total	\$ 1,772	\$ (5,234)	\$ (32,544)	\$ (36,006)

Chemed Corporation and Subsidiary Companies

CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
UNAUDITED CONSOLIDATING STATEMENTS OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2022  
(in thousands)(unaudited)

2022	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
Service revenues and sales	\$ 1,201,564	\$ 933,399	\$ -	\$ 2,134,963
Cost of services provided and goods sold	931,861	438,016	-	1,369,877
Selling, general and administrative expenses	89,187	222,257	47,283	358,727
Depreciation	21,955	27,075	72	49,102
Amortization	101	9,969	-	10,070
Other operating expenses	3,337	354	-	3,691
Total costs and expenses	<u>1,046,441</u>	<u>697,671</u>	<u>47,355</u>	<u>1,791,467</u>
Income/(loss) from operations	155,123	235,728	(47,355)	343,496
Interest expense	(172)	(396)	(4,016)	(4,584)
Intercompany interest income/(expense)	18,901	9,345	(28,246)	-
Other (expense)/income—net	600	138	(9,971)	(9,233)
Income/(loss) before income taxes (a)	174,452	244,815	(89,588)	329,679
Income taxes	(43,000)	(58,695)	21,640	(80,055)
Net income/(loss) (a)	<u>\$ 131,452</u>	<u>\$ 186,120</u>	<u>\$ (67,948)</u>	<u>\$ 249,624</u>

(a) The following amounts are included in income from continuing operations (in thousands):

	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	\$ -	\$ -	\$ (26,254)	\$ (26,254)
Amortization of reacquired franchise agreements	-	(9,408)	-	(9,408)
Long-term incentive compensation	-	-	(7,801)	(7,801)
Litigation settlements	(4,000)	-	-	(4,000)
Direct costs related to Covid-19	(310)	(988)	(89)	(1,387)
Medicare cap sequestration adjustment	(138)	-	-	(138)
Total	<u>\$ (4,448)</u>	<u>\$ (10,396)</u>	<u>\$ (34,144)</u>	<u>\$ (48,988)</u>

	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	\$ -	\$ -	\$ (22,028)	\$ (22,028)
Amortization of reacquired franchise agreements	-	(6,915)	-	(6,915)
Long-term incentive compensation	-	-	(6,858)	(6,858)
Excess tax benefits on stock compensation	-	-	5,928	5,928
Litigation settlements	(2,984)	-	-	(2,984)
Direct costs related to Covid-19	(231)	(726)	(68)	(1,025)
Medicare cap sequestration adjustment	(103)	-	-	(103)
Total	<u>\$ (3,318)</u>	<u>\$ (7,641)</u>	<u>\$ (23,026)</u>	<u>\$ (33,985)</u>

Chemed Corporation and Subsidiary Companies

CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
UNAUDITED CONSOLIDATING STATEMENTS OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2021  
(in thousands)(unaudited)

2021	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
Service revenues and sales	\$ 1,261,246	\$ 878,015	\$ -	\$ 2,139,261
Cost of services provided and goods sold	953,420	416,038	-	1,369,458
Selling, general and administrative expenses	87,585	215,036	64,106	366,727
Depreciation	23,114	25,816	81	49,011
Amortization	71	9,969	-	10,040
Other operating expenses	876	111	-	987
Total costs and expenses	<u>1,065,066</u>	<u>666,970</u>	<u>64,187</u>	<u>1,796,223</u>
Income/(loss) from operations	196,180	211,045	(64,187)	343,038
Interest expense	(160)	(595)	(1,113)	(1,868)
Intercompany interest income/(expense)	18,125	7,180	(25,305)	-
Other income—net	712	123	8,309	9,144
Income/(loss) before income taxes (a)	214,857	217,753	(82,296)	350,314
Income taxes	(52,426)	(51,420)	22,082	(81,764)
Net income/(loss) (a)	<u>\$ 162,431</u>	<u>\$ 166,333</u>	<u>\$ (60,214)</u>	<u>\$ 268,550</u>

(a) The following amounts are included in income from continuing operations (in thousands):

	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
Pretax benefit/(cost):				
Stock option expense	\$ -	\$ -	\$ (22,502)	\$ (22,502)
Direct costs related to COVID-19	(16,297)	(2,434)	(38)	(18,769)
Amortization of reacquired franchise agreements	-	(9,408)	-	(9,408)
Long-term incentive compensation	-	-	(9,167)	(9,167)
Facility relocation expenses	(1,855)	-	-	(1,855)
Litigation settlements	-	98	-	98
Other	-	-	(218)	(218)
Total	<u>\$ (18,152)</u>	<u>\$ (11,744)</u>	<u>\$ (31,925)</u>	<u>\$ (61,821)</u>

	VITAS	Roto- Rooter	Corporate	Chemed Consolidated
After-tax benefit/(cost):				
Stock option expense	\$ -	\$ -	\$ (18,879)	\$ (18,879)
Direct costs related to COVID-19	(12,157)	(1,789)	(29)	(13,975)
Excess tax benefits on stock compensation	-	-	9,884	9,884
Long-term incentive compensation	-	-	(8,094)	(8,094)
Amortization of reacquired franchise agreements	-	(6,915)	-	(6,915)
Facility relocation expenses	(1,384)	-	-	(1,384)
Litigation settlements	-	72	-	72
Other	-	-	(166)	(166)
Total	<u>\$ (13,541)</u>	<u>\$ (8,632)</u>	<u>\$ (17,284)</u>	<u>\$ (39,457)</u>

## 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 (“VITAS”) and Roto-Rooter Group, Inc. (“Roto-Rooter”). VITAS focuses on hospice care that helps make terminally ill patients' final days as comfortable as possible. Through its team 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 is 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 or no exposure related to customers, vendors or employees in other regions of the world.

The following is a summary of the key operating results for the years ended December 31, 2023, 2022 and 2021 (in thousands except percentages and per share amounts):

	<u>2023</u>		<u>2022</u>		<u>2021</u>
Consolidated service revenues and sales	\$ 2,264,417	\$	2,134,963	\$	2,139,261
Consolidated net income	\$ 272,509	\$	249,624	\$	268,550
Diluted EPS	\$ 17.93	\$	16.53	\$	16.85
Adjusted net income	\$ 308,515	\$	283,609	\$	308,007
Adjusted diluted EPS	\$ 20.30	\$	18.78	\$	19.33
Adjusted EBITDA	\$ 451,897	\$	432,660	\$	461,414
Adjusted EBITDA as a % of revenue	20.0 %		20.3 %		21.6 %

Adjusted net income, adjusted diluted EPS, earnings before interest, taxes and depreciation and amortization (“EBITDA”) and Adjusted EBITDA are not measures derived in accordance with GAAP. We use Adjusted EPS as a measure of earnings for certain long-term incentive awards. We use adjusted EBITDA to determine compliance with certain debt covenants. We provide non-GAAP measures to help readers evaluate our operating results and 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. Reconciliations of our non-GAAP measures are presented in tables following the Critical Accounting Policies section.

