AdaptHealth Corp.
First Quarter 2021 Financial Results Conference Call
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<u>Presenters</u>
Chris Joyce - General counsel
Steve Griggs - Co-Chief Executive Office
Josh Parnes - President
Jason Clemens - Chief Financial Officer

<u>Q&A Participants</u>
Brian Tanquilut - Jeffries
Anton Hie - RBC Capital Markets
Matthew Blackman - Stifel
Pito Chickering - Deutsche Bank
Richard Close - Canaccord Genuity
Kevin Fischbeck - Bank of America
Eric Coldwell - Baird

Operator
Greetings and welcome to the AdaptHealth First Quarter 2021 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation.

If anyone should require operator assistance during the conference, please press star, zero, on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Chris Joyce, General Counsel. Thank you, sir, you may begin.

Chris Joyce
I'd like to welcome everyone to AdaptHealth Corps Earnings Conference Call for the quarter ended March 31, 2021.

Everyone should have received a copy of our earnings release, earlier this morning. If not, I'd like to highlight that the earnings release, as well as a supplemental slide presentation regarding Q1, 2021, results is posted in the Investor Relations section of our website.

In a moment, we'll have some prepared comments from Steve Griggs, Co-Chief Executive Officer, Josh Parnes, President, and Jason Clemens, Chief Financial Officer.

We will then open the call for questions.

Before we begin, I'd like to remind everyone that statements included in this conference call and in our earnings release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act.

These statements include, but are not limited to, comments regarding our financial results for 2021, and beyond. Actual results could differ, materially, from those projected in forward-looking statements because of a number of risk factors and uncertainties, which are discussed in our annual and quarterly SEC filings.

AdaptHealth Corp. shall have no obligation to update the information provided on this call to reflect subsequent events. Additionally, on this morning's call, we'll reference certain financial measures, such as EBITDA, adjusted EBITDA, and adjusted EBITDA, less patient equipment CapEx, which are all non-GAAP financial measures.

This morning's call is being recorded, and a replay of the call will be available, later today.

I'm now pleased to introduce our Co-Chief Executive Officer, Steve Griggs.

Steve Griggs
Thank you, Chris, and thanks, everyone, for joining our call. Before we get to our prepared remarks, I'd like to start out by thanking our 9,331 employees, across the country, for their unwavering resilience in the face of the ongoing pandemic and their continued commitment to serving our patients.

The past 15 months have been an extraordinary time for all health care providers, and I couldn't be prouder of how the AdaptHealth teams have met this challenge, while remaining focused on our patients. These efforts have also been critical in helping our health care system partners and patients manage overwhelming healthcare demands.

Additionally, our collective experience through COVID confirms that our respiratory, diabetes, sleep and home health equipment services are crucial to meeting the overall health care needs of the communities we serve.

Before we get to the numbers, I'd like to discuss some of the highlights of the quarter. Despite the ongoing effects of the pandemic on certain product lines, we're very pleased with our organic growth rate of 11.5%.

With the recent return of referral volumes in our sleep and hospital discharge business to pre-pandemic levels, and current organic growth in diabetes and resupply, we feel confident that the balance of 2021 will meet our organic growth expectations.

The integration of AdaptHealth and AeroCare organizations is proceeding quite well. As Josh will discuss in a moment, in particular, the alignment of our management teams and the speed at which we are adopting organizational best practices, stand out as areas that have exceeded my expectations.

We've made significant progress implementing each organization's strengths, across the entire organization and, as a result, we're seeing improvements in important areas of the business, such as CPAP patient compliance, which will drive meaningful revenue and cost synergies in the future.

We have completed five transactions since January 1, 2021. Most recently, acquiring Spiro Health, which closed last week. Spiro is a full line HME company, headquartered in Massachusetts and operating, largely, in New England, a market which we were previously under penetrated.

With the acquisition of Spiro, AdaptHealth now has the premier HME provider in the New England market, a top-flight local management team, led by Gary Sheehan and a platform to drive substantial organic growth across all AdaptHealth's product lines in that region.

The acquisition of Spiro, like our February, 2021, acquisition of Allina Health Systems HME business in Minnesota, reinforces our ability to expand our footprint in growing markets, through strategic acquisitions of market leading suppliers.

The combined M&A teams of both, AdaptHealth and AeroCare, which executed more than 240 transactions, continue to see opportunities to make strategic, accretive acquisitions.

With this in mind, we recently worked with Regions Bank and our other lenders on a $300 million expansion of our senior secured credit facility. The expansion, which includes an increase in our revolving credit line to $450 million, allows us to execute on a robust M&A pipeline and take advantage of opportunities to expand our scale and geographic coverage, across HME, diabetes, and supply product lines.

Going forward, our organization goals are simple-grow organically, operate efficiently, acquire aggressively and intelligently. These principles are the legacy of AdaptHealth and the AeroCare growth story.

Now that we are one combined and powerful enterprise, I'm very excited to continue on this path to transform the HME industry that I've been part of, for 33 years.

And now, I'll turn it over to Josh.

Josh Parnes

Thanks, Steve. First, I'd like to echo what Steve said about our teams and how well the AdaptHealth and AeroCare workforces have combined under our new leadership team. While this is a tribute to our regional and local leaders, it also reflects the benefit of the joint integration planning efforts that started in late November, 2020.

