AdaptHealth Corp.
Announcement of Acquisition of AeroCare Conference Call
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Presenters
Chris Joyce, General Counsel
Luke McGee, Chief Executive Officer of AdaptHealth
Steve Griggs, Chief Executive Officer of AeroCare
Josh Parnes, President of AdaptHealth
Jason Clemmons, Chief Financial Officer of AdaptHealth

Q&A Participants
Brian Tanquilut, Jefferies
Pito Chickering, Deutsche Bank
Matthew Blackman, Stifel
Antoine Hee (SP), RBC Capital Markets
Richard Close, Canaccord Genuity
Eric Caldwell, Baird
David Common, J.P. Morgan

Operator
Greetings, and welcome to the AdaptHealth Corp Announces Acquisition of AeroCare Holdings, Inc. Conference Call. At this time, all participants are on a listen-only mode. A question and answer session will follow the formal presentation. If you would like to ask questions, please press star one on your telephone keypad. 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, Mr. Chris Joyce, General Counsel. Thank you, you may begin.

Chris Joyce
Thank you, Donna. Good morning. I'd like to welcome everyone to today's AdaptHealth Corp conference call to discuss the acquisition of AeroCare Holdings, Inc., which we announced earlier this morning. The press release and supplemental investor presentation are available on our website. In a moment, we'll have some prepared comments from Luke McGee, Chief Executive Officer of AdaptHealth, and Steve Griggs, Chief Executive Officer of AeroCare, Josh Parnes, President of AdaptHealth, and Jason Clemmons, Chief Financial Officer of Adapt Health. We'll 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 press release may constitute forward-looking statements within the meaning of the Private Security Litigation Reform Act. These statements include but are not limited to comments regarding our financial results for 2020 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 at length in our annual and quarterly SEC filings. AdaptHealth Corp shall have no obligation to update the information provided on this call to reflect the 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, all of which are non-GAAP financial measures. This morning's call is being recorded, and a replay of the call will be available today. I'm now pleased to introduce our Chief Executive Officer, Luke McGee.

Luke McGee

Thanks, Chris, and thanks everyone for joining the call. We are pleased to announce the acquisition of AeroCare, and the combination of what we believe is the best leadership in the industry. Josh and I have known Steve Griggs, CEO of AeroCare for nearly seven years. We've participated in industry panels together, shared meals at industry conferences, and swapped ideas on how to advance the home medical equipment business. We've gotten to know Steve and watch what he and his team have accomplished. Our respect for AeroCare and our relationship with its management has only grown.

Both AdaptHealth and AeroCare have high-growth profiles, including end markets indexed to an aging population, attractive geographies, and impressive track records of integrating numerous acquisitions every year. Over the past five years, each company has focused on using technology to reduce costs and advance the patient and referral experiences in ordering home medical equipment and supplies.

This transaction is highly strategic and a complementary fit with our vision, strategy, and platform. The combined company will maintain a long-term strategy of delivering connected healthcare in the home. That journey begins with engaging patients and referrals to interact with technology, and AeroCare's proprietary software and workflows will only accelerate AdaptHealth's existing trajectory.

Turning to the key elements of the transaction on slide two of the investor presentation posted to our website this morning, we've agreed to acquire AeroCare for total consideration of approximately $2 billion, consisting of $1.1 billion of cash and 31 million shares of AdaptHealth stock. By structuring the position of AeroCare in this manner, we have remained within our stated leverage targets and provided for dry powder to pursue additional accretive acquisitions.

With the incremental debt for this transaction, our net leverage will be 3.6 times pro forma adjusted EBITDA as of 9/30/2020. We expect the transaction to be immediately accretive to adjusted EBITDA and adjusted EBITDA-less patient equipment capex. On an annual basis, we expect AeroCare to contribute adjusted EBITDA of $230 million, and adjusted EBITDA-less patient equipment capex of $115 million in 2021. This excludes expected customer gains of approximately 50 million on an annual basis, of which we expect to realize approximately $25 million in 2021.

As part of the transaction, the AdaptHealth Board of Directors will expand by two directors to 11 in total. Steve Griggs will be joining the board along with AeroCare shareholder designee Ted Lundberg of Peloton Equity. Separately, Adapt Health is pleased to announce its acquisition of Massachusetts-based New England Home Medical Equipment, furthering the growth and the expansion of its diabetes division.

