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Home again: Demand for services will stay high, but cuts in federal funding threaten profitability

IBISWorld Industry Report 62161

Home Care Providers in the US

August 2017

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About this Industry

Industry Definition

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

Main Activities

The primary activities of this industry are

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

The major products and services in this industry are

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

Similar Industries

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

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

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

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

62149 Emergency & Other Outpatient Care Centers in the US
Operators in this industry include companies with medical staff who provides general or specialized outpatient care.

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

62311 Nursing Care Facilities in the US
Operators in this industry include companies that operate nursing homes with dedicated staff.

About this Industry

Additional Resources

For additional information on this industry

www.cms.gov
Centers for Medicare and Medicaid Services

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

www.homehealth4america.org
Partnership for Quality Home Healthcare

Industry at a Glance

Home Care Providers in 2017

Key Statistics Snapshot

Revenue	Annual Growth 12-17	Annual Growth 17-22
$92.5bn	4.0%	6.1%
Profit	**Wages**	**Businesses**
$6.8bn	$45.9bn	411,118

Market Share

There are no major players in this industry

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Key External Drivers

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

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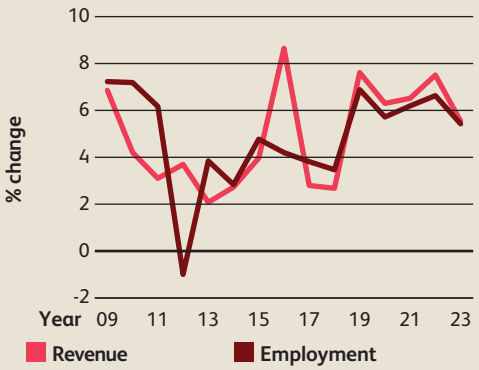
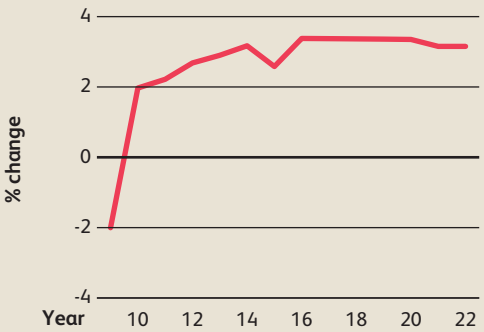
Revenue vs. employment growth



Number of adults aged 65 and older



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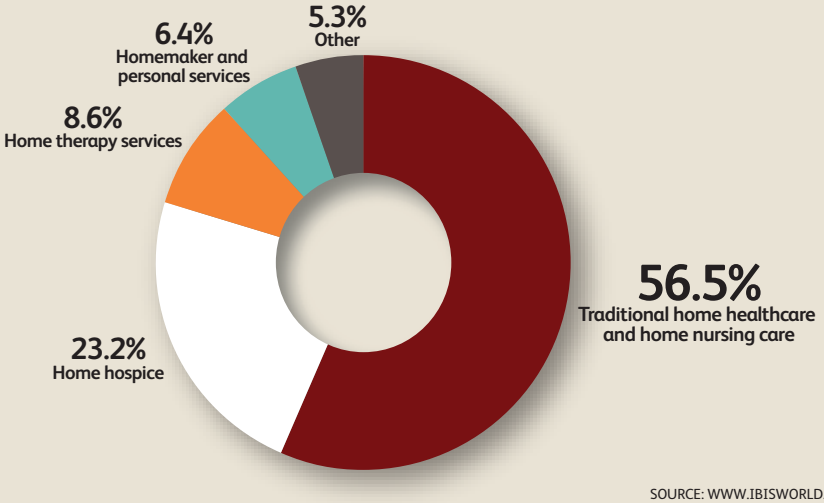
Products and services segmentation (2017)



SOURCE: WWW.IBISWORLD.COM

Industry Structure

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

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 37

Industry Performance

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

Executive Summary

The Home Care Providers industry is becoming one of the fastest growing healthcare industries in the United States. Home care saves patients billions of dollars every year by treating them in their own homes instead of in hospitals. An aging population, the prevalence of chronic disease, growing physician acceptance of home care, medical advancements and a movement toward cost-efficient treatment options from public and private payers have all fostered industry growth. Over the five years to 2017, industry revenue is expected to grow at an annualized rate of 4.0% to $92.5 billion, including an increase of 2.8% in 2017 alone.

Industry operators have increased consolidation activity in an effort to combat lower profitability

Despite strong growth, industry profitability has been under pressure. The largest payers for home care services are government programs, including Medicare and Medicaid. Over the past five years, federal and state budgets have shrunk, and sequestration only exacerbated this decline. Decreasing federal funding has resulted in reimbursement cuts for the industry and has prevented any significant growth in operating profit. Healthcare reform expanded access to insurance for some industry patients, but many states chose not to expand access to federal healthcare. Industry operators have increased consolidation activity in an effort to combat lower profitability. Larger companies are better able to negotiate with suppliers and can acquire the medications and materials that are used in home care at lower prices. Emblematic of this, Kindred Healthcare completed its purchase of Gentiva Health Services in 2015, giving the combined company an industry-leading market share of 2.8% in 2017.

Consolidation is forecast to continue over the five years to 2022 in light of reimbursement cuts that are expected to persist and a shortage in skilled personnel. These factors will strain operating profit further, causing profit margins to stagnate over the next five years. In an effort to spur new demand and maintain pricing, industry operators are expected to focus more on chronic disease management, which is a system of coordinated healthcare interventions and communications with the emphasis on patient self-care. This area of healthcare is anticipated to grow in upcoming years, which will provide the industry with the opportunity to compete effectively with institutional care providers, such as hospitals. Industry revenue is forecast to grow at an annualized rate of 6.1% over the next five years, reaching $124.4 billion in 2022.

Key External Drivers

Number of adults aged 65 and older

Older adults are major users of healthcare services due to the development of diseases and assistance required later in life. The aging population and its increasing preference for home care over hospital stays are factors that make home care a growing part of the healthcare sector. The number of adults aged 65 and older is expected to increase in 2017, growing at a faster rate than the general national population. This signifies that the elderly will make up an increasingly larger share of the population, which may represent an opportunity for the industry.

Industry Performance

Key External Drivers continued

Federal funding for Medicare and Medicaid

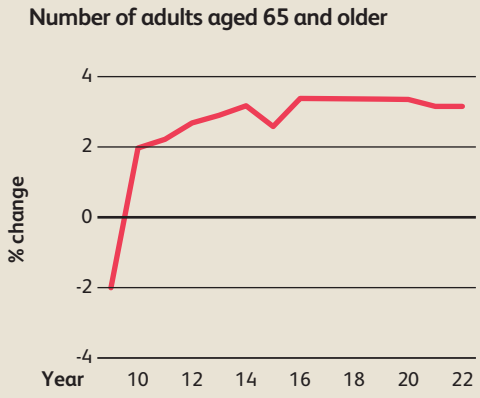
Increased federal and state funding of Medicare and Medicaid stimulates demand for healthcare services and determines the prices charged for those services. Although government funding for these programs is expected to increase in 2017, Medicare reimbursement is forecast to decline for home care providers, posing a potential threat to the industry.

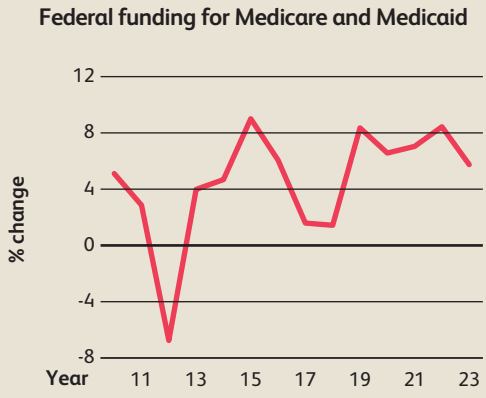
Number of people with private health insurance

Individuals covered by private health insurance are likely to use healthcare services more frequently. Therefore, the extent to which private health insurance covers the US population affects demand for healthcare services. Over 10.0% of industry revenue comes from private insurance payments. The number of people with private health insurance is expected to increase in 2017.

Per capita disposable income

As per capita disposable income rises, individuals are more likely to purchase insurance plans or be able to afford out-of-pocket healthcare expenses, such as home care services. Out-of-pocket payments make up about 10.0% of industry revenue. Per capita disposable income is expected to increase in 2017.





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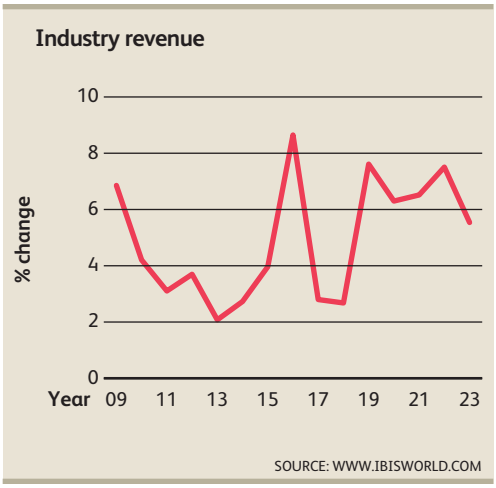
Industry Performance

Current Performance

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

Home care providers have expanded their role in the healthcare sector as the population has aged and people have increasingly preferred home care over institutional care. Over the five years to 2017, IBISWorld estimates the number of people aged 65 and older to expand at an annualized rate of 3.1% to 47.3 million individuals. People from this generation appreciate the independence of home care versus hospital care, and baby boomers have greater disposable incomes than previous generations, which has benefited the industry significantly over the past five years. Moreover, this increase reflects changes in the types of ailments afflicting the senior population. Medical advancements, superior nutrition and improved safety measurements in different areas of life have all helped people live longer, contributing to the size of the baby-boomer demographic. As a result, industry revenue is expected to grow at an annualized rate of 4.0% over the five years to 2017. In 2017, revenue is expected to increase 2.8% to $92.5 billion.



Healthcare payers, such as Medicare, Medicaid and commercial insurance companies, are also encouraging home care due to the cost advantages. On average, the Medicaid program can provide home- and community-based services (HCBS) to three people for the cost of serving one person in a nursing home, according to AAPR Public Policy Institute estimates. However, in November 2013, the Centers for Medicare and Medicaid Services (CMS) issued a ruling that slashed Medicare funding for home health programs an annualized 3.5% from 2014 to 2017. Although the industry will continue to expand, operators will have to contend with these operational challenges, pressuring industry margins.