Supported by a team effort of the best and brightest on the AdaptHealth and AeroCare teams, we have made substantial progress, rationalizing our overlapping operations and transforming many of our most important business functions. These efforts are generally meeting or exceeding our financial expectations, and many are already ahead of their pre-closing time lines.

Specifically, we have seen great success in the areas of direct spend, branch office consolidation, resupply operations, and RCM consolidation.

In the area of direct spend, we have completed our negotiations with our largest vendors and expect to see the financial benefit of these negotiations on cost of goods sold in Q2, 2021, and beyond.

Despite closing the transaction, less than three months ago, our branch consolidation team, led by Shaw Rietkerk and Dan Bunting, has completed its review of our combined branches. We are well on our way to executing on a plan to rationalize our infrastructure, consolidate redundant facilities, and reduce overhead.

At the end of April, we have exited more than 56 overlapping branches, reducing our footprint to 614 locations, and we are continuing to evaluate further consolidation opportunities.

While these two workstreams have proceeded, our operations, revenue cycle management and sleep teams have been working hard to identify and implement best practices of both our companies and take advantage of synergies and technologies.

While the cost and revenue synergies associated with these workstreams will take some time to realize, I'm confident that the work plans in place, when executed, will have the effect of improving the operating performance of the legacy AdaptHealth and AeroCare business, as we move forward into 2021 and 2022.

These are just a few examples of Adapt-AeroCare integration progress, which give us the confidence to confirm our previous guidance, estimating $50 million and run rate synergies, by Q4, 2021, and $30 million of synergies, as of December 31, 2021.

Another area of investment and focus has been centered on bringing together our diabetes and HME product teams and technologies. Many years spent streamlining and developing infrastructure and technologies for HME products and supplies, directly correlate to what we see are opportunities in the diabetes product lines.

One of the things we are very excited about is the ability to leverage our, approximately, 500-strong sales teams to cross sell, both diabetes, sleep and HME products.

Our initial phase of rolling out cross-selling of diabetes products in select markets is showing promising results. As our technology matures to allow for seamless processing of orders across multiple product lines, the benefits to our referral sources and patients will be palpable. Over time, this should also allow us to operate more efficiently.

Continuing on the theme of leveraging what we've learned on creating a more efficient home care model, we have increased our share of new orders for diabetes coming through E-Prescribe to 30-plus%.

The benefits of digital adoption by our doctors are multifaceted, from cost reduction to greatly reduced turnaround time and higher overall patient satisfaction. All will play an important role in the performance and growth of our diabetes product line.

Over the last few months, I've had the privilege of working very closely with Albert Prast, our Chief Technology Officer, who has many years of experience in leading technology forward health care and HME businesses. Albert has spearheaded the efforts, over the last few years, with AeroCare to develop operational technology to drive significant efficiencies and an enhanced patient experience.

We have already been leveraging this technology across our combined business and our teams are excited by what they see.

On the technology front, I would also like to welcome Gary Sheehan and the entire Spiro team to the AdaptHealth family. Gary and I have been collaborating, over the last few years, on operational technologies, and he is an innovative and well-respected leader and advocate of the HME and supply industry.

Over the coming months, we plan to continue to invest and, significantly, enhance digital connected patient experience, as well as technology to help drive better outcomes in our home care patients. As Steve mentioned, our goal is to continue to scale our business, both through M&A and organic growth while, at the same time, investing and creating a more efficient and patient centered model of homecare equipment, supplies, and services.

With that, I'll turn it over to Jason for results of our first quarter and a discussion on our full your outlook.

Jason Clemens
Thanks, Josh. Good morning, and thanks for joining our call. For the first quarter ending March, 2021, AdaptHealth reported net revenue of $482.1 million, an increase of 152% from the first

quarter of 2020. The substantial increase is a result of our company-wide focus, driving organic growth, and the efficient integration of our 2020 and 2021 acquisitions, including the acquisition of AeroCare, which was completed on February 1, 2021.

As a frame of reference, pro forma revenue for acquisitions was $564.1 million for the first quarter, driven primarily by AeroCare but also from solid performance from previously announced acquisitions.

As detailed in our Q1, 2021, earnings supplement, our organic growth for the quarter was very strong at 11.5%, up significantly against Q4, 2020, organic growth and led by new starts in our diabetes product line.

There's additional good news on the revenue front, as we learned of several regulatory changes during the quarter that will provide additional tailwind to our business in 2021.

Medicare sequestration relief was extended through the balance of the year. Additionally, the public health emergency was extended through mid-July, positively impacting the non-rural, non-CBA, DME fee schedule.

Finally, and importantly, the CMS published its April, 2021, DME fee schedule, which resulted in higher reimbursement rates. Some of these impacts were partially accounted for in our guidance, but the net incremental impact of these programs for the balance of 2021 is accounted for in our guide raise that I will discuss later.

Adjusted EBITDA for the first quarter was $104.2 million, an increase of 242% from the first quarter of 2020. Our adjusted EBITDA margin of 21.6% came in, as expected, for the period. Adjusted EBITDA margin improved, materially, against the first quarter of 2020, led by turnaround results, within the PCS business and higher margins from acquired companies, particularly, AeroCare.

We expect these trends to continue, throughout the balance of 2021, and we also expect incremental margin expansion, sequentially, throughout the balance of the year, as our integration and synergy program picks up steam.

As a reminder, we projected $50 million in run rate cost synergies by Q4, 2021, and approximately $30 million of such synergies to be recognized in the full year ended December 21, 2021.

