# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-Q

**(Mark One)**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 29, 2024**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from ___________ to ___________**

**Commission File Number: 001-40362**

# Aveanna Healthcare Holdings Inc.

**(Exact Name of Registrant as Specified in its Charter)**

| **Delaware** | **81-4717209** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

| **400 Interstate North Parkway SE, Atlanta, GA** | **30339** |
|---|---|
| **(Address of principal executive offices)** | **(Zip code)** |

**(770) 441-1580**

**(Registrant's telephone number, including area code)**

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.01 per share | AVAH | The Nasdaq Stock Market LLC |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☒ |
| | | Emerging growth company | ☐ |

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 2, 2024, the registrant had 193,225,177 shares of common stock, $0.01 par value per share, outstanding.

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations and financial condition, business strategy, and plans and objectives of management for future operations, are forward-looking statements. In some cases, forward-looking statements may be identified by words such as "anticipate," "believe," "continue," "could," "design," "estimate," "expect," "intend," "may," "plan," "potentially," "predict," "project," "should," "will," "would," or the negative of these terms or other similar expressions.

These statements are based on certain assumptions that we have made considering our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate in these circumstances. As you read and consider this Quarterly Report on Form 10-Q, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions. Many factors could affect our actual results and could cause actual results to differ materially from those expressed in the forward-looking statements. Forward-looking statements contained in this Quarterly Report on Form 10-Q are subject to risks that may cause actual results to differ materially from those expressed or implied in the forward-looking statements, including, but not limited to, the following risks:

- intense competition among home health, hospice and durable medical equipment companies;
- our ability to maintain relationships with existing patient referral sources;
- the possibility that our business, financial condition and results of operations may be materially adversely affected by public health emergencies, such as a resurgence of the COVID-19 pandemic or other public health emergencies;
- our ability to have services funded from third-party payers, including Medicare, Medicaid and private health insurance companies;
- changes to Medicare or Medicaid rates or methods governing Medicare or Medicaid payments, and the implementation of alternative payment models, including but not limited to Medicare Advantage, Managed Care Organization, managed Medicaid, and other forms of managed care;
- any downward pressure on reimbursement resulting from further proliferation of Medicare Advantage plans;
- our limited ability to control reimbursement rates received for our services;
- delays in collection or non-collection of our patient accounts receivable, particularly during the business integration process, or when transitioning between systems associated with clinical data collection and submission, as well as billing and collection systems;
- healthcare reform and other regulations;
- changes in the case-mix of our patients, as well as payer mix and payment methodologies;
- any reduction in net reimbursement if we do not effectively implement value-based care programs;
- our ability to attract and retain experienced employees and management personnel, and including both shortages in workforce and inflationary wage pressures;
- any failure to maintain the security and functionality of our information systems or to defend against or otherwise prevent a cybersecurity attack or breach;
- our substantial indebtedness, which increases our vulnerability to general adverse economic and industry conditions and may limit our ability to pursue strategic alternatives and react to changes in our business and industry;
- our ability to identify, acquire, successfully integrate and obtain financing for strategic and accretive acquisitions;
- risks related to legal proceedings, claims and governmental inquiries given that the nature of our business exposes us to various liability claims, which may exceed the level of our insurance coverage; and
- the other risks described under Part II, Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q and under the heading "Risk Factors" contained in our Annual Report on Form 10-K filed on March 14, 2024.

Additionally, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time, and it is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Considering these risks, uncertainties and assumptions, the forward-looking statements contained in this Quarterly Report on Form 10-Q might not prove to be accurate and you should not place undue reliance upon them or otherwise rely upon them as predictions of future events. All forward-looking statements made by us in this Quarterly Report on Form 10-Q are expressly qualified in their entirety by the foregoing cautionary statements. All such statements speak only as of the date made, and we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. We intend that all forward-looking statements be subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.

**AVEANNA HEALTHCARE HOLDINGS INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**(Amounts in thousands, except share and per share data)**

| | As of | |
|---|---|---|
| | June 29, 2024 | December 30, 2023 |
| | (Unaudited) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 47,661 | $ 43,942 |
| Patient accounts receivable | 272,962 | 236,558 |
| Receivables under insured programs | 11,991 | 9,250 |
| Prepaid expenses | 16,801 | 15,684 |
| Other current assets | 14,589 | 9,452 |
| Total current assets | 364,004 | 314,886 |
| Property and equipment, net | 19,233 | 20,548 |
| Operating lease right of use assets | 45,757 | 49,499 |
| Goodwill | 1,054,552 | 1,054,552 |
| Intangible assets, net | 92,859 | 94,010 |
| Receivables under insured programs | 23,999 | 21,315 |
| Other long-term assets | 64,061 | 58,175 |
| Total assets | $ 1,664,465 | $ 1,612,985 |
| | | |
| **LIABILITIES, DEFERRED RESTRICTED STOCK UNITS, AND STOCKHOLDERS' DEFICIT** | | |
| Current liabilities: | | |
| Accounts payable and other accrued liabilities | $ 39,117 | $ 30,130 |
| Accrued payroll and employee benefits | 72,624 | 67,160 |
| Current portion of insurance reserves - insured programs | 11,991 | 9,250 |
| Current portion of insurance reserves | 20,607 | 20,918 |
| Securitization obligations | 170,000 | 155,000 |
| Current portion of long-term obligations | 9,200 | 9,200 |
| Current portion of operating lease liabilities | 14,630 | 14,881 |
| Other current liabilities | 50,977 | 48,219 |
| Total current liabilities | 389,146 | 354,758 |
| Revolving credit facility | - | - |
| Long-term obligations, less current portion | 1,273,942 | 1,276,341 |
| Long-term insurance reserves - insured programs | 23,999 | 21,315 |
| Long-term insurance reserves | 47,966 | 40,290 |
| Operating lease liabilities, less current portion | 36,917 | 39,818 |
| Deferred income taxes | 5,470 | 4,859 |
| Other long-term liabilities | 4,532 | 3,039 |
| Total liabilities | 1,781,972 | 1,740,420 |
| Commitments and contingencies (Note 10) | | |
| Deferred restricted stock units | 1,461 | 2,135 |
| Stockholders' deficit: | | |
| Preferred stock, $0.01 par value as of June 29, 2024 and December 30, 2023 | | |
| 5,000,000 shares authorized; none issued or outstanding | - | - |
| Common stock, $0.01 par value, 1,000,000,000 shares authorized; | | |
| 192,483,903 and 190,733,153 issued and outstanding, respectively | 1,924 | 1,907 |
| Additional paid-in capital | 1,247,608 | 1,239,757 |
| Accumulated deficit | (1,368,500) | (1,371,234) |
| Total stockholders' deficit | (118,968) | (129,570) |
| Total liabilities, deferred restricted stock units, and stockholders' deficit | $ 1,664,465 | $ 1,612,985 |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**AVEANNA HEALTHCARE HOLDINGS INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Amounts in thousands, except per share data)**
**(Unaudited)**

| | For the three-month periods ended | | For the six-month periods ended | |
|---|---|---|---|---|
| | June 29, 2024 | July 1, 2023 | June 29, 2024 | July 1, 2023 |
| Revenue | $ 504,958 | $ 471,945 | $ 995,611 | $ 938,358 |
| Cost of revenue, excluding depreciation and amortization | 346,691 | 316,690 | 691,490 | 638,638 |
| Branch and regional administrative expenses | 87,972 | 91,255 | 175,886 | 182,963 |
| Corporate expenses | 30,245 | 26,354 | 60,087 | 57,289 |
| Depreciation and amortization | 2,833 | 3,491 | 5,745 | 7,532 |
| Acquisition-related costs | - | (32) | - | 38 |
| Other operating expense (income) | 91 | (3,305) | 2,411 | (3,233) |
| Operating income | 37,126 | 37,492 | 59,992 | 55,131 |
| Interest income | 95 | 113 | 197 | 188 |
| Interest expense | (39,613) | (37,985) | (79,260) | (73,943) |
| Other income | 6,371 | 25,169 | 24,540 | 12,981 |
| Income (loss) before income taxes | 3,979 | 24,789 | 5,469 | (5,643) |
| Income tax benefit (expense) | 9,927 | 810 | (2,735) | (756) |
| Net income (loss) | $ 13,906 | $ 25,599 | $ 2,734 | $ (6,399) |
| Net income (loss) per share: | | | | |
| Net income (loss) per share, basic | $ 0.07 | $ 0.14 | $ 0.01 | $ (0.03) |
| Weighted average shares of common stock outstanding, basic | 192,600 | 189,071 | 192,420 | 189,063 |
| Net income (loss) per share, diluted | $ 0.07 | $ 0.13 | $ 0.01 | $ (0.03) |
| Weighted average shares of common stock outstanding, diluted | 196,869 | 189,739 | 196,274 | 189,063 |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**AVEANNA HEALTHCARE HOLDINGS INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**
**(Amounts in thousands, except share data)**
**(Unaudited)**

**For the three-month period ended June 29, 2024**

| | Common Stock | | Additional Paid-in | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Deficit |
| Balance, March 30, 2024 | 192,378,711 | $ 1,923 | $ 1,244,210 | $ (1,382,406) | $ (136,273) |
| Issuance of vested restricted shares | 105,192 | 1 | 674 | - | 675 |
| Non-cash share-based compensation | - | - | 2,724 | - | 2,724 |
| Net income | - | - | - | 13,906 | 13,906 |
| Balance, June 29, 2024 | 192,483,903 | $ 1,924 | $ 1,247,608 | $ (1,368,500) | $ (118,968) |

**For the three-month period ended July 1, 2023**

| | Common Stock | | Additional Paid-in | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Equity |
| Balance, April 1, 2023 | 188,859,165 | $ 1,888 | $ 1,230,954 | $ (1,268,708) | $ (35,866) |
| Employee stock purchase plan | 1,565,933 | 16 | 929 | - | 945 |
| Non-cash share-based compensation | - | - | 2,585 | - | 2,585 |
| Net income | - | - | - | 25,599 | 25,599 |
| Balance, July 1, 2023 | 190,425,098 | $ 1,904 | $ 1,234,468 | $ (1,243,109) | $ (6,737) |

**For the six-month period ended June 29, 2024**

| | Common Stock | | Additional Paid-in | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Deficit |
| Balance, December 30, 2023 | 190,733,153 | $ 1,907 | $ 1,239,757 | $ (1,371,234) | $ (129,570) |
| Employee stock purchase plan | 1,010,635 | 10 | 1,339 | - | 1,349 |
| Issuance of vested restricted shares | 740,115 | 7 | 668 | - | 675 |
| Non-cash share-based compensation | - | - | 5,844 | - | 5,844 |
| Net income | - | - | - | 2,734 | 2,734 |
| Balance, June 29, 2024 | 192,483,903 | $ 1,924 | $ 1,247,608 | $ (1,368,500) | $ (118,968) |

**For the six-month period ended July 1, 2023**

| | Common Stock | | Additional Paid-in | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Deficit |
| Balance, December 31, 2022 | 188,859,165 | $ 1,888 | $ 1,228,512 | $ (1,236,710) | $ (6,310) |
| Employee stock purchase plan | 1,565,933 | 16 | 929 | - | 945 |
| Non-cash share-based compensation | - | - | 5,027 | - | 5,027 |
| Net loss | - | - | - | (6,399) | (6,399) |
| Balance, July 1, 2023 | 190,425,098 | $ 1,904 | $ 1,234,468 | $ (1,243,109) | $ (6,737) |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**AVEANNA HEALTHCARE HOLDINGS INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Amounts in thousands)**
**(Unaudited)**

| | For the six-month periods ended | |
|---|---|---|
| | June 29, 2024 | July 1, 2023 |
| **Cash Flows From Operating Activities:** | | |
| Net income (loss) | $ 2,734 | $ (6,399) |
| Adjustments to reconcile net income (loss) to net cash from operating activities: | | |
| Depreciation and amortization | 5,745 | 7,532 |
| Amortization of deferred debt issuance costs | 2,484 | 2,719 |
| Amortization and impairment of operating lease right of use assets | 10,867 | 8,174 |
| Non-cash share-based compensation | 7,581 | 5,027 |
| Loss on disposal or impairment of licenses, property and equipment, and software | 308 | 381 |
| Fair value adjustments on interest rate derivatives | (5,130) | 1,738 |
| Deferred income taxes | 611 | 592 |
| Changes in operating assets and liabilities, net of impact of acquisitions: | | |
| Patient accounts receivable | (36,404) | (16,195) |
| Prepaid expenses | 1,032 | 1,354 |
| Other current and long-term assets | (14,578) | (10,720) |
| Accounts payable and other accrued liabilities | 8,362 | (5,790) |
| Accrued payroll and employee benefits | 5,464 | 16,347 |
| Insurance reserves | 7,365 | (3,016) |
| Operating lease liabilities | (10,277) | (7,281) |
| Other current and long-term liabilities | 3,673 | 2,514 |
| Net cash used in operating activities | (10,163) | (3,023) |
| **Cash Flows From Investing Activities:** | | |
| Purchase of certificates of need | - | (2,678) |
| Purchases of property and equipment, and software | (2,577) | (3,421) |
| Net cash used in investing activities | (2,577) | (6,099) |
| **Cash Flows From Financing Activities:** | | |
| Proceeds from employee stock purchase plan | 1,349 | 945 |
| Proceeds from securitization obligation | 25,000 | 45,000 |
| Repayment of securitization obligation | (10,000) | (25,000) |
| Proceeds from revolving credit facility | - | 20,000 |
| Repayments on revolving credit facility | - | (20,000) |
| Principal payments on term loans | (4,600) | (4,600) |
| Principal payments on notes payable | (3,561) | (5,125) |
| Principal payments on financing lease obligations | (131) | (378) |
| Payment of debt issuance costs | (267) | - |
| Settlements with interest rate swap counterparties | 8,669 | 7,075 |
| Net cash provided by financing activities | 16,459 | 17,917 |
| Net change in cash and cash equivalents | 3,719 | 8,795 |
| Cash and cash equivalents at beginning of period | 43,942 | 19,217 |
| Cash and cash equivalents at end of period | $ 47,661 | $ 28,012 |

| | | |
|---|---|---|
| **Supplemental Disclosures of Cash Flow Information:** | | |
| Cash paid for interest | $ 77,232 | $ 60,631 |
| Cash paid for income taxes, net of refunds received | $ 4,939 | $ 158 |

The accompanying notes are an integral part of these unaudited consolidated financial statements.

1. DESCRIPTION OF BUSINESS

Aveanna Healthcare Holdings Inc. (together with its consolidated subsidiaries, referred to herein as the "Company") is headquartered in Atlanta, Georgia and has locations in 33 states with concentrations in California, Texas and Pennsylvania, providing a broad range of pediatric and adult healthcare services, including nursing, hospice, rehabilitation services, occupational nursing in schools, therapy services, day treatment centers for medically fragile and chronically ill children and adults, as well as delivery of enteral nutrition and other products to patients. In addition, the Company provides respite healthcare services, which are temporary care provider services provided in relief of the patient's normal caregiver. The Company's services are designed to provide a high quality, lower cost alternative to prolonged hospitalization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Principles of Consolidation*

The accompanying interim unaudited consolidated financial statements include the accounts of Aveanna Healthcare Holdings Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in the interim unaudited consolidated financial statements, and business combinations accounted for as purchases have been included in the interim unaudited consolidated financial statements from their respective dates of acquisition.