Industry Performance

Consolidation and specialization

Increased demand has fostered revenue growth, but reimbursement cuts have mitigated growth in the industry's operating profit. The sluggish economic environment and the state of the US healthcare system have incited the government to reduce spending; home care has been an easy target because the industry is highly fragmented and does not have strong political representation. In response to pressured profitability and the need to differentiate services in this highly competitive industry, operators have consolidated over the past five years. Still, because of the industry's low barriers to entry, the number of companies is estimated to increase an annualized 4.8% to 411,118 operators over the five years to 2017.

As companies have consolidated, they have also focused on providing specialized services. Prominent industry operator Gentiva Health Services, which was acquired by Kindred Healthcare in 2015, introduced more than 400 specialty programs, including Gentiva Orthopedics, Gentiva Safe Strides and Gentiva Cardiopulmonary, and generated more than 40.0% of its revenue from these programs. As Gentiva garnered success through specialized disease management programs, other agencies followed suit, developing their own programs. As a result of this emphasis on specialized labor, total industry spending on wages is expected to grow an annualized 4.0% during the period to reach $45.9 billion.

> Companies have consolidated and focused on providing specialized services

Reimbursement risk remains

The industry's payers are highly concentrated among Medicare, Medicaid, other government third-party payers and contracted private insurance or commercial payers. Medicare, the largest source of revenue, is a social insurance program administered by the US government that provides health insurance coverage to people aged 65 years and older or who meet other criteria.

In recent years, the Home Care Providers industry has been thrust into the government spotlight with repeated reports from the Medicare Payment Advisory Commission about excessive profit margins and accusations of questionable business practices. With the passage of the Patient Protection and Affordable Care Act (PPACA) in March 2010, the government planned to reduce the total reimbursement that Medicare-certified home health agencies receive under the Home Health Prospective Payment System. While payments from Medicare still account for the largest share of industry revenue, the Medicare home health benefit was cut by $200.0 million in 2014, followed by cuts of $60.0 million in 2015 and $260.0 million in 2016, according to CMS. Most recently, the benefit was cut by $180.0 million for 2017.

Medicaid reimbursements, the second-largest source of industry revenue, have also been subject to federal reductions. Government payment rates for Medicaid are determined according to published fee schedules pursuant to statute, law or other regulatory processes. HCBS waivers afford state Medicaid programs the flexibility to develop and implement creative alternatives to placing individuals in hospitals, nursing facilities or intermediate-care facilities. Developing home and community-based

Industry Performance

Reimbursement risk remains continued

alternatives to institutional care has been a priority for many state Medicaid programs in response to consumer demand and cost benefits over the past five years. While the majority of Medicaid long-term care dollars still go toward institutional care, the national percentage of Medicaid spending on HCBS has tripled since 1999, and now includes 45.0% of Medicaid spending on long-term care.

Operators' dependence on federal funds for home care exposes them to changes in policy from year to year. Home care providers began aggressively lobbying Congress since the decision was made and implemented to use the $22.0 billion cut to the Medicare benefit for home healthcare to fund other provisions of the PPACA. As a result of these reimbursement reductions and the unsure political climate, IBISWorld estimates that the industry's average profit margin will grow only slightly in 2017, accounting for 7.4% of revenue, despite growing demand for industry services.

Industry Outlook

Strong and steady revenue growth seems likely for the Home Care Providers industry over the next five years as a result of an aging population, increasing interest in home healthcare and expanded access to Medicare and Medicaid under the Patient Protection and Affordable Care Act (PPACA). The aging population will continue to foster revenue growth because this demographic not only requires more healthcare services compared with other age groups, but they also increasingly prefers home care. Payers will progressively shift to home care because it is more affordable than inpatient hospital and nursing-home care.

Despite these favorable trends, Medicare and Medicaid reimbursement cuts will continue to pose a threat to industry profit, encouraging large companies to grow even larger through mergers and acquisitions. In late 2013, the Centers for Medicare and Medicaid Services (CMS) was asked to assess potential reductions to the actual base Medicare payment for home health services. Partly to offset the costs of implementing other PPACA provisions, CMS approved the largest possible

> Despite favourable trends, Medicare and Medicaid reimbursement cuts will pose a threat

reduction of funding to the Home Health Prospective Payment System, equivalent to an annualized 3.5% deduction from 2014 to 2017. Since the announcement and implementation of this reduction, industry operators and the associations that represent their interests have lobbied to convince Congress to reconsider or revoke this decision. Nonetheless, neither of these threats is likely to cause revenue declines, but they will change the way operators compete, particularly small- and mid-sized agencies. Home healthcare will evolve to include more chronic disease-management services, and consolidation will help the industry unite to influence policy change and benefit from larger-scale operations. In light of these projections, revenue is forecast to increase at an annualized rate of 6.1% to $124.4 billion over the five years to 2022.

Industry Performance

Shift to chronic disease management

Home care providers have benefited from the aging population, a trend that is forecast to continue in the coming years. Since this demographic makes up an increasing percentage of patients, the industry will begin to provide more services that address issues commonly experienced by those aged 65 years and older, such as chronic disease management. Chronic diseases afflict more than 130.0 million people in the United States, and that number is anticipated to increase significantly as more baby boomers age and are diagnosed with diseases like congestive heart failure, chronic obstructive pulmonary disease and coronary artery disease. Furthermore, chronically ill individuals account for about 76.0% of all hospitalizations. About 12.0% of the Medicare population accounts for 69.0% of the cost, and 96.0% of Medicare dollars are spent on patients with more than one chronic disease. These services are expected to become an industry mainstay over the next five years and will provide a significant source of revenue for operators.

> Home care providers have benefited from the aging population, a trend that is forecast to continue

Benefits of healthcare reform

The PPACA, as amended by the Health Care and Education Reconciliation Act (collectively, the healthcare reform legislation), has provided numerous benefits and drawbacks to home care. The majority of people older than 50 want to live in their homes as long as possible, according to senior advocacy organization AARP. The legislation's guaranteed long-term care insurance, which individuals can pay for through payroll deductions, is anticipated to support industry growth. Other little-known provisions of the law will provide additional support for people who want to remain at home. The law has generated nearly three dozen experimental projects testing ways to help older people avoid institutional care. For example, the Independence at Home project tests whether incentive payments to primary care doctors and nurses will promote better care coordination for Medicare patients with two or more chronic illnesses.

Medicaid will also have new incentives to shift its spending away from nursing-home care and toward services in the home and community, which will expand the availability of services such as home healthcare, home-delivered meals and transportation to doctors' appointments for all older people, regardless of income. The legislation also makes it easier for states to add home care services to their Medicaid programs and streamlines the process by making the new services permanent Medicaid benefits. In the past, states that wanted to supplement Medicaid had to get federal approval every three to five years.

Impact of Medicare cuts

As the wave of baby boomers requiring home care services drives demand volumes higher, the Congressional Budget Office estimates that the PPACA will result in an aggregate $39.7 billion reimbursement cut for Medicare-certified home health agencies from 2010 to 2019. Medicare accounts for 38.9% of total industry revenue, and the National Association for Home Care and Hospice

Industry Performance

Impact of Medicare cuts continued

estimates that these reductions will severely affect more than 75.0% of industry operators. As a result of these reductions, CMS expects that 40.0% of small home healthcare companies could go into the red by the end of 2017, and IBISWorld similarly expects to see average industry profit margins stagnate over the next five years. In response to poor profit margins, large operators will benefit from their ability to negotiate with commercial insurance companies and healthcare product suppliers. New companies will continue to enter the industry, but incumbent operators will acquire smaller operators. Despite consolidation at the top, the total number of home care providers will increase an annualized 5.9% over the five years to 2022, to 557,334 establishments as new companies are lured by the industry's rapid growth.

Driven by the incentives under healthcare reform, more home care operators are expected to serve rural areas to address the shortage of healthcare practitioners in these areas. The legislation reinstates an additional payment for rural operators, which incentivizes companies to service rural areas. This could also boost their profit margins, which have historically been marred by higher costs due to longer travel distances.

Employment and wages on the upswing

Another significant challenge most home care providers will experience is finding enough qualified nurses and physical therapists to meet rising demand. In some areas of the country, home care providers resort to using travel staffing agencies or referring patients to other home healthcare companies. According to the US Bureau of Labor Statistics, home healthcare is projected to have the fourth fastest-growing employment through 2018. Over the five years to 2017, industry employment is projected to grow at an annualized rate of 5.8% to more than 2.5 million employees.

This high demand for staff will increase nurses' and physical therapists' ability to command higher wages and benefits, which will put direct pressure on gross margins for all home healthcare agencies. Moreover, in October 2015, the Supreme Court upheld the regulatory changes adopted by the US Department of Labor in 2013, extending federal minimum wage and overtime protections to previous exempt home health aides. The new regulations, which took effect on October 13, 2015, are expected to lift wages of historically poorly paid industry employees, with the average industry wage projected to reach $25,517 by 2022. As a result, wages' share of revenue is anticipated to increase from 49.6% in 2017 to 50.4% in 2022.