Turning to the balance sheet, we ended the quarter with $132 million of cash and $1.76 billion of debt. As previously announced, on April 26, we took the next step in our capital structure planning, by amending our senior secured facilities to increase our term loan by $100 million and by expanding our revolver capacity from $250 million to$450 million. At the time of the deal, our net leverage was 2.9 times pro forma adjusted EBITDA.

With the completion of this transaction, we are confident that the company has the resources to move quickly, with respect to our M&A opportunities. As previously stated, our net leverage target remains at or below three times adjusted EBITDA pro forma for acquisitions.

I'd like to turn to our guidance for 2021. As announced this morning, we are increasing our 2021 full year guidance for net revenue, adjusted EBITDA and adjusted EBITDA, less patient equipment CapEx.

We are guiding to net revenue of $2.22 billion to $2.39 billion, adjusted EBITDA of $525 million to $565 million and adjusted EBITDA, less patient equipment CapEx of $330 million to $360 million. As a reminder, our guidance does not include any contribution from acquisitions that have not yet been closed.

With that, I'll turn the call back over to Steve.

Steve Griggs
Thanks Jason. Before we open the line for your questions, I'd like to address the recent announcement of Luke McGee's unpaid leave of absence. As you know, on April 13, 2021, the company announced that it had learned that Luke had been formally charged by the authorities in Denmark for alleged tax fraud, related to certain private activities between 2014 and 2015.

Following these revelations, the Board of Directors immediately placed Luke on unpaid leave from his role as Co-CEO and initiated an investigation into his conduct by a special committee of independent directors.

Terry Connors, the Chairman of AdaptHealth's audit committee, is leading the special committee, and the investigation is being conducted by DLA Piper, an independent law firm with no prior connection to the company.

The primary inquiry of this investigation is to confirm that there is no connection between Luke and the alleged personal conduct and AdaptHealth's business or operation.

The investigation is well under way and we continue to believe that Luke's past private activities are entirely separate from the company. And the company was unaware of this alleged criminal behavior, prior to April 12.

As I'm sure you can understand, we've been instructed by counsel that we would not--that it would be inappropriate to answer any questions about this ongoing investigation. Therefore, we will not be taking any questions on this call regarding Luke's situation, or the investigation. With that, operator, please open the line for questions.

Operator

Thank you. At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star, two, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

Our first question comes from the line of Brian Tanquilut Jeffries. Please proceed with your question.

Brian Tanquilut
Hey, good morning guys. Steve, I appreciate the last comment that you made. But I guess I'll ask a question kind of related to that. So, how would you address investors' concerns about the business? Obviously, Luke was a big part of the company and he built the company, together with Josh, over the years and you on AeroCare.

So, how would you guys give comfort to investors that the company's fine, things are going well, and that you guys have everything in control, and that you have the bandwidth to take over some of the responsibilities that Luke had, when he was CEO?

Steve Griggs
Well, we have a lot of experience in the business. Like I said, I've been in it 33 years. So, I'm very confident that we can operate the business, going forward.

The vision that AeroCare had and the vision that AdaptHealth had for where this business is heading and the importance of home care evolving, as a more crucial part of the healthcare delivery system, we're very, very much alive. That's why the acquisition made so much sense or the combination of the companies.

So, we're confident in it. I was a public company president. Granted, it was in the 90s, but I'm pretty familiar with how capital markets work, very familiar with how big markets work, as evidenced by the increase in the loan and the tremendous support we got from the bank.

So, I think as far as where the company is headed, I think it's pretty clear, we're going to be heading the very same, if not similar direction. Home care is growing, tremendously. It's importance is growing. The ability to do things at home is unprecedented. You cannot take care of patients in the same manner, in the future, as we do, today. So, things have to go to the home environment, and we're prepared for that, and we've got all these processes and people in place to take advantage of that opportunity.

So, we're very, very comfortable of the ability to carry forward the mission of AdaptHealth, through our leadership team. We have great people in the field, we have great people in corporate offices. We're very impressed with all the processes that we're doing. And we could go through the numbers of people that are really, really contributing to make a difference, to make this a world-class organization.

Josh Parnes
Hey Brian, I'll just quickly add a little color there. Obviously, you know, Luke and I have been working closely, over the last eight, nine years, from when we met in 2013. We've been kind of, every day, hand and glove really doing some of the things in my lane, some of the things in his lane.

So, obviously, the vision and execution of the vision, we each kind of share. Obviously, where we are today and where we're set up, we feel very good about where we are. And we feel good about we are because, at the end of the day, it is a complete army behind us that's helping getting this done, every day.

And like we said on the script, our employees and kind of the management team that we've built, over the years, the additional strength that we got from, both the AeroCare acquisition and now, with the Spiro acquisition, really kind of HME veterans, people that know the business, inside and out.

But more importantly, I'm thinking about what the future of this business means, in terms of technology, connected care, and how this really fits into the overall health care delivery system, like Steve said.

So, no, we're going to definitely miss Luke's presence, now. And obviously, strategy and where we're executing on and where this business is going is well established, and we just continue to believe that we'll prove that through our numbers, and we continue to feel confident about executing on the plan.

Brian Tanquilut
Yeah, I appreciate that. I guess my second question is, Josh, you mentioned the diabetes business, you're happy with it. Now as I look at the sequential growth and revenue from Q1--from Q4 to Q1, just a little over $1 million, right. So, I know you've done some acquisitions (AUDIO GAP) in Q1, as well.