*Basis of Presentation*

The accompanying interim consolidated financial statements are unaudited and have been prepared by the Company in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, these interim unaudited consolidated financial statements do not include all the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, these interim unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company's financial position as of June 29, 2024 and the results of operations for the three and six-month periods ended June 29, 2024 and July 1, 2023, respectively. The results reported in these interim unaudited consolidated financial statements should not be regarded as indicative of results that may be expected for any future period or the year ending December 28, 2024. These interim unaudited consolidated financial statements and related notes should be read in conjunction with the audited consolidated financial statements and related notes for the fiscal year ended December 30, 2023 included in the Company's Annual Report on Form 10-K filed with the SEC on March 14, 2024.

Our fiscal year ends on the Saturday that is closest to December 31 of a given year, resulting in either a 52 or 53-week fiscal year. The interim unaudited consolidated balance sheets reflect the accounts of the Company as of June 29, 2024 and December 30, 2023. For the three-month periods ended June 29, 2024 and July 1, 2023, the interim unaudited consolidated statements of operations, stockholders' deficit, and cash flows reflect the accounts of the Company from March 31, 2024 through June 29, 2024 and April 2, 2023 through July 1, 2023, respectively. For the six-month periods ended June 29, 2024 and July 1, 2023, the interim unaudited consolidated statements of operations, stockholders' deficit, and cash flows reflect the accounts of the Company from December 31, 2023, through June 29, 2024 and January 1, 2023 through July 1, 2023.

*Use of Estimates*

The Company's accounting and reporting policies conform with U.S. GAAP. In preparing the interim unaudited consolidated financial statements, the Company is required to make estimates and assumptions that impact the amounts reported in these interim unaudited consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates.

*Recently Issued Accounting Pronouncements*

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures.* The standard improves reportable segment disclosure requirements for public business entities primarily through enhanced disclosures about significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") and included within each reported measure of segment profit (referred to as the "significant expense principle"). The standard will become effective for the fiscal year 2024 annual financial statements and interim financial statements thereafter and will be applied retrospectively for all prior periods presented in the financial statements, with early adoption permitted. The Company plans to adopt the standard when it becomes effective, beginning with the Company's fiscal year 2024 annual financial statements, and is currently evaluating the impact this guidance will have on the disclosures included in the notes to the consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The standard enhances income tax disclosure requirements for all entities by requiring specified categories and greater disaggregation within the rate reconciliation table, disclosure of income taxes paid by jurisdiction, and providing clarification on uncertain tax positions and related financial statement impacts. The standard will be effective for the fiscal year 2025 annual financial statements with early adoption permitted. The Company plans to adopt the standard when it becomes effective beginning with the Company's fiscal year 2025 annual financial statements, and the Company expects the adoption of the standard will impact certain of its income tax disclosures.

3. REVENUE

The Company evaluates the nature, amount, timing and uncertainty of revenue and cash flows using the five-step process. The Company uses a portfolio approach to group contracts with similar characteristics and analyze historical cash collection trends.

Revenue is primarily derived from (i) pediatric healthcare services provided to patients, including private duty nursing and therapy services; (ii) adult home health and hospice services (collectively “patient revenue”); and (iii) the delivery of enteral nutrition and other products to patients (“product revenue”). The services provided by the Company have no fixed duration and can be terminated by the patient or the facility at any time; therefore, each service provided is its own stand-alone contract. Incremental costs of obtaining a contract are expensed as incurred due to the short-term nature of the contracts.

Services ordered by a healthcare provider in an episode of care are not separately identifiable and therefore have been combined into a single performance obligation for each contract. The Company recognizes revenue as its performance obligations are completed. For patient revenue, the performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the healthcare services provided. For product revenue, the performance obligation is satisfied at the point in time of delivery of the product to the patient. The Company recognizes patient revenue equally over the number of treatments provided in a single episode of care. Typically, patients and third-party payers are billed within several days of the service being performed, and payments are due based on contract terms.

The Company’s lines of business are generally classified into the following categories: private duty services; home health and hospice; and medical solutions.

*Private Duty Services (“PDS”).* The PDS business includes a broad range of pediatric and adult healthcare services, including private duty skilled nursing, non-clinical services, which include employer of record support services and personal care services, pediatric therapy services, rehabilitation services, and nursing services in schools and pediatric day healthcare centers.

*Home Health & Hospice (“HHH”)*. The HHH business provides home health, hospice, and personal care services to predominately elderly patients.

*Medical Solutions (“MS”).* The MS business includes the delivery of enteral nutrition and other products to patients.

For the PDS, HHH, and MS businesses, the Company receives payments from the following sources for services rendered: (i) state governments under their respective Medicaid programs (“Medicaid”); (ii) Managed Care providers of state government Medicaid programs (“Medicaid MCO”); (iii) commercial insurers; (iv) other government programs including Medicare, Tricare and ChampVA (“Medicare”); and (v) individual patients. As the period between the time of service and time of payment is typically one year or less, the Company did not adjust for the effects of a significant financing component.

Most contracts contain variable consideration; however, it is unlikely that a significant reversal of revenue will occur when the uncertainty is resolved, and therefore, the Company has included the variable consideration in the estimated transaction price. The Company determines the transaction price based on established billing rates reduced by contractual adjustments provided to third-party payers and by implicit price concessions which are estimated based on historical collection experience. Management estimates the transaction price on a payer-specific basis given its interpretation of the applicable regulations or contract terms. Updated regulations and contract negotiations occur frequently, necessitating regular review and assessment by management.

There were no material revenue adjustments recognized from performance obligations satisfied or partially satisfied in previous periods for the three and six-month periods ended June 29, 2024 and July 1, 2023, respectively.

As of June 29, 2024 and December 30, 2023, estimated contractual adjustments and implicit price concessions of $75.7 million and $62.6 million, respectively, were recorded as reductions to patient accounts receivable balances to arrive at the estimated collectible revenue and patient accounts receivable. Subsequent changes resulting from a patient's ability to pay are recorded as bad debt expense, which is included as a component of operating expenses in the consolidated statements of operations. The Company did not record any bad debt expense for the three and six-month periods ended June 29, 2024 and July 1, 2023, respectively.

The following table presents revenue by payer type as a percentage of total revenue for the three and six-month periods ended June 29, 2024 and July 1, 2023, respectively:

| | For the three-month periods ended | | For the six-month periods ended | |
|---|---|---|---|---|
| | **June 29, 2024** | **July 1, 2023** | **June 29, 2024** | **July 1, 2023** |
| Medicaid MCO | 56.2% | 54.2% | 56.1% | 54.4% |
| Medicaid | 22.9% | 22.6% | 22.6% | 22.3% |
| Commercial | 10.5% | 10.6% | 10.7% | 10.4% |
| Medicare | 10.3% | 12.4% | 10.5% | 12.8% |
| Self-pay | 0.1% | 0.2% | 0.1% | 0.1% |
| Total revenue | 100.0% | 100.0% | 100.0% | 100.0% |

4. LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following as of June 29, 2024 and December 30, 2023, respectively (dollar amounts in thousands):

| **Instrument** | **Stated Maturity Date** | **Contractual Interest Rate** | **Interest Rate as of June 29, 2024** | **June 29, 2024** | **December 30, 2023** |
|---|---|---|---|---|---|
| 2021 Extended Term Loan [(1)] | 07/2028 | S + 3.75% | 9.20% | $ 895,150 | $ 899,750 |
| Second Lien Term Loan [(1)] | 12/2029 | S + 7.00% | 12.50% | 415,000 | 415,000 |
| Revolving Credit Facility [(1)] | 04/2026 | S + 3.75% | 9.20% | - | - |
| Total principal amount of long-term obligations | | | | 1,310,150 | 1,314,750 |
| Less: unamortized debt issuance costs | | | | (27,008) | (29,209) |
| Total amount of long-term obligations, net of unamortized debt issuance costs | | | | 1,283,142 | 1,285,541 |
| Less: current portion of long-term obligations | | | | (9,200) | (9,200) |
| Total amount of long-term obligations, net of unamortized debt issuance costs, less current portion | | | | $ 1,273,942 | $ 1,276,341 |

[(1)] S = Greater of 0.50% or one-month SOFR, plus a credit spread adjustment

The 2021 Extended Term Loan bears interest, at the Company's election, at a variable interest rate based on either SOFR (subject to a minimum of 0.50%), or an alternative base rate ABR (subject to a minimum of 2.00%) for the interest period relevant to such borrowing, plus a credit spread adjustment ("CSA") of 0.10% and an applicable margin of 3.75% for loans accruing interest based on SOFR, and an applicable margin of 2.75% for loans accruing interest based on ABR. The Revolving Credit Facility bears interest, at the Company's election, at a variable interest rate based on either SOFR or ABR (subject to a minimum of 2.00%) for the interest period relevant to such borrowing, plus a CSA of 0.10% and an applicable margin of 3.75% for loans accruing interest based on SOFR, and an applicable margin of 2.75% for loans accruing interest based on ABR. As of June 29, 2024, the principal amount of the 2021 Extended Term Loan and borrowings under the Revolving Credit Facility each accrued interest at a rate of 9.20%.

The Second Lien Term Loan bears interest at a rate per annum equal to, at the Company's election, either (1) an applicable margin (equal to 6.00%) plus a base rate determined by reference to the highest of (a) 0.50% per annum plus the Federal Funds Effective Rate, (b) the Prime Rate and (c) the SOFR rate for an interest period of one month plus a CSA depending on the interest period plus 1.00%; or (2) an applicable margin (equal to 7.00%) plus SOFR and a CSA depending on the interest period; provided that such rate is not lower than a floor of 0.50%. As of June 29, 2024, the principal amount of the Second Lien Term Loan accrued interest at a rate of 12.50%.

Debt issuance costs related to the term loans are recorded as a direct deduction from the carrying amount of the debt. The balance for debt issuance costs related to the term loans as of June 29, 2024 and December 30, 2023 was $27.0 million and $29.2 million, respectively. The Company recognized interest expense related to the amortization of debt issuance costs of $1.1 million and $2.2 million for the three and six-month periods ended June 29, 2024, respectively, and $1.2 million and $2.5 million for the three and six-month periods ended July 1, 2023, respectively.

Issued letters of credit as of June 29, 2024 and December 30, 2023 were $31.8 million and $31.9 million, respectively. There were no swingline loans outstanding as of June 29, 2024 or December 30, 2023. Borrowing capacity under the Company's Revolving Credit Facility was approximately $168.2 million as of June 29, 2024 and $168.1 million as of December 30, 2023. Available borrowing capacity under the Revolving Credit Facility is subject to a maintenance leverage covenant that becomes effective if more than 30% of the total commitment is utilized.

The fair value of the Company's long-term obligations was estimated using market-observable inputs from the Company's comparable peers with public debt, including quoted prices in active markets, which are considered Level 2 inputs. The aggregate fair value of the Company's long-term obligations was $1,234.8 million at June 29, 2024.

The Company was in compliance with all financial covenants and restrictions under the foregoing instruments at June 29, 2024.

## 5. SECURITIZATION FACILITY

On November 12, 2021, the Company (through a wholly owned special purpose entity, Aveanna SPV I, LLC) (the "special purpose entity") and a lending institution entered into a Receivables Financing Agreement, which, as amended, has a maturity date of July 31, 2026 (as amended, the "Securitization Facility"). On May 31, 2024, the Company amended the Securitization Facility to increase the maximum amount available thereunder from $175.0 million to $225.0 million, subject to certain borrowing base requirements. The Company incurred debt issuance costs of $2.7 million in connection with the Securitization Facility, which were capitalized and included in other long-term assets. The Company recognized interest expense related to the amortization of debt issuance costs of $0.2 million and $0.3 million for the three and six-month periods ended June 29, 2024, respectively, and $0.1 million and $0.2 million for the three and six-month periods ended July 1, 2023, respectively.

Pursuant to two separate sale agreements, each of which is among Aveanna Healthcare, LLC, as initial servicer, certain of the Company's subsidiaries and the special purpose entity, the subsidiaries sold substantially all of their existing and future accounts receivable balances to the special purpose entity. The special purpose entity uses the accounts receivable balances to collateralize loans made under the Securitization Facility. The Company retains the responsibility of servicing the accounts receivable balances pledged as collateral under the Securitization Facility and provides a performance guaranty.

The outstanding balance under the Securitization Facility was $170.0 million and $155.0 million at June 29, 2024 and December 30, 2023, respectively. The balance accrues interest at a rate equal to the SOFR rate, plus a CSA, plus an applicable margin. The interest rate under the Securitization Facility was 8.58% at June 29, 2024.

The Securitization Facility is accounted for as a collateralized financing activity, rather than a sale of assets; therefore: (i) accounts receivable balances pledged as collateral are presented as assets and the borrowings are presented as liabilities in the interim unaudited consolidated balance sheets; (ii) the consolidated statements of operations reflect the interest expense associated with the collateralized borrowings; and (iii) receipts from customers related to the underlying accounts receivable are reflected as operating cash flows and borrowings and repayments under the collateralized loans are reflected as financing cash flows within the consolidated statements of cash flows. The Securitization Facility is included within current liabilities on the interim unaudited consolidated balance sheets as it is collateralized by current patient accounts receivable and not because payments are due within one year of the balance sheet date.

## 6. FAIR VALUE MEASUREMENTS

The carrying amounts of cash and cash equivalents, patient accounts receivable, accounts payable, accrued expenses and other current liabilities approximate their fair values due to the short-term maturities of the instruments.

The Company's other assets measured at fair value were as follows (amounts in thousands):

| | Fair Value Measurements at June 29, 2024 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Interest rate cap agreements | $ - | $ 33,885 | $ - | $ 33,885 |
| Interest rate swap agreements | - | 24,722 | - | 24,722 |
| Total derivative assets | $ - | $ 58,607 | $ - | $ 58,607 |

| | Fair Value Measurements at December 30, 2023 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Interest rate cap agreements | $ - | $ 30,455 | $ - | $ 30,455 |
| Interest rate swap agreements | - | 23,022 | - | 23,022 |
| Total derivative assets | $ - | $ 53,477 | $ - | $ 53,477 |

The fair values of the interest rate swap and cap agreements are based on the estimated net proceeds or costs to settle the transactions as of the respective balance sheet dates. The valuations are based on commercially reasonable industry and market practices for valuing similar financial instruments. See Note 7 – *Derivative Financial Instruments* for further details on the Company's interest rate swap and cap agreements.

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company's earnings and cash flows are subject to fluctuations due to changes in interest rates, and the Company seeks to mitigate a portion of this risk by entering into derivative contracts. The derivatives the Company currently uses are interest rate swaps and interest rate caps. The Company recognizes derivatives as either assets or liabilities at fair value on the interim unaudited consolidated balance sheets and does not designate the derivatives as hedging instruments. Changes in the fair value of derivatives are therefore recorded in earnings throughout the terms of the respective derivatives.