> High demand for well-paid staff will put direct pressure on gross margins

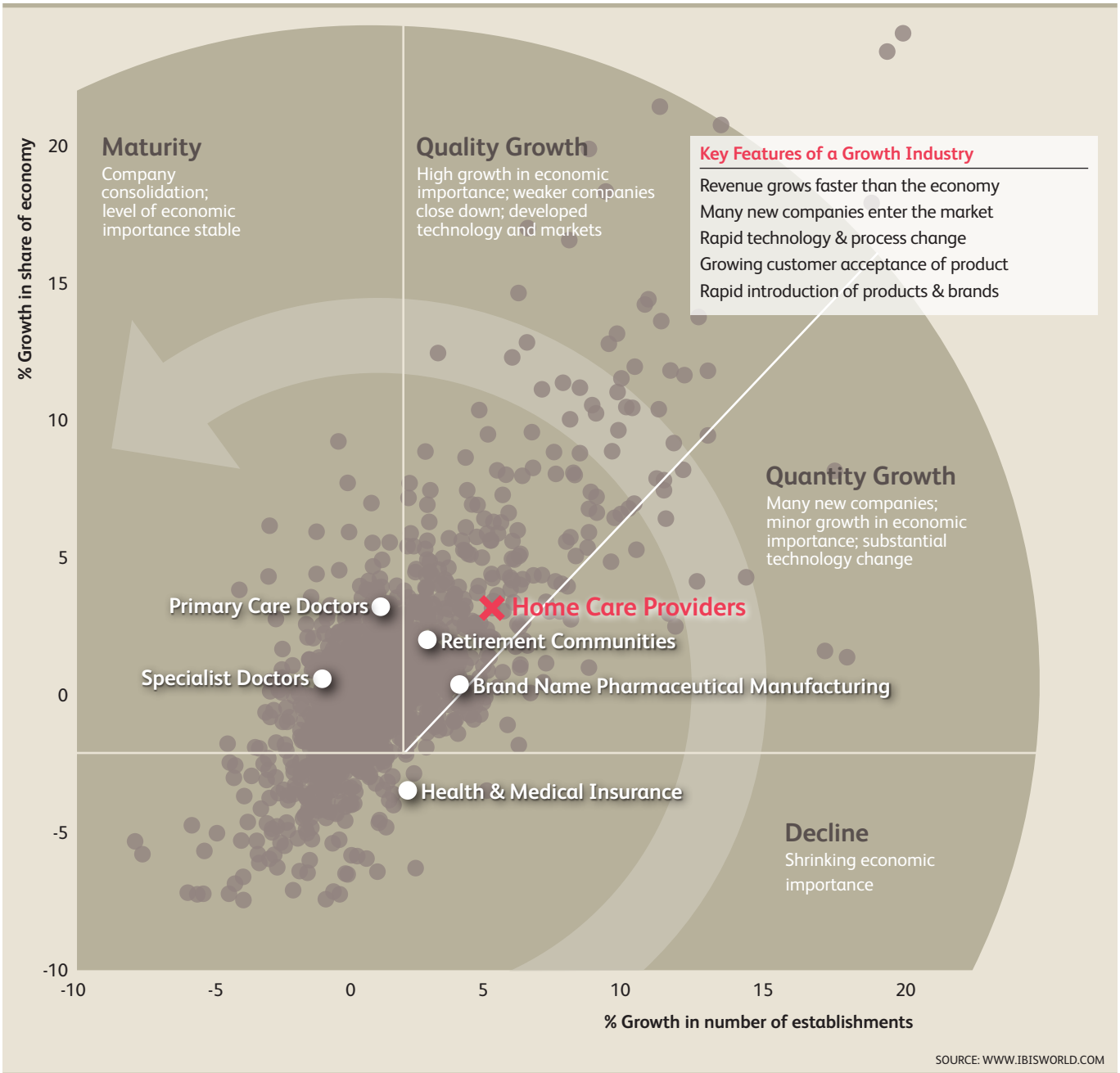
Industry Performance

Life Cycle Stage

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

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

Planned reimbursement cuts pose a significant threat to industry profitability



SOURCE: WWW.IBISWORLD.COM

Industry Performance

Industry Life Cycle

This industry is **Growing**

The Home Care Providers industry is in the growth stage of its life cycle. Over the 10 years to 2022, industry value added, or the industry's contribution to the overall economy, is forecast to increase at an annualized rate of 5.3%. This rate is faster than the projected 2.1% annualized growth of US GDP during the same period, indicating the industry will make up a larger share of the economy in the years ahead.

The industry is growing due to strong demand from the aging population, a shift in patient preferences toward home care rather than institutionalized care and an increasing appreciation for the cost savings of home healthcare relative to hospital care. There is a growing preference for being treated in one's own home partly due to advances in medicine that are promoting independence among the elderly. Furthermore, advancements in technology are enabling more healthcare procedures to be carried out in homes. The US population is living longer and recovering faster from surgeries, resulting in higher demand for home care.

Government reforms and actions highly influence industry growth. Such actions determine reimbursement or use of industry services, which will either hurt or help industry growth moving forward. More specifically, operating profit is forecast to come under pressure due to reimbursement cuts for government healthcare programs, and this pressure will encourage consolidation among operators. Nonetheless, the number of companies is projected to continue expanding as new companies enter the industry, enticed by high demand from the aging population and the growing trend toward home care services.

Products & Markets

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

Supply Chain

KEY BUYING INDUSTRIES

52411b **Health & Medical Insurance in the US**
Insurance companies represent a third-party payer for home care services.

62111a **Primary Care Doctors in the US**
Family doctors and GPs refer patients to home health services and the reverse can also apply where home care providers recommend doctors for patients.

62111b **Specialist Doctors in the US**
Patients will often be referred to specialist doctors by home care providers and vice versa.

62211 **Hospitals in the US**
Home care providers will refer patients to be admitted to hospitals and often hospitals will do the same for home care providers.

62331 **Retirement Communities in the US**
Providers of home care can also offer services in, and refer patients to, community care facilities.

9901 **Consumers in the US**
Individuals aged 65 and over and individuals with certain health conditions are the primary beneficiaries of industry services.

KEY SELLING INDUSTRIES

32541a **Brand Name Pharmaceutical Manufacturing in the US**
This industry supplies home care providers with pharmaceuticals and medicines to treat patients.

32541b **Generic Pharmaceutical Manufacturing in the US**
This industry supplies home care providers with pharmaceuticals and medicines to treat patients.

33911a **Medical Instrument & Supply Manufacturing in the US**
This industry supplies the necessary medical instruments for treating patients in the home. Equipment from this industry can also be sold or leased to patients.

33911b **Glasses & Contact Lens Manufacturing in the US**
This industry supplies products that are necessary for treating patients and for their personal care. The equipment can also be sold or leased directly to patients.

42345 **Medical Supplies Wholesaling in the US**
This industry wholesales medical supplies to home care providers.

56131 **Employment & Recruiting Agencies in the US**
Employment and recruiting agencies assist home care providers in the recruitment of reliable nursing and other staff.

Jun 0923 **Administration of Government Programs in the US**
Administration of Human Resource Programs (except Education, Public Health and Veterans Affairs Programs), is responsible for Medicare & Medicaid administration, among other things. Medicare & Medicaid are major payers for home care services.

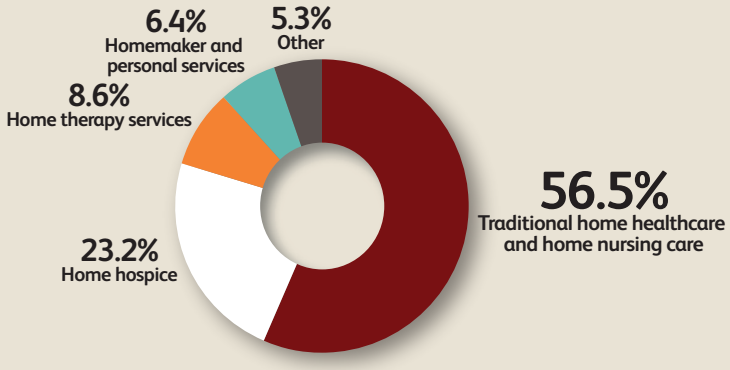
Products & Services

Home care providers include home healthcare agencies, home care aide organizations and hospices. Over the five years to 2017, the popularity of services provided by these organizations has been growing as more Americans age and cope with chronic conditions, bolstering demand for industry services. The laws governing these services and what exactly can be performed by home care agencies, home healthcare agencies or hospices vary from state to state.

Products & Markets

Products & Services continued

Products and services segmentation (2017)



Total $92.5bn

SOURCE: WWW.IBISWORLD.COM

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

Traditional home healthcare and home nursing care

The traditional home healthcare and nursing segment includes medical care provided in a patient's home by healthcare professionals. This segment is expected to account for 56.5% of total industry revenue in 2017. Medical services potentially provided by home healthcare and nursing care agencies include medical or psychological assessment, wound care and pain, disease and medication management and education. This type of home care is generally appropriate for those suffering from chronic illness, recovering from acute injury or illness or needing skilled care to remain at home. This segment's services can help to prevent or shorten hospital stays. Traditional home healthcare and home nursing care has increased in revenue over the past five years as the share of the population over the age of 65 has increased. This growth trend is expected to continue over the five years to 2022 as the number of people over the age of 65 is expected to grow an annualized 3.3%. However, this segment's share of total industry revenue has decline slightly, as other segments have grown at faster rates. According to IBISWorld estimates, the traditional home healthcare and nursing segment accounted for an estimated 57.9% of industry revenue in 2012.

Home hospice

Hospice care is designed to give supportive care to people in the final phase of a terminal illness and is focused on comfort and quality of life rather than cure. The goal is to enable patients to be comfortable and free of pain, so that they live each day as fully as possible; aggressive methods of pain control may be used. Hospice programs generally are home-based, but they sometimes provide services away from home in freestanding facilities, in nursing homes or within hospitals. Only those companies that provide services in the home are included in this industry. In 2017, home hospice care is expected to account for 23.2% of industry revenue. This share has grown in recent years, due to increased demand

Products & Markets

Products & Services continued

from the aging population. By comparison, home hospice care accounted for an estimated 22.1% of industry revenue in 2012. Future revenue growth for this segment's services will likely be somewhat limited, however, by a healthcare reform provision that is estimated to cut Medicare hospice payment rates 11.8% over the next 10 years through the introduction of a productivity adjustment.

Home therapy services

Home care providers offer an array of services depending on the needs of the patient. Common services include infusion therapy, respiratory therapy, occupational therapy, speech therapy and physical therapy. Home infusion therapy, which accounts for nearly 65.0% of this segment's revenue, includes intravenous administration of nutrients, antibiotics, chemotherapy drugs, pain management drugs and other medications, as well as related services. Respiratory therapy services specialize in treating patients that typically suffer from chronic obstructive pulmonary disease (COPD) such as emphysema, chronic bronchitis or asthma. Such patients often require supplemental oxygen or other respiratory services to alleviate the symptoms or discomfort of respiratory dysfunction. Patients suffering from sleep apnea are also treated under this segment of the industry. Core home therapy patient volumes are growing at about 6.0% annually, driven by increases in the number of persons afflicted with COPD, demographic trends and the continued trend toward treatment of patients in the home as a lower cost alternative to the acute care setting. However, Medicare reimbursement reductions for medications, equipment and oxygen equipment have slowed growth in respiratory therapy revenue. As a result, this segment's share of total industry revenue has barely grown over the five years in the 2017. Home therapy services currently account for 8.6% of industry revenue. By comparison, this segment accounted for 8.4% of industry revenue in 2012.