## 2023 versus 2022

The increase in consolidated service revenues and sales from 2023 to 2022 was a result of a 9.4% increase at VITAS and a 1.7% increase at Roto-Rooter. The increase in service revenues at Roto-Rooter was driven 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 7.4% increase in days-of-care, and a geographically weighted average Medicare reimbursement rate increase of approximately 2.4%, partially offset by 50-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 for the year when compared to prior year revenue and level-of-care mix.

The pandemic created a significant shortage of licensed healthcare workers industry wide. VITAS was not 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 1<sup>st</sup> 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 \$40.5 million has been accrued since the start of the program. Payments totaling \$31.6 million have been made from July 2023 to December 2023. The remaining accrued amount will be paid over the following three quarters.

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.

During the period from May 1, 2020 through March 31, 2022, the 2% Medicare sequestration reimbursement cut was suspended. For the year ended December 31, 2022, approximately \$8.6 million, was recognized as revenue due to the suspension of sequestration. Sequestration was phased back into place at 1% from April 1, 2022 to June 30, 2022 and the full 2% thereafter.

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

### **2022 versus 2021**

The decrease in consolidated service revenues and sales from 2022 to 2021 was a result of a 4.7% decrease at VITAS offset by a 6.3% increase at Roto-Rooter. The increase in service revenues at Roto-Rooter was driven by an increase in all major service lines. The decrease in service revenues at VITAS is comprised primarily of a 3.8% decrease in days-of-care, a 1.6% decrease in acuity mix shift offset by a 0.8% increase in geographically weighted reimbursement rates. Reimbursement rates in the year were impacted as a result of CMS reimplementing the 2% sequestration cut that was suspended at the start of the COVID-19 pandemic. The combination of an increase in Medicare cap and other contra revenue changes negatively impacted revenue growth by approximately 10 basis points.

The pandemic has 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 1<sup>st</sup> 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. The Company accrued \$19.6 million as of December 31, 2022 related to this retention bonus program.

During the period from May 1, 2020 through March 31, 2022, the 2% Medicare sequestration reimbursement cut was suspended. For the years ended December 31, 2022 and 2021, approximately \$8.6 million and \$23.9 million respectively, was recognized as revenue due to the suspension of sequestration. Sequestration was phased back into place at 1% from April 1, 2022 to June 30, 2022 and the full 2% thereafter.

We are closely monitoring the impact of the pandemic on all aspects of our business including impacts to employees, customers, patients, suppliers and vendors. The length and severity of the pandemic, coupled with related governmental actions including relief acts and actions relating to our workforce at federal, state and local levels, and underlying economic disruption will determine the ultimate short-term and long-term impact to our business operations and financial results. We are unable to predict the myriad of possible issues that could arise or the ultimate effect to our businesses as a result of the unknown short, medium and long-term impacts that the pandemic will have on the United States economy and society as a whole.

Chemed and its subsidiaries had deferred \$36.4 million of certain employer payroll taxes as permitted by the CARES Act during 2020. \$18.2 million was paid during 2021 and the remaining \$18.2 million was paid in 2022.

### **Impact of Current Market Conditions**

VITAS 2024 revenue, prior to Medicare Cap, is estimated to increase 9.0% to 9.8% when compared to 2023. ADC is estimated to increase 6.5% to 7.0%. Full year adjusted EBITDA margin, prior to Medicare Cap, is estimated to be 17.8% to 18.3%. We are currently estimating \$9.5 million for Medicare Cap billing limitations in calendar year 2024.

Roto-Rooter is forecasted to achieve full-year 2024 revenue growth of 3.5% to 4.0%. Roto-Rooter's adjusted EBITDA margin for 2024 is expected to be 28.7% to 29.1%.

Based upon the above, full-year 2024 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 \$23.30 to \$23.65.

The 2024 guidance assumes an effective corporate tax rate on adjusted earnings of 25.2% and a diluted share count of 15.2 million shares. Chemed's 2023 adjusted earnings per diluted share was \$20.30, including \$1.04 per share for costs associated with the 2023 portion of the Retention Program.

*LIQUIDITY AND CAPITAL RESOURCES*

Significant factors affecting our cash flows during 2023 and financial position at December 31, 2023, include the following:

- Our operations generated cash of \$330.3 million.
- We repurchased \$67.7 million of our stock.
- We spent \$56.9 million on capital expenditures.
- We paid \$23.5 million in dividends.
- We paid off \$97.5 million of debt from our existing credit agreement.
- A \$42.1 million increase in accounts receivable due to timing of receipts.
- A \$12.9 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 \$22.2 million increase in accounts payable due to timing of payments and an increase in cash overdrafts of \$15.7 million.
- A \$11.8 million decrease in other current liabilities mainly due to payments of the retention bonus program implemented at VITAS.

The Company had no debt outstanding at December 31, 2023. The Company’s ratio of total debt to total capital was 10.9% at December 31, 2022. Our current ratio was 1.6 and 0.92 at December 31, 2023 and 2022, respectively.

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 December 31, 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 plus a regularly scheduled payment of \$1.25 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.

The 2022 Credit Facilities contains the following quarterly financial covenants effective as of December 31, 2023:

Description	Requirement	Chemed December 31, 2023
Leverage Ratio (Consolidated Indebtedness/Consolidated Adj. EBITDA)	< 3.50 to 1.00	<b>(0.06) to 1.00</b>
Interest Coverage Ratio (Consolidated Adj. EBITDA/Consolidated Interest Expense)	> 3.00 to 1.00	<b>151.10 to 1.00</b>

We forecast to be in compliance with all debt covenants through fiscal 2024.

We have issued \$45.2 million in standby letters of credit as of December 31, 2023, mainly for insurance purposes. Issued letters of credit reduce our available credit under the revolving credit agreement. As of December 31, 2023, we have approximately \$404.8 million of unused lines of credit available and eligible to be drawn down under our revolving credit facility. We believe our cash flow from operating activities and our unused eligible lines of credit are sufficient to fund our obligations and operate our business in the near and long term. We continually evaluate cash utilization alternatives, including share repurchase, debt repayment, acquisitions, and increased dividends to determine the most beneficial use of available capital resources.

