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<<Richard Close, Analyst, Canaccord Genuity Group Inc.>>

Thank you. This is Richard Close from Canaccord Genuity. I appreciate you joining us today. Sorry, we're a couple minutes late, so apologies there. We'll just jump right in. Our next session is with AdaptHealth. With us we have CEO, Steve Griggs; COO, Josh Parnes; and CFO, Jason Clemens. We've covered Adapt for over a year – about a year and a half now. Company's definitely executed on its growth strategy. It's laid out continuing to consolidate the medical equipment market with a specific focus on chronic conditions and home medical, and really delivered so far above market organic growth.

Jason, just to turn it over to you to start our discussion. Why don't you just recap the main takeaways of the second quarter and how you're looking at the second half of the year?

<<Jason Clemens, Chief Financial Officer>>

Sure, Richard. I'd be happy to. So we were very pleased with the second quarter, reporting record results really across all metrics, $617 million of revenue. Adjusted EBITDA margin at 23.9%, that was up actually a couple of points since the first quarter led by a full quarter now of AeroCare as opposed to just two months in Q1. If we look across the product categories, feel great about frankly all categories in terms of the long range targets that we put out. I'll tell you sleep is still running to touch behind. Frankly, that was due to just continuing to rebuild the census following the COVID and overall sleep operator and sleep center shutdowns in mid-2020. But offsetting that is the terrific growth we're seeing in the diabetes product line, frankly, beating our own view of kind of end market growth and we're just very, very pleased with the business.

So overall, we did raise guidance about $90 million to $100 million, was related to continued acquisitions. So we had four acquisitions completed in Q2 and another six that we completed since the end of Q2, so within the last 45 days or so. So we've been busy, but we're remaining focused. We did talk a little bit about the Philips's recall and the potential impact on our business. So we did put out a potential risk factor on there up to $30 million in a year for 2021. Certainly, we've got operational levers that we're pressing and we think we'll do better than that, and honestly, quite a bit better than that, but that's trying to give a view of what the potential risk factor could be on that. And so overall you know, we're thrilled with the guide raise, the bottom came up quite a bit just as we're getting later in the year and just feeling very confident about our numbers.

<<Richard Close, Analyst, Canaccord Genuity Group Inc.>>

Excellent. Thanks for that. And Steve, this is my first time with you on a call, presentation. It's clearly been a tough stretch here the last four or five months, but not from an operational standpoint. You've had the management change here, a short report questioning items like organic growth. And as Jason just mentioned the recalls, so definitely some items you've dealt with. I guess on the management change, the face of the company was Luke at the time since the SPAC transaction. And with that being said, you bring a lot of experience to the table. Can you just give a minute or two on your background, and your leadership philosophy, I guess, in terms of how – what are your guiding principles?

<<Steve Griggs, Chief Executive Officer>>

Well, sure. Thanks, Richard, and it's good to meet you. And I'm glad you said that the travels haven't affected the operations because they really have a team and Adapt has kept their head down and kept doing their job. So that's been very nice to see. So I've been in the industry for 33 years, first with a very successful public company in the 90s, which we sold and then started AeroCare from scratch in 2000, then grew that very significantly with both startups and acquisitions, and led to this merger with Adapt in February.

So obviously I've been very active over the years, not only in the business, all aspects of the business. But also the industry and trying to mold industry both from dealing with other industry leaders in Austin, Washington, D.C., and in fact with CMS. So, I've been around for a long time and seen about everything and I've been at, had direct everything. And so I guess my leadership style is going to be more operational and just been around longer. So probably more out in the field and more operational. The culture to Adapt and AeroCare fit very nicely. I've known Luke and Josh for five, six years, been worked together in a lot of stuff. So it wasn't that difficult to put the senior leadership together and that in the field has gone remarkably well also.

<<Richard Close, Analyst, Canaccord Genuity Group Inc.>>

That's helpful. Thank you. You mentioned AeroCare, that was a successful business, the largest transaction to-date for Adapt. You've made some comments on the integration. Why don't you just update us in terms of what the targets are? Or were and where are you in that process? And anything else you think is relevant to call out in terms of now that we're four or five months into it?

<<Steve Griggs, Chief Executive Officer>>

Yeah. So the integration has been very successful. We will meet our $30 million in year synergy target, and we will meet our $50 billion in overall synergy that extra $20 million will show up in 2022. And we've primarily done that through purchasing green negotiation contract and location consolidation. We've consolidated almost 90 locations, probably have another 10 or 15 to go. Those will all be done by the end of the September, I believe. And so all that would be done, but the really exciting stuff for us is we've been able to combine the strengths of the both organization, and simply put, I was the frontend on AeroCare, we're very proud of what we were able to do there. And then equally as proud as the backend of Adapt. And so now we've implemented both of them.

And so now it's putting those systems and those processes to work and making sure they work, and then constantly improving them every day that we go to work. And that's what we do. Every day we go to work and we try to improve what we're doing. And so the synergy dollars that come from that are going to get mixed up with continued improvement processes and initiatives that we have. So, but that ability now with those systems, we have best of breed, we believe in both those and throughout our organization. And so now it's just implementing and getting better with that technology and utilizing that technology to the fullest.