The Company currently has two interest rate swap agreements intended to limit its exposure to interest rate risk on its variable rate debt. These swaps expire on June 30, 2026. Prior to the quarter ended July 1, 2023, the interest rate swap agreements paid a fixed rate of 2.08% and received the one-month LIBOR rate, subject to a 0.50% floor. During the quarter ended July 1, 2023, the Company amended its interest rate swap agreements to change the benchmark rate under the agreements from LIBOR to SOFR. Since July 1, 2023, the interest rate swap agreements have paid a fixed rate of 2.03% and received the one-month SOFR rate, subject to a 0.50% floor. The aggregate notional amount of the interest rate swaps remained unchanged at $520.0 million at June 29, 2024 and December 30, 2023, respectively. The fair value of the interest rate swaps was $24.7 million at June 29, 2024 and $23.0 million at December 30, 2023 and is included in other long-term assets in the interim unaudited consolidated balance sheets. The Company does not apply hedge accounting to these agreements and records all mark-to-market adjustments directly to other income in the consolidated statements of operations, which are included within cash flows from operating activities in the consolidated statements of cash flows. The net settlements incurred with swap counterparties under the swap agreements are recognized through cash flows from financing activities in the consolidated statements of cash flows due to an other-than-insignificant financing element on the interest rate swaps.

The Company has interest rate cap agreements with an aggregate notional amount of $880.0 million and a cap rate of 2.96%. The cap agreements have an expiration date of February 28, 2027. Prior to the quarter ended July 1, 2023, the cap agreements provided that the counterparty would pay the Company the amount by which LIBOR exceeded 3.00% in a given measurement period. During the quarter ended July 1, 2023, the Company amended its interest rate cap agreements to provide that the counterparty would pay the Company the amount by which SOFR exceeds 2.96%. The fair value of the interest rate cap agreements was $33.9 million at June 29, 2024 and $30.5 million at December 30, 2023 and is included in other long-term assets on the interim unaudited consolidated balance sheets. The Company does not apply hedge accounting to interest rate cap agreements and records all mark-to-market adjustments directly to other income in the consolidated statements of operations, which are included within cash flows from operating activities in the consolidated statement of cash flows.

The following losses and gains from these derivatives not designated as hedging instruments were recognized in the Company’s consolidated statements of operations for the three and six-month periods ended June 29, 2024 and July 1, 2023, respectively (amounts in thousands):

| | Statement of Operations Classification | For the three-month periods ended June 29, 2024 | July 1, 2023 |
|---|---|---|---|
| Interest rate cap agreements | Other income | $ (1,408) | $ 6,974 |
| Interest rate swap agreements | Other income | $ (1,738) | $ 9,825 |

| | Statement of Operations Classification | For the six-month periods ended June 29, 2024 | July 1, 2023 |
|---|---|---|---|
| Interest rate cap agreements | Other income | $ 3,430 | $ (527) |
| Interest rate swap agreements | Other income | $ 1,700 | $ (1,211) |

The Company does not utilize financial instruments for trading or other speculative purposes.

## 8. INCOME TAXES

The Company’s provision for income taxes is recorded on an interim basis based upon the Company’s estimate of the annual effective income tax rate for the full year applied to “ordinary” income or loss, adjusted each quarter for discrete items.

The Company recorded an income tax benefit of $9.9 million and income tax expense of $2.7 million for the three and six-month periods ended June 29, 2024, respectively and an income tax benefit of $0.8 million and income tax expense of $0.8 million for the three and six-month periods ended July 1, 2023, respectively.

The Company’s effective tax rate was negative 249.5% and positive 50.0% for the three and six-month periods ended June 29, 2024, respectively, and negative 3.3% and negative 13.4% for the three and six-month periods ended July 1, 2023, respectively. The effective tax rates for the three and six-month periods ended June 29, 2024 and July 1, 2023 differed from the statutory rate of 21% primarily due to increased current federal and state taxes resulting from certain non-deductible expenses, most notably interest expense, and the changes in the valuation allowance recorded against certain deferred tax assets.

For the three and six-month periods ended June 29, 2024, there were no material changes to the Company’s uncertain tax positions. There has been no change to the Company’s policy that recognizes potential interest and penalties related to uncertain tax positions in income tax expense in the accompanying consolidated statements of operations.

## 9. SHARE-BASED COMPENSATION

*Pre-IPO Options and Management Restricted Units*

The Company recorded compensation expense, net of forfeitures, of $0.0 million and $0.8 million for the three and six-month periods ended June 29, 2024, respectively, and $0.2 million and $0.8 million for the three and six-month periods ended July 1, 2023, respectively, which is included in corporate and branch and regional administrative expenses in the accompanying consolidated statements of operations. Unrecognized compensation expense as of June 29, 2024 associated with these outstanding awards was $4.9 million.

*Director Restricted Stock Units*

In February 2024, the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") approved grants of 331,950 restricted stock units, with a grant date per share fair value of $2.41, to certain independent Directors ("Director RSUs") under the Company's 2021 Omnibus Stock Incentive Plan. Director RSUs vest over a one-year period, and each RSU settles for one share of common stock upon vesting. The Company recorded compensation expense of $0.3 million and $0.5 million for the three and six-month periods ended June 29, 2024, respectively, and $0.4 million and $0.6 million for the three and six-month periods ended July 1, 2023, respectively, which is included in corporate expenses in the accompanying consolidated statements of operations. Unrecognized compensation expense as of June 29, 2024 associated with outstanding director restricted stock units was $0.4 million.

*Long-Term Incentive Plan ("LTIP")*

During the three-month period ended March 30, 2024, the Compensation Committee approved grants of restricted stock units ("RSUs") and performance stock units ("PSUs") under the Company's 2021 Omnibus Stock Incentive Plan. Upon vesting, each RSU and each PSU settles for one share of common stock.

The RSUs are subject to a three-year service-based cliff vesting schedule commencing on the date of grant. Compensation cost for the RSUs is measured based on the grant date fair value of each underlying share of common stock and the number of RSUs granted and is recognized over the applicable vesting period on a straight-line basis. During the three-month period ended March 30, 2024, the Company granted 2,873,968 RSUs with a grant date per share fair value of $2.41. The PSUs contain performance criteria based on an adjusted EBITDA target over a three-year performance period. The PSUs are also subject to a three-year service-based cliff vesting schedule commencing on the date of grant. The PSUs have a service and a performance condition, and compensation cost is initially measured based on the grant date fair value of each underlying share of common stock. Cumulative compensation cost is subsequently adjusted at the end of each reporting period to reflect the current estimation of achieving the performance condition. During the three-month period ended March 30, 2024, the Company granted 2,873,881 PSUs with a weighted average grant date per share fair value of $2.41.

Total compensation expense, net of forfeitures, for all outstanding awards under the LTIP described above was $2.0 million and $3.7 million for the three and six-month periods ended June 29, 2024, respectively, and $1.8 million and $3.2 million for the three and six-month periods ended July 1, 2023, respectively, which is included in corporate and branch and regional administrative expenses in the accompanying consolidated statements of operations. Total unrecognized compensation expense for all awards under the LTIP was $18.3 million as of June 29, 2024.

*Senior Management Retention Plan ("SMRP")*

In the second quarter of 2023, the Compensation Committee approved SMRP awards to certain members of management to be paid in the form of RSUs under the 2021 Omnibus Stock Incentive Plan. The awards were granted based on a fixed dollar value for each member of senior management included in the plan. The Company recorded compensation expense, net of forfeitures, of $0.8 million and $1.7 million during the three and six-month periods ended June 29, 2024, respectively, which is included in corporate expenses and branch and regional administrative expenses in the accompanying consolidated statements of operations. No such expense was recorded during the three and six-month periods ended July 1, 2023. Unrecognized compensation expense as of June 29, 2024 associated with the remaining SMRP awards was $10.2 million.

*Employee Stock Purchase Plan*

During the three-month period ended June 29, 2024, no purchase events related to the Employee Stock Purchase Plan occurred. During the six-month period ended June 29, 2024, participants purchased a total of 1,010,635 shares of common stock at a price of $1.33 per share. Participants purchased a total of 1,565,933 shares of common stock at a price of $0.60 per share during the three and six-month periods ended July 1, 2023.

The Company recorded compensation expense of $0.4 million and $0.8 million for the three and six-month periods ended June 29, 2024, respectively, and $0.2 million and $0.5 million for the three and six-month periods ended July 1, 2023, respectively, which is included in corporate expenses, branch and regional administrative expenses and cost of revenue, excluding depreciation and amortization in the accompanying consolidated statements of operations.

## 10. COMMITMENTS AND CONTINGENCIES

*Insurance Reserves*

As is typical in the healthcare industry, the Company is subject to claims that its services have resulted in patient injury or other adverse effects.

The accrued professional liability insurance reserves included in the interim unaudited consolidated balance sheets include estimates of the ultimate costs, including third-party legal defense costs, in the event the Company was unable to receive funds from claims made under commercial insurance policies, for claims that have been reported but not paid and claims that have been incurred but not reported at the balance sheet dates. Although substantially all reported claims are paid directly by the Company’s commercial insurance carriers (after the Company satisfies the applicable policy deductible and/or retention), the Company is ultimately responsible for payment of these claims in the event its insurance carriers become insolvent or otherwise do not honor the contractual obligations under the liability policies. The Company is required under U.S. GAAP to recognize these estimated liabilities in its consolidated financial statements on a gross basis; with a corresponding receivable from the insurance carriers reflecting the contractual indemnity provided by the carriers under the related liability policies.

Since October 1, 2023, the Company has maintained primary commercial insurance coverage on a claims-made basis for professional liability claims with a $2.0 million per claim deductible, a $1.0 million aggregate buffer retention, and $4.5 million per claim and annual aggregate limits. Prior to October 1, 2023, the Company maintained primary commercial insurance coverage on a claims made basis for professional liability claims with varying deductibles by policy year from $0.5 million to $1.5 million on a per claim basis and $5.0 million to $6.0 million per claim and annual aggregate limits. Moreover, the Company maintains excess insurance coverage for professional liability claims to cover any claims over the aggregate limits. In addition, the Company maintains workers' compensation insurance with a $0.5 million per claim deductible and statutory limits. The Company reimburses insurance carriers for deductible losses under these policies. The Company's insurance carriers require collateral to secure the Company's obligation to reimburse insurance carriers for these deductible payments. Collateral as of June 29, 2024 was comprised of $22.7 million of issued letters of credit and $0.7 million in cash collateral. Collateral as of December 30, 2023 was comprised of $22.7 million of issued letters of credit and $0.7 million in cash collateral.

As of June 29, 2024, insurance reserves totaling $104.6 million were included on the interim unaudited consolidated balance sheets, representing $42.8 million and $61.8 million of reserves for professional liability claims and workers' compensation claims, respectively. At December 30, 2023, insurance reserves totaling $91.8 million were included on the consolidated balance sheets, representing $39.4 million and $52.4 million of reserves for professional liability claims and workers' compensation claims, respectively.

*Litigation and Other Current Liabilities*

On November 23, 2022, a judgment in the amount of $19.8 million was rendered against the Company related to a civil litigation matter in Texas. In March 2023, the plaintiffs attempted to enforce the judgment by seeking a writ of garnishment, and $18.4 million was garnished from the Company's cash accounts. The Company promptly obtained and recorded an $18.4 million cash collateralized appellate bond with the state trial court, and such court dissolved the writ of garnishment and ordered the return of the previously garnished funds. All previously garnished funds have been returned to the Company. In July 2023, the Company and the plaintiffs reached a confidential settlement agreement wherein the plaintiffs have agreed to release all claims and extinguish the aforementioned judgment in exchange for a settlement payment. The corresponding appeal of the judgment has been discontinued upon finalization of the settlement, and the Company has secured the return of the underlying collateral for the aforementioned appellate bond. The settlement did not have a material impact on the consolidated results of operations.

On January 18, 2023, an arbitration award in the amount of $7.9 million was rendered against the Company related to a claim under the Company's Texas non-subscriber benefit plan. After the trial court entered a judgment to enforce the arbitration award, the Company promptly obtained a $9.1 million collateralized appellate bond and intends to avail itself of all appellate options. The ultimate resolution of this litigated matter is not expected to have a material impact on the consolidated financial statements.

The Company is currently a party to various routine litigation incidental to the business. While management currently believes that the ultimate outcome of such proceedings, individually and in the aggregate, will not have a material adverse effect on the Company's financial position or overall trends in results of operations, litigation is subject to inherent uncertainties. Management has established provisions within other current liabilities in the accompanying consolidated balance sheets, which in the opinion of management represents the best estimate of exposure and adequately provides for such losses that may occur from asserted claims related to the provision of professional services and which may not be covered by the Company's insurance policies. Management believes that any additional unfavorable provisions would not be material to the Company's results of operations or financial position; however, if an unfavorable ruling on any asserted or unasserted claim were to occur, there exists the possibility of a material adverse impact on the Company's net earnings or financial position. The estimate of the potential impact from legal proceedings on the Company's financial position or overall results of operations could change in the future.

*Healthcare Regulatory Matters*

Starting on October 30, 2019 the Company has received grand jury subpoenas issued by the U.S. Department of Justice, Antitrust Division (the "Antitrust Division"), requiring the production of documents and information pertaining to nurse wages, reimbursement rates, and hiring activities in a few of its local markets. The Company is fully cooperating with the Antitrust Division with respect to this investigation, and management believes that a loss event is not probable and that this matter will not materially impact the Company's business, results of operations or financial condition. However, based on the information currently available to the Company, management cannot predict the timing or outcome of this investigation or predict the possible loss or range of loss, if any, associated with the resolution of this matter.

On July 19, 2023, the Company received a Civil Investigation Demand issued by the U.S. Department of Justice, United States Attorney's Office, Middle District of Alabama (the "AUSA"), requiring the production of documents and information pertaining to Comfort Care Hospice, LLC, an indirect wholly owned subsidiary of the Company, regarding issues of (1) improper submission of claims to Medicare and other federal healthcare programs for service to patients who were ineligible or not properly certified for said healthcare services and (2) improper remuneration to medical directors and skilled nursing facilities for patient referrals in violation of certain federal regulations. The Company is fully cooperating with the AUSA with respect to this investigation, and management believes that a loss event is not probable and that this matter will not materially impact the Company's business, results of operations or financial condition. However, based on the information currently available to the Company, management cannot predict the timing or outcome of this investigation or predict the possible loss or range of loss, if any, associated with the resolution of this matter.

Laws and regulations governing the government payer programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future governmental review and interpretation as well as significant regulatory action. From time to time, governmental regulatory agencies conduct inquiries and audits of the Company's practices. It is the Company's practice to cooperate fully with such inquiries. In addition to laws and regulations governing the Medicaid, Medicaid Managed Care, and Tricare programs, there are a number of federal and state laws and regulations governing matters such as the corporate practice of medicine, fee splitting arrangements, anti-kickback statues, physician self-referral laws, false or fraudulent claims filing and patient privacy requirements. Failure to comply with any such laws or regulations could have an adverse impact on the Company's operations and financial results. The Company believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of wrongdoing.

## 11. RELATED PARTY TRANSACTIONS

As of June 29, 2024, one of the Company's majority stockholders owned 6.5% of the 2021 Extended Term Loan.

## 12. SEGMENT INFORMATION

The Company's operating segments have been identified based upon how management has organized the business by services provided to customers and how the CODM manages the business and allocates resources. The Company has three operating segments and three reportable segments, Private Duty Services, Home Health & Hospice, and Medical Solutions. The PDS segment predominantly includes private duty skilled nursing services, non-clinical and personal care services, and pediatric therapy services. The HHH segment provides home health and hospice services to predominately elderly patients. Through the MS segment, the Company provides enteral nutrition and other products to adults and children, delivered on a periodic or as-needed basis.