**CASH FLOW**

Our cash flows for 2023, 2022 and 2021 are summarized as follows (in millions):

	<b>For the Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Net cash provided by operating activities	\$ 330.3	\$ 309.9	\$ 308.6
Capital expenditures	<b>(56.9)</b>	(57.3)	(58.7)
Net cash provided for operating activities after capital expenditures	<b>273.4</b>	252.6	249.9
Purchase of treasury stock in the open market	<b>(67.7)</b>	(114.5)	(576.0)
Net (decrease)/increase in long-term debt	<b>(97.5)</b>	(87.5)	185.0
Proceeds from exercise of stock options	<b>102.2</b>	45.0	35.8
Dividends paid	<b>(23.5)</b>	(22.0)	(22.0)
Capital stock surrendered to pay taxes on			
on stock-based compensation	<b>(9.6)</b>	(15.6)	(15.1)
Change in cash overdraft payable	<b>15.7</b>	(11.9)	11.9
Business combinations	<b>(4.0)</b>	(3.5)	-
Other--net	<b>0.8</b>	(1.4)	0.7
Increase/(decrease) in cash and cash equivalents	<b>\$ 189.8</b>	\$ 41.2	\$ (129.8)

**2023 versus 2022**

Net cash provided by operating activities increased \$20.4 million from December 31, 2022 to December 31, 2023. The main drivers are an increase in earnings of \$22.9 million combined with an increase of \$22.9 million for deferred income taxes provision due to the impact of the effective state rate change and an accelerated deduction taken in 2022 for the OAS deposit, a decrease of \$35.8 million in cash outflows for other assets due to the OAS deposit recorded in 2022 offset by a reduction of \$16.2 million in other liabilities for payments made on the retention bonus program at VITAS. Additionally, significant changes in our accounts receivable balances are driven mainly 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 from hospice services every other Friday. The timing of year 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. The swing in accounts receivable reduced cash flow by \$39.1 million between 2023 and 2022.

In 2023, we repurchased 132,969 shares of Chemed capital stock at a weighted average price of \$555.12 per share. In 2022, we repurchased 232,500 shares of Chemed stock at a weighted average price of \$490.64 per share. Based on our current operations and our current sources of capital, we believe we have the ability to continue our current share repurchase program into the foreseeable future.

**2022 versus 2021**

Net cash provided by operating activities increased \$1.3 million from December 31, 2021 to December 31, 2022. The main drivers are a decrease in earnings of \$18.9 million combined with an increase of \$35.5 million in cash outflows for other assets due to the OAS deposit offset by a reduction of \$13.4 million in cash paid for litigation settlements and other working capital changes. Additionally, significant changes in our accounts receivable balances are driven mainly 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 from hospice services every other Friday. The timing of year 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. The swing in accounts receivable reduced cash flow by \$6.0 million between 2022 and 2021.

In 2022, we repurchased 232,500 shares of Chemed capital stock at a weighted average price of \$490.64 per share. In 2021, we repurchased 1,195,529 shares of Chemed stock at a weighted average price of \$482.20 per share. Based on our current operations and our current sources of capital, we believe we have the ability to continue our current share repurchase program into the foreseeable future.

*COMMITMENTS AND CONTINGENCIES*

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.

Please see Note 18 in the Notes to the Consolidated Financial Statements for a description of current material legal matters.

**CONTRACTUAL OBLIGATIONS**

The table below summarizes our debt and contractual obligations as of December 31, 2023 (in thousands):

	Total	Less than 1 year	1-3 Years	3-5 Years	After 5 Years
Lease liabilities	139,411	41,231	61,922	26,247	10,011
Purchase obligations (a)	64,034	64,034	-	-	-
Other long-term obligations (b)	114,961	2,723	5,446	2,723	104,069
Total contractual cash obligations	<u>\$ 318,406</u>	<u>\$ 107,988</u>	<u>\$ 67,368</u>	<u>\$ 28,970</u>	<u>\$ 114,080</u>

(a) Purchase obligations consist of accounts payable at December 31, 2023.

(b) Other long-term obligations comprise largely excess benefit obligations.



RESULTS OF OPERATIONS

**2023 Versus 2022 – Consolidated Results**

Set forth below are the year-to-year changes in the components of the statement of operations relating to income for 2023 versus 2022 (in thousands, except percentages):

	<u>2023</u>	<u>2022</u>	<u>Increase/(Decrease) Percent</u>
Service revenues and sales			
VITAS	\$ 1,315,065	\$ 1,201,564	9.4
Roto-Rooter	949,352	933,399	1.7
Total	<u>2,264,417</u>	<u>2,134,963</u>	6.1
Cost of services provided and goods sold	1,465,602	1,369,877	7.0
Selling, general and administrative expenses	395,120	358,727	10.1
Depreciation	50,802	49,102	3.5
Amortization	10,063	10,070	(0.1)
Other operating expenses	2,261	3,691	(38.7)
Total cost and expenses	<u>1,923,848</u>	<u>1,791,467</u>	7.4
Income from operations	340,569	343,496	(0.9)
Interest expense	(3,108)	(4,584)	32.2
Other income/(expense) - net	12,906	(9,233)	(239.8)
Income before income taxes	350,367	329,679	6.3
Income taxes	(77,858)	(80,055)	2.7
Net income	<u>\$ 272,509</u>	<u>\$ 249,624</u>	9.2

The VITAS segment revenue is as follows (dollars in thousands):

	<u>2023</u>	<u>2022</u>	<u>Increase/(Decrease) Percent</u>
Routine homecare	\$ 1,136,437	\$ 1,039,211	9.4
Continuous care	85,674	77,000	11.3
Inpatient care	112,419	102,361	9.8
Other	13,582	12,438	9.2
Medicare cap adjustment	(8,000)	(7,868)	1.7
Implicit price concessions	(14,196)	(12,004)	18.3
Room and board, net	(10,851)	(9,574)	13.3
Net revenue	<u>\$ 1,315,065</u>	<u>\$ 1,201,564</u>	9.4

Days of care are as follows:

	<u>Days of Care</u>		<u>Increase/(Decrease) Percent</u>
	<u>2023</u>	<u>2022</u>	
Routine homecare	5,457,963	5,086,021	7.3
Nursing home	1,118,728	1,036,816	7.9
Respite	26,605	23,905	11.3
Subtotal routine homecare and respite	<u>6,603,296</u>	<u>6,146,742</u>	7.4
Continuous care	101,905	81,890	24.4
General inpatient	88,631	95,431	(7.1)
Total days of care	<u>6,793,832</u>	<u>6,324,063</u>	7.4

## Chemed Corporation and Subsidiary Companies

The increase in service revenues at VITAS is comprised primarily of a 7.4% increase in days-of-care, and a geographically weighted average Medicare reimbursement rate increase of approximately 2.4%, partially offset by 50-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 for the year when compared to prior year revenue and level-of-care mix.

The Roto-Rooter segment revenue is as follows (dollars in thousands):

	2023	2022	<u>Increase/(Decrease)</u> <u>Percent</u>
Drain cleaning	\$ 249,069	\$ 261,606	(4.8)
Plumbing	196,695	194,274	1.2
Excavation	233,196	222,945	4.6
Other	936	708	32.2
Subtotal - short term core	<u>679,896</u>	<u>679,533</u>	0.1
Water restoration	185,550	169,434	9.5
Independent contractors	85,749	84,442	1.5
Franchisee fees	5,658	5,591	1.2
Other	19,083	16,859	13.2
Gross revenue	<u>975,936</u>	<u>955,859</u>	2.1
Implicit price concessions and credit memos	<u>(26,584)</u>	<u>(22,460)</u>	18.4
Net revenue	<u>\$ 949,352</u>	<u>\$ 933,399</u>	1.7

The increase in plumbing revenues for 2023 versus 2022 is attributable to an 8.6% increase in price and service mix shift offset by a 7.4% decrease in job count. The decrease in drain cleaning revenues for 2023 versus 2022 is attributable to a 11.2% decrease in job count offset by a 6.4% increase in price and service mix shift. Excavation and water restoration jobs are generally sold as a result of initial calls from customers regarding drain cleaning issues. As a result, the 4.6% increase in excavation revenue and 9.5% increase in water restoration revenue are mainly a function of the size and severity of drain cleaning issues we encounter on a yearly basis. As these services generally represent emergency level work, declines in the total volume of drain cleaning jobs may not necessarily result in a decline in the number of water restoration or excavation jobs. Contractor operations increased 1.5%.