Founded in 2015, New England Home Medical Equipment is a leading supplier of CGM and diabetes management supplies throughout New England and the northeastern United States. For the trailing 12 months ended 12/31/2019, New England Home Medical generated net revenues of approximately $31 million. Now, I'd like to turn the call over to my new co-CEO, Steve Griggs, the Chief Executive Officer of AeroCare, to introduce the business he and his team have built over the last 20 years.

Steve Griggs
Thanks, Luke. Before I begin, I'd like to express the excitement of the AeroCare management team. We share a common vision and strategy with AdaptHealth, and we are excited to partner with a leader in the industry. Personally, I am excited to work with Luke and Josh to guide the combined business. Like AdaptHealth, we have built our business through a mix of organic growth and acquisitions, closing 155 acquisitions since inception and 50 of those since 2017. We've maintained a relentless focus on the patient experience that has enabled us to make key investments in technology and efficient operational workflows.

Our organic growth engine is built upon a sales team that is focused on the patient experience and committed to referring provider satisfaction. A proprietary technology enables our operations and delivery teams to execute across the platform, and our patient satisfaction scores validate those efforts. We are particularly proud of our organic growth in key geographics: Florida, Georgia, Texas, Tennessee, Colorado, and the Carolinas, amongst others. I'm confident our growth will accelerate as a result of combining our best practices with those of AdaptHealth. And with that, I'll turn it over to Josh to talk through our integration plans.

Josh Parnes
Thanks, Steve. We are extremely excited to be bringing together two very forward-thinking and technology-enabled companies to accelerate our combined growth and continue to transform the delivery of medical equipment and supplies to patients at home. In this combination, there are some very compelling synergies, as well as some complementary strengths that will help transform and improve the collective organizations.

Firstly, AdaptHealth is a leader in managing remote resources, particularly for non-patient-facing functions, and we believe there is significant opportunity to bridge this capability across AeroCare's platform. AdaptHealth also maintains best-in-class CPAP resupply rates, and there is significant opportunity when bringing AeroCare's resupply rates in line with AdaptHealth. We also expect to be able to use our combined scale to achieve synergy in our direct and indirect cost structures. we intend to consolidate direct suppliers, renegotiate rebates, and restructure our indirect spending. Although our geographic footprints are largely complementary, there is opportunity for lower spending across labor, fleet, and locations within close proximity. As with many acquisitions, there is duplicative spending in certain G&A functions, so we also expect to achieve benefit from centralizing core administrative functions over time.

Finally, we believe that the combination of the businesses will leverage best-in-breed technology for both companies. AeroCare has developed technology that streamlines delivery and patient communication, and Adapt has made significant progress in the technology of e-prescribing and revenue cycle management. Through combining our collective technology strategies, we anticipate being able to achieve both better customer experience as well as a more efficient operating model. Although there is a lot of work ahead of us, the opportunity is truly exciting, and we can't wait to get started. At this point, I'll turn the call over to Jason.

Jason Clemmons
Thanks, Josh. Good morning, and thanks for joining our call. As previously discussed, we expect the standalone AdaptHealth business to grow organically as much as 10% in 2021, with our sleep and diabetes product lines growing at the top end of that range. AeroCare's strengths are already strong sleep business, specifically in the high-gross geographies that Steve mentioned earlier. As a result, we expect annual organic growth for the combined company to be eight to 10%.

The adjusted EBITDA-less patient equipment capex margin is fairly similar for both companies, around 13 to 14%, but we expect the combined company to achieve synergies that should push that margin to 15% or higher. Our previous 2021 full year outlook for revenue, adjusted EBITDA, and adjusted EBITDA-less patient equipment capex was 1.30 to 1.40 billion, 260 to 280 million, and 180 to 200 million respectively. As announced this morning, as a result of this transaction, we are increasing our 2021 full year guidance for revenue, adjusted EBITDA, and adjusted EBITDA-less patient equipment capex.

We believe that the combined business will grow at the high end of eight to 10% organically. We believe we will achieve the full run rate of $50 million of synergy by the end of the fourth quarter, and we believe that AeroCare will generate first year annualized revenue of $850 million, adjusted EBITDA of $230 million, and adjusted EBITDA-less patient equipment capex of $115 million. Our guidance assumed the transaction will close on or before January 31st, 2021, so this guidance adjusts the first year annualized targets just mentioned for the 11 months of contribution from AeroCare in 2021.