The CODM evaluates performance using gross margin (and gross margin percentage). Gross margin includes revenue less all costs of revenue, excluding depreciation and amortization, but excludes branch and regional administrative expenses, corporate expenses and other non-field expenses. The CODM does not evaluate a measure of assets when assessing performance.

Results shown for the three and six-month periods ended June 29, 2024 and July 1, 2023 are not necessarily those which would be achieved if each segment was an unaffiliated business enterprise. There are no intersegment transactions.

The following tables summarize the Company's segment information for the three and six-month periods ended June 29, 2024 and July 1, 2023, respectively (amounts in thousands):

| | For the three-month period ended June 29, 2024 | | | |
|---|---|---|---|---|
| | PDS | HHH | MS | Total |
| Revenue | $ 407,851 | $ 54,630 | $ 42,477 | $ 504,958 |
| Cost of revenue, excluding depreciation and amortization | 296,983 | 25,227 | 24,481 | 346,691 |
| Gross margin | $ 110,868 | $ 29,403 | $ 17,996 | $ 158,267 |
| Gross margin percentage | 27.2% | 53.8% | 42.4% | 31.3% |

| | For the three-month period ended July 1, 2023 | | | |
|---|---|---|---|---|
| | PDS | HHH | MS | Total |
| Revenue | $ 377,668 | $ 55,410 | $ 38,867 | $ 471,945 |
| Cost of revenue, excluding depreciation and amortization | 266,170 | 28,497 | $ 22,023 | 316,690 |
| Gross margin | $ 111,498 | $ 26,913 | $ 16,844 | $ 155,255 |
| Gross margin percentage | 29.5% | 48.6% | 43.3% | 32.9% |

| | For the six-month period ended June 29, 2024 | | | |
|---|---|---|---|---|
| | PDS | HHH | MS | Total |
| Revenue | $ 802,860 | $ 109,243 | $ 83,508 | $ 995,611 |
| Cost of revenue, excluding depreciation and amortization | 591,857 | 50,866 | 48,767 | 691,490 |
| Gross margin | $ 211,003 | $ 58,377 | $ 34,741 | $ 304,121 |
| Gross margin percentage | 26.3% | 53.4% | 41.6% | 30.5% |

| | For the six-month period ended July 1, 2023 | | | |
|---|---|---|---|---|
| | PDS | HHH | MS | Total |
| Revenue | $ 750,615 | $ 111,536 | $ 76,207 | $ 938,358 |
| Cost of revenue, excluding depreciation and amortization | 534,933 | 59,592 | $ 44,113 | 638,638 |
| Gross margin | $ 215,682 | $ 51,944 | $ 32,094 | $ 299,720 |
| Gross margin percentage | 28.7% | 46.6% | 42.1% | 31.9% |

| | For the three-month periods ended | | For the six-month periods ended | |
|---|---|---|---|---|
| Segment Reconciliation: | June 29, 2024 | July 1, 2023 | June 29, 2024 | July 1, 2023 |
| Total segment gross margin | $ 158,267 | $ 155,255 | $ 304,121 | $ 299,720 |
| Branch and regional administrative expenses | 87,972 | 91,255 | 175,886 | 182,963 |
| Corporate expenses | 30,245 | 26,354 | 60,087 | 57,289 |
| Depreciation and amortization | 2,833 | 3,491 | 5,745 | 7,532 |
| Acquisition-related costs | - | (32) | - | 38 |
| Other operating expense (income) | 91 | (3,305) | 2,411 | (3,233) |
| Operating income | 37,126 | 37,492 | 59,992 | 55,131 |
| Interest income | 95 | 113 | 197 | 188 |
| Interest expense | (39,613) | (37,985) | (79,260) | (73,943) |
| Other income | 6,371 | 25,169 | 24,540 | 12,981 |
| Income (loss) before income taxes | $ 3,979 | $ 24,789 | $ 5,469 | $ (5,643) |

## 13. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares of common stock outstanding for the period. Diluted net income (loss) per share is calculated by dividing net income (loss) by the diluted weighted average number of shares of common stock outstanding for the period. For purposes of this calculation, outstanding stock options RSUs and PSUs are considered potential dilutive shares of common stock. The following is a computation of basic and diluted net income (loss) per share (amounts in thousands, except per share amounts):

| | For the three-month periods ended | | For the six-month periods ended | |
|---|---|---|---|---|
| | **June 29, 2024** | **July 1, 2023** | **June 29, 2024** | **July 1, 2023** |
| Numerator: | | | | |
| Net income (loss) | $ 13,906 | $ 25,599 | $ 2,734 | $ (6,399) |
| Denominator: | | | | |
| Weighted average shares of common stock outstanding (1), basic and diluted | 192,600 | 189,071 | 192,420 | 189,063 |
| Net income (loss) per share, basic | $ 0.07 | $ 0.14 | $ 0.01 | $ (0.03) |
| | | | | |
| Weighted average shares of common stock outstanding [1], diluted | 196,869 | 189,739 | 196,274 | 189,063 |
| Net income (loss) per share, diluted | $ 0.07 | $ 0.13 | $ 0.01 | $ (0.03) |
| Dilutive securities outstanding not included in the computation of diluted net income (loss) per share, as their effect is antidilutive: | | | | |
| RSUs | 1,478 | 3,434 | 1,478 | 8,401 |
| PSUs | - | 4,481 | - | 4,481 |
| Stock options | 13,088 | 14,110 | 13,088 | 14,110 |

(1) The calculation of weighted average shares of common stock outstanding includes all vested deferred restricted stock units.

14. SUBSEQUENT EVENT

On June 30, 2024, participants in the ESPP purchased a total of 741,274 shares of common stock at a weighted average price of approximately $2.35 per share. See *Note 9 - Share Based Compensation* for additional details of the ESPP.

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

The following discussion and analysis provides information we believe is relevant to an assessment and understanding of our results of operations, financial condition, liquidity and cash flows for the periods presented below. This discussion should be read in conjunction with the interim unaudited consolidated financial statements and related notes contained elsewhere in this Quarterly Report on Form 10-Q and in conjunction with the audited consolidated financial statements and related notes, our "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in each case included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2023 filed with the SEC. As discussed in the section above titled "Cautionary Note Regarding Forward-Looking Statements," the following discussion contains forward-looking statements that are based upon our current expectations, including with respect to our future revenues and operating results. Our actual results may differ materially from those anticipated in such forward-looking statements as a result of various factors. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included under Part II, Item 1A below as well as in our Annual Report on Form 10-K for the fiscal year ended December 30, 2023.

Unless otherwise provided, "Aveanna," "we," "our" and the "Company" refer to Aveanna Healthcare Holdings Inc. and its consolidated subsidiaries.

Our fiscal year ends on the Saturday that is closest to December 31 of a given year, resulting in either a 52-week or 53-week fiscal year. "Fiscal year 2024" refers to the 52-week fiscal year ending on December 28, 2024. "Fiscal year 2023" refers to the 52-week fiscal year ended on December 30, 2023. The "three-month period ended June 29, 2024", or "second quarter of 2024" refers to the 13-week fiscal quarter ended on June 29, 2024. The "three-month period ended July 1, 2023" or "second quarter of 2023" refers to the 13-week fiscal quarter ended on July 1, 2023. The "six-month period ended June 29, 2024", or "first six months of 2024", refers to the period from December 31, 2023 through June 29, 2024. The "six-month period ended July 1, 2023", or "first six months of 2023", refers to the period from January 1, 2023 through July 1, 2023.

**Overview**

We are a leading, diversified home care platform focused on providing care to medically complex, high-cost patient populations. We directly address the most pressing challenges facing the U.S. healthcare system by providing safe, high-quality care in the home, the lower cost care setting preferred by patients. Our patient-centered care delivery platform is designed to improve the quality of care our patients receive, which allows them to remain in their homes and minimizes the overutilization of high-cost care settings such as hospitals. Our clinical model is led by our caregivers, primarily skilled nurses, who provide specialized care to address the complex needs of each patient we serve across the full range of patient populations: newborns, children, adults and seniors. We have invested significantly in our platform to bring together best-in-class talent at all levels of the organization and support such talent with industry leading training, clinical programs, infrastructure and technology-enabled systems, which are increasingly essential in an evolving healthcare industry. We believe our platform creates sustainable competitive advantages that support our ability to continue driving rapid growth, both organically and through acquisitions, and positions us as the partner of choice for the patients we serve.

**Segments**

We deliver our services to patients through three segments: Private Duty Services ("PDS"); Home Health & Hospice ("HHH"); and Medical Solutions ("MS").

The following table summarizes the revenues generated by each of our segments for the three-month periods ended June 29, 2024 and July 1, 2023, respectively:

| *(dollars in thousands)* | Consolidated | PDS | HHH | MS |
|---|---|---|---|---|
| For the three-month period ended June 29, 2024 | $ 504,958 | $ 407,851 | $ 54,630 | $ 42,477 |
| Percentage of consolidated revenue | | 81 % | 11 % | 8 % |
| For the three-month period ended July 1, 2023 | $ 471,945 | $ 377,668 | $ 55,410 | $ 38,867 |
| Percentage of consolidated revenue | | 80 % | 12 % | 8 % |

The following table summarizes the revenues generated by each of our segments for the six-month periods ended June 29, 2024 and July 1, 2023, respectively:

| *(dollars in thousands)* | Consolidated | PDS | HHH | MS |
|---|---|---|---|---|
| For the six-month period ended June 29, 2024 | $ 995,611 | $ 802,860 | $ 109,243 | $ 83,508 |
| Percentage of consolidated revenue | | 81 % | 11 % | 8 % |
| For the six-month period ended July 1, 2023 | $ 938,358 | $ 750,615 | $ 111,536 | $ 76,207 |
| Percentage of consolidated revenue | | 80 % | 12 % | 8 % |

***PDS Segment***

Private Duty Services predominantly includes private duty nursing (“PDN”) services, as well as pediatric therapy services. Our PDN patients typically enter our service as children, as our most significant referral sources for new patients are children’s hospitals. It is common for our PDN patients to continue to receive our services into adulthood, as approximately 30% of our PDN patients are over the age of 18.

Our PDN services involve the provision of clinical and non-clinical hourly care to patients in their homes, which is the preferred setting for patient care. PDN services typically last four to 24 hours a day, provided by our registered nurses, licensed practical nurses, home health aides, and other non-clinical caregivers who are focused on providing high-quality short-term and long-term clinical care to medically fragile children and adults with a wide variety of serious illnesses and conditions. Patients who typically qualify for our PDN services include those with the following conditions:

- Tracheotomies or ventilator dependence;
- Dependence on continuous nutritional feeding through a “G-tube” or “NG-tube”;
- Dependence on intravenous nutrition;
- Oxygen-dependence in conjunction with other medical needs; and
- Complex medical needs such as frequent seizures.

Our PDN services include:

- In-home skilled nursing services to medically fragile children and adults;
- Nursing services in school settings in which our caregivers accompany patients to school;
- Services to patients in our Pediatric Day Healthcare Centers (“PDHC”); and
- Non-clinical care, including programs such as employer of record support services and personal care services.

Through our pediatric therapy services, we provide a valuable multidisciplinary approach that we believe serves all of a child’s therapy needs. We provide both in-clinic and home-based therapy services to our patients. Our therapy services include physical, occupational and speech services. We regularly collaborate with physicians and other community healthcare providers, which allows us to provide more comprehensive care.

***HHH Segment***

Our Home Health and Hospice segment predominantly includes home health services, as well as hospice and specialty program services. Our HHH patients typically enter our service as seniors, and our most significant referral sources for new patients are hospitals, physicians and long-term care facilities.

Our home health services involve the provision of in-home services to our patients by our clinicians which may include nurses, therapists, social workers and home health aides. Our caregivers work with our patients’ physicians to deliver a personalized plan of care to our patients in their homes. Home healthcare can help our patients recover after a hospitalization or surgery and assist patients in managing chronic illnesses. We also help our patients manage their medications. Through our care, we help our patients recover more fully in the comfort of their own homes, while remaining as independent as possible. Our home health services include: in-home skilled nursing services; physical, occupational and speech therapy; medical social services and aide services.

Our hospice services involve a supportive philosophy and concept of care for those nearing the end of life. Our hospice care is a positive, empowering form of care designed to provide comfort and support to our patients and their families when a life-limiting illness no longer responds to cure-oriented treatments. The goal of hospice is to neither prolong life nor hasten death, but to help our patients live as dignified and pain-free as possible. Our hospice care is provided by a team of specially trained professionals in a variety of living situations, including at home, at the hospital, a nursing home, or an assisted living facility.

***MS Segment***

Through our Medical Solutions segment, we offer a comprehensive line of enteral nutrition supplies and other products to adults and children, delivered on a periodic or as-needed basis. We provide our patients with access to one of the largest selections of enteral formulas, supplies and pumps in our industry, with more than 300 nutritional formulas available. Our registered nurses, registered dietitians and customer service technicians support our patients 24 hours per day, 365 days per year, in-hospital, at-home, or remotely to help ensure that our patients have the best nutrition assessments, change order reviews and formula selection expertise.

**Recent Developments**

*CMS Final Rule:* **"Ensuring *Access to Medicaid Services*"**

On April 22, 2024, the U.S. Department of Health & Human Services through the Centers for Medicare and Medicaid Services ("CMS") released the "Ensuring Access to Medicaid Services" final rule (CMS-2442-F). The final rule has a stated goal of improving access to services for Medicaid beneficiaries. As part of this rule, CMS requires that state Medicaid departments provide assurances that a minimum of 80% of Medicaid payments for personal care and similar services be spent on compensation to and clinical supervision of the direct care workers providing these services. While the effective date of the final rule was July 9, 2024, the states are allowed six years to implement the provisions regarding the 80% minimum payment. The ultimate impact of the final rule is not expected to have a material impact to our results of operations.

**Important Operating Metrics**

We review the following important metrics on a segment basis and not on a consolidated basis:

***PDS and MS Segment Operating Metrics***

***Volume***

Volume represents PDS hours of care provided and MS unique patients served, which is how we measure the amount of our patient services provided. We review the number of hours of PDS care provided on a weekly basis and the number of MS unique patients served on a weekly basis. We believe volume is an important metric because it helps us understand how the Company is growing in each of these segments through strategic planning and acquisitions. We also use this metric to inform strategic decision making in determining opportunities for growth.

***Revenue Rate***

For our PDS and MS segments, revenue rate is calculated as revenue divided by PDS hours of care provided or the number of MS unique patients served, respectively. We believe revenue rate is an important metric because it represents the amount of revenue we receive per PDS hour of patient service or per individual MS patient transaction and helps management assess the amount of fees that we are able to bill for our services. Management uses this metric to assess how effectively we optimize reimbursement rates.

***Cost of Revenue Rate***

For our PDS and MS segments, cost of revenue rate is calculated as cost of revenue divided by PDS hours of care provided or the number of MS unique patients served, respectively. We believe cost of revenue rate is an important metric because it helps us understand the cost per PDS hour of patient service or per individual MS patient transaction. Management uses this metric to understand how effectively we manage labor and product costs.