Homemaker and personal services

Home care aide organizations provide nonmedical care or custodial care, including transportation, errands, light housekeeping, meal preparation, medication reminders and assistance with activities of daily living. This type of home care is usually referred to as personal or companion care and can be a boon to those recovering from an illness or injury, or who are less capable of getting around fully independently. These services are generally not covered by medical insurance or government reimbursement plans, so, during the recent downturn, family members often decided to take on these duties rather than pay out of pocket for companion care. As disposable income levels have risen over the past five years, this segment's share of total industry revenue has grown, however. As recovery continues slowly, IBISWorld expects this segment to remain relatively stable as a portion of industry revenue over the next five years. Homemaker and personal services are expected to generate 6.4% of revenue for the Home Care Providers industry in 2017, unchanged from 2012.

Other

Industry operators generate some revenue by renting and selling durable medical equipment (DME) such as wheelchairs, hospital beds, ambulatory aids, bathroom aids and safety equipment and rehabilitation equipment. DME can reduce demand for, and save costs associated with, institutionalized healthcare services. However, recent Medicare reimbursement reductions for durable medical equipment have slowed growth in this segment. Home care

Products & Markets

Products & Services continued

providers also make some revenue from the resale of prescription and nonprescription drugs, herbal remedies, vitamins, orthopedic supplies and optical goods. The other segment accounts for an estimated 5.3% of industry revenue in 2017, just slightly higher than the five years prior.

Demand Determinants

Affordability and insurance coverage

The main driver of industry demand is the affordability of home care in comparison to substitute services, particularly inpatient hospital care. According to Gentiva Health Services, a major provider of home healthcare services prior to being acquired by Kindred Healthcare, Medicare Part A and Part B payments for home care averaged $50.00 per day, which compares favorably with payments for hospice care ($135.00), skilled nursing facilities ($303.00) and hospitals ($1,479.00).

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

Aging population

Additionally, the demographics of the United States are developing favorably for the industry. The share of the total US population aged 65 and older has steadily increased since 2012, with more than 500,000 people joining this age group each year, according to US Census Bureau data. More specifically, the aging population is fostering a mounting need for more healthcare services. In general, elderly individuals are more likely to develop health issues. According to the Assisted Living Federation of America, the need for living assistance increases with age, rising from 20.9% of the 75 to 84 years of age population to 50.2% of the 85 years of age population. Therefore, when the elderly demographic grows, demand for industry services increases as well. Changes in family structures also affect demand for industry products; families with fewer individuals available at home to care for ailing family members will be more likely to seek out industry services. Consumer awareness and interest in home health services, and preferences among patients for being treated in their own homes also affect demand for this industry.

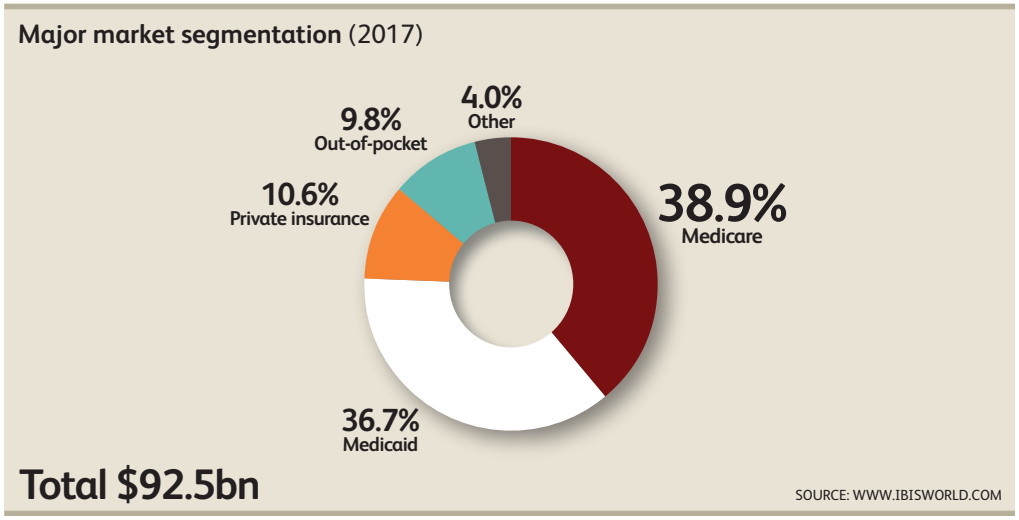
Major Markets

Medicare and Medicaid

Industry revenue primarily comes from government reimbursement programs such as Medicare and Medicaid, which together account for an estimated 75.6% of total revenue. Medicare, a federal healthcare program for those aged 65 years and older or with qualifying disabilities, is the largest single payer of home healthcare services. Medicaid is a state-run healthcare program for individuals with qualifying low incomes. According to the Centers for Medicare and Medicaid Services, 3.5 million Medicare beneficiaries receive home care services. While Medicare pays the largest share for home care, combined federal-state Medicaid outlays for in-home

Products & Markets

Major Markets continued



services are actually greater. Medicare and Medicaid's combined share of total industry revenue has dipped over the past five years due to federal reimbursement cuts.

Out-of-pocket payments and private insurance

Private health insurance payments account for 10.6% of industry revenue and typically cover some home care services for acute needs, with benefits varying from plan to plan. Most private plans cover comprehensive hospice services, such as nursing, social work, therapies, personal care, medication and medical supplies. Some individuals purchase Medigap insurance or long-term care insurance policies for additional home care coverage. Medigap insurance covers gaps in Medicare coverage, with some policies offering at-home recovery benefits that pay for some personal care services. This type of coverage is designed to help individuals recovering from acute illness, injuries or surgery. Private insurance's share of total industry revenue grew slowly over the past five years, as individuals who lost their access to employer-provided health insurance during the recession have slowly begun returning to the workforce.

If home care services fail to meet criteria of third-party payers (e.g. homemaker services), individuals will have to pay out of pocket. Out-of-pocket payments are estimated to make up 9.8% of industry revenue; this segment's share of total industry revenue has grown over the past five years as disposable income levels have recovered since the recession.

Other

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

Products & Markets

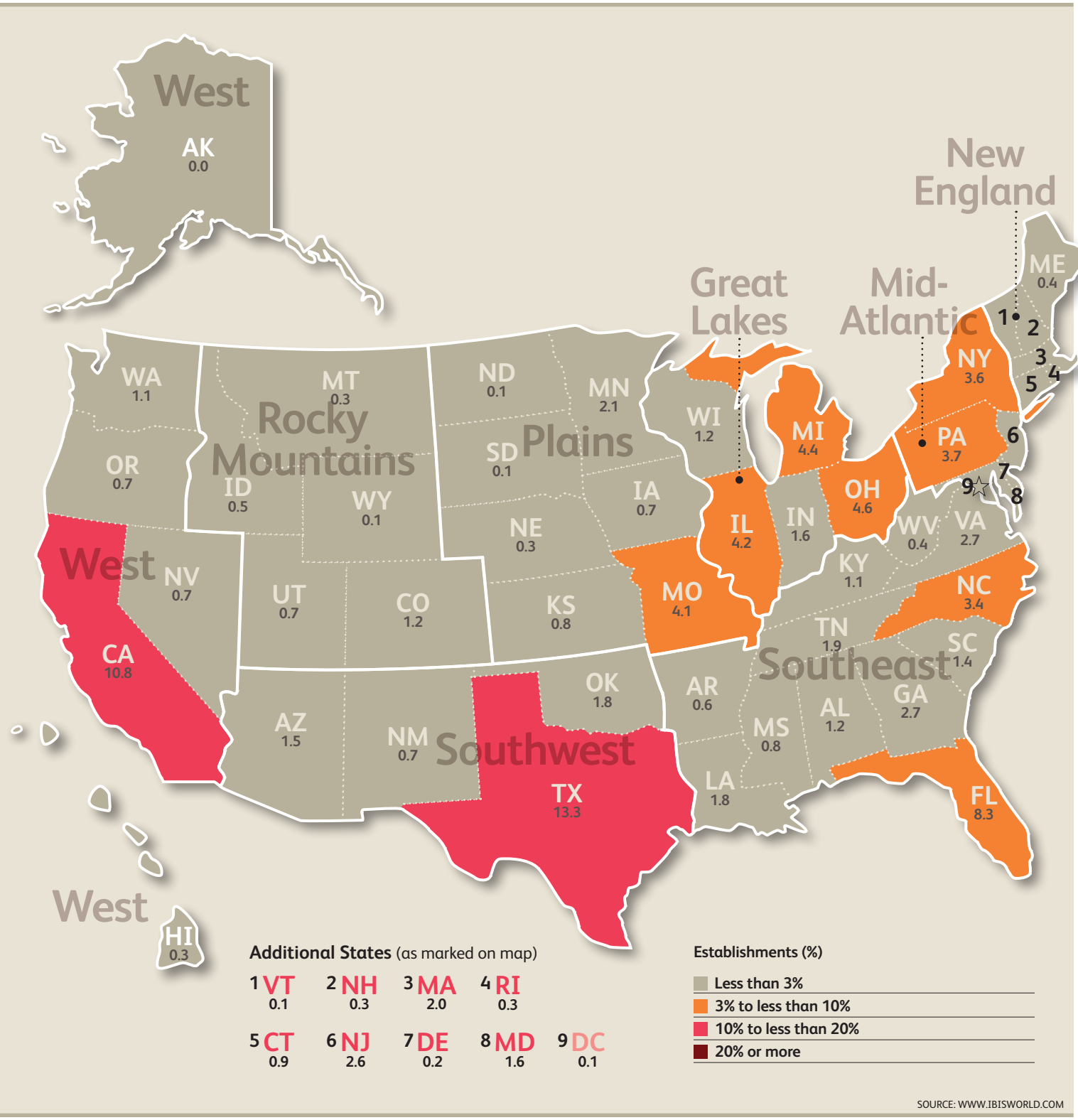
International Trade

Due to its service-based nature, there are no imports or exports in this industry. Home care providers principally carry out their work in the home of the patient, who is usually a US resident and often receives government-subsidized care.

Employees of relatively small regional and local providers provide most care. Some equipment used by industry providers is imported, but the effects of international trade on the prices of these products will be accounted for at the manufacturing level.