The consolidated gross margin excluding depreciation was 35.3% in 2023 versus 35.8% in 2022. On a segment basis, VITAS' gross margin excluding depreciation was 22.6% in 2023 and 22.4% in 2022. Roto-Rooter's gross margin excluding depreciation was 52.8% in 2023 and 53.1% in 2022.

Selling, general and administrative expenses ("SG&A") for 2023 and 2022 comprise (in thousands):

	2023	2022
SG&A expenses before long-term incentive compensation, and the impact of market value adjustments related to deferred compensation trusts	\$ 377,027	\$ 360,896
Long-term incentive compensation	11,689	7,801
Impact of market value adjustments related to assets held in deferred compensation trusts	6,404	(9,970)
Total SG&A expenses	<u>\$ 395,120</u>	<u>\$ 358,727</u>

SG&A expenses before long-term incentive compensation and the impact of market value adjustments related to deferred compensation trusts for 2023 were up 4.5% when compared to 2022. This increase was mainly a result of the increase in selling expenses and normal salary increases.

Other operating expense for 2023 and 2022 comprise (in thousands):

	2023	2022
Litigation settlements	\$ 2,050	\$ 4,000
Loss/(gain) on disposal of property and equipment	211	(309)
Total other operating expenses	<u>\$ 2,261</u>	<u>\$ 3,691</u>

Chemed Corporation and Subsidiary Companies

Other income/(expense)-net for 2023 and 2022 comprise (in thousands):

	<u>2023</u>	<u>2022</u>
Market value adjustments related to deferred compensation trusts	\$ 6,404	\$ (9,970)
Interest income	6,270	355
Other	<u>232</u>	<u>382</u>
Total other income/(expense) - net	<u>\$ 12,906</u>	<u>\$ (9,233)</u>

Our effective tax rate reconciliation is as follows:

	<u>2023</u>	<u>2022</u>
Income tax provision calculated using the statutory rate	\$ 73,577	\$ 69,233
State and local income taxes, less federal income tax effect	2,306	10,207
Nondeductible expenses	6,600	6,958
Excess stock compensation tax benefits	(4,330)	(5,928)
Other--net	<u>(295)</u>	<u>(415)</u>
Income tax provision	<u>\$ 77,858</u>	<u>\$ 80,055</u>
Effective tax rate	<u>22.2 %</u>	<u>24.3 %</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 include the following after-tax adjustments that increased/(reduced) after-tax earnings (in thousands):

	<u>2023</u>	<u>2022</u>
VITAS		
Impact of deferred rate tax change	\$ 1,772	\$ -
Litigation settlements	-	(2,984)
Direct costs related to COVID-19	-	(231)
Medicare cap sequestration adjustment	-	(103)
Roto-Rooter		
Amortization of reacquired franchise agreements	(7,216)	(6,915)
Impact of deferred rate tax change	3,559	-
Litigation settlements	(1,577)	-
Direct costs related to COVID-19	-	(726)
Corporate		
Stock option expense	(25,405)	(22,028)
Long-term incentive compensation	(10,379)	(6,858)
Excess tax benefits on stock compensation	4,330	5,928
Impact of deferred rate tax change	(1,090)	-
Direct costs related to COVID-19	-	(68)
Total	<u>\$ (36,006)</u>	<u>\$ (33,985)</u>

**2023 Versus 2022– Segment Results**

Net income/(loss) for 2023 versus 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
VITAS	\$ 158,509	\$ 131,452
Roto-Rooter	188,241	186,120
Corporate	<u>(74,241)</u>	<u>(67,948)</u>
	<u>\$ 272,509</u>	<u>\$ 249,624</u>

VITAS' after-tax earnings increased due mainly to higher revenue. Additionally, VITAS had a \$3.0 million after-tax legal settlement expense in 2022 which did not recur in 2023 and \$1.8 million tax benefit related to the impact of the deferred rate tax change. After-tax earnings as a percent of revenue at VITAS in 2023 was 12.1% as compared to 10.9% in 2022.

Roto-Rooter's after-tax earnings as a percent of revenue at Roto-Rooter in 2023 was 19.8% as compared to 19.9% in 2022.

After-tax Corporate expenses for 2023 increased 9.3% when compared to 2022 due mainly to a \$3.4 million increase in after-tax stock option expense and an increase in after-tax long-term incentive compensation of \$3.5 million offset by a \$1.6 million decrease in excess tax benefits on stock compensation.

RESULTS OF OPERATIONS

**2022 Versus 2021 – Consolidated Results**

Set forth below are the year-to-year changes in the components of the statement of operations relating to income for 2022 versus 2021 (in thousands, except percentages):

	<u>2022</u>	<u>2021</u>	<u>Increase/(Decrease) Percent</u>
Service revenues and sales			
VITAS	\$ 1,201,564	\$ 1,261,246	(4.7)
Roto-Rooter	933,399	878,015	6.3
Total	<u>2,134,963</u>	<u>2,139,261</u>	(0.2)
Cost of services provided and goods sold	1,369,877	1,369,458	0.0
Selling, general and administrative expenses	358,727	366,727	(2.2)
Depreciation	49,102	49,011	0.2
Amortization	10,070	10,040	0.3
Other operating expenses	3,691	987	274.0
Total cost and expenses	<u>1,791,467</u>	<u>1,796,223</u>	(0.3)
Income from operations	343,496	343,038	0.1
Interest expense	(4,584)	(1,868)	(145.4)
Other (expense)/income - net	(9,233)	9,144	(201.0)
Income before income taxes	329,679	350,314	(5.9)
Income taxes	(80,055)	(81,764)	2.1
Net income	<u>\$ 249,624</u>	<u>\$ 268,550</u>	(7.0)

The VITAS segment revenue is as follows (dollars in thousands):

	<u>2022</u>	<u>2021</u>	<u>Increase/(Decrease) Percent</u>
Routine homecare	\$ 1,039,211	\$ 1,069,766	(2.9)
Continuous care	77,000	94,338	(18.4)
Inpatient care	102,361	113,187	(9.6)
Other	12,438	12,142	2.4
Medicare cap adjustment	(7,868)	(6,597)	19.3
Implicit price concessions	(12,004)	(11,530)	4.1
Room and board, net	(9,574)	(10,060)	(4.8)
Net revenue	<u>\$ 1,201,564</u>	<u>\$ 1,261,246</u>	(4.7)

Days of care are as follows:

	<u>Days of Care</u>		<u>Increase/(Decrease) Percent</u>
	<u>2022</u>	<u>2021</u>	
Routine homecare	5,086,021	5,347,170	(4.9)
Nursing home	1,036,816	993,322	4.4
Respite	23,905	21,403	11.7
Subtotal routine homecare and respite	<u>6,146,742</u>	<u>6,361,895</u>	(3.4)
Continuous care	81,890	101,539	(19.4)
General inpatient	95,431	107,685	(11.4)
Total days of care	<u>6,324,063</u>	<u>6,571,119</u>	(3.8)

## Chemed Corporation and Subsidiary Companies

The decrease in service revenues at VITAS is comprised primarily of a 3.8% decrease in days-of-care, a 1.6% decrease in acuity mix shift offset by a 0.8% increase in geographically weighted reimbursement rates. Reimbursement rates in the year were impacted as a result of CMS reimplementing the 2% sequestration cut that was suspended at the start of the pandemic. The combination of an increase in Medicare cap and other contra revenue changes negatively impacted revenue growth by approximately 10 basis points.

The Roto-Rooter segment revenue is as follows (dollars in thousands):

	<u>2022</u>	<u>2021</u>	<u>Increase/(Decrease) Percent</u>
Drain cleaning	\$ 261,606	\$ 254,773	2.7
Plumbing	194,274	176,051	10.4
Excavation	222,945	215,190	3.6
Other	708	1,138	(37.8)
Subtotal - short term core	<u>679,533</u>	<u>647,152</u>	5.0
Water restoration	169,434	153,115	10.7
Independent contractors	84,442	76,858	9.9
Franchisee fees	5,591	5,068	10.3
Other	16,859	15,576	8.2
Gross revenue	<u>955,859</u>	<u>897,769</u>	6.5
Implicit price concessions and credit memos	<u>(22,460)</u>	<u>(19,754)</u>	13.7
Net revenue	<u>\$ 933,399</u>	<u>\$ 878,015</u>	6.3

The increase in plumbing revenues for 2022 versus 2021 is attributable to a 12.4% increase in price and service mix shift offset by a 2.0% decrease in job count. The increase in drain cleaning revenues for 2022 versus 2021 is attributable to a 9.3% increase in price and service mix shift offset by a 6.6% decrease in job count. Excavation and water restoration jobs are generally sold as a result of initial calls from customers regarding drain cleaning issues. As a result, the 3.6% increase in excavation revenue and 10.7% increase in water restoration revenue are mainly a function of the number and size of drain cleaning issues we encounter on a yearly basis. Contractor operations increased 9.9%.

The consolidated gross margin excluding depreciation was 35.8% in 2022 versus 36.0% in 2021. On a segment basis, VITAS' gross margin excluding depreciation was 22.4% in 2022 and 24.4% in 2021. The decrease is related to reduced revenues and \$19.6 million in expense for the licensed healthcare work retention bonus program. Roto-Rooter's gross margin excluding depreciation was 53.1% in 2022 and 52.6% in 2021. The increase is primarily due to increased revenues.

Selling, general and administrative expenses ("SG&A") for 2022 and 2021 comprise (in thousands):

	<u>2022</u>	<u>2021</u>
SG&A expenses before long-term incentive compensation, and the impact of market value adjustments related to deferred compensation trusts	\$ 360,896	\$ 349,250
Impact of market value adjustments related to assets held in deferred compensation trusts	(9,970)	9,167
Long-term incentive compensation	7,801	8,310
Total SG&A expenses	<u>\$ 358,727</u>	<u>\$ 366,727</u>

SG&A expenses before long-term incentive compensation and the impact of market value adjustments related to deferred compensation trusts for 2022 were up 3.3% when compared to 2021. This increase was a result of the increase in variable selling and general administrative expenses at Roto-Rooter, mainly advertising, and overall inflation-related cost increases, including salary at both operating units.

Other operating (income)/expense for 2022 and 2021 comprise (in thousands):

	<u>2022</u>	<u>2021</u>
Litigation settlements	\$ 4,000	\$ -
(Gain)/Loss on disposal of property and equipment	(309)	987
Total other operating expenses	<u>\$ 3,691</u>	<u>\$ 987</u>

## Chemed Corporation and Subsidiary Companies

Other (expense)/income-net for 2022 and 2021 comprise (in thousands):

	<u>2022</u>	<u>2021</u>
Market value gains on assets held in deferred compensation trusts	\$ (9,970)	\$ 8,310
Interest income	355	377
Other	382	457
Total other (expense)/income	<u>\$ (9,233)</u>	<u>\$ 9,144</u>

Our effective tax rate reconciliation is as follows:

	<u>2022</u>	<u>2021</u>
Income tax provision calculated using the statutory rate	\$ 69,233	\$ 73,566
State and local income taxes, less federal income tax effect	10,207	10,025
Nondeductible expenses	6,958	7,443
Excess stock compensation tax benefits	(5,928)	(9,884)
Other--net	(415)	614
Income tax provision	<u>\$ 80,055</u>	<u>\$ 81,764</u>
Effective tax rate	<u>24.3 %</u>	<u>23.3</u>

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

	<u>2022</u>	<u>2021</u>
VITAS		
Litigation settlements	\$ (2,984)	\$ -
COVID-19 expense	(231)	(12,157)
Medicare cap sequestration adjustment	(103)	-
Facility relocation expenses	-	(1,384)
Roto-Rooter		
Amortization of reacquired franchise agreements	(6,915)	(6,915)
Direct costs related to COVID-19	(726)	(1,789)
Litigation settlements	-	72
Corporate		
Stock option expense	(22,028)	(18,879)
Long-term incentive compensation	(6,858)	(8,094)
Excess tax benefits on stock compensation	5,928	9,884
Direct costs related to COVID-19	(68)	(29)
Other	-	(166)
Total	<u>\$ (33,985)</u>	<u>\$ (39,457)</u>

### 2022 Versus 2021 – Segment Results

Net income/(loss) for 2022 versus 2021 (in thousand):

	<u>2022</u>	<u>2021</u>
VITAS	\$ 131,452	\$ 162,431
Roto-Rooter	186,120	166,333
Corporate	(67,948)	(60,214)
	<u>\$ 249,624</u>	<u>\$ 268,550</u>

VITAS' after-tax earnings decreased due to lower revenue, a \$14.6 million after-tax expense related to VITAS' licensed healthcare worker retention bonus program and a \$3.0 million after-tax legal settlement expense. After-tax earnings as a percent of revenue at VITAS in 2022 was 10.9% as compared to 12.9% in 2021.

Roto-Rooter's net income was impacted in 2022 compared to 2021 primarily by higher revenue and improved labor costs. After-tax earnings as a percent of revenue at Roto-Rooter in 2022 was 19.9% as compared to 18.9% in 2021.

After-tax Corporate expenses for 2022 increased 12.8% when compared to 2021 due mainly to a \$4.0 million decrease in excess tax benefits on stock compensation, a \$3.1 million increase in after-tax stock option expense offset by a decrease in after-tax long-term incentive compensation of \$1.2 million.