***Spread Rate***

For our PDS and MS segments, spread rate represents the difference between the respective revenue rates and cost of revenue rates. Spread rate is an important metric because it helps us better understand the margins being recognized per PDS hour of patient service or per individual MS patient transaction. Management uses this metric to assess how successful we have been in optimizing reimbursement rates, managing labor and product costs, and assessing opportunities for growth.

***HHH Segment Operating Metrics***

***Home Health Total Admissions and Home Health Episodic Admissions***

Home health total admissions represents the number of new patients who have begun receiving services. We review the number of home health admissions on a daily basis as we believe it is a leading indicator of our growth. We measure home health admissions by reimbursement structure, separating them into home health episodic admissions and fee-for-service admissions (other admissions), which allows us to better understand the payor mix of our home health business.

***Home Health Total Episodes***

Home health total episodes represents the number of episodic admissions and episodic recertifications to capture patients who have either started to receive services or have been recertified for another episode of care. Management reviews home health total episodes on a monthly basis as to understand the volume of patients who were authorized to receive care during the month.

***Home Health Revenue Per Completed Episode***

Home health revenue per completed episode is calculated by dividing total payments received from completed episodes by the number of completed episodes during the period. Episodic payments are determined by multiple factors including type of referral source, patient diagnoses, and utilization. Management tracks home health revenue per completed episode over time to evaluate both the clinical and financial profile of the business in a single metric.

**Results of Operations**

***Three-Month Period Ended June 29, 2024 Compared to the Three-Month Period Ended July 1, 2023***

The following table summarizes our consolidated results of operations, including Field contribution, which is a non-GAAP measure (see "Non-GAAP Financial Measures" below), for the three-month periods indicated:

| | For the three-month periods ended | | | | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | **June 29, 2024** | **% of Revenue** | **July 1, 2023** | **% of Revenue** | **Change** | **% Change** |
| Revenue | $ 504,958 | 100.0 % | $ 471,945 | 100.0 % | $ 33,013 | 7.0 % |
| Cost of revenue, excluding depreciation and amortization | 346,691 | 68.7 % | 316,690 | 67.1 % | 30,001 | 9.5 % |
| Gross margin | $ 158,267 | 31.3 % | $ 155,255 | 32.9 % | $ 3,012 | 1.9 % |
| Branch and regional administrative expenses | 87,972 | 17.4 % | 91,255 | 19.3 % | (3,283 ) | -3.6 % |
| Field contribution | $ 70,295 | 13.9 % | $ 64,000 | 13.6 % | $ 6,295 | 9.8 % |
| Corporate expenses | 30,245 | 6.0 % | 26,354 | 5.6 % | 3,891 | 14.8 % |
| Depreciation and amortization | 2,833 | 0.6 % | 3,491 | 0.7 % | (658 ) | -18.8 % |
| Acquisition-related costs | - | 0.0 % | (32 ) | 0.0 % | 32 | -100.0 % |
| Other operating expense (income) | 91 | 0.0 % | (3,305 ) | -0.7 % | 3,396 | -102.8 % |
| Operating income | $ 37,126 | 7.4 % | $ 37,492 | 7.9 % | $ (366 ) | -1.0 % |
| Interest expense, net | (39,518 ) | | (37,872 ) | | (1,646 ) | 4.3 % |
| Other income | 6,371 | | 25,169 | | (18,798 ) | -74.7 % |
| Income tax benefit | 9,927 | | 810 | | 9,117 | NM |
| Net income | $ 13,906 | | $ 25,599 | | $ (11,693 ) | -45.7 % |

NM = A percentage calculation that is not meaningful due to a percentage change greater than 1000%.

The following table summarizes our consolidated key performance measures, including Field contribution and Field contribution margin, which are non-GAAP measures (see "Non-GAAP Financial Measures" below), for the three-month periods indicated:

| | For the three-month periods ended | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | **June 29, 2024** | **July 1, 2023** | **Change** | **% Change** |
| Revenue | $ 504,958 | $ 471,945 | $ 33,013 | 7.0 % |
| Cost of revenue, excluding depreciation and amortization | 346,691 | 316,690 | 30,001 | 9.5 % |
| Gross margin | $ 158,267 | $ 155,255 | $ 3,012 | 1.9 % |
| Gross margin percentage | 31.3 % | 32.9 % | | |
| Branch and regional administrative expenses | 87,972 | 91,255 | (3,283 ) | -3.6 % |
| Field contribution | $ 70,295 | $ 64,000 | $ 6,295 | 9.8 % |
| Field contribution margin | 13.9 % | 13.6 % | | |
| Corporate expenses | $ 30,245 | $ 26,354 | $ 3,891 | 14.8 % |
| As a percentage of revenue | 6.0 % | 5.6 % | | |
| Operating income | $ 37,126 | $ 37,492 | $ (366 ) | -1.0 % |
| As a percentage of revenue | 7.4 % | 7.9 % | | |

The following tables summarize our key performance measures by segment for the three-month periods indicated:

| | PDS | | | |
|---|---|---|---|---|
| | For the three-month periods ended | | | |
| *(dollars and hours in thousands)* | June 29, 2024 | July 1, 2023 | Change | % Change |
| Revenue | $ 407,851 | $ 377,668 | $ 30,183 | 8.0% |
| Cost of revenue, excluding depreciation and amortization | 296,983 | 266,170 | 30,813 | 11.6% |
| Gross margin | $ 110,868 | $ 111,498 | $ (630) | -0.6% |
| Gross margin percentage | 27.2% | 29.5% | | -2.3% (4) |
| Hours | 10,336 | 9,865 | 471 | 4.8% |
| Revenue rate | $ 39.46 | $ 38.28 | $ 1.18 | 3.2% (1) |
| Cost of revenue rate | $ 28.73 | $ 26.98 | $ 1.75 | 6.8% (2) |
| Spread rate | $ 10.73 | $ 11.30 | $ (0.57) | -5.4% (3) |

| | HHH | | | |
|---|---|---|---|---|
| | For the three-month periods ended | | | |
| *(dollars and admissions/episodes in thousands)* | June 29, 2024 | July 1, 2023 | Change | % Change |
| Revenue | $ 54,630 | $ 55,410 | $ (780) | -1.4% |
| Cost of revenue, excluding depreciation and amortization | 25,227 | 28,497 | (3,270) | -11.5% |
| Gross margin | $ 29,403 | $ 26,913 | $ 2,490 | 9.3% |
| Gross margin percentage | 53.8% | 48.6% | | 5.2% (4) |
| Home health total admissions (5) | 9.4 | 9.9 | (0.5) | -5.1% |
| Home health episodic admissions (6) | 7.1 | 6.8 | 0.3 | 4.4% |
| Home health total episodes (7) | 11.6 | 11.1 | 0.5 | 4.5% |
| Home health revenue per completed episode (8) | $ 3,093 | $ 3,051 | $ 42 | 1.4% |

| | MS | | | |
|---|---|---|---|---|
| | For the three-month periods ended | | | |
| *(dollars and UPS in thousands)* | June 29, 2024 | July 1, 2023 | Change | % Change |
| Revenue | $ 42,477 | $ 38,867 | $ 3,610 | 9.3% |
| Cost of revenue, excluding depreciation and amortization | 24,481 | 22,023 | 2,458 | 11.2% |
| Gross margin | $ 17,996 | $ 16,844 | $ 1,152 | 6.8% |
| Gross margin percentage | 42.4% | 43.3% | | -0.9% (4) |
| Unique patients served (“UPS”) | 94 | 85 | 9 | 10.6% |
| Revenue rate | $ 451.88 | $ 457.26 | $ (5.38) | -1.3% (1) |
| Cost of revenue rate | $ 260.44 | $ 259.09 | $ 1.35 | 0.6% (2) |
| Spread rate | $ 191.45 | $ 198.16 | $ (6.73) | -3.8% (3) |

(1) Represents the period over period change in revenue rate, plus the change in revenue rate attributable to the change in volume.
(2) Represents the period over period change in cost of patient services rate, plus the change in cost of patient services rate attributable to the change in volume.
(3) Represents the period over period change in spread rate, plus the change in spread rate attributable to the change in volume.
(4) Represents the change in margin percentage year over year.
(5) Represents home health episodic and fee-for-service admissions.
(6) Represents home health episodic admissions.
(7) Represents episodic admissions and recertifications.
(8) Represents Medicare revenue per completed episode.

The following discussion of our results of operations should be read in conjunction with the foregoing tables summarizing our consolidated results of operations and key performance measures, as well as our audited consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 30, 2023.

*Summary Operating Results*

*Operating Income*

Operating income was $37.1 million, or 7.4% of revenue, for the three-month period ended June 29, 2024, as compared to operating income of 37.5 million, or 7.9% of revenue, for the three-month period ended July 1, 2023, a decrease of $0.4 million.

Operating income for the second quarter of 2024 was positively impacted by an increase of $6.3 million, or 9.8%, in Field contribution, as compared to the second quarter of 2023. The $6.3 million increase in Field contribution resulted from a $33.0 million, or 7.0%, increase in consolidated revenue and a 0.3% increase in our Field contribution margin to 13.9% for the second quarter of 2024 from 13.6% for the second quarter of 2023. The primary driver of our higher Field contribution margin over the comparable quarter was a 1.9% decrease in branch and regional administrative expenses as a percentage of revenue to 17.4% for the second quarter of 2024 from 19.3% for the second quarter of 2023.

The following items primarily contributed to the $0.4 million decrease in operating income over the comparable second quarter period:

- the previously discussed $6.3 million increase in Field contribution;
- a $3.9 million increase in corporate expenses;
- a 3.4 million increase in other operating expense (income); and
- a $0.7 million decrease in depreciation and amortization.

*Net Income*

Net income for the three-month period ended June 29, 2024 was $13.9 million, as compared to net income of $25.6 million for the three-month period ended July 1, 2023. The $11.7 million decrease in net income was primarily driven by the following:

- the previously discussed $0.4 million decrease in operating income;
- an aggregate $18.8 million decrease in valuation gains on interest rate derivatives and net settlements received from interest rate derivative counterparties over the comparable quarter; and
- a $1.6 million increase in interest expense, net of interest income; offset by
- a 9.1 million increase in tax benefit.

*Revenue*

Revenue was $505.0 million for the three-month period ended June 29, 2024, as compared to $471.9 million for the three-month period ended July 1, 2023, an increase of $33.0 million, or 7.0%. This increase resulted from the following segment activity:

- a $30.2 million, or 8.0%, increase in PDS revenue;
- a $0.8 million, or 1.4%, decrease in HHH revenue; and
- a $3.6 million, or 9.3%, increase in MS revenue.

Our PDS segment revenue growth of $30.2 million, or 8.0%, for the three-month period ended June 29, 2024 was attributable to a 4.8% increase in volume and a 3.2% increase in revenue rate. The 4.8% increase in volume was primarily attributable to growth in demand for non-clinical services.

The 3.2% increase in PDS revenue rate for the three-month period ended June 29, 2024, as compared to the three-month period ended July 1, 2023, resulted primarily from reimbursement rate increases issued by various state Medicaid programs and Managed Medicaid payers and increases in value-based payments, offset by increases in implicit price concessions.

Our HHH segment revenue decrease of $0.8 million, or 1.4%, for the three-month period ended June 29, 2024, as compared to the three-month period ended July 1, 2023, resulted primarily from a decline in volumes over the comparable period. While home health total admissions declined 5.1% as compared to the 2023 period, total segment revenue for the three-month period ended June 29, 2024 declined by a lower rate primarily due to improvements in home health episodic mix.

The $3.6 million, or 9.3%, increase in MS segment revenue for the three-month period ended June 29, 2024, as compared to the three-month period ended July 1, 2023, was attributable to volume growth of 10.6% partially offset by a 1.3% decrease in revenue rate over the comparable period.

*Cost of Revenue, Excluding Depreciation and Amortization*

Cost of revenue, excluding depreciation and amortization, was $346.7 million for the three-month period ended June 29, 2024, as compared to $316.7 million for the three-month period ended July 1, 2023, an increase of $30.0 million, or 9.5%. This increase resulted from the following segment activity:

- a $30.8 million, or 11.6%, increase in PDS cost of revenue;
- a $3.3 million, or 11.5%, decrease in HHH cost of revenue; and

- a $2.5 million, or 11.2%, increase in MS cost of revenue.

The 11.6% increase in PDS cost of revenue for the three-month period ended June 29, 2024 resulted from the previously described 4.8% increase in PDS volume combined with a 6.8% increase in PDS cost of revenue rate. The 6.8% increase in cost of revenue rate primarily resulted from higher caregiver labor costs, including the pass-through of state reimbursement rate increases. The prior year quarter included $5.0 million lower general and professional liability expense associated with certain accrued legal settlements.

The 11.5% decrease in HHH cost of revenue for the three-month period ended June 29, 2024 was driven primarily by a decline in HHH volumes and improvements in HHH caregiver utilization.

The 11.2% increase in MS cost of revenue for the three-month period ended June 29, 2024 was driven by the previously described 10.6% growth in MS volumes and a 0.6% increase in cost of revenue rate.

*Gross Margin and Gross Margin Percentage*

Gross margin was $158.3 million, or 31.3% of revenue, for the three-month period ended June 29, 2024, as compared to $155.3 million, or 32.9% of revenue, for the three-month period ended July 1, 2023. Gross margin increased $3.0 million, or 1.9%, from the comparable prior year quarter. The 1.6% decrease in gross margin percentage for the three-month period ended June 29, 2024 resulted from the combined changes in our revenue rates and cost of revenue rates in each of our segments, which we refer to as the change in our spread rate, as follows:

- a 5.4% decrease in PDS spread rate from $11.30 to $10.73 driven by the 3.2% increase in PDS revenue rate, net of the 6.8% increase in PDS cost of revenue rate;
- a 3.8% decrease in MS spread rate from $198.16 to $191.45 driven by the 1.3% decrease in MS revenue rate, net of the 0.6% increase in MS cost of revenue rate; and
- our HHH segment, in which gross margin percentage increased by 5.2%.

*Branch and Regional Administrative Expenses*

Branch and regional administrative expenses were $88.0 million, or 17.4% of revenue, for the three-month period ended June 29, 2024, as compared to $91.3 million, or 19.3% of revenue, for the three-month period ended July 1, 2023, a decrease of $3.3 million, or 3.6%.

The 3.6% decrease in branch and regional administrative expenses for the three-month period ended June 29, 2024, as compared to the three-month period ended July 1, 2023, was primarily due to the positive effects of restructuring portions of our branch and regional operating structure, which resulted in the overall 1.9% decrease in branch and regional administrative expenses as a percentage of revenue for the three-month period ended June 29, 2024, as compared to the three-month period ended July 1, 2023.

*Field Contribution and Field Contribution Margin*

Field contribution was $70.3 million, or 13.9% of revenue, for the three-month period ended June 29, 2024, as compared to $64.0 million, or 13.6% of revenue, for the three-month period ended July 1, 2023. Field contribution increased $6.3 million, or 9.8%, for the three-month period ended June 29, 2024, as compared to the three-month period ended July 1, 2023. The 0.3% increase in Field contribution margin for the three-month period ended June 29, 2024 resulted from the following:

- a 1.6% decrease in gross margin percentage in the three-month period ended June 29, 2024, as compared to the three-month period ended July 1, 2023; and
- a 1.8% decrease in branch and regional administrative expenses as a percentage of revenue for the three-month period ended June 29, 2024, as compared to the three-month period ended July 1, 2023.