Products & Markets

Business Locations 2017

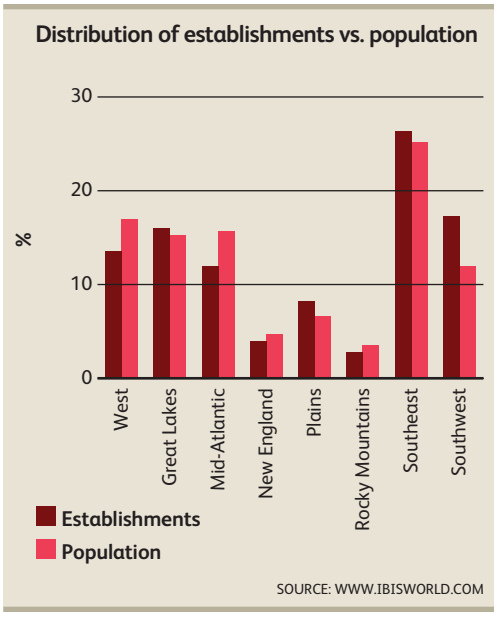


SOURCE: WWW.IBISWORLD.COM

Products & Markets

Business Locations

The location of home care providers in the United States is influenced by the size of the local population, the regional age distribution, the level of urbanization in and geographic size of a region, home health supply levels, the presence of alternative sources of care, sources of referrals and levels of state government resources. On the regional level, the Southeast contains the highest concentration of business locations at 26.3%, followed by the Southwest (17.3%), Great Lakes (16.0%) and West (13.5%). On the state level, the three states with the largest number of industry establishments are Texas, California and Florida, accounting for 13.2%, 10.7% and 8.3% of industry establishments, respectively. According to the 2010 Census (latest available data), these three states alone are also home to about one-quarter of the country's total elderly population. According to The Commonwealth Fund Commission's Scorecard on Health System Performance, Vermont leads the nation in the delivery of its healthcare, while Mississippi is rated the worst. One of the reasons that Vermont scores well in its healthcare performance is its home care industry. With the second-oldest state population in the nation, Vermont subsidizes care for seniors and the disabled to defray the costs of home care.



Rural home health agencies

Despite an overall growth in the number of home health agencies nationwide, rural areas of the country are disproportionately underserved by home care providers. For example, Montana accounts for only 0.3% of industry operators. The need for home healthcare in rural areas across the nation continues to grow, but lack of financial support has hampered the ability of many rural counties to meet the needs of their residents. Rural home health agencies are generally smaller in terms of total number of patients and are less able to benefit from economies of scale. A rural agency with a small patient census is less able to sustain losses from higher cost patients, and maintaining a full staff of qualified nurses and therapists can be difficult. Moreover, employees of rural agencies generally must travel farther per visit to deliver services, and much of this rural travel is not "highway miles," but on dirt and gravel roads, which adds to mileage costs and general vehicle wear and tear. Inclement weather only increases the difficulties of service delivery.

Patient Protection and Affordable Care Act

However, the federal government has recently taken steps to recognize this heath need and acknowledge the cost savings that home health can provide (compared with hospital care) in rural areas. The Patient Protection and Affordable Care Act includes a provision offering payment incentives to home health aides who provide services to chronically underserved rural areas, which may increase the presence of

Products & Markets

Business Locations continued

industry companies in these areas in coming years. Increasing use of mobile health technology (such as telehealth apps) will likely further facilitate the development of industry services in hard-to-reach areas.

Competitive Landscape

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

Market Share Concentration

Level
Concentration in this industry is **Low**

The Home Care Providers industry is highly fragmented: IBISWorld expects the three-largest industry companies to generate less than 10.0% of industry revenue in 2017. As hospitalization costs have increased and aging consumers have embraced the home healthcare trend, many new operators have entered the industry in the past five years. The total number of industry operators has grown at an annualized rate of 4.8% during this period, a rate that has jumped ahead of the industry's 4.0% revenue growth over the same period.

Mergers and acquisitions

Although the industry has seen a large number of new entrants, it has also been defined by mergers and acquisitions that the largest industry companies have undertaken in the past five years. Gentiva Health Systems, for instance, acquired home health services company Harden Healthcare in 2013. The following year, Gentiva itself was acquired by Kindred Healthcare, currently the largest player in the industry. Nevertheless, IBISWorld expects that the continued entry of new operators into the industry will cause increased growth in the total number of industry operators over the next five years.

Nonemployers

In terms of establishments, nonemploying home care providers dominate the industry, with more than nine out of every 10 industry establishments having no payroll. The majority of these companies are operated as sole proprietorships. Nonemployers are particularly prevalent within the Home Care Providers industry due to the low barriers to industry entry; individuals can enter the industry as sole proprietorships with little or no startup capital or expertise. Even though nonemployers make up a significant share of industry establishments, they still only generate about one-tenth of total industry revenue on an annual basis. Nearly half of all industry nonemploying establishments generate less than $10,000 annually in revenue.

Key Success Factors

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

Effective quality control

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

Ability to take advantage of government subsidies and other grants

Despite many agencies providing services to organizations that already have access to government reimbursement programs, access to programs like Medicare and Medicaid will assist home care providers.

Proximity to key markets

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

Ability to attract local support/ patronage and frequent referrals

Referral networks are important for home care providers. Referrers include hospitals, physicians, insurers and the public.

Ability to alter goods and services produced in favor of market conditions

Revenue and profitability can be affected by the mix of services provided by an agency, the mix of patients treated (by case mix) and the rate of reimbursement among payers for the services.

Competitive Landscape

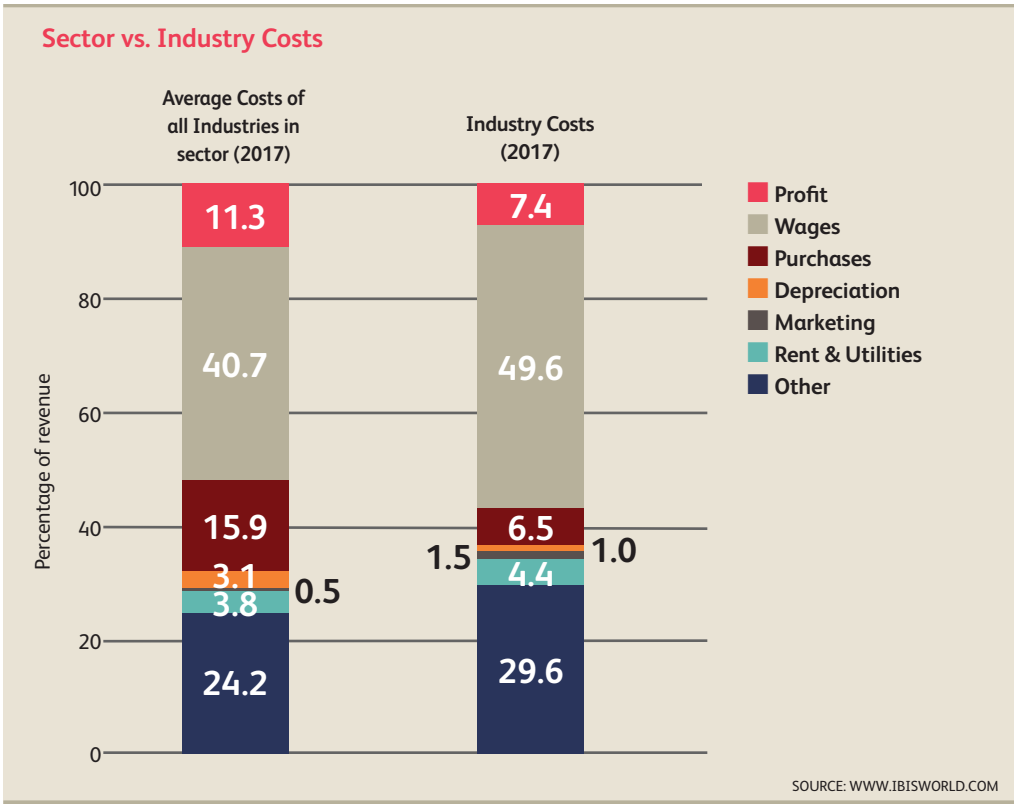
Key Success Factors continued

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

Cost Structure Benchmarks

Profit
Industry profitability varies based on the size of a company and its specific healthcare offerings. Generally, respiratory therapy businesses have the highest profit margins, followed by infusion therapy businesses and home health agencies, which operate on significantly lower operating margins. Profit margins are further influenced by patient volumes and payer reimbursement. According to the Government Accountability Office, some industry agencies prefer Medicare to private or commercial-pay patients, because the Medicare system results in fewer visits per episode of treatment and a higher proportion of users categorized into higher payment groups. These factors increase a company's profitability; however, not all industry operators are shifting patient mix toward Medicare. The home health operations of Gentiva, acquired by Kindred Healthcare in 2015, has historically received about 80.0% of its revenue from Medicare and has not increased its patient mix. Instead, the company leverages its size to negotiate managed care contracts.

Operating profit, measured by earnings before interest and taxes, has generally remained steady, accounting



Competitive Landscape

Cost Structure Benchmarks continued

for 7.4% of revenue for an average industry company in 2017. Significant profit growth has been largely suppressed by healthcare reform-related reimbursement cuts. According to the National Association for Home Care and Hospice (NAHC), the Medicare home healthcare benefit will contend with $22.0 billion in cuts by the end of 2017. NAHC estimates that about three-quarters of industry enterprises will be unable to operate profitably by 2017 if these payment reductions remain on the books. Therefore, although demand from baby boomers will grow in coming years, Medicare reimbursement cuts will likely cause average industry profit margins to stagnate over the next five years.

Wages

Home healthcare is considered a cost-effective alternative to extended hospitalizations, lengthy rehabilitation or nursing facility stays. Since the service is rendered in the patient's home, some of the large capital costs associated with facility-based care are avoided. As a result, home care costs are substantially labor-oriented. Wages account for 49.6% of industry revenue in 2017, down slightly from 2012, as labor costs have fallen slightly over the past five years due to cost-cutting initiatives. Unstable profit and revenue resulting from planned Medicare reimbursement cuts beginning in 2014 will likely force industry operators to continue to keep labor costs low. According to the Bureau of Labor Statistics, industry companies already began firing employees as early as December 2013, prior to the formal implementation of the Medicare payment reductions. By comparison, wages accounted for an estimated 49.7% of industry revenue in 2012.

Purchases

The Home Care Providers industry has only recently begun to view technology as a strategic asset, and, as a result, is several years behind other healthcare industries and has only recently begun to invest significantly in electronic data interchange (EDI). The Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 require the Department of Health and Human Services to establish national standards for electronic healthcare transactions and national identifiers for providers, health plans and employers. The act also addresses the security and privacy of individually identifiable health information. Adopting these standards will improve the efficiency and effectiveness of the nation's healthcare system by encouraging the widespread use of EDI in healthcare. Electronic processing of transactions is expected to significantly reduce labor and error-related costs, but the initial investment in information technology may be a significant cost to many home care agencies.