So, how are you thinking about that, right? Shouldn't the diabetes business have performed a little better, given the deal flow in the quarter, and how should we be thinking about the next quarters, in terms of sequential growth?

Josh Parnes
Yes, obviously, some of this business is a quarterly timing thing with Q4 before reset of deductibles. You've got a spike in December. We're extremely proud of how the diabetes business is performing, particularly, Q1, which is typically softer in that business, came ahead of our expectations for the quarter.

Obviously, we haven't been in this business all that long, only since last July, but the progress we've been made, both on E-Prescribing and restructuring processes and organizing some of the acquisitions and putting them on an organic pathway to growth and kind of better bottom line numbers. We're extremely proud and confident about the current diabetes product line.

Brian Tanquilut
Gotcha. Then the last question for me, I guess Jason, as I think about the guidance, obviously, strong organic growth in Q1, raising the guidance for the year, how are you thinking about the cadence, factoring in any seasonality, or how should we be thinking about just the breakdown of the quarters?

Jason Clemens
Sure, I'd be happy to give you some overarching comments on that. As you know, we don't guide to the quarter but, in general, this business from a revenue perspective, produces somewhere in the ballpark of 23% of annual revenue in the first quarter. It steps up from there, a touch in Q2, still under 25% and then Q3 and Q4 are bigger quarters. And as Josh said, in diabetes, Q4 is, particularly, a big quarter.

A lot of that is due to just the traditional health care dynamics of resetting deductibles and patient patterns, ordering patterns. And so that's really what's driving that. For this quarter, we're a touch under that, under that 23% I mentioned because we only had, as you know, two months of AeroCare, as opposed to three.

Brian Tanquilut
Got it. Thanks guys.

Steve Griggs
Thank you.

Operator
Thank you. Our next question is coming from the line of Anton Hie with RBC Capital Markets. Please proceed with your question.

Anton Hie
Thanks, good morning guys. This one kind of feeds off Brian's last question a little bit. But could you help break down sort of the components of the guidance raise? I think you mentioned that sequester extension, or sequester holiday extension was already in there, possibly, I'm not sure I heard that right.

And then, maybe how some of the latest, completed M&A factors into the additional $10 million of EBITDA and then versus organic performance. So really, just all those kind of three elements, how that feeds into the new guidance.

Jason Clemens
Sure Anton, be happy to cover that. So, firstly, you've got it right on sequestration relief. In terms of other regulatory tailwinds, the CMS did publish new fee schedules on April 1. As part of that, were increases around oxygen that, frankly, the industry and our leadership team then has been pushing for, for a long time. Once I finish, I can pass it to Steve to talk about those efforts a little bit.

I think, in terms of thinking about the size of that, you can think of the oxygen annual increase in, call it the high single digit millions of dollars. So of course, you only have it for nine months. So, you've got to run that math. And then the rest is, frankly, the Spiro acquisition that we're just so incredibly excited about in New England.

So, that was the reason for the raise. I suspect we'll talk later about synergy, but we did not change the end year delivery or the exit rate delivery of synergy. As you saw, the bands have tightened, slightly. But frankly, it's still early in the year. We're still in a pandemic and we feel great about the numbers that we put out.

Steve, do you want to add a couple comments on the oxygen increases?

Steve Griggs
Yeah, the oxygen increases were related to a budget neutrality condition that was put in, some 15 to 20 years ago that was related to portable oxygen concentrators. When competitive bidding came in there, it seemed like that should have been come out--came out and gone away, but it didn't. And we spent a lot of time, I was involved in it, CQRC, BGM, AAHomecare, a bunch of people from the industry, and talking to CMS.

And CMS agreed but they just didn't feel like they had the authority to get it out of there and discontinue it. So, it had to go through legislative action. So finally, after years and years and years of industry work with the hill, they were able to take it out in April 1.

So now, that just level sets those rates, which resulted in that increase for everybody within the industry.

Anton Hie
Okay, great. Obviously, a very strong organic growth performance there. But I wondered how much more can you talk about any impact that you may have had from the severe winter storms that we saw. I know you guys have some presence in Texas and Arkansas, certainly, areas that saw a lot of shutdowns. If you could just address that, real quick.

Steve Griggs
Certainly, the weeks of those the storms, we didn't have a lot of patient setups. But the business popped back, nicely, from that. And nobody's complaining about their revenues in

those two states. Both those states performed well over the quarter. So, they popped back nicely and had no effect, really, on our financial performance.

Anton Hie
Okay, and then the last one from me. Are you seeing, obviously, we kind of seems like we're through the last real big COVID surge and the vaccines are rolling out? Are you still seeing, at this point, any real issues with patient access and kind of, maybe how that trended from month to month, within the quarter?

Steve Griggs
Yeah, generally, healthcare businesses and health care entities are open for business. So, I think that we're pretty much past the pandemic and how people are willing to come to the doctors' offices, come to sleep labs, come to our offices to get treated whether--and still we're just doing a lot of virtual care, still.

So generally speaking, that is behind us. I think everybody saw some softness in January and February. I don't--it's hard to figure out why that happened. But everybody kind of did that I talked to. So, it was an interesting time, but March and April popped back, nicely. So, we generally feel like it's behind us.

Now, I can tell you, I've been in this business a long time and pretty darn good about predicting the future. The whole COVID thing on oxygen is going to be interesting to see how it affects what they're calling the long haulers and stuff like that. And how it's going to affect patients, going forward.

But the rest of our business should be consistently growing, within our expectations.