CRITICAL ACCOUNTING ESTIMATES

**VITAS Revenue Implicit Price Concessions**

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 government programs (Medicare and Medicaid) or commercial health insurers. Revenue is recorded at the government-mandated service level rate or the contractually agreed-upon service level rate, whichever is applicable for the patient being served. At the same time, a reduction in revenue is estimated and recorded for expected contractual adjustments. These contractual adjustments are referred to as “implicit price concessions”. Implicit price concessions at VITAS are considered critical accounting estimates as they involve a significant amount of judgment by management. Over 95% of VITAS’ revenue is from Medicare or Medicaid, resulting in the majority of implicit price concessions being related to Federal or state payors. The remainder of this discussion focuses on the process related to these Federal or state related implicit price concessions.

The laws and regulations governing hospice services are voluminous. Federal and state agencies, or their designated intermediaries, scrutinize hospice claims under various review initiatives to determine their validity and appropriateness. These reviews generally target specific categories of patients and are not statistically chosen. The Company has processes and procedures in place to help ensure compliance. The estimate of implicit price concessions is based on two main assumptions, as follows:

- There are a small percentage of claims that are rejected by the payor soon after billing. These claims generally contain a minor non-medical, documentation defect in the billing process. The estimated implicit price concession for this type of claim is based mainly on historical experience which is relatively consistent from year-to-year. The implicit price concession estimate relating to this assumption is not material.
- There are claims subject to the review process described above which are initially denied by the reviewer. There are many reasons that a claim may be denied including, but not limited to: defects in the non-medical documentation; a difference of opinion with respect to the medical condition of the patient; or a perceived lack of adequate medical documentation. Each denial is researched by a team of internal VITAS employees. There is a standard appeal process for any claim we believe was inappropriately denied. The appeal for these claims may take several months if not years to make it through the entire appeal process. The estimated implicit price concession for this type of claim is based on a number of key factors, including our historical success rate of appeal, settlement history for similar reviews, the types of reviews being conducted and the overall current review environment.

Our estimate currently assumes that we ultimately do not receive consideration for approximately 25% to 30% of claims currently selected for review or expected to be selected for review. If our current estimate changes by 1%, there would be a \$400,000 impact on our estimate of implicit price concessions.

Our estimates of implicit price concessions at VITAS are updated and reviewed quarterly based on the most recent facts available. Subsequent changes in facts and circumstances are recorded in the period they become known. There have been no changes to the assumptions that would significantly impact our estimate of implicit price concessions.

**Insurance Accruals**

For the Roto-Rooter segment and Chemed’s Corporate Office, we initially self-insure for all casualty insurance claims (workers’ compensation, auto liability and general liability). As a result, we closely monitor and frequently evaluate our historical claims experience to estimate the appropriate level of accrual for self-insured claims. Our third-party administrator (“TPA”) processes and reviews claims on a monthly basis. Currently, our exposure on any single claim is capped at \$750,000, due to stop loss insurance held with a commercial insurance carrier. In developing our estimates, we accumulate historical claims data for the previous 10 years to calculate loss development factors (“LDF”) by insurance coverage type. LDFs are applied to known claims to estimate the ultimate potential liability for known and unknown claims for each open policy year. LDFs are updated annually. Because this methodology relies heavily on historical claims data, the key risk is whether the historical claims are an accurate predictor of future claims exposure. The risk also exists that certain claims have been incurred and not reported on a timely basis. To mitigate these risks, in conjunction with our TPA, we closely monitor claims to ensure timely accumulation of data and compare claims trends with the industry experience of our TPA.

For the VITAS segment, we initially self-insure for workers’ compensation claims. Currently, VITAS’ exposure on any single claim is capped at \$1,000,000, due to stop loss insurance held with a commercial insurance carrier. For VITAS’ self-insurance accruals

for workers' compensation, the valuation methods used are similar to those used internally for our other business units. We are also insured for other risks with respect to professional liability with a deductible of \$1,000,000.

Our casualty insurance liabilities are recorded gross before any estimated recovery for amounts exceeding our stop loss limits. Estimated recoveries from insurance carriers are recorded as accounts receivable. Claims experience adjustments to our casualty and workers' compensation accrual for the years ended December 31, 2023, 2022 and 2021, were net pretax credits of (\$6,862,000), (\$5,790,000), and (\$6,332,000) respectively.

As an indication of the sensitivity of the accrued liability to reported claims, our analysis indicates that a 1% across-the-board increase or decrease in the amount of projected losses would increase or decrease the accrued insurance liability at December 31, 2023 by \$4.9 million or 8.3%. While the amount recorded represents our best estimate of the casualty and workers' compensation insurance liability, we have calculated, based on historical claims experience, the actual loss could reasonably be expected to increase or decrease by approximately \$500,000 as of December 31, 2023.

Chemed Corporation and Subsidiary Companies

**Chemed Corporation and Subsidiary Companies**  
**Unaudited Consolidating Summaries and Reconciliations of Adjusted EBITDA (in thousands)**

2023	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$ 158,509	\$ 188,241	\$ (74,241)	\$ 272,509
Add/(deduct):				
Interest expense	180	442	2,486	3,108
Income taxes	46,115	50,125	(18,382)	77,858
Depreciation	19,959	30,790	53	50,802
Amortization	104	9,959	-	10,063
EBITDA	<u>224,867</u>	<u>279,557</u>	<u>(90,084)</u>	<u>414,340</u>
Add/(deduct):				
Intercompany interest/(expense)	(19,400)	(11,918)	31,318	-
Interest income	(1,078)	(125)	(5,067)	(6,270)
Stock option expense	-	-	30,082	30,082
Long-term incentive compensation	-	-	11,689	11,689
Litigation settlement	-	2,056	-	2,056
Adjusted EBITDA	<u>\$ 204,389</u>	<u>\$ 269,570</u>	<u>\$ (22,062)</u>	<u>\$ 451,897</u>
2022	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$ 131,452	\$ 186,120	\$ (67,948)	\$ 249,624
Add/(deduct):				
Interest expense	172	396	4,016	4,584
Income taxes	43,000	58,695	(21,640)	80,055
Depreciation	21,955	27,075	72	49,102
Amortization	101	9,969	-	10,070
EBITDA	<u>196,680</u>	<u>282,255</u>	<u>(85,500)</u>	<u>393,435</u>
Add/(deduct):				
Intercompany interest/(expense)	(18,901)	(9,345)	28,246	-
Interest income	(218)	(138)	1	(355)
Stock option expense	-	-	26,254	26,254
Long-term incentive compensation	-	-	7,801	7,801
Litigation settlement	4,000	-	-	4,000
Direct costs related to COVID-19	310	988	89	1,387
Medicare cap sequestration adjustment	138	-	-	138
Adjusted EBITDA	<u>\$ 182,009</u>	<u>\$ 273,760</u>	<u>\$ (23,109)</u>	<u>\$ 432,660</u>
2021	VITAS	Roto-Rooter	Corporate	Chemed Consolidated
Net income/(loss)	\$ 162,431	\$ 166,333	\$ (60,214)	\$ 268,550
Add/(deduct):				
Interest expense	160	595	1,113	1,868
Income taxes	52,426	51,420	(22,082)	81,764
Depreciation	23,114	25,816	81	49,011
Amortization	71	9,969	-	10,040
EBITDA	<u>238,202</u>	<u>254,133</u>	<u>(81,102)</u>	<u>411,233</u>
Add/(deduct):				
Intercompany interest/(expense)	(18,125)	(7,180)	25,305	-
Interest income	(253)	(124)	-	(377)
Stock option expense	-	-	22,502	22,502
Direct costs related to COVID-19	16,296	2,435	38	18,769
Long-term incentive compensation	-	-	9,167	9,167
Litigation settlement	-	(98)	-	(98)
Medicare cap sequestration adjustment	-	-	218	218
Adjusted EBITDA	<u>\$ 236,120</u>	<u>\$ 249,166</u>	<u>\$ (23,872)</u>	<u>\$ 461,414</u>