Field contribution and Field contribution margin are non-GAAP financial measures. See “Non-GAAP Financial Measures” below.

*Corporate Expenses*

Corporate expenses as a percentage of revenue for the three-month periods ended June 29, 2024 and July 1, 2023 were as follows:

| | For the three-month periods ended | | | |
|---|---|---|---|---|
| | June 29, 2024 | | July 1, 2023 | |
| *(dollars in thousands)* | Amount | % of Revenue | Amount | % of Revenue |
| Revenue | $ 504,958 | | $ 471,945 | |
| Corporate expense components: | | | | |
| Compensation and benefits | $ 16,797 | 3.3 % | $ 15,284 | 3.2 % |
| Non-cash share-based compensation | 3,438 | 0.7 % | 2,506 | 0.5 % |
| Professional services | 4,565 | 0.9 % | 2,804 | 0.6 % |
| Rent and facilities expense | 3,203 | 0.6 % | 3,120 | 0.7 % |
| Office and administrative | 384 | 0.1 % | 518 | 0.1 % |
| Other | 1,858 | 0.4 % | 2,122 | 0.4 % |
| Total corporate expenses | $ 30,245 | 6.0 % | $ 26,354 | 5.6 % |

Corporate expenses were $30.2 million, or 6.0% of revenue, for the three-month period ended June 29, 2024, as compared to $26.4 million, or 5.6% of revenue, for the three-month period ended July 1, 2023. The $3.9 million, or 14.8%, increase in corporate expenses resulted primarily from higher compensation and benefits costs, non-cash share-based compensation, and professional services.

*Depreciation and Amortization*

Depreciation and amortization was $2.8 million for the three-month period ended June 29, 2024, as compared to $3.5 million for the three-month period ended July 1, 2023, a decrease of $0.7 million, or 18.8%. The $0.7 million decrease primarily resulted from improved capital asset management.

*Other Operating Expense (Income)*

Other operating expense was $0.1 million for the three-month period ended June 29, 2024, as compared to other operating income of $3.3 million for the three-month period ended July 1, 2023, a decrease in other operating income of $3.4 million. The $3.4 million decrease primarily resulted from a favorable $3.6 million acquisition-related legal settlement recorded in the prior year three-month period.

*Interest Expense, net of Interest Income*

Interest expense, net of interest income was $39.5 million for the three-month period ended June 29, 2024, as compared to $37.9 million for the three-month period ended July 1, 2023, an increase of $1.6 million, or 4.3%. The increase was primarily driven by increases in interest rates due to continued increases in the U.S. federal funds rate and higher borrowing under our Securitization Facility. See further analysis under *Liquidity and Capital Resources* below.

*Other Income*

Other income was $6.4 million for the three-month period ended June 29, 2024, as compared to other income of $25.2 million for the three-month period ended July 1, 2023, a decrease of $18.8 million. We realized a $19.9 million decrease in non-cash valuation gains on interest rate derivatives resulting from changes in market expectations of future interest rates as of the comparable quarter-end valuation dates, offset by a $1.7 million improvement in net settlements with interest rate derivative counterparties as interest rates increased compared to the prior year quarter due to higher market interest rates. Details of other income included the following:

| | For the three-month periods ended | |
|---|---|---|
| *(dollars in thousands)* | June 29, 2024 | July 1, 2023 |
| Valuation (loss) gain to state interest rate derivatives at fair value | $ (3,146) | $ 16,799 |
| Net settlements received from interest rate derivative counterparties | 9,587 | 7,867 |
| Other | (70) | 503 |
| Total other income | $ 6,371 | $ 25,169 |

*Income Taxes*

We incurred income tax benefit of $9.9 million for the three-month period ended June 29, 2024, as compared to income tax benefit of $0.8 million for the three-month period ended July 1, 2023. This increase in tax benefit was primarily driven by the changes in federal and state valuation allowances, and changes to federal and state current tax expense.

***Six-Month Period Ended June 29, 2024 Compared to the Six-Month Period Ended July 1, 2023***

The following table summarizes our consolidated results of operations, including Field contribution, which is a non-GAAP measure (see "Non-GAAP Financial Measures" below), for the six-month periods indicated:

| | For the six-month periods ended | | | | | |
|---|---|---|---|---|---|---|
| *(dollars in thousands)* | June 29, 2024 | % of Revenue | July 1, 2023 | % of Revenue | Change | % Change |
| Revenue | $ 995,611 | 100.0 % | $ 938,358 | 100.0 % | $ 57,253 | 6.1 % |
| Cost of revenue, excluding depreciation and amortization | 691,490 | 69.5 % | 638,638 | 68.1 % | 52,852 | 8.3 % |
| Gross margin | $ 304,121 | 30.5 % | $ 299,720 | 31.9 % | $ 4,401 | 1.5 % |
| Branch and regional administrative expenses | 175,886 | 17.7 % | 182,963 | 19.5 % | (7,077 ) | -3.9 % |
| Corporate expenses | 60,087 | 6.0 % | 57,289 | 6.1 % | 2,798 | 4.9 % |
| Depreciation and amortization | 5,745 | 0.6 % | 7,532 | 0.8 % | (1,787 ) | -23.7 % |
| Acquisition-related costs | - | 0.0 % | 38 | 0.0 % | (38 ) | -100.0 % |
| Other operating expense (income) | 2,411 | 0.2 % | (3,233 ) | -0.3 % | 5,644 | -174.6 % |
| Operating income | $ 59,992 | 6.0 % | $ 55,131 | 5.9 % | $ 4,861 | 8.8 % |
| Interest expense, net | (79,063 ) | | (73,755 ) | | (5,308 ) | 7.2 % |
| Other income | 24,540 | | 12,981 | | 11,559 | 89.0 % |
| Income tax expense | (2,735 ) | | (756 ) | | (1,979 ) | 261.8 % |
| Net income (loss) | $ 2,734 | | $ (6,399 ) | | $ 9,133 | 142.7 % |

The following table summarizes our consolidated key performance measures, including Field contribution and Field contribution margin, which are non-GAAP measures (see "Non-GAAP Financial Measures" below), for the six-month periods indicated:

| | For the six-month periods ended | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | June 29, 2024 | July 1, 2023 | Change | % Change |
| Revenue | $ 995,611 | $ 938,358 | $ 57,253 | 6.1 % |
| Cost of revenue, excluding depreciation and amortization | 691,490 | 638,638 | 52,852 | 8.3 % |
| Gross margin | $ 304,121 | $ 299,720 | $ 4,401 | 1.5 % |
| Gross margin percentage | 30.5 % | 31.9 % | | |
| Branch and regional administrative expenses | 175,886 | 182,963 | (7,077 ) | -3.9 % |
| Field contribution | $ 128,235 | $ 116,757 | $ 11,478 | 9.8 % |
| Field contribution margin | 12.9 % | 12.4 % | | |
| Corporate expenses | $ 60,087 | $ 57,289 | $ 2,798 | 4.9 % |
| As a percentage of revenue | 6.0 % | 6.1 % | | |
| Operating income | $ 59,992 | $ 55,131 | $ 4,861 | 8.8 % |
| As a percentage of revenue | 6.0 % | 5.9 % | | |

The following tables summarize our key performance measures by segment for the six-month periods indicated:

| | PDS | | | |
|---|---|---|---|---|
| | For the six-month periods ended | | | |
| *(dollars and hours in thousands)* | June 29, 2024 | July 1, 2023 | Change | % Change |
| Revenue | $ 802,860 | $ 750,615 | $ 52,245 | 7.0% |
| Cost of revenue, excluding depreciation and amortization | 591,857 | 534,933 | 56,924 | 10.6% |
| Gross margin | $ 211,003 | $ 215,682 | $ (4,679) | -2.2% |
| Gross margin percentage | 26.3% | 28.7% | | -2.4% (4) |
| Hours | 20,600 | 19,648 | 952 | 4.8% |
| Revenue rate | $ 38.97 | $ 38.20 | $ 0.77 | 2.2% (1) |
| Cost of revenue rate | $ 28.73 | $ 27.23 | $ 1.50 | 5.8% (2) |
| Spread rate | $ 10.24 | $ 10.97 | $ (0.73) | -7.0% (3) |

| | HHH | | | |
|---|---|---|---|---|
| | For the six-month periods ended | | | |
| *(dollars and admissions/episodes in thousands)* | June 29, 2024 | July 1, 2023 | Change | % Change |
| Revenue | $ 109,243 | $ 111,536 | $ (2,293) | -2.1% |
| Cost of revenue, excluding depreciation and amortization | 50,866 | 59,592 | (8,726) | -14.6% |
| Gross margin | $ 58,377 | $ 51,944 | $ 6,433 | 12.4% |
| Gross margin percentage | 53.4% | 46.6% | | 6.8% (4) |
| Home health total admissions (5) | 19.5 | 21.6 | (2.1) | -9.7% |
| Home health episodic admissions (6) | 14.7 | 14.8 | (0.1) | -0.7% |
| Home health total episodes (7) | 23.7 | 23.0 | 0.7 | 3.0% |
| Home health revenue per completed episode (8) | $ 3,082 | $ 3,005 | $ 77 | 2.6% |

| | MS | | | |
|---|---|---|---|---|
| | For the six-month periods ended | | | |
| *(dollars and UPS in thousands)* | June 29, 2024 | July 1, 2023 | Change | % Change |
| Revenue | $ 83,508 | $ 76,207 | $ 7,301 | 9.6% |
| Cost of revenue, excluding depreciation and amortization | 48,767 | 44,113 | 4,654 | 10.6% |
| Gross margin | $ 34,741 | $ 32,094 | $ 2,647 | 8.2% |
| Gross margin percentage | 41.6% | 42.1% | | -0.5% (4) |
| Unique patients served ("UPS") | 186 | 170 | 16 | 9.4% |
| Revenue rate | $ 448.97 | $ 448.28 | $ 0.69 | 0.2% (1) |
| Cost of revenue rate | $ 262.19 | $ 259.49 | $ 2.70 | 1.2% (2) |
| Spread rate | $ 186.78 | $ 188.79 | $ (2.01) | -1.2% (3) |

(1) Represents the period over period change in revenue rate, plus the change in revenue rate attributable to the change in volume.
(2) Represents the period over period change in cost of patient services rate, plus the change in cost of patient services rate attributable to the change in volume.
(3) Represents the period over period change in spread rate, plus the change in spread rate attributable to the change in volume.
(4) Represents the change in margin percentage year over year.
(5) Represents home health episodic and fee-for-service admissions.
(6) Represents home health episodic admissions.
(7) Represents episodic admissions and recertifications.
(8) Represents Medicare revenue per completed episode.

The following discussion of our results of operations should be read in conjunction with the foregoing tables summarizing our consolidated results of operations and key performance measures, as well as our audited consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 30, 2023.

*Summary Operating Results*

*Operating Income*

Operating income was $60.0 million for the six-month period ended June 29, 2024, as compared to operating income of $55.1 million for the six-month period ended July 1, 2023, an increase of $4.9 million, or 8.8%.

Operating income for the six-month period of 2024 was positively impacted by an increase of $11.5 million, or 9.8%, in Field contribution as compared to the six-month period of 2023. The $11.5 million increase in Field contribution resulted from a $57.3 million, or 6.1%, increase in consolidated revenue and a 0.5% increase in our Field contribution margin to 12.9% for the six-month period of 2024 from 12.4% for the six-month period of 2023. The primary driver of our higher Field contribution margin year over year was a 1.8% decrease in branch and regional administrative expenses as a percentage of revenue to 17.7% for the six-month period of 2024 from 19.5% for the six-month period of 2023.

The overall $4.9 million increase in operating income over the comparable periods primarily consists of:

- the previously discussed $11.5 million increase in Field contribution; and
- a $1.8 million decrease in depreciation and amortization; offset by
- a $2.8 million increase in corporate expenses; and
- a $5.6 million decrease in other operating income.

*Net Income (Loss)*

Net income for the six-month period ended June 29, 2024 was $2.7 million, as compared to net loss of $6.4 million for the six-month period ended July 1, 2023. The $9.1 million increase in net income was primarily driven by the following:

- the previously discussed $4.9 million increase in operating income; and
- an aggregate $11.6 million increase in valuation gains on interest rate derivatives, and increases in net settlements received from interest rate derivative counterparties over the comparable period; offset by
- a $5.3 million increase in interest expense, net of interest income; and
- a $1.9 million increase in income tax expense.

*Revenue*

Revenue was $995.6 million for the six-month period ended June 29, 2024, as compared to $938.4 million for the six-month period ended July 1, 2023, an increase of $57.3 million, or 6.1%. This increase resulted from the following segment activity:

- a $52.2 million, or 7.0%, increase in PDS revenue;
- a $2.3 million, or 2.1%, decrease in HHH revenue; and
- a $7.3 million, or 9.6%, increase in MS revenue.

Our PDS segment revenue growth of $52.2 million, or 7.0%, for the six-month period ended June 29, 2024 was attributable to a 4.8% increase in volume and a 2.2% increase in revenue rate. The 4.8% increase in volume was primarily attributable to growth in demand for non-clinical services.

The 2.2% increase in PDS revenue rate for the six-month period ended June 29, 2024, as compared to the six-month period ended July 1, 2023, resulted primarily from reimbursement rate increases issued by various state Medicaid programs and Managed Medicaid payers and increases in value-based payments, offset by increases in implicit price concessions.

Our HHH segment revenue decrease of $2.3 million, or 2.1%, for the six-month period ended June 29, 2024 resulted primarily from a decline in volumes over the comparable period. While home health total admissions declined 9.7% over the comparable period, total segment revenue declined by a lower rate primarily due to improvements in home health episodic mix.

The $7.3 million, or 9.6%, increase in MS segment revenue for the six-month period ended June 29, 2024, as compared to the six-month period ended July 1, 2023, was attributable to volume growth of 9.4% combined with a 0.2% increase in revenue rate over the comparable period.

*Cost of Revenue, Excluding Depreciation and Amortization*

Cost of revenue, excluding depreciation and amortization, was $691.5 million for the six-month period ended June 29, 2024, as compared to $638.6 million for the six-month period ended July 1, 2023, an increase of $52.9 million, or 8.3%. This increase resulted from the following segment activity:

- a $56.9 million, or 10.6%, increase in PDS cost of revenue;
- a $8.7 million, or 14.6%, decrease in HHH cost of revenue; and
- a $4.7 million, or 10.6%, increase in MS cost of revenue.

The 10.6% increase in PDS cost of revenue for the six-month period ended June 29, 2024 resulted from the previously described 4.8% increase in PDS volume combined with a 5.8% increase in PDS cost of revenue rate. The 5.8% increase in cost of revenue rate primarily resulted from higher caregiver labor costs, including the pass-through of state reimbursement rate increases.

The 14.6% decrease in HHH cost of revenue for the six-month period ended June 29, 2024 was driven primarily by a decline in HHH volumes and improvements in HHH caregiver utilization.

The 10.6% increase in MS cost of revenue for the six-month period ended June 29, 2024 was driven by the previously described 9.4% growth in MS volumes and a 1.2% increase in cost of revenue rate.