Anton Hie
Thank you, Steve.

Steve Griggs
Thank you.

Operator
Thank you. Our next question is coming from Matthew Blackman with Stifel. Please proceed with your question.

Matthew Stifel
Good morning everyone, thanks for taking my questions. Maybe to start, Steve, a couple questions for you. And then I'll have a couple follow-ups for Jason. Steve, just in general, big picture, what are your priorities in 2021? Is there any particular area you're now going to be more focused on? And in the past, you've talked about $100 million to $159 million in annual M&A revenue contribution. You obviously expanded the credit lines, recently. Should we take

that as a signal that you see opportunities that, perhaps, may put you above that threshold? And are there any particular areas of focus?

Steve Griggs
Well, the focus is our core business, which is diabetes and respiratory care, which is both sleeping and oxygen and ventilation. And it just--the activity is significant. The opportunity to get really high-quality assets that are out there. Spiro is a good example.

I've known Gary for a long time. We kind of thought that he was not going to be available to merge into our company, but I think he saw the strength of the acquisition of the two companies and really got excited about joining that team. So, we're seeing more and more of that.

So, I think we're going to have a lot of opportunities and the pipeline is robust and it's across the whole spectrum of that.

As far as initiatives, I don't think they've changed. When I came here, the mission was to put the organizations together but then create that organization. AdaptHealth has grown, significantly, through acquisition. Now, it's time to put all the pieces and parts and all the backbone and the foundation together to make this an organization that not only works today but works in the future.

We have tremendous growth opportunities and ambitions. And so, we've got to have to have the foundation and the organization to be able to take care of that. And that's not just an easy task. You don't just snap your fingers and, boom, it happens. The accounting, the IT, the revenue cycle management. And so, we have the people in place to get all that done and to be--and if we do it right, we'll actually create a competitive advantage in each of those areas that will be able to further improve us.

So, our focus is really on becoming a better company in all aspects of it. And we could go through our 16 or 17 different workstreams that we work on, every day, and have people assigned to, to do that stuff to make sure that happens. And an overreaching of all that stuff is an organic sales mentality that we have to bring to this company and to the combined organization that really should set us apart.

So, that's our focus. And then, within it these great assets are showing and we're just not going to pass them up.

Matthew Blackman
Got it, I appreciate that. Jason, just a couple for you. I want to make sure I heard you, correctly. You said pro forma, the first quarter of revenue run rate, somewhere in the $564 million range. Did I hear that, correctly?

Jason Clemens
Correct.

Matthew Blackman
And then, G&A did spike in the quarter. Is that AeroCare related or if not, is it something else? And is that sort of the trajectory we should be thinking about from here? And that's all for me. Thanks.

Jason Clemens
Yeah, great question, Matt. G&A, there is some adjustment to EBITDA that flows through there and even after adjusting out, we're seeing SG&A as a percent of revenue hold pretty steady. I think that's what you should expect from us, over the next, call it, 12, 18 months. Maybe, a couple of bits higher, as we're continuing these investments in technology and back-office infrastructure to continue scaling.

But to your point, I wouldn't expect SG&A as a percent of revenue to be, to really move too much, over the next, call it 12 to 18 months.

Matthew Blackman
Alright, thanks a lot, guys.

Operator
Thank you. Our next question is coming from Pito Chickering with Deutsche Bank

Pito Chickering
Good morning, guys. It's obviously been a very trying month for the management team. If you step back and think about sort of both strategy and operations, Luke was always the visionary and sort of leader behind Adapt.

So I'm just curious, from an acquisition perspective, will there be any changes in terms of being aggressive in M&A? And will target deals change at all versus a month ago? And then, Josh, just to check on with you, as well. Are there any changes that you foresee happening within the operations side of the business?

Steve Griggs
Yeah, as far as acquisitions, we are on focus. I think the fact that we have half a billion dollars in available capital probably says as much as I can say about acquisitions and the ability to do that. I think the focus, again, is the same in those product lines.

And home care, again, has got this huge, huge opportunity for us. And so getting as many assets out there in the field to take advantage of the future of home care is part of our mission, and we're going to do that, both through organic growth and expansion and through acquisition.

Jason Clemens
And Pito, I'll address your second question regarding operations. So as far as we saw it, Luke and I used to joke around about, he does the easy work, and we do the hard work back in where all the sauces make it happens. So, Luke clearly was a visionary. Luke was a great partner to work with and really helped set the organization up on solid ground in terms of where this needs to go.

But again, that was also alignment of him and I getting together a number of years ago when really the team that we've built over the last number of years shared that vision of being able to be kind of changers or leading the change within the HME and really the post-acute care world.

With regards to the operation, we have a really phenomenal team, Shaw Rietkerk, Dan Bunting from AeroCare, a lot of our kind of regional leaders, state by state, as we go through and even some of the folks that I've got to meet over the last number of months from the AeroCare team, just really the best. I'd say the best and brightest in the industry.

And the other thing that I think will be changing is really just more investment in operational technology and connective care. I mean, I think we feel like, just from a footprint perspective, we're positioned nicely, but where we can really set ourselves apart is if there's much less friction between the patient, the referral and the provider, which would be us.

And again, as that gets better over time, we're going to be able to drive kind of meaningful change in terms of velocity of amount of orders to be produced and go through our system as well as potentially, over time, become a more efficient provider and able to take some of the cost out of the home care post-acute care business that we're in.