Purchases currently account for 6.5% of industry revenue, a slight decrease from previous years. Industry operators, confronted with planned Medicare reimbursement cuts, have taken drastic cost-cutting measures and accordingly purchased fewer medical devices. However, declines have been mitigated due to the purchase costs related to EDI implementation and a 2.3% excise tax on medical devices included in the Patient Protection and Affordable Care Act. Industry operators often purchase medical devices (such as respiratory aides) to provide home healthcare to patients, and some device manufacturers have chosen to pass this cost on to customers (including home care providers) in the form of higher-priced devices. Although these prices will likely remain high over the five years to 2022, IBISWorld expects industry companies to continue implementing cost-cutting measures. As a result, purchases' share of

Competitive Landscape

Cost Structure Benchmarks continued

industry revenue will likely remain steady over the next five years.

Other

Depreciation expenses vary depending on the equipment intensity of the business. For example, respiratory therapy businesses tend to invest highly in equipment. Kindred's Gentiva Health Services, a provider of home health agency services, had depreciation and amortization expenses that consumed 2.2% of revenue in 2016 (latest data available), while companies that focus more on home respiratory services, or other treatments that require heavy machinery, will likely experience higher depreciation and amortization expenses. However, as the majority of industry revenue is generated by low-expense nursing care, depreciation only totals 1.0% of revenue for an average industry care provider.

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

Basis of Competition

Level & Trend

Competition in this industry is **High** and the trend is **Steady**

Internal competition

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

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

Some companies have sought to grow market share, including through acquisition activity, to better penetrate key geographic markets and more efficiently market products and services to physicians, hospital discharge planners and managed care organizations. Furthermore, since referral sources and payers may have a preference to purchase

Competitive Landscape

Basis of Competition continued

similar services from one provider, some industry players align themselves with other healthcare providers to raise their profile among managed care providers and provider networks.

External competition

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

Similarly, for individuals living alone who are self-sufficient, a phone call or occasional visit to the home from a friend, neighbor, or family member may be sufficient to help. An in-home alert system, which enables the individual to easily call for assistance, is a cost-effective alternative to home care. Technology is increasingly being used to aid seniors and other individuals who need basic help with daily activities at home or who require monitoring. For instance, if a senior is having difficulty with taking medications on time, automated medication dispensers (pill organizers that help ensure that medications and vitamins are taken properly and on time) are an easy and affordable solution. Other types of technologies, such as oxygen supplies, can be provided by companies that specialize in producing these products. Some industrial gas companies compete with home healthcare providers to provide oxygen to patients with respiratory illnesses.

Barriers to Entry

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

Barriers to entry for the Home Care Providers industry are low, as evidenced by the large number of industry players. The industry is highly fragmented with more than 411,118 different operators in 2017. A few companies hold significant market share positions in the respiratory and home infusion therapy markets; nonetheless, there are also large numbers of regional and local providers in these market segments. Most segments of this industry are characterized by low capital costs (with the possible exception of the home respiratory therapy market segment) and the personalized nature of the services provided. These low capital costs make it relatively easy for a new company to enter the industry because, instead of large upfront investments in equipment or property, most industry costs are limited to those associated with labor, including wage and transportation costs.

Potentially significant barriers to industry entry include licensing and

Barriers to Entry checklist

Competition	High
Concentration	Low
Life Cycle Stage	Growth
Capital Intensity	Low
Technology Change	Medium
Regulation & Policy	Heavy
Industry Assistance	High

SOURCE: WWW.IBISWORLD.COM

Competitive Landscape

Barriers to Entry continued

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

Industry Globalization

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

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

Major Companies

There are no Major Players in this industry | Other Companies

Other Companies

The Home Care Providers industry is highly fragmented, with more than 90.0% of industry establishments consisting of sole proprietorships. No player in the industry accounts for more than 5.0% of industry revenue.

Kindred Healthcare Inc.

Estimated market share: 2.8 %

Kindred Healthcare Inc. (Kindred) is a healthcare services company that, through its subsidiaries, operates hospitals, nursing centers, a home health and hospice care business and a contract rehabilitation services business. The company's hospital division operates 82 long-term acute care hospitals, and its nursing center division operates 91 nursing centers and seven assisted-living facilities. The home health and hospice care division operates 635 locations, while its rehabilitation division provides rehabilitative services to 1,718 nursing centers. The company is headquartered in Louisville, KY, and generated over $7.2 billion in revenue in 2016.

Kindred has been extremely active in expanding its home health and associated hospice care business for the better part of the past decade through extensive merger and acquisition activity. However, no acquisition was bigger than Kindred's recent purchase of Gentiva Health Services (Gentiva), the industry's largest player. Completed in February 2015, the merger cost Kindred a reported $1.8 billion and gives the company Gentiva's substantial network of more than 39,000 people in its hospice, community care and home health operations, all of which are relevant to this industry. As of year-end 2014 (latest available data), Gentiva operated 491 locations across 40 states.

In 2017, Kindred is expected to generate $2.6 billion in industry-relevant revenue. The vast majority of this figure, however, reflects the performance of Gentiva's home health business. Over the past five years, revenue growth has been supported by acquisitions, organic volume growth and process enhancement changes. Revenue from Gentiva's home healthcare segment alone grew nearly 20.0% in 2014, largely due to the Harden acquisition. However, Gentiva's profit growth was uneven in recent years due to fluctuations in federal reimbursement rates and the cost impact of large acquisitions. Gentiva operated at a loss in 2013, and only posted an operating income margin of 1.6% in 2012.

Lincare Holdings Inc.

Estimated market share: 2.3 %

Based in Clearwater, FL, Lincare Holdings Inc. (Lincare) is a provider of oxygen and other respiratory therapy services to patients. Lincare also provides a variety of durable medical equipment and home infusion therapies in certain geographic markets. Its principal products include home oxygen equipment, oxygen concentrators and liquid oxygen systems. Lincare operates more than 1,100 facilities in 48 states and differentiates itself from competitors by running small, lean branches with just seven or eight employees to increase labor productivity.

Lincare's growth strategy includes expansion through acquisitions and opening new locations. Over the five years to 2017, the company has acquired local suppliers that have had trouble absorbing the Medicare cuts, including American HomePatient and Home Health Depot. In 2012, Lincare was acquired by German industrial company Linde Group. Since then, the company has not publicly disclosed any financial information. IBISWorld expects Lincare's annual revenue to reach nearly $2.2 billion in 2017.

Amedisys Inc.

Estimated market share: 1.6 %

Amedisys Inc. (Amedisys) operates 327 Medicare-certified home health centers,

Major Companies

Other Companies continued

79 Medicare-certified hospice centers and 14 personal care centers in 21 states. Home health services account for about 80.0% of company revenue, while hospice revenue generates the additional 20.0%. The company employs about 16,000 people and is headquartered in Baton Rouge, LA.

Amedisys' services are primarily paid for by Medicare, which accounted for about 78.0% of company revenue in 2016 (latest available data). Amedisys' volume growth has been notably slow compared with its competitors, although the company has recently attempted to boost revenue by expanding its service offerings, developing referral relationships with physicians and hospitals and adding service centers in existing markets. Over the longer term, the company plans to develop from a home healthcare company into a post-acute chronic care company in hopes of better serving the needs of seniors and diversifying the company's sources of payment so that the company will be less reliant on Medicare.

However, the company's industry-relevant revenue has fallen in recent years. In 2013, Amedisys consolidated, sold or closed 76 of its home health and hospice centers. Moreover, in 2014, Amedisys agreed to pay $150.0 million to the federal government for violations of the False Claims Act. This was the result of a 2010 federal lawsuit brought against the company by whistleblowers alleging that Amedisys billed Medicare for ineligible patients and service between 2008 and 2010. Nonetheless, the company's industry-specific revenue rebounded in 2015, rising an estimated 6.3%. This trend is expected to continue in 2017, as IBISWorld expects the company's revenue to rise an estimated 5.5% to over $1.5 billion.

Interim HealthCare Inc.

Estimated market share: 1.3 %

Interim HealthCare Inc. (Interim HealthCare) is a leading home care and medical staffing company. Founded in 1966 and headquartered in Sunrise, FL, it has more than 600 independently owned franchise locations in 43 states, as well as more than 400 international facilities. Interim's independent franchisees employ more than 40,000 healthcare workers and provide nurses, therapists, aides and other healthcare personnel to more than 50,000 people each year. The company offers home care, hospice and healthcare staffing services. The home care segment offers nonmedical care for the elderly, including companionship, homemaking, transportation and light housekeeping.

Over the five years to 2017, Interim HealthCare's franchisee revenue is expected to increase an annualized 4.8% to $1.2 billion. Interim's long-standing presence in the industry, coupled with rising overall demand for industry services, helped it weather the economic downturn. Interim has continued expansion efforts over the past five years in response to favorable demographic shifts. The company's operating profit margin has remained strong during this period, largely due to the corporate brand's efforts to lower costs. Moreover, Interim HealthCare has worked extensively to improve efficiency, further bolstering margins.