*Gross Margin and Gross Margin Percentage*

Gross margin was $304.1 million, or 30.5% of revenue, for the six-month period ended June 29, 2024, as compared to $299.7 million, or 31.9% of revenue, for the six-month period ended July 1, 2023. Gross margin increased $4.4 million, or 1.5%, from the comparable prior year quarter. The 1.4% decrease in gross margin percentage for the six-month period ended June 29, 2024 resulted from the combined changes in our revenue rates and cost of revenue rates in each of our segments, which we refer to as the change in our spread rate, as follows:

- a 7.0% decrease in PDS spread rate from $10.97 to $10.24 driven by the 2.2% increase in PDS revenue rate, net of the 5.8% increase in PDS cost of revenue rate;
- a 1.2% decrease in MS spread rate from $188.79 to $186.78 driven by the 0.2% increase in MS revenue rate, net of the 1.2% increase in MS cost of revenue rate; and
- our HHH segment, in which gross margin percentage increased by 6.8%.

*Branch and Regional Administrative Expenses*

Branch and regional administrative expenses were $175.9 million, or 17.7% of revenue, for the six-month period ended June 29, 2024, as compared to $183.0 million, or 19.5% of revenue, for the six-month period ended July 1, 2023, a decrease of $7.1 million, or 3.9%.

The 3.9% decrease in branch and regional administrative expenses for the six-month period ended June 29, 2024, as compared to the six-month period ended July 1, 2023, was primarily due to the positive effects of restructuring portions of our branch and regional operating structure, which resulted in the overall 1.8% decrease in branch and regional administrative expenses as a percentage of revenue for the six-month period ended June 29, 2024, as compared to the six-month period ended July 1, 2023.

*Field Contribution and Field Contribution Margin*

Field contribution was $128.2 million, or 12.9% of revenue, for the six-month period ended June 29, 2024, as compared to $116.8 million, or 12.4% of revenue, for the six-month period ended July 1, 2023. Field contribution increased $11.5 million, or 9.8%, for the six-month period ended June 29, 2024, as compared to the six-month period ended July 1, 2023. The 0.5% increase in Field contribution margin for the six-month period ended June 29, 2024 resulted from the following:

- a 1.8% decrease in branch and regional administrative expenses as a percentage of revenue in the six-month period ended June 29, 2024, as compared to the six-month period ended July 1, 2023; offset by
- a 1.4% decrease in gross margin percentage in the six-month period ended June 29, 2024, as compared to the six-month period ended July 1, 2023.

Field contribution and Field contribution margin are non-GAAP financial measures. See “Non-GAAP Financial Measures” below.

*Corporate Expenses*

Corporate expenses as a percentage of revenue for the six-month periods ended June 29, 2024 and July 1, 2023 were as follows:

| | For the six-month periods ended | | | |
|---|---|---|---|---|
| | June 29, 2024 | | July 1, 2023 | |
| *(dollars in thousands)* | Amount | % of Revenue | Amount | % of Revenue |
| Revenue | $ 995,611 | | $ 938,358 | |
| Corporate expense components: | | | | |
| Compensation and benefits | $ 32,675 | 3.3 % | $ 32,048 | 3.4 % |
| Non-cash share-based compensation | 5,860 | 0.6 % | 4,666 | 0.5 % |
| Professional services | 10,878 | 1.1 % | 8,777 | 0.9 % |
| Rent and facilities expense | 6,216 | 0.6 % | 5,981 | 0.6 % |
| Office and administrative | 961 | 0.1 % | 735 | 0.1 % |
| Other | 3,497 | 0.4 % | 5,082 | 0.5 % |
| Total corporate expenses | $ 60,087 | 6.0 % | $ 57,289 | 6.1 % |

Corporate expenses were $60.1 million, or 6.0% of revenue, for the six-month period ended June 29, 2024, as compared to $57.3 million, or 6.1% of revenue, for the six-month period ended July 1, 2023. The $2.8 million, or 4.9%, increase in corporate expenses resulted primarily from higher non-cash share-based compensation costs and higher professional services.

*Depreciation and Amortization*

Depreciation and amortization was $5.7 million for the six-month period ended June 29, 2024, as compared to $7.5 million for the six-month period ended July 1, 2023, a decrease of $1.8 million, or 23.7%. The $1.8 million decrease primarily resulted from improved capital asset management.

*Other Operating Expense (Income)*

Other operating expense was $2.4 million for the six-month period ended June 29, 2024, as compared to other operating income of $3.2 million for the six-month period ended July 1, 2023, a decrease of $5.6 million. The $5.6 million decrease primarily resulted from an impairment of a certain facility lease asset recorded in the current year six-month period, and a favorable $3.6 million acquisition-related legal settlement recorded in the prior year six-month period.

*Interest Expense, net of Interest Income*

Interest expense, net of interest income was $79.1 million for the six-month period ended June 29, 2024, as compared to $73.8 million for the six-month period ended July 1, 2023, an increase of $5.3 million, or 7.2%. The increase was primarily driven by higher interest rates due to continued increases in the U.S. federal funds rate and higher borrowing under our Securitization Facility. See further analysis under *Liquidity and Capital Resources* below.

*Other Income*

Other income was $24.5 million for the six-month period ended June 29, 2024, as compared to other income of $13.0 million for the six-month period ended July 1, 2023. We realized a $6.9 million increase in non-cash valuation gains on interest rate derivatives resulting from changes in market expectations of future interest rates as of the comparable valuation dates and a $4.7 million improvement in net settlements with interest rate derivative counterparties as interest rates increased compared to the prior year period due to higher market interest rates. Details of other income included the following:

| | For the six-month periods ended | |
|---|---|---|
| *(dollars in thousands)* | June 29, 2024 | July 1, 2023 |
| Valuation gain (loss) to state interest rate derivatives at fair value | $ 5,130 | $ (1,738 ) |
| Net settlements received from interest rate derivative counterparties | 19,228 | 14,482 |
| Other | 182 | 237 |
| Total other income | $ 24,540 | $ 12,981 |

*Income Taxes*

We incurred income tax expense of $2.7 million for the six-month period ended June 29, 2024, as compared to income tax expense of $0.8 million for the six-month period ended July 1, 2023. This increase in tax expense was primarily driven by the changes to federal and state current tax expense and the changes in federal and state valuation allowances.

**Non-GAAP Financial Measures**

In addition to our results of operations prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), which we have discussed above, we also evaluate our financial performance using EBITDA, Adjusted EBITDA, Field contribution and Field contribution margin.

***EBITDA and Adjusted EBITDA***

EBITDA and Adjusted EBITDA are non-GAAP financial measures and are not intended to replace financial performance measures determined in accordance with U.S. GAAP, such as net income (loss). Rather, we present EBITDA and Adjusted EBITDA as supplemental measures of our performance. We define EBITDA as net income (loss) before interest expense, net; income tax expense; and depreciation and amortization. We define Adjusted EBITDA as EBITDA, adjusted for the impact of certain other items that are either non-recurring, infrequent, non-cash, unusual, or items deemed by management to not be indicative of the performance of our core operations, including impairments of goodwill, intangible assets, and other long-lived assets; non-cash, share-based compensation; loss on extinguishment of debt; fees related to debt modifications; the effect of interest rate derivatives; acquisition-related and integration costs; legal costs and settlements associated with acquisition matters; restructuring costs; other legal matters; other system transition costs, professional fees; and other costs including gains and losses on acquisitions and dispositions of certain businesses. As non-GAAP financial measures, our computations of EBITDA and Adjusted EBITDA may vary from similarly termed non-GAAP financial measures used by other companies, making comparisons with other companies on the basis of this measure impracticable.

Management believes our computations of EBITDA and Adjusted EBITDA are helpful in highlighting trends in our core operating performance. In determining which adjustments are made to arrive at EBITDA and Adjusted EBITDA, management considers both (1) certain non-recurring, infrequent, non-cash or unusual items, which can vary significantly from year to year, as well as (2) certain other items that may be recurring, frequent, or settled in cash but which management does not believe are indicative of our core operating performance. We use EBITDA and Adjusted EBITDA to assess operating performance and make business decisions.

We have incurred substantial acquisition-related costs and integration costs. The underlying acquisition activities take place over a defined timeframe, have distinct project timelines and are incremental to activities and costs that arise in the ordinary course of our business. Therefore, we believe it is important to exclude these costs from our Adjusted EBITDA because it provides management a normalized view of our core, ongoing operations after integrating our acquired companies, which is an important measure in assessing our performance.

Given our determination of adjustments in arriving at our computations of EBITDA and Adjusted EBITDA, these non-GAAP measures have limitations as analytical tools and should not be considered in isolation or as substitutes or alternatives to net income or loss, revenue, operating income or loss, cash flows from operating activities, total indebtedness or any other financial measures calculated in accordance with U.S. GAAP.

The following table reconciles net income (loss) to EBITDA and Adjusted EBITDA for the periods indicated:

| | For the three-month periods ended | | For the six-month periods ended | |
|---|---|---|---|---|
| *(dollars in thousands)* | **June 29, 2024** | **July 1, 2023** | **June 29, 2024** | **July 1, 2023** |
| Net income (loss) | $ 13,906 | $ 25,599 | $ 2,734 | $ (6,399) |
| Interest expense, net | 39,518 | 37,872 | 79,063 | 73,755 |
| Income tax (benefit) expense | (9,927) | (810) | 2,735 | 756 |
| Depreciation and amortization | 2,833 | 3,491 | 5,745 | 7,532 |
| EBITDA | 46,330 | 66,152 | 90,277 | 75,644 |
| Goodwill, intangible and other long-lived asset impairment | 80 | 313 | 2,400 | 381 |
| Non-cash share-based compensation | 3,500 | 2,586 | 7,581 | 5,028 |
| Interest rate derivatives (1) | (6,441) | (24,667) | (24,359) | (12,745) |
| Acquisition-related costs (2) | - | (33) | - | 37 |
| Integration costs (3) | 388 | 102 | 687 | 1,235 |
| Legal costs and settlements associated with acquisition matters (4) | 173 | (5,446) | 575 | (5,142) |
| Restructuring (5) | 1,718 | 2,621 | 3,188 | 4,748 |
| Other legal matters (6) | (197) | (5,000) | 898 | (5,000) |
| Other system transition costs, professional fees and other (7) | 96 | (773) | (717) | 150 |
| Total adjustments (8) | $ (683) | $ (30,297) | $ (9,747) | $ (11,308) |
| Adjusted EBITDA | $ 45,647 | $ 35,855 | $ 80,530 | $ 64,336 |

(1) Represents valuation adjustments and settlements associated with interest rate derivatives that are not included in interest expense, net. Such items are included in other income.

(2) Represents transaction costs incurred in connection with planned, completed, or terminated acquisitions, which include investment banking fees, legal diligence and related documentation costs, and finance and accounting diligence and documentation, as presented on the Company's consolidated statements of operations.

(3) Represents (i) costs associated with our Integration Management Office, which focuses on our integration efforts and transformational projects such as systems conversions and implementations, material cost reduction and restructuring projects, among other things, of $0.3 million and $0.6 million for the three and six-month periods ended June 29, 2024, respectively, and $0.4 million and $0.8 million for the three and six-month periods ended July 1, 2023, respectively; and (ii) transitionary costs incurred to integrate acquired companies into our field and corporate operations of $0.1 million for both the three and six-month periods ended June 29, 2024, respectively, and $(0.3) million and $0.4 million for the three and six-month periods ended July 1, 2023, respectively. Transitionary costs incurred to integrate acquired companies include IT consulting costs and related integration support costs; salary, severance and retention costs associated with duplicative acquired company personnel until such personnel are exited from the Company; accounting, legal and consulting costs; expenses and impairments related to the closure and consolidation of overlapping markets of acquired companies, including lease termination and relocation costs; costs associated with terminating legacy acquired company contracts and systems; and one-time costs associated with rebranding our acquired companies and locations to the Aveanna brand.

(4) Represents legal and forensic costs, as well as settlements associated with resolving legal matters arising during or as a result of our acquisition-related activities. This primarily includes (i) costs of $0.2 million and $0.6 million for the three and six-month periods ended June 29, 2024, respectively, and $0.2 million and $0.3 million for the three and six-month periods ended July 1, 2023, respectively, to comply with the U.S. Department of Justice, Antitrust Division's grand jury subpoena related to nurse wages and hiring activities in certain of our markets, in connection with a terminated transaction, and (ii) release of reserve of $3.6 million for both the three and six-month periods ended July 1, 2023, related to the settlement
of a legal matter resulting from a 2020 acquisition.

(5) Represents costs associated with restructuring our branch and regional administrative footprint as well as our corporate overhead infrastructure costs in order to appropriately size our resources to current volumes, including: (i) branch and regional salary and severance costs; (ii) corporate salary and severance costs; and (iii) rent and lease termination costs associated with the closure of certain office locations. Restructuring costs also include compensation, severance and related benefits costs associated with an executive transition plan initiated in the first quarter of 2024.

(6) Represents activity related to accrued legal settlements and the related costs and expenses associated with certain judgments and arbitration awards rendered against the Company where certain insurance coverage is in dispute.

(7) Represents: (i) costs associated with the implementation of, and transition to, new electronic medical record systems, billing and collection systems, duplicative system costs while such transformational projects are in-process, and other system transition costs of $0.7 million for the six-month period ended July 1, 2023, no such cost was recorded in other presented periods; and (ii) other costs or (income) that are either non-cash or non-core to the Company's ongoing operations of $0.1 million and $(0.7)

million for the three and six-month periods ended June 29, 2024, respectively, and $(0.7) million and $(0.6) million for the three and six-month periods ended July 1, 2023, respectively.

(8) The table below reflects the increase or decrease, and aggregate impact, to the line items included in our consolidated statements of operations based upon the adjustments used in arriving at Adjusted EBITDA from EBITDA for the periods indicated:

| | Impact to Adjusted EBITDA | | | |
|---|---|---|---|---|
| | For the three-month periods ended | | For the six-month periods ended | |
| *(dollars in thousands)* | June 29, 2024 | July 1, 2023 | June 29, 2024 | July 1, 2023 |
| Cost of revenue, excluding depreciation and amortization | 81 | (4,823) | $ 176 | $ (4,678) |
| Branch and regional administrative expenses | 1,561 | 1,723 | 2,874 | 3,364 |
| Corporate expenses | 3,958 | 1,311 | 9,335 | 6,184 |
| Acquisition-related costs | - | (33) | - | 37 |
| Other operating expense (income) | 168 | (3,646) | 2,120 | (3,646) |
| Other income | (6,451) | (24,829) | (24,252) | (12,569) |
| Total adjustments | $ (683) | $ (30,297) | $ (9,747) | $ (11,308) |

***Field Contribution and Field Contribution Margin***

Field contribution and Field contribution margin are non-GAAP financial measures and are not intended to replace financial performance measures determined in accordance with U.S. GAAP, such as gross margin and gross margin percentage. Rather, we present Field contribution and Field contribution margin as supplemental measures of our performance. We define Field contribution as gross margin less branch and regional administrative expenses. Field contribution margin is Field contribution as a percentage of revenue. As non-GAAP financial measures, our computations of Field contribution and Field contribution margin may vary from similarly termed non-GAAP financial measures used by other companies, making comparisons with other companies on the basis of these measures impracticable.

Field contribution and Field contribution margin have limitations as analytical tools and should not be considered in isolation or as substitutes or alternatives to gross margin, gross margin percentage, net income or loss, revenue, operating income or loss, cash flows from operating activities, total indebtedness or any other financial measures calculated in accordance with U.S. GAAP.