So, I think you'll see more of that from us, more investment from us in those areas. And we're going to be looking to make kind of pretty aggressive moves in that scene. So more from us in the future, but we're feeling pretty good about where the operation is, today.

Pito Chickering
Okay, great. The organic growth rate, 11.5%, is the best I have seen with you guys since I've known you. Can you walk us through the components of that organic growth rate? How do you think that progresses throughout the year? And any color that you can give us on sort of cross-selling practices between the two companies? Diabetes, kind of what was the key driver of that?

Jason Clemens
How about I start on the math side and then I think pass to Steve and Josh on cross-selling and, frankly, the exciting part of the story. I mean if you look at the components of how we generally guide each of our product lines, I'll start with the kind of the traditional somewhat slower growers, but very, very steady and consistent DME supplies to the home.

We're back above pre-pandemic levels, and we've reached high watermark there. And those products, we will consider to be steady as she goes for the balance of the year.

As we get into respiratory, frankly, there's a little bit of a pop in early Q1 that we're thinking of as nonrecurring. As Steve mentioned earlier, it's still early to tell on the long haulers related to COVID, how that will materialize over the balance of the year. But we still feel firm about our--the range that we put out on expectations for respiratory.

As you get into sleep, in terms of March, we are very happy with PAP starts and where we stand with that business.

Now back to high watermark, as we said, we expected by the end of Q1 on the last call. I'll tell you, January and February was a bit soft, but resupply has been just a tremendous story for us, as we're beating internal expectations on the resupply side. And then last, certainly not least, is diabetes. We're just so excited about this business.

Volumes are, frankly, above expectations. Growth is great. We are still somewhat cautious to raise the 10% to 12% on diabetes that we typically talk about just because we still haven't even owned this business for a year, but everything that we're seeing is indicating that we are in the right end market for this part of the company. And as the year goes on, we'll continue to refresh guidance accordingly.

Regarding the cross-sell and all kind of the more exciting parts of this, I'd probably pass this to Steve and Josh.

Steve Griggs
Yeah, the cross-sell is fascinating to me. So, if you think about our sales reps out there in 2020, a lot of them weren't able to get into doctors' offices, had limited access, and all that stuff. And so we still were able to produce high-quality numbers.

Well, now that that's opened up, our reps are very, very, very busy now making sure that they get back into all of our accounts, reestablish those relationships, reestablish, bring back all the patient demographic information and the patient compliance information and patient success information to those referral sources, which they have to do.

So, they're incredibly busy. But even within all that, we've made great strides already in the cross-sell. So I was--while we're very optimistic for it, I wasn't expecting much because our reps were so busy.

But they took it upon themselves, put in extra hours, went to the accounts, and started talking about stuff. And so, we're ahead of where I really thought we'd be just because we are incredibly busy right now but we--so it's making great progress. So, we feel good about it. And I think it's going to be a driver for us in the later part of the year as that starts building momentum and you get to doctors more comfortable sending those types of patients to the various entities.

Pito Chickering
Okay. And then two quick follow-ups here. You didn't change your guidance around synergies for the year, I don't think. I just wanted to ask how the integration is tracking. Relative to your expectations, what has gone easier, and what has gone harder?

Jason Clemens
You guys want to start with operations, and I'll follow-up on kind of what we're seeing on the synergy dollars.

Joshua Parnes
Sure. Yeah, I'll take it. This is Josh. So yeah, I think like we mentioned in the script, plan has been going really well.

I'd say the highlights would be kind of revenue cycle management, branch office consolidation and also the direct synergy from the purchasing, cost of goods. The stuff that takes longer is really, like Steve said, the cross-selling, some of the revenue synergies on PAP resupply.

Some of the longer tail things are what we're doing in terms of our intake and customer service and technology integrations. Those we feel very good about, but it's, definitely, a longer tail and some of that will go into 2022.

But otherwise, the softer stuff, which is less measured by metrics is really how well the team is getting along. The cultural aspects, no politics, really everybody just focused on getting the job done. And I think that, as a business operator all these years, that's the thing that I feel the most confident about.

Obviously, it'll play out in numbers, over time, but we certainly feel good about kind of where it is operationally right now. And then I'll pass it to Jason for some of the numbers.

Jason Clemens
Thanks, Josh. I'd say that hard work has materialized. I can confirm for you that we have realized a couple of million dollars in the first quarter, and I'll tell you that's very heavily weighted in March. These programs have been locked in place but depending on the contract date, the effective day and when dollars start flowing, right, there's a shape to all of this.

But the beauty of the synergy is that these are recurring dollars. So the couple of million I'm quoting will be recurring for the balance of the year. So, take that number over 10 months and you can see why we are so very confident with the $30 million in-year. There's still some work to do and a big hill to climb here that we've got confidence in our team to do but we've been cautious to increase that in-year or the exit rate synergy at this stage.

But based on what we're seeing, we're extraordinarily confident about what we've got.

Pito Chickering
And just one last quick numbers question. You raised the adjusted EBITDA. less CapEx by $10 million. You said, earlier, that oxygen was high single digits. So is it right to think about the guidance raise, $8 million coming from oxygen and $2 million from the Spiro transaction? Thanks so much.

Jason Clemens
Well, I'd say, Pito, it was an April 1 implementation date for oxygen. So it's just a little bit of a ramp there. but you're thinking of it correctly, as that oxygen revenue should flow through.

Pito Chickering
Thanks, guys.

Jason Clemens
Thanks, Pito.