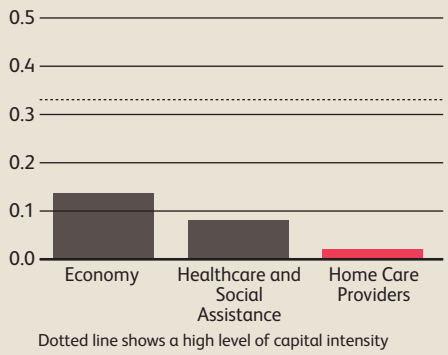
Operating Conditions

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

Capital Intensity

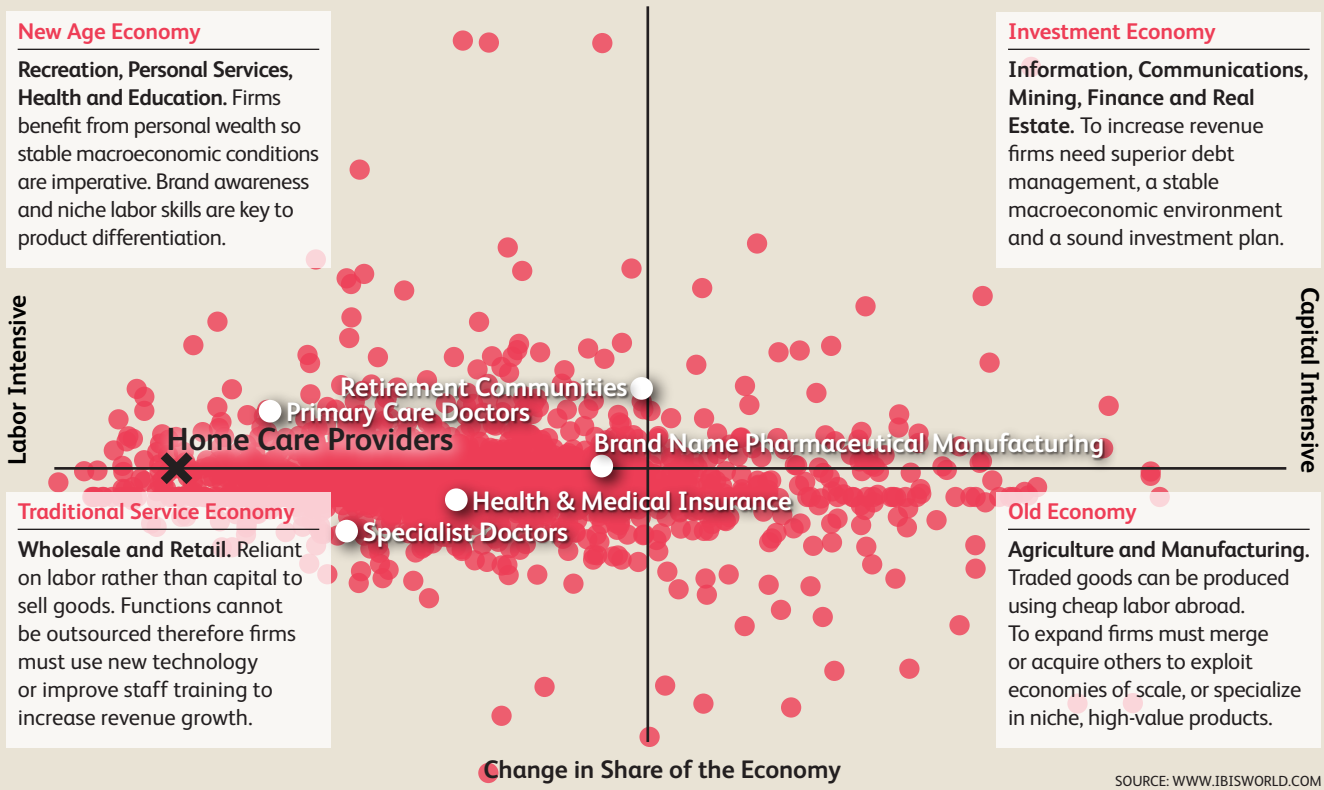
Level
The level of capital intensity is **Low**

The Home Care Providers industry is labor intensive, with most companies relying on skilled care providers to deliver services. The nature of healthcare services depends highly on labor, with personal interaction required for most services. The average operator in this industry spends only $0.02 on capital for every $1.00 spent on labor. The level of personal care is high and typically raises labor-related costs. Driving and other transportation expenses can further increase labor costs, as many industry professionals make house calls and therefore spend a lot of on-the-job time traveling. Furthermore, the fact that the care is provided in the home avoids the need for institutionalized facilities, which will reduce capital costs.



SOURCE: WWW.IBISWORLD.COM

Tools of the Trade: Growth Strategies for Success



SOURCE: WWW.IBISWORLD.COM

Operating Conditions

Capital Intensity continued

Variations in capital intensity by segment

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

Technology & Systems

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

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

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

Improving rural access

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

Operating Conditions

Technology & Systems continued

independence, and improve health by letting senior citizens live at home longer prior to or instead of requiring nursing home care. They also believe the monitoring technologies themselves could help reduce home health visits overall, saving Medicare money.

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

Revenue Volatility

Level
The level of Volatility is **Low**

Service affordability

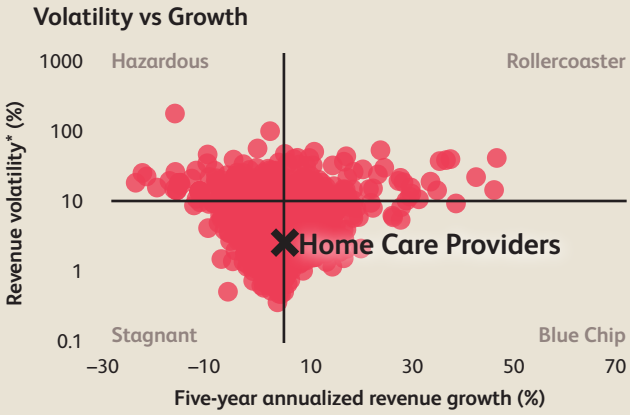
This industry has a low level of revenue volatility. Over the five years to 2017, industry revenue is expected to increase at an annualized rate of 4.0%. While reimbursement policies implemented by insurers and government programs can increase industry revenue volatility, many services are high priority or essential for medical purposes. This reduces the likelihood that people will delay or forego services, regardless of reimbursement policies. Furthermore, home healthcare services are cost-effective relative to institutional care, reducing industry vulnerability to fluctuations in consumer disposable income. Health insurance can also reduce the patients' out-of-pocket costs, which will support sustained demand.

Aging population drives growth

The aging population also buffers revenue growth. The number of adults aged 65 and older has grown over the five years to 2017, and the group's share of total US population will likely continue to grow in coming years. Individuals aged 65 and older experience more age-related health problems and therefore demand more healthcare. Moreover, age-related illnesses are typically more able to be addressed by home care providers than healthcare issues that younger age groups

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

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



* Axis is in logarithmic scale

SOURCE: WWW.IBISWORLD.COM

Operating Conditions

Revenue Volatility continued

experience are. Many older individuals prefer to stay in their homes as long as possible, and all of these factors add up to more members of the aging population consistently preferring home care over institutionalized care.

Regulation & Policy

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

Regulation shapes various aspects of the fragmented healthcare sector in the United States, from the flow of funds to the communication between physicians and patients. Government agencies at the federal, state and local levels direct portions of the industry, and hundreds of private organizations also influence home care. Home care providers are subject to extensive federal and state regulations that govern Medicare, Medicaid and other government-funded reimbursement programs and are intended to prevent fraud and abuse. IBISWorld forecasts are based on the current regulatory environment and are subject to change accordingly.

Abuse cases

The healthcare sector is an area of rapid regulatory change. Due to growing demand for home healthcare services, as well as overall healthcare reform, regulations that affect this industry have increased over the five years to 2017. The increasing popularity of home healthcare has shone light on recent incidences of abuse, neglect and fraud by home healthcare providers in the United States. According to the *Wall Street Journal*, the majority of these abuse cases involve aides hired to provide nonmedical assistance, which does not require training or, in at least 22 states, licensing. The increased public attention paid to abuse cases has caused regulatory bodies to keep a closer eye on home healthcare providers.

Reimbursement policies

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

Healthcare reform

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

Operating Conditions

Regulation & Policy continued

than institutional care in nursing homes. States that take up this option receive a six-percentage point increase in federal matching payments for costs associated with the program.

However, only 25 states and the District of Columbia have opted to expand Medicaid under PPACA, leaving low-income residents of many states in the same coverage position they were in prior to the act's passage and implementation. Moreover, to help offset the costs associated with PPACA-related expansion of federal programs, the Centers for Medicare and Medicaid Services implemented a 3.5% annualized cut to Medicare funding for home health services applicable from 2014 to 2017. Although industry operators and supportive associations are lobbying Congress to reconsider this damaging blow to funding, the policy decision is currently in effect and will have a significant impact on industry revenue and profit in coming years, potentially drastically altering the industry landscape.

Minimum wage laws

In October 2015, the Supreme Court upheld the regulatory changes adopted by the US Department of Labor in 2013, extending federal minimum wage and overtime protections to previous exempt home health aides. The new regulations, which took effect on October 13, 2015, are expected to lift wages of historically poorly paid industry employees, with the average industry wage projected to reach $25,517 by 2022. As a result, wages' share of revenue is anticipated to increase from 49.6% in 2017 to 50.4% in 2022.

Industry Assistance

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

A significant portion of industry revenue is derived from government healthcare programs, including Medicare and Medicaid. Medicare is a social insurance program administered by the US government, providing health insurance coverage to people who are aged 65 and over, or who meet other special criteria. Medicaid is the US health program for eligible individuals and families with low incomes and resources. IBISWorld estimates based on figures from the Centers for Medicare and Medicaid Services show that Medicare will account for 38.9% of home healthcare expenditure in 2017, while Medicaid will account for 36.7%.

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

Medicare's Supplemental Medical Insurance Program (Part B) pays 80.0% of the approved amount for physician services, outpatient hospital services and some home healthcare services (including home medical equipment and oxygen therapy equipment) after the payment of a deductible amount. Recent legislation, including the US Medicare

Operating Conditions

Industry Assistance continued

Improvements for Patients and Providers Act of 2008 and the US Medicare, Medicaid and SCHIP Extension Act of 2007, contain provisions that directly affect reimbursement for the primary respiratory and other DME products.

Medicare Part B covers a limited number of infusion therapies, supplies and equipment. The Medicare Modernization Act, through the new Medicare Part D program, provided expanded coverage of certain home infusion therapy drugs, but excluded coverage for the corresponding supplies and clinical services needed to safely and effectively administer these drugs. However, the Medicare Home Infusion Site of Care Act was introduced in 2015 and provides a comprehensive solution to the gaps in coverage. The act classifies coverage of all infusion drugs under Part D, while home supplies, equipment and services are covered by Part B.

