



Management Churn Suggests Caution but Not a Change in Thesis

Last week, Amedisys announced a flurry of senior management changes including the sudden departures of two of its most senior executives: President & COO Larry Graham and CIO Alice Ann Schwartz. Both Graham and Schwartz resigned on the same day, sending the shares down some 20% from the previous day's close, largely over a variety of fears ranging from possible accounting problems to management's ability to continue to deliver strong results. As is often the case, when the dust settled things look a good bit different than initial fears suggested. Our take is that founder Bill Borne has decided that an outside hire may be a better selection to replace him in the future and, realizing that, Larry Graham has moved on in order to take advantage of likely offers to lead other Healthcare companies. The Street panicked because Graham had been the most visible executive to them, but his role and centrality to actual operations and day-to-day management was minimal and thus we don't think his departure is likely to effect the Team's traction on any key operating metrics. We would also note the continued presence of Jeff Jeter on the team as Chief Compliance Officer which allays any concerns we have about untoward regulatory issues specific to the Company.



While the suddenness and scope of manager turnover, one of whom had been the assumed successor to CEO Bill Borne – coupled with 2 CFO departures over the prior 3 years, is a clear caution flag, we note that other elements of our basic thesis on AMED remain intact, namely strong execution. In fact the Company specifically reaffirmed its guidance after the resignations last week. We have reduced our Team Rank to #3 pending the appointment of Larry Graham's replacement but worry that we may be over-cautious. Bill Borne remains the hands-on founder who continues to build out a seasoned set of managers able to run a billion dollar enterprise and the AMED short interest ratio, though down from our initial April report is still over 26% and thus providing the potential for a real squeeze if management's execution remains as strong as we expect. The diligence we conducted over the past week, including speaking to the Company, suggests that there are no serious operational management voids that would inhibit the overall ability of Borne or his team over the near-term to continue to execute on what has been a clear and successful operating strategy.

There is strong existing talent in place to manage AMED's business going forward. Starting with CEO Borne, we expect that there will be very little real changes from an operational standpoint, as he has historically been quite involved. Now reporting directly to him will be Jill Cannon and Patti Waller, SVPs of Operations, who have jointly overseen the Company's agency network for 10 years. Also reporting to Borne will be CFO Dale Redman, a 34-year senior exec in finance, as well as Dr. Michael Fleming, who was announced as Chief Medical Officer only a few days ago. Dr. Fleming brings nearly 40 years of practical experience in patient care, physician relationships, IT, and education to AMED, critical and necessary talents required for a national healthcare services provider. The timing of this announcement is purely coincidental to last weeks' events, as Dr. Fleming has in fact been with the company now for several months.

CIO Alice Ann Schwartz's departure appeared straightforward to us. The Company's rapid growth and current size made it necessary to split her job (CIO and head of clinical operations) into 2 separate SVP-level positions. Tasha Mears has already been named SVP of Clinical Operations – she originally joined AMED in 1998 and ran claims operations under Schwartz, while Farid Guediri, currently SVP of IT and a recent outside hire, will be interim CIO. Importantly, Guediri's background makes him a strong candidate for assuming the role permanently, for which he is being actively considered, as he has 25 years' IT experience working with several large organizations such as GE, Coca Cola, PNC, and Boeing. We will update readers when AMED makes additional hires in the coming months.

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