Management believes Field contribution and Field contribution margin are helpful in highlighting trends in our core operating performance and evaluating trends in our branch and regional results, which can vary from year to year. We use Field contribution and Field contribution margin to make business decisions and assess the operating performance and results delivered by our core field operations, prior to corporate and other costs not directly related to our field operations. These metrics are also important because they guide us in determining whether or not our branch and regional administrative expenses are appropriately sized to support our caregivers and direct patient care operations. Additionally, Field contribution and Field contribution margin determine how effective we are in managing our field supervisory and administrative costs associated with supporting our provision of services and sale of products.

The following table reconciles gross margin to Field contribution and Field contribution margin for the periods indicated:

| | For the three-month periods ended | | For the six-month periods ended | |
|---|---|---|---|---|
| *(dollars in thousands)* | June 29, 2024 | July 1, 2023 | June 29, 2024 | July 1, 2023 |
| Gross margin | $ 158,267 | $ 155,255 | $ 304,121 | $ 299,720 |
| *Gross margin percentage* | 31.3% | 32.9% | 30.5% | 31.9% |
| Branch and regional administrative expenses | 87,972 | 91,255 | 175,886 | 182,963 |
| Field contribution | $ 70,295 | $ 64,000 | $ 128,235 | $ 116,757 |
| *Field contribution margin* | 13.9% | 13.6% | 12.9% | 12.4% |
| Revenue | $ 504,958 | $ 471,945 | $ 995,611 | $ 938,358 |

**Liquidity and Capital Resources**

***Overview***

Our principal sources of cash have historically been from cash provided by operating activities. Our principal source of liquidity in addition to cash provided by operating activities, or when we have used net cash in our operating activities, has historically been from proceeds from our credit facilities and issuances of common stock.

Our principal uses of cash and liquidity have historically been for acquisitions, interest and principal payments under our credit facilities, payments under our interest rate derivatives, and financing of working capital. Payment of interest and related fees under our credit facilities is currently the most significant use of our operating cash flow. Our goal is to use cashflow provided by operations primarily as a source of cash to supplement the purchase price for acquisitions.

In September 2023, in response to a $7.9 million arbitration award rendered against us in connection with a civil litigation matter, we promptly obtained a $9.1 million appellate bond with the trial court. The $9.1 million appellate bond was collateralized with letters of credit. While we intend to avail ourselves of all appellate options, the resolution of this matter could reduce the cash available to us for general working capital purposes.

For additional information with respect to the foregoing litigation matters, please see *"Litigation and Other Current Liabilities"* set forth in Note 10 to our interim unaudited consolidated financial statements contained in this Quarterly Report on Form 10-Q.

At June 29, 2024 we had $47.7 million in cash on hand, $53.0 million available to us under our Securitization Facility and approximately $168.2 million of borrowing capacity under the Revolving Credit Facility. Available borrowing capacity under the Revolving Credit Facility is subject to a maintenance leverage covenant that becomes effective if more than 30% of the total commitment is utilized, subject to a $15.0 million carve-out for letters of credit. We believe that our operating cash flows, available cash on hand, and availability under our Securitization Facility and Revolving Credit Facility will be sufficient to meet our cash requirements for at least the next twelve months. Our future capital requirements will depend on many factors that are difficult to predict, including the size, timing and structure of any future acquisitions, future capital investments and future results of operations. We cannot assure you that cash provided by operating activities or cash and cash equivalents on hand will be sufficient to meet our future needs. If we are unable to generate sufficient cash flows from operations in the future, we may have to obtain additional financing. If we obtain additional capital by issuing equity, the interests of our existing stockholders will be diluted. If we incur additional indebtedness, that indebtedness may contain significant financial and other covenants that may significantly restrict our operations. We cannot assure you that we could obtain refinancing or additional financing on favorable terms or at all.

**Cash Flow Activity**

The following table sets forth a summary of our cash flows from operating, investing, and financing activities for the six-month periods presented:

| | For the six-month periods ended | |
|---|---|---|
| *(dollars in thousands)* | **June 29, 2024** | **July 1, 2023** |
| Net cash used in operating activities | $ (10,163) | $ (3,023) |
| Net cash used in investing activities | $ (2,577) | $ (6,099) |
| Net cash provided by financing activities | $ 16,459 | $ 17,917 |

*Operating Activities*

The primary sources or uses of our operating cash flow are operating income or operating losses, as well as any other significant non-cash items such as depreciation, amortization and share-based compensation, and cash paid for interest. The timing of collections of accounts receivable and the payment of accounts payable, other accrued liabilities and accrued payroll can also impact and cause fluctuations in our operating cash flow. Cash used by operating activities increased by $7.1 million for the six-month period ended June 29, 2024 compared to the six-month period ended July 1, 2023, primarily due to:

- the provision of cash associated with operating assets and liabilities over the comparable period, including the timing of payroll and incentive settlements, the prior year benefit of deferring of one month of interest under our term loans which we had previously paid on a monthly basis, and the prior year benefit of a one-time deferral of cash payments under employee medical plans as we transitioned to a self-insured plan; partially offset by
- improvements in operating income over the prior year period.

*Days Sales Outstanding ("DSO")*

DSO provides us with a gauge to measure the timing of cash collections against accounts receivable and related revenue. DSO is derived by dividing our average patient accounts receivable for the fiscal period by our average daily revenue for the fiscal period. The collection cycle for our HHH segment is generally longer than that of our PDS segment, primarily due to longer billing cycles for HHH, which is generally billed in thirty day increments. The following table presents our trailing five quarter DSO for the periods presented below:

| | **July 1, 2023** | **September 30, 2023** | **December 30, 2023** | **March 30, 2024** | **June 29, 2024** |
|---|---|---|---|---|---|
| Days Sales Outstanding | 46.2 | 45.0 | 44.9 | 45.8 | 47.8 |

*Investing Activities*

Net cash used in investing activities was $2.6 million for the six-month period ended June 29, 2024, as compared to $6.1 million for the six-month period ended July 1, 2023. The primary driver of the $3.5 million decrease in cash used in the current period was the prior year purchase of certificates of need of $2.7 million.

*Financing Activities*

Net cash provided by financing activities decreased by $1.5 million, from $17.9 million net cash provided for the six-month period ended July 1, 2023 to $16.5 million for the six-month period ended June 29, 2024. The $1.5 million decrease was primarily attributable to lower borrowings under the Securitization Facility during the six-month period ended June 29, 2024.

**Indebtedness**

We typically incur term loan indebtedness to finance our acquisitions, and we borrow under our Securitization Facility and Revolving Credit Facility from time to time for working capital purposes, as well as to finance acquisitions, as needed. The following table presents our current and long-term obligations under our credit facilities as of June 29, 2024 and July 1, 2023, as well as related interest expense for the six-month periods ended June 29, 2024 and July 1, 2023, respectively:

| *(dollars in thousands)* | **Current and Long-term Obligations** | | | **Interest Expense For the six-month periods ended** | |
|---|---|---|---|---|---|
| **Instrument** | **June 29, 2024** | **December 30, 2023** | **Interest Rate** | **June 29, 2024** | **July 1, 2023** |
| 2021 Extended Term Loan [1] | $ 895,150 | $ 899,750 | S + 3.75% | $ 41,834 | $ 39,625 |
| Term Loan - Second Lien Term Loan [1] | 415,000 | 415,000 | S + 7.00% | 26,241 | 24,935 |
| Revolving Credit Facility [1] | - | - | S + 3.75% | 425 | 458 |
| Securitization Facility [2] | 170,000 | 155,000 | S + 3.15% | 7,467 | 5,458 |
| Amortization of debt issuance costs | - | - | | 2,484 | 2,719 |
| Other | - | - | | 809 | 748 |
| Total Indebtedness | $ 1,480,150 | $ 1,469,750 | | $ 79,260 | $ 73,943 |
| Weighted Average Interest Rate [3] | 10.1 % | 10.1 % | | | |

(1) Variable rate debt instrument which accrues interest at a rate equal to the SOFR rate, plus a CSA, (subject to a minimum of 0.50%), plus an applicable margin.
(2) Variable rate debt instrument which accrues interest at a rate equal to the SOFR rate, plus a CSA, plus an applicable margin.
(3) Represents the weighted average annualized interest rate based upon the outstanding balances at June 29, 2024 and July 1, 2023, respectively, and the applicable interest rates at that date.

We were in compliance with all financial covenants and restrictions related to existing credit facilities at June 29, 2024.

On March 23, 2023, we amended the agreement governing our Revolving Credit Facility to increase the sublimit for letters of credit to $40.0 million from $30.0 million. The other terms of the Revolving Credit Facility remained unchanged by such amendment.

On May 31, 2024, we amended our Securitization Facility, which matures on July 31, 2026, to increase the borrowing capacity to $225.0 million, subject to certain borrowing base requirements. Further, this amendment revised the Securitization Facility's applicable margin on the borrowing rate to 3.15%, with all other terms remaining the same.

**Contractual Obligations**

Our contractual obligations consist primarily of long-term debt obligations, interest payments, operating and financing leases. These contractual obligations impact our short-term and long-term liquidity and capital needs. As of June 29, 2024, there were no material changes to our contractual obligations from those described in our Annual Report on Form 10-K for the fiscal year ended December 30, 2023.

**Critical Accounting Estimates**

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates” and our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2023 for accounting policies and related estimates we believe are the most critical to understanding our consolidated financial statements, financial condition and results of operations and which require complex management judgment and assumptions, or involve uncertainties. These critical accounting estimates include patient services and product revenue; business combinations; goodwill; and insurance reserves. There have been no changes to our critical accounting estimates or their application since the date of our Annual Report on Form 10-K for the fiscal year ended December 30, 2023.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not required for a smaller reporting company.

**Item 4. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

As of the end of the period covered by this Quarterly Report on Form 10-Q, we conducted an evaluation, under the supervision and with the participation of our principal executive officer, principal financial officer, and principal accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on this evaluation, our principal executive officer, principal financial officer and principal accounting officer concluded that, as of June 29, 2024, such disclosure controls and procedures were not effective, solely as a result of a previously reported material weakness.

Notwithstanding the foregoing, there were no changes to previously issued financial statements, and management did not identify any misstatements in our financial statements as a result of this material weakness. Our principal executive officer, principal financial officer, and principal accounting officer believe that the interim unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows as of and for the periods presented in accordance with U.S. GAAP.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Specifically, the material weakness is due to control deficiencies related to the overall information technology general controls ("ITGCs") for both user access and program change management for systems supporting the Company's internal control processes and controls. Our business process controls (automated and manual) were also deemed ineffective because they are adversely impacted by these ineffective ITGCs. Additionally, we did not fully design and implement business process controls (automated and manual) that are dependent on one of the revenue systems in the Private Duty Services segment which has been replaced in fiscal 2024.

As previously described in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 30, 2023, management is in the process of implementing its remediation plan. Our remediation efforts include: (i) implementation of a new revenue system in Q1 2024; (ii) improvements to our ITGCs in the areas of user access and program change-management for systems supporting the Company's internal control processes to ensure that internal controls are designed and operating effectively; and (iii) training and educating the control owners on ITGC policies concerning the principles and requirements of each control, with a focus on those related to user access and change-management over IT systems impacting financial reporting. We believe that these actions will remediate the foregoing material weakness. The material weakness will not be considered remediated, however, until the applicable controls operate for a sufficient period of time, and management has concluded, through testing, that these controls are operating effectively.

***Changes in Internal Control over Financial Reporting***

Except for the actions intended to remediate the material weakness as described above, there were no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that have occurred during the three-month period ended June 29, 2024, that have materially impacted, or are reasonably likely to materially impact, our internal control over financial reporting.

***Inherent Limitations on Effectiveness of Controls***

Our management, including our principal executive officer, principal financial officer, and principal accounting officer, does not expect that our disclosure controls or our internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls' effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies and procedures.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings

Information in response to this Item is included in "Part I – Item 1 - Note 10 – *Commitments and Contingencies*" and is incorporated by reference into this Part II, Item 1 of this Quarterly Report on Form 10-Q.

### Item 1A. Risk Factors

There have been no material changes to the risk factors described in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 30, 2023.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

During the quarter ended June 29, 2024, none of the directors or officers of the Company adopted, modified, or terminated any contract, instruction or written plan for the purchase or sale of the Company's securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1 (c) under the Exchange Act or any "non-Rule 10b5-1 trading arrangement", as defined in Item 408 of Regulation S-K.

### Item 6. Exhibits

The following exhibits are filed or furnished herewith:

| Exhibit Number | Description |
|---|---|
| 10.1 | Fourth Amendment to the Receivables Financing Agreement, dated May 31, 2024, by and among Aveanna SPV I, LLC, as borrower, Aveanna Healthcare LLC, as initial servicer, PNC Bank, National Association, as administrative agent, and PNC Capital Markets LLC, as structuring agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 5, 2024 and incorporated herein by reference). |
| 31.1 | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.3 | Certification of Principal Accounting Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.3* | Certification of Principal Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |

| | |
|---|---|
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document) |

* Furnished herewith.

## SIGNATURES

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

| | | |
|---|---|---|
| | | **Aveanna Healthcare Holdings Inc.** |
| Date: August 8, 2024 | By: | /s/ Jeff Shaner<br>**Jeff Shaner**<br>**Chief Executive Officer**<br>***(Principal Executive Officer)*** |
| Date: August 8, 2024 | By: | /s/ Matthew Buckhalter<br>**Matthew Buckhalter**<br>**Chief Financial Officer**<br>***(Principal Financial Officer)*** |
| Date: August 8, 2024 | By: | /s/ Deborah Stewart<br>**Deborah Stewart**<br>**Chief Accounting Officer**<br>***(Principal Accounting Officer)*** |

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO**
**RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,**
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeff Shaner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2024 of Aveanna Healthcare Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2024

By: /s/ Jeff Shaner
**Jeff Shaner**
**Chief Executive Officer**
**(Principal Executive Officer)**

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO**
**RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,**
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Matthew Buckhalter, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2024 of Aveanna Healthcare Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2024

By: /s/ Matthew Buckhalter
**Matthew Buckhalter**
**Chief Financial Officer**
**(Principal Financial Officer)**

**Exhibit 31.3**

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Deborah Stewart, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2024 of Aveanna Healthcare Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 8, 2024

By: /s/ Deborah Stewart
**Deborah Stewart**
**Chief Accounting Officer**
**(Principal Accounting Officer)**

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Aveanna Healthcare Holdings Inc. (the “Company”) on Form 10-Q for the fiscal quarter ended June 29, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeff Shaner, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2024

By: /s/ Jeff Shaner
**Jeff Shaner**
**Chief Executive Officer**
**(Principal Executive Officer)**

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Aveanna Healthcare Holdings Inc. (the “Company”) on Form 10-Q for the fiscal quarter ended June 29, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Matt Buckhalter, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | | |
|---|---|---|
| Date: August 8, 2024 | By: | /s/ Matt Buckhalter |
| | | **Matt Buckhalter** |
| | | **Chief Financial Officer** |
| | | **(Principal Financial Officer)** |

**Exhibit 32.3**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Aveanna Healthcare Holdings Inc. (the “Company”) on Form 10-Q for the fiscal quarter ended June 29, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Deborah Stewart, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2024

By: /s/ Deborah Stewart
**Deborah Stewart**
**Chief Accounting Officer**
**(Principal Accounting Officer)**