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## Almost Family Is Almost Perfect

<http://www.fool.com/investing/general/2010/11/17/almost-family-is-almost-perfect.aspx>

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[I'm a believer in growth stocks](#). As an analyst for our *Motley Fool Rule Breakers* service, I think you should be a believer too. But even I have to admit some growth stories are bogus, hence this regular series.

Next up: **Almost Family** (Nasdaq: [AFAM](#)). Is this provider of home health care services the real thing? Let's get right to the numbers.

### Foolish facts

Metric	Almost Family
CAPS stars (out of 5)	*****
Total ratings	890
Percent bulls	96.7%
Percent bears	3.3%
Bullish pitches	116 out of 120
Highest rated peers	<b>America Service Group, Psychemedics, IPC The Hospitalist</b>

Data current as of Nov. 16.

Almost Family is a regional provider of home health services for an aging U.S. population. Sound good? It should.

According to data from the Department of Health and Human Services, a home health aide typically costs \$21 an hour. Multiply that by 4 hours a day and three days a week and that's \$252 a week, \$1,008 a month, and \$12,096 a year. And that's for a *cheap* service. Or, as All-Star Fool [Jeffreyw](#) put it last month:

"Growing demand for quality senior services as the largest segment of the US population hits retirement age."

Most of Almost Family's Visiting Nurse (VN) services are covered by Medicare and Medicaid, and could see changes as a result of the new health care bill. Or not, if a newly empowered Republican-controlled House makes good on threats to repeal significant portions of [the health care bill](#) President Obama signed into law earlier this year.

Either way, there's a tragic amount of demand for Almost Family's services. Third-quarter services revenue increased 11% and net income improved 29%. On average, analysts expect the company to improve its bottom line by 15.8% annually for the foreseeable future.

Of course, no stock story is perfect and this one isn't either. The Securities and Exchange Commission (SEC) is investigating whether Almost Family and its peers schemed to [increase their billings to boost profits](#).

### The elements of growth

Metric	Last 12 Months	2009	2008
Normalized net income growth	<b>35.2%</b>	<b>52.6%</b>	<b>107.1%</b>

Revenue growth	<b>15.6%</b>	<b>40.8%</b>	<b>61.6%</b>
Gross margin	54.2%	53.5%	53.6%
Receivables growth	1.3%	1%	104.9%
Shares outstanding	9.2 million	9.2 million	8.1 million

Source: Capital IQ, a division of Standard & Poor's.

Whether they did or didn't is unknown at this point. What we do know is how Almost Family is performing, and the numbers look solid. Let's review:

- Neither revenue nor normalized net income growth is accelerating, but I'm not sure it matters. Almost Family's revenue growth far exceeds receivables, which suggests a high degree of management efficiency.
- Stable to slightly rising gross margin tells us the business isn't overly sensitive to pricing pressure, another good sign.
- Shares outstanding have risen dramatically since 2008, but this is in part due to shelf registrations at the end of 2008 and a follow-on offering in April of last year. None of these transactions bother me. Almost Family has a history of earning high returns on debt and equity capital employed.

### Competitor and peer checkup

Company	Normalized Net Income Growth (3 yrs.)
Almost Family	63.6%
<b>Amedisys</b> (Nasdaq: <a href="#">AMED</a> )	34.2%
<b>Gentiva Health Services</b> (Nasdaq: <a href="#">GTIV</a> )	34.3%
<b>LHC Group</b> (Nasdaq: <a href="#">LHCG</a> )	31.2%

Source: Capital IQ. Data current as of Nov. 16.

Almost Family appears to be the strongest of a strong group. Trouble is, the company is already experiencing slowing growth, as are peers. For example, Amedisys' bottom line is up just 6.3% over the past 12 months after years of double-digit growth.

### Grade: Unsustainable

You know what? None of that matters. Almost Family is as close to a picture-perfect value play as I've seen.

The stock trades for just 10 times trailing earnings and a fraction of the long-term earnings growth analysts expect the company to achieve. That's too cheap. As such, I've rated Almost Family to outperform in my CAPS portfolio.

Now it's your turn to weigh in. Do you like Almost Family at these levels? Let us know what you think using the comments box below. You can also ask Tim to evaluate a favorite growth story by [sending him an email](#), or replying to him [on Twitter](#).

*Interested in more info on Almost Family? Add it to your watchlist here by [clicking here](#).*

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