<<Richard Close, Analyst, Canaccord Genuity Group Inc.>>

Yeah. So just to drill down on that a little bit more, Steve, so you said AeroCare had the – I guess, more favorable frontend. And then if you can just drill down specifically what that was, and then maybe Josh can jump in and talk about Adapt's backend, just so we have a little bit more clarity on I guess best standards from each company and how you're implementing those.

<<Steve Griggs, Chief Executive Officer>>

Yeah. And so on the frontend, we built a mobile delivery platform. So when a driver goes out there, our customer – our service tech or a RT, or whatever goes out or has an interaction with patient, that's all done electronically and feeds right into our billing system immediately. Now we did that first. Brightree, which is a predominant software for the industry, copied it, put it in place from a product called Apacheta, which Adapt used know very well. But then we took that from, and we kept expanding on it and expanding on it. So it gives notifications to our referral sources, notifications to salespeople, notifications to clinicians, and became our whole RCM system or the backbone. And so our physicians really rely on that. Then we can tell them in immediate notice, what's the status of any patient without having to call anybody. So that's a sales person in that office is pulling up a phone and say, yeah, here's where the patient is, here's the status of that patient.

So in addition to that patients today are very nervous about who comes in their home and what's going on and that kind of stuff. So we have a system that is as close to Uber, like as it possibly could be, we identify and let the patient know that we're going to be there within an X period of time. And that's a pretty narrow window and we keep updating it as we get closer with a picture of who's showing up. And so then we have our delivery call and then immediately after that delivery call that patient rates that person's service one through five stars, and sends that back to us.

So it just given us a great insight into our patient. 96.5% of those stars are either a four or five, but as importantly as those 3.5% they gave us a three, two or one, we respond to those within that day by senior – whereby at least senior area management has to talk to that patient and find out why they did that. Sometimes it's just a confusion over the star rating, but sometimes there's an issue and then we're able to solve it and solve that patient. So we take that patient's concern and we address it immediately. And then it just improved our service capabilities tremendously.

<<Josh Parnes, Chief Operating Officer>>

Yeah, Steve. It's helpful. And I'll just cover a little bit of the backend, we're basically, some of the less patient facing technologies are things that we focused on Adapt and why the marriage of these two businesses was really synergistic. And I think the revenue cycle management particularly, and the business workflow, there's rules engines around claims, what claims goes to what payer or what agent works with which claim and how to collect on balances, and really create kind of scale opportunities with the large revenue cycle management team.

Some of this is synergy dollars that we'll see a little bit later this year or into 2022. So really a lot of that is workflow related. And some of this stuff is not necessarily exciting technology. It's more of driving labor out of our business. And when I say driving labor costs out of our businesses is essentially more automation, more business intelligence to be able to drive an automated workflow. And really our goal as a combined entity is continue to drive additional free cash flow out of our operation

So, like Steve says, we go to work every day, seeing how do we improve the process? A lot of that is looking at our processes and saying, okay, what technology is either available off-the-shelf or we can build to bolt-on to our own systems to drive the labor costs out of our business. And our labor really is being more shifted to the clinical side of respiratory therapy, patient-facing coaching, other kinds of chronic disease management aspects. And out of processing claims, having people sit on hold to get answers that they can get with a frontend technology. So a lot of these combination of two technologies is what we're starting to see flow through our financials in terms of synergies and in terms of additional profitability or more importantly, additional customer satisfaction.

<<Richard Close, Analyst, Canaccord Genuity Group Inc.>>

That's great. So Steve, I'm curious, or Josh, you can jump in on this as well. So it seems like you guys are advanced from the tech side of things. How differentiated is that in terms of the overall market plays? And I'm thinking, obviously, your active M&A when you're able to acquire how quickly can you get these systems in place and accrue synergies from that?

<<Josh Parnes, Chief Operating Officer>>

Yeah. So I always say, obviously we believe it's a huge advantage for us. And I'm sure that the other companies will say that their systems are huge advantage to themselves. So that's kind of self-serving. But I can tell you every acquisition that we do, everybody that we acquire, looks as this as, wow, this is cool stuff, and this can really help us. So that's the first thing. But then with the technology as being the largest Brightree customer and the vast fast majority of people out there being on Brightree that makes integration for us a lot easier than people that aren't on Brightree, obviously.

So those happened pretty quickly. The synergy dollars, our purchasing power now it's a big component of the synergy ability. And then it's just our processes that we bring to. Nobody that we acquire is doing the breadth of services to the patient, AdaptHealth is from respiratory and sleep and in diabetes. So we can always bring more revenue opportunities to them. We can bring more systems to them. We bring better contracts to them, both purchasing and provider contracts. So it's all pretty significant, and involve all part of the process.