Key Statistics

Industry Data

	Revenue ($m)	Industry Value Added ($m)	Establish-ments	Enterprises	Employment	Exports	Imports	Wages ($m)	Domestic Demand	Adults 65 years and over (Mils)
2008	63,817.6	37,379.6	258,833	251,728	1,269,823	--	--	32,465.6	N/A	38.8
2009	68,191.9	40,205.2	282,487	275,023	1,361,610	--	--	34,886.2	N/A	38.0
2010	71,060.1	43,284.0	307,962	300,105	1,459,467	--	--	36,604.4	N/A	38.7
2011	73,265.4	43,511.0	328,282	320,085	1,549,487	--	--	37,869.7	N/A	39.6
2012	75,974.0	44,017.9	332,925	324,753	1,534,066	--	--	37,788.1	N/A	40.7
2013	77,553.0	45,496.8	347,941	339,504	1,593,012	--	--	38,982.4	N/A	41.9
2014	79,669.6	46,304.1	363,166	354,591	1,638,139	--	--	39,691.6	N/A	43.2
2015	82,828.9	48,748.9	369,856	363,436	1,716,322	--	--	42,039.8	N/A	44.3
2016	89,991.6	52,510.1	398,099	391,010	1,788,409	--	--	44,169.8	N/A	45.8
2017	92,510.4	53,619.1	417,966	411,118	1,856,636	--	--	45,888.5	N/A	47.3
2018	94,987.5	55,244.0	438,728	432,219	1,921,062	--	--	47,531.0	N/A	48.9
2019	102,218.6	59,765.5	466,896	459,656	2,053,349	--	--	51,235.0	N/A	50.6
2020	108,658.0	63,812.2	494,649	486,941	2,170,778	--	--	54,547.3	N/A	52.3
2021	115,739.0	68,412.5	524,114	515,841	2,305,189	--	--	58,315.8	N/A	53.9
2022	124,426.7	73,841.3	557,334	548,161	2,458,037	--	--	62,722.3	N/A	55.6
Sector Rank	**9/71**	**8/70**	**2/71**	**2/71**	**2/71**	**N/A**	**N/A**	**7/71**	**N/A**	**N/A**
Economy Rank	**124/1776**	**61/1573**	**25/1776**	**23/1776**	**16/1776**	**N/A**	**N/A**	**37/1776**	**N/A**	**N/A**

Annual Change

	Revenue (%)	Industry Value Added (%)	Establish-ments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)	Adults 65 years and over (%)
2009	6.9	7.6	9.1	9.3	7.2	N/A	N/A	7.5	N/A	-2.1
2010	4.2	7.7	9.0	9.1	7.2	N/A	N/A	4.9	N/A	1.8
2011	3.1	0.5	6.6	6.7	6.2	N/A	N/A	3.5	N/A	2.3
2012	3.7	1.2	1.4	1.5	-1.0	N/A	N/A	-0.2	N/A	2.8
2013	2.1	3.4	4.5	4.5	3.8	N/A	N/A	3.2	N/A	2.9
2014	2.7	1.8	4.4	4.4	2.8	N/A	N/A	1.8	N/A	3.1
2015	4.0	5.3	1.8	2.5	4.8	N/A	N/A	5.9	N/A	2.5
2016	8.6	7.7	7.6	7.6	4.2	N/A	N/A	5.1	N/A	3.4
2017	2.8	2.1	5.0	5.1	3.8	N/A	N/A	3.9	N/A	3.3
2018	2.7	3.0	5.0	5.1	3.5	N/A	N/A	3.6	N/A	3.4
2019	7.6	8.2	6.4	6.3	6.9	N/A	N/A	7.8	N/A	3.5
2020	6.3	6.8	5.9	5.9	5.7	N/A	N/A	6.5	N/A	3.4
2021	6.5	7.2	6.0	5.9	6.2	N/A	N/A	6.9	N/A	3.1
2022	7.5	7.9	6.3	6.3	6.6	N/A	N/A	7.6	N/A	3.2
Sector Rank	**5/71**	**6/70**	**5/71**	**5/71**	**6/71**	**N/A**	**N/A**	**5/71**	**N/A**	**N/A**
Economy Rank	**184/1776**	**171/1573**	**108/1776**	**106/1776**	**151/1776**	**N/A**	**N/A**	**130/1776**	**N/A**	**N/A**

Key Ratios

	IVA/Revenue (%)	Imports/ Demand (%)	Exports/ Revenue (%)	Revenue per Employee ($'000)	Wages/Revenue (%)	Employees per Est.	Average Wage ($)	Share of the Economy (%)
2008	58.57	N/A	N/A	50.26	50.87	4.91	25,567.03	0.25
2009	58.96	N/A	N/A	50.08	51.16	4.82	25,621.29	0.28
2010	60.91	N/A	N/A	48.69	51.51	4.74	25,080.66	0.29
2011	59.39	N/A	N/A	47.28	51.69	4.72	24,440.15	0.29
2012	57.94	N/A	N/A	49.52	49.74	4.61	24,632.64	0.29
2013	58.67	N/A	N/A	48.68	50.27	4.58	24,470.88	0.29
2014	58.12	N/A	N/A	48.63	49.82	4.51	24,229.69	0.29
2015	58.85	N/A	N/A	48.26	50.75	4.64	24,494.12	0.30
2016	58.35	N/A	N/A	50.32	49.08	4.49	24,697.82	0.32
2017	57.96	N/A	N/A	49.83	49.60	4.44	24,715.94	0.31
2018	58.16	N/A	N/A	49.45	50.04	4.38	24,742.04	0.32
2019	58.47	N/A	N/A	49.78	50.12	4.40	24,951.92	0.34
2020	58.73	N/A	N/A	50.05	50.20	4.39	25,128.00	0.35
2021	59.11	N/A	N/A	50.21	50.39	4.40	25,297.62	0.37
2022	59.35	N/A	N/A	50.62	50.41	4.41	25,517.23	0.39
Sector Rank	**40/70**	**N/A**	**N/A**	**60/71**	**17/71**	**57/71**	**58/71**	**8/70**
Economy Rank	**206/1573**	**N/A**	**N/A**	**1678/1776**	**90/1776**	**1338/1776**	**1509/1776**	**61/1573**

Figures are in inflation-adjusted 2017 dollars. Rank refers to 2017 data.

SOURCE: WWW.IBISWORLD.COM

Industry Financial Ratios

	Apr 2012 - Mar 2013	Apr 2013 - Mar 2014	Apr 2014 - Mar 2015	Apr 2015 - Mar 2016	Apr 2015 - Mar 2016 by company revenue: Small (<$10m)	Medium ($10-50m)	Large (>$50m)
Liquidity Ratios							
Current Ratio	1.9	2.0	1.9	2.0	2.0	2.0	1.8
Quick Ratio	1.8	1.8	1.7	1.8	1.9	1.8	1.6
Sales / Receivables (Trade Receivables Turnover)	10.4	10.2	12.2	10.9	21.5	8.8	9.1
Days' Receivables	35.1	35.8	29.9	33.5	17.0	41.5	40.1
Cost of Sales / Inventory (Inventory Turnover)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Days' Inventory	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cost of Sales / Payables (Payables Turnover)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Days' Payables	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sales / Working Capital	13.0	13.8	15.1	13.1	14.2	12.1	13.5
Coverage Ratios							
Earnings Before Interest & Taxes (EBIT) / Interest	13.0	9.3	10.4	7.8	7.7	11.9	3.6
Net Profit + Dep., Depletion, Amort. / Current Maturities LT Debt	n/a	7.1	3.2	5.1	n/a	n/a	n/a
Leverage Ratios							
Fixed Assets / Net Worth	0.3	0.4	0.3	0.3	0.3	0.3	0.5
Debt / Net Worth	1.0	1.0	1.0	1.0	1.2	0.9	1.4
Tangible Net Worth	34.1	29.9	30.1	28.5	22.9	41.8	18.4
Operating Ratios							
Profit before Taxes / Net Worth, %	21.3	18.0	27.6	27.6	32.2	18.9	22.7
Profit before Taxes / Total Assets, %	9.2	8.4	9.6	10.3	14.2	7.9	3.9
Sales / Net Fixed Assets	32.0	39.1	43.4	49.0	70.7	35.7	19.1
Sales / Total Assets (Asset Turnover)	2.5	2.7	3.2	3.3	4.0	2.7	2.1
Cash Flow & Debt Service Ratios (% of sales)							
Cash from Trading	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cash after Operations	3.3	4.6	5.5	4.7	5.0	4.1	2.7
Net Cash after Operations	3.8	4.5	5.8	4.8	5.0	5.0	3.1
Cash after Debt Amortization	0.7	1.3	1.4	1.2	0.2	2.8	0.7
Debt Service P&I Coverage	3.1	2.8	3.4	3.0	2.7	4.6	1.6
Interest Coverage (Operating Cash)	9.5	7.4	7.8	6.3	5.6	13.9	3.1
Assets, %							
Cash & Equivalents	24.0	23.1	25.9	24.6	26.7	23.4	15.8
Trade Receivables (net)	28.3	28.0	25.5	28.1	25.1	32.1	32.6
Inventory	0.4	0.3	0.2	0.4	0.6	0.1	0.5
All Other Current Assets	3.3	4.0	3.1	4.4	5.6	2.8	1.8
Total Current Assets	56.1	55.4	54.8	57.4	58.0	58.5	50.8
Fixed Assets (net)	22.2	23.8	21.9	20.7	21.8	19.4	18.9
Intangibles (net)	7.2	7.7	8.6	9.1	9.6	6.6	13.8
All Other Non-Current Assets	14.5	13.1	14.7	12.8	10.6	15.5	16.5
Total Assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Assets ($m)	3,519.8	3,430.7	3,702.3	3,936.9	358.3	1,556.0	2,022.5
Liabilities, %							
Notes Payable-Short Term	11.4	9.3	10.7	11.4	13.1	8.7	10.5
Current Maturities L/T/D	2.0	2.2	2.1	2.6	2.5	2.8	1.9
Trade Payables	6.5	5.6	6.2	7.0	6.2	8.1	8.1
Income Taxes Payable	0.1	n/a	0.1	0.2	0.2	0.2	0.2
All Other Current Liabilities	17.9	18.4	20.0	17.4	17.1	16.8	21.4
Total Current Liabilities	37.9	35.5	39.1	38.5	39.0	36.6	42.0
Long Term Debt	14.5	18.9	15.2	17.0	18.9	12.4	21.1
Deferred Taxes	n/a	0.1	0.1	n/a	n/a	n/a	0.1
All Other Non-Current Liabilities	6.3	7.9	7.0	6.8	9.5	2.5	4.5
Net Worth	41.3	37.6	38.7	37.6	32.5	48.4	32.2
Total Liabilities & Net Worth ($m)	3,519.8	3,430.7	3,702.3	3,936.9	358.3	1,556.0	2,022.5
Maximum Number of Statements Used	348	349	377	375	219	120	36

Source: RMA Annual Statement Studies, rmahq.org. RMA data for all industries is derived directly from more than 260,000 statements of member financial institutions' borrowers and prospects.

Note: For a full description of the ratios refer to the Key Statistics chapter online.

Jargon & Glossary

Industry Jargon

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

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

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

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

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

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

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

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

IBISWorld Glossary

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

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

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

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

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

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

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

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

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

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

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

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

Jargon & Glossary

IBISWorld Glossary continued

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

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

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

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

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

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