**CHEMED CORPORATION AND SUBSIDIARY COMPANIES**  
**RECONCILIATION OF ADJUSTED NET INCOME**  
(in thousands, except per share data)(unaudited)

	For the Years Ended December 31,		
	2023	2022	2021
Net income as reported	\$ 272,509	\$ 249,624	\$ 268,550
Add/(deduct) pre-tax cost of:			
Stock option expense	30,082	26,254	22,502
Long-term incentive compensation	11,689	7,801	9,167
Amortization of reacquired franchise agreements	9,408	9,408	9,408
Litigation settlements	2,056	4,000	(98)
COVID-19 expenses	-	1,387	18,769
Medicare cap sequestration adjustment	-	138	-
Facility relocation expenses	-	-	1,855
Other	-	-	218
Add/(deduct) tax impacts:			
Tax impact of the above pre-tax adjustments (1)	(8,658)	(9,075)	(12,480)
Tax impact of deferred tax rate change	(4,241)	-	-
Excess tax benefits on stock compensation	(4,330)	(5,928)	(9,884)
Adjusted net income	\$ 308,515	\$ 283,609	\$ 308,007
 Diluted Earnings Per Share As Reported			
Net income	\$ 17.93	\$ 16.53	\$ 16.85
Average number of shares outstanding	15,200	15,099	15,938
 Adjusted Diluted Earnings Per Share			
Net income	\$ 20.30	\$ 18.78	\$ 19.33
Average number of shares outstanding	15,200	15,099	15,938

(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.

The "Footnotes to Financial Statements" are integral parts of this financial information.

CHEMED CORPORATION AND SUBSIDIARY COMPANIES  
OPERATING STATISTICS FOR VITAS SEGMENT (unaudited)

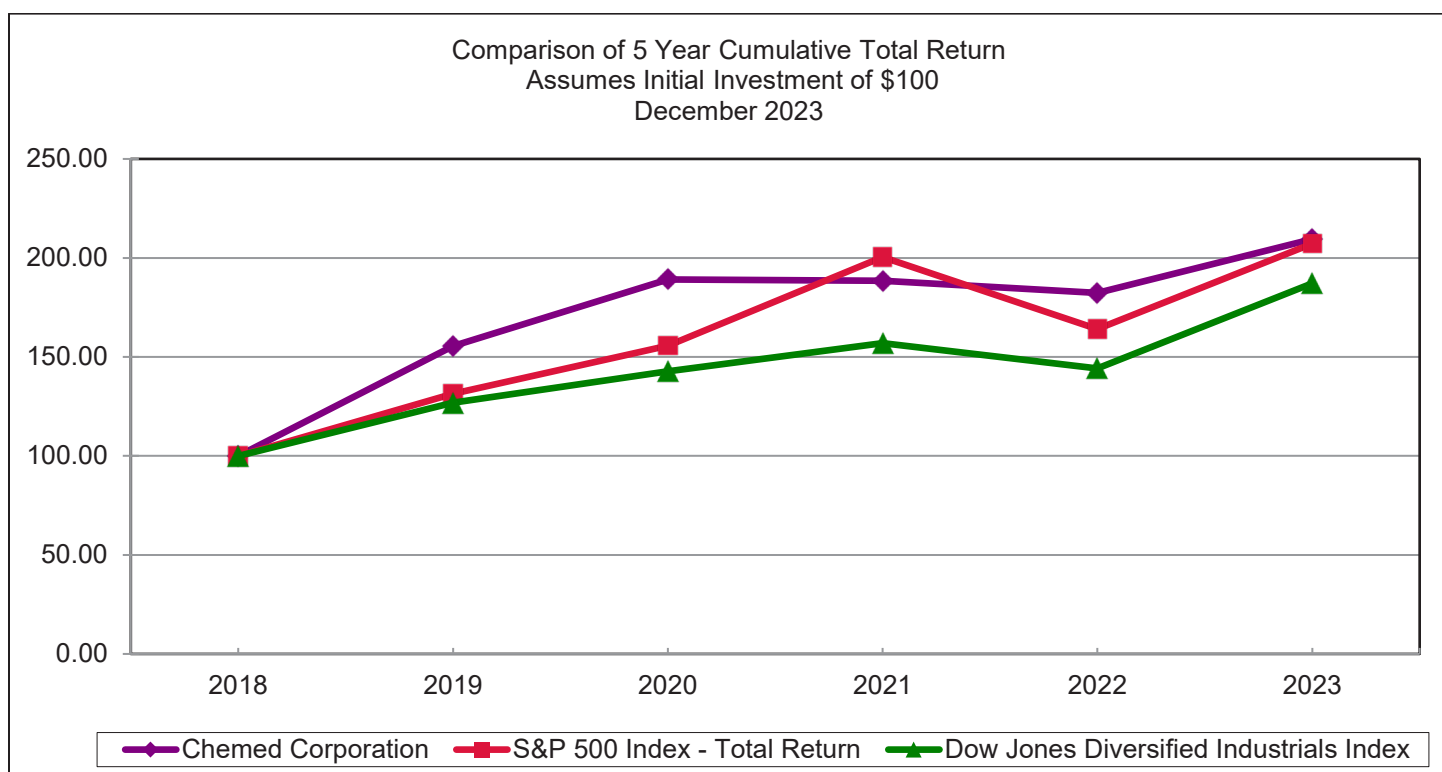
OPERATING STATISTICS	Three Months Ended December 31,		Year Ended December 31,	
	2023	2022	2023	2022
Net revenue (\$000)				
Homecare	\$ 303,883	\$ 267,691	\$ 1,136,437	\$ 1,039,211
Inpatient	28,107	26,647	112,419	102,361
Continuous care	22,620	19,284	85,674	77,000
Other	3,844	2,977	13,582	12,438
Subtotal	\$ 358,454	\$ 316,599	\$ 1,348,112	\$ 1,231,010
Room and board, net	(2,535)	(2,778)	(10,851)	(9,574)
Contractual allowances	(3,546)	(3,012)	(14,196)	(12,004)
Medicare cap allowance	(2,375)	(2,750)	(8,000)	(7,868)
Total	\$ 349,998	\$ 308,059	\$ 1,315,065	\$ 1,201,564
Net revenue as a percent of total before Medicare cap allowance				
Homecare	84.8%	84.6%	84.3%	84.4%
Inpatient	7.8	8.4	8.3	8.3
Continuous care	6.3	6.1	6.4	6.3
Other	1.1	0.9	1.0	1.0
Subtotal	100.0	100.0	100.0	100.0
Room and board, net	(0.7)	(0.9)	(0.8)	(0.8)
Contractual allowances	(1.0)	(0.9)	(1.1)	(1.0)
Medicare cap allowance	(0.7)	(0.9)	(0.6)	(0.6)
Total	97.6%	97.3%	97.5%	97.6%
Days of Care				
Homecare	1,439,494	1,289,067	5,457,963	5,086,021
Nursing home	285,616	264,895	1,118,728	1,036,816
Respite	7,394	5,807	26,605	23,905
Subtotal routine homecare and respite	1,732,504	1,559,769	6,603,296	6,146,742
Inpatient	24,918	24,254	101,905	95,431
Continuous care	23,001	19,909	88,631	81,890
Total	1,780,423	1,603,932	6,793,832	6,324,063
Number of days in relevant time period	92	92	365	365
Average daily census ("ADC") (days)				
Homecare	15,646	14,012	14,953	13,934
Nursing home	3,105	2,879	3,065	2,841
Respite	80	63	73	65
Subtotal routine homecare and respite	18,831	16,954	18,091	16,840
Inpatient	271	264	279	261
Continuous care	250	216	243	224
Total	19,352	17,434	18,613	17,325
Total Admissions	15,867	14,829	63,431	60,774
Total Discharges	15,705	14,862	61,242	60,930
Average length of stay (days)	105.9	103.9	102.2	104.6
Median length of stay (days)	17.0	16.0	16.0	16.0
ADC by major diagnosis				
Cerebro	42.8%	41.0%	42.5%	39.8%
Neurological	13.7	20.3	15.3	21.2
Cancer	10.3	10.7	10.5	10.9
Cardio	16.2	15.7	16.1	15.7
Respiratory	7.0	7.2	7.1	7.3
Other	10.0	5.1	8.5	5.1
Total	100.0%	100.0%	100.0%	100.0%
Admissions by major diagnosis				
Cerebro	26.5%	25.6%	26.4%	24.6%
Neurological	8.3	11.0	9.4	12.3
Cancer	25.9	26.7	26.0	26.3
Cardio	15.4	15.3	16.0	14.9
Respiratory	10.1	10.5	10.1	10.3
Other	13.8	10.9	12.1	11.6
Total	100.0%	100.0%	100.0%	100.0%
Bad debt expense as a percent of revenues	1.0 %	1.0 %	1.1 %	1.0 %
Accounts receivable --Days of revenue outstanding- excluding unapplied Medicare payments	37.8	38.1	N.A.	N.A.
Accounts receivable--Days of revenue outstanding- including unapplied Medicare payments	36.0	28.0	N.A.	N.A.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 REGARDING FORWARD-LOOKING INFORMATION