Operator
Thank you. Our next question is coming from Richard Close with Canaccord Genuity. Please proceed with your question.

Richard Close
Yeah, thanks. Jason, maybe on the synergies, I just want to check in on something. In one of the answers earlier, you mentioned tightening the bands, and I just was curious what exactly that meant.

Jason Clemens
Sure. Yeah, Richard, I was just talking about the guidance range on revenue, adjusted EBITDA and adjusted EBITDA less patient equipment CapEx. So the numbers came up, the bands tightened slightly.

I think as we go over the course of the year, you're going to see us moving those bands closer just as a course of moving through the year.

Richard Close
Okay, I wasn't sure if that was related to the synergies and just wanted to check there. Moving on to acquisitions. You guys talked a lot about that over the course of the call, but I'm curious in your discussions, it's been about a month since the news came out with respect to Luke.

And I'm just curious whether--has that come up at all in any discussions with potential targets?

Steve Griggs
Well, sure, it's come up, but I'll just take Gary Sheehan at Spiro. Gary has known Luke for a long time. I've known Gary for a long time. He's known Dan and some other--Josh.

And so, yes, sure it came up and--but obviously, it didn't affect the outcome of that transaction, and the other one is similar. We competed with AeroCare competed with Adapt in pretty much every acquisition they did. We were competing with them in every acquisition we did. We were competing, and they were competing with us.

So certainly, it's going to come up, but we don't see it affecting the ability to get a deal done.

Joshua Parnes
And I'll just add--this is Josh. I just want to give you a little more color there. So obviously, Luke always, throughout the year, used to tell me in working closely with him that this business is just more than just about me, more than just about Luke, more than just about Josh.

I think when I think about what the events of this year, the puts and the takes, if you open up in the middle of the night, I would say the AeroCare merger acquisition, the Spiro deal, the growth in our diabetes businesses are more than anything kind of Luke and I even in our vision would have thought would impact us positively.

So in general, this business is not built around any one or multiple individuals. It's really a team. It's a vision. It's infrastructure. It's technology. It's locations. It's operations. It's drivers.

I mean you guys only see, necessarily, the face of who's talking maybe to investors or even the analysts. But obviously, there's a lot going on behind the scenes, and that's why I think we feel confident that the machine that was built, over the last number of years, and the combination of a lot of good people and companies and technologies, when it's all blended into one, which is making great progress, I think we'll all be very happy with the results.

Richard Close
And my final question is on E-Prescribe. Can you just go over that again? I think you said above 30%. Where could that go, over time?

Jason Clemens
Sure. So I'll handle that. So it was 30-plus percent on new orders for our diabetes product line. I think we're extremely proud of that just because we started from order #1 in October.

I mean really, this is the nexus of what I mentioned a little bit in the script of we're taking what we've learned in the HME business and some of the supplies businesses and really bringing that over to our diabetes business, and our diabetes business, we're going to take things over to our HME business, and that's what Steve was talking about vis-à-vis cross-selling.

We have a team of 500-plus sales reps that are out in the marketplace. And as our technology continues to evolve, the ability to do product line won't be as important in terms of differentiating how we process orders and how we deliver to our customers. So our goal, over time, is to bring all these product lines together to drive kind of a seamless experience for the patient and the referring physician in their home.

So I think in general, E-prescribing, at 30-plus%, over time, obviously, not going to be this year. But over time, we're going to want to get that significantly over 60%, 70-plus percent of our business. And maybe even over time, similar to what we see in pharmacy where E-Prescription is really kind of becoming much, much more dominant. Over time, we'd like to get that up north of 75% and 80%, but it'll take some time to get there.

But for less than six months, we're extremely proud of kind of where it's gone to, and we believe that there's room ahead. So we'll continue pushing, there.

Richard Close
Thank you.

Operator
Our next question comes from Kevin Fischbeck with Bank of America. Please proceed with your question.

Kevin Fischbeck
Great. Still trying to reconcile the guidance raise because it sounds like the deal and the oxygen rate update are the majority of it, but then I guess, sequestration was also extended. So, just trying to understand a little bit all of the pieces in there and how you think about it.

And then, I guess, more importantly, how much of this guidance raise is kind of a real increase to the base as we think about the following into 2022 and beyond, that we should use as kind of the base off of which to grow, and see if there's anything in here that you kind of say is one time in nature and we should be backing out?

Steve Griggs
Well, with the sequester, I've spent a lot of time on the hill and with our organization, so we're very, very confident that, that would be extended. When you have the hospital association and the physician association pounding CMS and, again, the Congress, and we just, we rode off their coattails.

So, that was always in the numbers, the sequester numbers. And then as far as the other increase, I'll turn it over to Jason.

Joshua Parnes
Thanks, Steve. So Kevin, I guess what I'd say in terms of thinking, you're asking about like the foundation going forward into 2022 and beyond. The way we've thought about sequestration, any of these supplemental programs or short-term programs, is that as a management team, our job is to grow through that and above that, once those programs are eliminated or stopped.

And so, when we talk about revenue synergy, again, we haven't hung numbers on that, but our expectation is that we absolutely surpass any of the supplemental relief or revenue that we're seeing in 2021. We've talked about PAP compliance rates.

We've talked about PAP resupply. We've talked about patient pay and what we're learning from each other, Adapt and AeroCare, combined. Those will be very real numbers, as we bridge into the tail end of this year and into 2022. Again, we haven't hung specific numbers on it, externally.