<<Richard Close, Analyst, Canaccord Genuity Group Inc.>>

Excellent. So Jason, I'm shifting to you. So organic growth, obviously a hot topic. There is another update today, I guess. Lot of arrows across the bowel sort of speaker or shots across the bowel in terms of organic growth. So, you just reported 10.1% with a high-end of your stated range. Just walk us through the controversy, I guess, on organic growth and how you guys are thinking about it. I'll just leave it there.

<<Jason Clemens, Chief Financial Officer>>

Yeah. Sure, Richard. I mean, I guess I'd say firstly internally, we don't feel there's any controversy at all based on the way we run our business as Steve articulated in the last earnings call. We run our business with an expectation to grow top line 8% to 10% of every unit, every location, every patient, frankly, on the platform. That's the way we run our business. We report internally, that's the way we pay folks. And operators in the field are not paid on kind of a traditional same-store measure. We think it's more appropriate to pay them on the growth of their entire business and entire portfolio that we've charged them to operate. So that again is what we run internally.

I would say we appreciate externally and we're listening, I think, certainly to investors to the sell side community to others on the same-store metric. We have listened and responded with increased disclosure in our public filings. I think you'll see that certainly in the most recent public filing as we closed the quarter and reported to the SEC. At the end of the day, well, over two-thirds of our revenue that we printed for the quarter of the $617 million is from acquired units. Again, at the end of the day, you could think of organic growth as a weighted average of a couple of big buckets. I mean, there is the base business, legacy units that we own and operated a year ago. That's predominantly AdaptHealth, very heavy Northeast Midwestern footprint as well as the PCS business that we brought on in early 2020.

And that book of business is operating as expected, DME, supply to the home, respiratory are all within our expectations for end market growth that were very vocal and clear about. Sleep is a drag. It continues to drag. It's doing much better. New starts are back above pre-pandemic levels, and the census is filling, but there is a hole to climb out off. Again, I think we've been clear on that. We certainly want to be transparent on that, but that's one part of the business and again, less than a third of the business.

And you've got AeroCare, that was a much heavier Southern footprint, kind of the Southern states. It was a different impact from sleep when COVID hit. Less sleep centers were shut down. There was more access to sleep studies. And so it just operated frankly better than the Adapt legacy footprint on account of the pandemic. And the finally, you've got the diabetes business. We have put a 10% to 12% expectation on diabetes growth in the market. We've said that once we lap a year of ownership of that business, we're very likely to update those numbers. And you should expect us to upgrade to increase those numbers.

We've been purposeful in our calls to talk about, we believe we are growing in line within market growth. And I think depending who you listen to the different manufacturers or others, whether that's 20% or 25% or 30% or somewhere in between, I mean, that data makes sense based on everything we're seeing. We were very excited about that business as we get to Q3, that'll be our first print, where we've owned the business for an entire quarter in Solara. And at the end of the day, it's a weighted average equation. And that's the 10.1% we're very happy with.

<<Richard Close, Analyst, Canaccord Genuity Group Inc.>>

Okay, that's helpful. We only have a couple of minutes left. Can you talk a little bit about e-prescribing on the diabetes side in terms of the significance of that? What that does in terms of the positives? And then what is the longer term opportunity in terms of how much e-prescribing?

<<Jason Clemens, Chief Financial Officer>>

Sure. So I'll take that. So, we do, as a reminder, e-prescribing is something that started on the HME side of the business and continues to make progress on that side as well. It's been – it's relatively new to the diabetes business, mostly because we've only owned the diabetes business since July of 2020. We started in approximately October-November with introducing e-prescribing primarily to endocrinologists out in the marketplace, and it's taken off like wildfire. We worked very closely with the software provider to roll it out across providers. Now, approximately 40% of orders are coming now through that e-prescribe channel.

Now, why that's significant is not just the fact that a matter that it's easier for the doctor to use, it's less friction in the channel, it essentially alleviates a lot of the roadblocks that typically the medical benefit had historically. It makes it much more seamless for an insurer or a doctor to get CGM onto their patient and I think that's significant. It's significant because it offers the insurance company, the benefits of at least the utilization or prior authorization function, at the time it allows it to be seamless and transparent and quick, which doesn't impede kind of getting the chronic disease care out to that patient. I'd say that's number one.

Number two, briefly, it also reduces audit exposure. So it allows the order to be documented appropriately, and really that differentiates us from our competitors out in the market. So we're very excited about it.

<<Richard Close, Analyst, Canaccord Genuity Group Inc.>>

Excellent. Well, I think we're up on time, not quite, but if I ask another question we'll drag over. So there was a lot more to go. I do appreciate your guys' time today. Thank you for participating. And I look forward to catching up in the near future.

<<Steve Griggs, Chief Executive Officer>>

Thanks a lot, Richard.

<<Josh Parnes, Chief Operating Officer>>

Thank you, Richard.

<<Richard Close, Analyst, Canaccord Genuity Group Inc.>>

All right. Have a great day.

<<Jason Clemens, Chief Financial Officer>>

You too.

<<Josh Parnes, Chief Operating Officer>>

You too.