In addition to historical information, this report contains forward-looking statements and performance trends that are based upon assumptions subject to certain known and unknown risks, uncertainties, contingencies and other factors. Such forward-looking statements and trends include, but are not limited to, the impact of laws and regulations on our operations, our estimate of future effective income tax rates and the recoverability of deferred tax assets. 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. Our ability to deal with the unknown outcomes of these events, many of which are beyond our control, may affect the reliability of our projections and other financial matters.

**Comparative Stock Performance**

The graph below compares the yearly percentage change in the Company’s cumulative total stockholder return on Capital Stock (as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the period December 31, 2018, to December 31, 2023, assuming dividend reinvestment, and (B) the difference between the Company’s share price at December 31, 2018 and December 31, 2023; by (ii) the share price at December 31, 2018) with the cumulative total return, assuming reinvestment of dividends, of the (1) S&P 500 Stock Index and (2) Dow Jones Industrial Diversified Index.



December 31	2018	2019	2020	2021	2022	2023
<b>Chemed Corporation</b>	<b>100.00</b>	<b>155.58</b>	<b>189.18</b>	<b>188.47</b>	<b>182.36</b>	<b>209.49</b>
<b>S&amp;P 500</b>	<b>100.00</b>	<b>131.49</b>	<b>155.68</b>	<b>200.37</b>	<b>164.08</b>	<b>207.21</b>
<b>Dow Jones Diversified Industrials</b>	<b>100.00</b>	<b>126.90</b>	<b>142.68</b>	<b>156.94</b>	<b>144.17</b>	<b>187.16</b>

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# Corporate Officers and Directors

## Corporate Officers

**Kevin J. McNamara**

President and Chief Executive Officer

**Spencer S. Lee**

Executive Vice President

**Nicholas M. Westfall**

Executive Vice President

**Brian C. Judkins**

Vice President, Secretary and Chief Legal Officer

**Michael D. Witzeman**

Chief Financial Officer, Vice President, and  
Controller

**Lisa A. Reinhard**

Vice President, Chief Administrative Officer and  
Secretary

**Holley R. Schmidt**

Vice President and Assistant Controller

**Thomas C. Hutton**

Vice President

**Gregory A. Zarick**

Vice President

**Nathan J. McNamara**

Vice President

**Robert E. Mangine, Jr.**

Assistant Treasurer

## Directors

**Kevin J. McNamara**

President and Chief Executive Officer,  
Chemed Corporation

**Ron DeLyons**<sup>(1)</sup>

Managing Member and Chief Executive Officer,  
Creekwood Energy Partners, LLC

**Patrick P. Grace**<sup>(1\*, 3\*)</sup>

President and Chief Executive Officer,  
Grace Institute Foundation

**Christopher J. Heaney**<sup>(2, 3)</sup>

Former President and Chief Executive Officer,  
Service America Systems, Inc.

**Thomas C. Hutton**

Vice President,  
Chemed Corporation

**Andrea R. Lindell**<sup>(2)</sup>

Dean, School of Nursing,  
Vice-Provost, College of Health Sciences,  
Walden University

**Eileen P. McCarthy**<sup>(3)</sup>

Senior Vice President and  
Deputy General Counsel, UiPath, Inc.

**John M. Mount Jr.**<sup>(1)</sup>

Chief Commercial Officer,  
Q Mixers

**Thomas P. Rice**<sup>(1)</sup>

General Manager and Partner,  
Columbia Investments LLC  
(investment company)

**George J. Walsh III**<sup>(2\*, 3)</sup>

Partner, Thompson Hine LLP  
(law firm, New York, New York);  
Chairman of the Board of Directors,  
Chemed Corporation

1) Audit Committee

2) Compensation/Incentive Committee

3) Nominating Committee

\* Committee Chairman