It's not included in guide. I would suspect over the coming quarter, we will start putting pen and paper on that for you all.

Kevin Fischbeck
Okay. So, the guide is really on the two things that you need to annualize that are only in the -- partially in the year, the oxygen and the deals that would have normalized in something bigger next year, but the guide also does include the sequestration, which we have to back out, but it did include that, already. So that's not new. Correct?

Steve Griggs
Correct.

Kevin Fischbeck
That makes sense. Okay. And then, I guess, just want to follow up on your comments about the respiratory business and the potential for long haulers. Are you able to, are you seeing patients who come in with a COVID diagnosis, are you able to convert or document that they actually are turning into chronic? Love to hear any kind of color there.

Steve Griggs
Well, certainly, what we're happy to see that a lot of these patients are getting off oxygen for their own benefit and they're going back to their normal lives. So, that's a positive for those patients. So we're very thrilled to help them with that process.

Having said that, there's a lot of documentation out there and a lot in the physician communities about the long-term effects that COVID's had on these patients.

And so, you're seeing that a lot of different doctors. If you go out to National Jewish or something like that in Denver, Colorado, where there are big respiratory providers out there. They're watching these patients pretty closely, and they're more hesitant to take them off oxygen. So, some of those patients that are showing those symptoms and just having trouble really get fully functional or still on oxygen.

Thank gosh that a lot of them are coming off, but there's still lot to be found out, how this disease affects people, long term.

Kevin Fischbeck
Alright. Great. Thanks.

Operator
Thank you. As a reminder, if you would like to ask a question, please press star, one, on your telephone keypad, at this time. Our next question is coming from the line of Eric Coldwell with Baird. Please proceed with your question.

Eric Coldwell
Hey, thanks very much. Sorry, I was going to ask about that sequester question, too, because based on management prior comments, we thought it was the holiday extension was not in guidance. So I think that's been clarified.

I did want to just also clarify Spiro, the acquisition, the most recent deal, did--have you provided revenue for that deal and the specific EBITDA you're looking for on an annualized basis? Again, I apologize, I've been toggling a couple of calls here, so.

Jason Clemens
Hey, Eric, this is Jason. No problem. We have not put out specific revenue or profitability guidance on Spiro, nor really on any acquisition. It's just been our internal policy to not do that.

However, in terms of the updated guide, I mean, you can run the math on our comments regarding the oxygen rates that went in place April 1st. That certainly is part of the guide raise. And the other half of that--I shouldn't say half--the other side of that raise is directly attributable to Spiro.

Eric Coldwell
Got it. Thank you very much. And then appreciate the comments on organic growth and the pro forma way you do that. I am curious, Jason, do you have the more traditional calculation on organic growth where a company would just take out all deals you have to annualize and look at the base business that was intact 365 days prior?

Jason Clemens

Yeah, it's a little difficult in this sector of health care, right, because as the business comes on, right? So, start with the patient, right? That patient may have produced resupply revenue last year, but as they come on to our platform, right, the whole part of AdaptHealth is that we are going to resupply smarter and more efficiently to the patient of what they need when they need it.

Patients will move around the system, right? So there's no real kind of like classic same-store to even compare against because we don't operate that way. So, there's a number of reasons why we don't always follow, I guess, in your words, the traditional organic growth view.

What we do provide in our supplement is visibility to the prior-year revenue in the quarter, regardless of ownership of the business, right? And so we're validating that with QVs, and such.

So, what you're seeing, year over year, is the revenue of AdaptHealth, compared against the businesses that--again, regardless of ownership, year over year. At 11.5%, frankly, we're feeling great. We're feeling great about the year and the growth that's come since Q4.

Eric Coldwell
Yeah. No, I get it. Thank you for that. And then I know you can't comment on specifics of the investigation. I am curious if you have a hunch on the time line or what the street might be looking for next in terms of updates, comments, findings?

I know sometimes these things can take weeks, sometimes they take months, but I'm curious if you have a target date where you might be able to share some information with us? And then just, again, not specifics on the findings, but how do you plan to update us? Will there be a thorough discussion of everything that was reviewed or just kind of a conclusion on findings? I'm not sure if you have a process in place yet, for how you're going to share what your findings led to and kind of explain to us the level of detail that Piper and others went to in this process.

Steve Griggs
Well, your next update will be the completion of the investigation, which probably a month or so, two months, maybe. I don't know. And we'll see how fast they get through it. They want to do a thorough investigation, and I promise you they will do that, a multitude of things but, predominantly, making sure that this was a private matter. We can't comment or even guess on how it's going to play out in Denmark.

I think that would just be, at best, a wild guess. And so we're not in the wild guess business, so your next update will be the investigation completion. And while we expect that to be as we've described, we will go through that complete and thorough process.

Eric Coldwell
Sounds good. Thanks. Thanks again, guys. I appreciate it.

Steve Griggs
Thank you.

Josh Parnes
Sure.

Jason Clemens
Thank you.

Operator
Thank you. There are no additional questions at this time. So, I'd like to pass the floor back over to management for any additional closing comments.

Steve Griggs
I would just like to thank everybody. And once again, thank our 9,331 employees that, every day, go out there and take care of our patients. And they're doing a great job and we continue to look forward to increased growth and increased efficiencies, as we make home care a bigger part of the healthcare continuum. Thank you.

Operator
Ladies and gentlemen, this does include today's teleconference. We thank you for your participation, and you may disconnect your lines at this time.