Additionally, the 2021 EBITDA and adjusted EBITDA-less patient equipment capex numbers included cost synergy benefit of approximately $25 million delivered in 2021, driven by the timing associated with achieving it, with full run rate synergies expected in 2022 of $50 million.

We also included a full year of New England Home Medical, the recent CGM and diabetes management supplies business that Luke announced earlier. As a result, we are revising our 2021 guidance, to revenue to $2.05 billion to $2.20 billion, adjusted EBITDA to $480 million to $515 million, and adjusted EBITDA-less patient equipment capex of $300 million to $330 million. With that, I'll turn it back to Luke.

Luke McGee
Thanks, Jason. In conclusion, I'd like to reiterate our significant enthusiasm for our larger and more diversified AdaptHealth. We intend to leverage the best ideas across the combined company, and we believe the future is very bright for our patients, our referring providers, our employees, and our shareholders. Operator, please open the line for questions.

Operator
Thank you. The floor is now open for questions. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate 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. Once again, that's star one to register questions. Our first question is coming from Brian Tanquilut of Jefferies. Please go ahead.

Brian Tanquilut
Hey, good morning, guys. And congrats to Steve, and Luke, and Josh, looks like a really good deal. So I guess my first question will be for Steve. If you don't mind just walking us through, you know, the strategies that you have employed over the years to drive the kind of organic growth that you've been delivering, because it's clear that you guys have been successful in delivering very robust growth over the last few years. So just wanted to hear--so, tell us more about AeroCare and what allows you to deliver that kind of performance.

Steve Griggs
Well, we've been in the business for many, many, many years, started in the business in '88. So, we've been a--and AeroCare started in 2000. So we've been sales-driven from the very, very start, from the top down, and everyone's committed to driving that organic growth. we feel like that's the hallmark of our company, and our salesforce, and the technology that we've been able to develop around our proprietary software has just enabled that sales growth to continue to grow. But it's just that really, our systems are great, but it's just a complete focus that we have in our organization day in and day out, every day of the year.

Brian Tanquilut
That's great. And then, I guess, Josh, I'll turn it over to you. You know, obviously a pretty sizeable transaction here. And you know, you just did a good sized deal as well mid-year with Solera. So, I was just--as we think about integration bandwidth, how are you thinking about that? And also, if you don't mind just giving us your thoughts on the buckets of integration that

you have to focus on, and maybe the pace or the cadence as we think about that over the course of the year?

Josh Parnes
Sure, so I'll hit your first question first. So, in terms of bandwidth on integrations, I think one of the really nice things with this transaction is there's a phenomenal and experienced management team coming from the AeroCare side that really, like--like I mentioned on previous calls, like one of the nice things about being able to do more strategic deals is not just getting the capital contribution that comes from those organizations, but more about the human contribution that comes from those organizations. And particularly with AeroCare and the leadership team that comes there, like we're going to get significant uplift and talent and some of the best-in-class employees and leaders that are going to join our team.

So, from an integration perspective, you know, that makes my job easier, I think that makes our collective efforts easier. You know, of course there's coordination that has to go on, but I also--you know, from a diabetes perspective, really the diabetes part of our business doesn't really pack the same resources. So we're confident that New England Home Medical and Solera, and some of those other businesses that we've bought over the last couple of months can continue to scale without taxing any side of the business. But the AeroCare transaction in particular will help us I think both accelerate our acquisition strategy by combining kind of our M&A and integration teams together. So, I'm particularly excited about that.

Brian Tanquilut
Appreciate that. I guess my last question, Luke, you know, you've given a $50 million synergy target. You know, how are you thinking about, you know, your confidence in achievability of that? And you know, are there incremental synergies that are not included there, like, you know, any revenue capture, any cross-sell that you're thinking about? And I guess broadly speaking, just, you know, from a strategic perspective, you know, why--maybe just want to hear your thoughts, why AeroCare, why now? You know, why do this deal? What attracted you to this asset specifically?

Luke McGee
Yes. So, I mean, I'm going to answer the second one first, and then we'll come back to the buckets of synergies. You know, as I mentioned in my prepared remarks, I mean, we've watched what Steve, and Dan, and the team at AeroCare have built over, you know, the last seven years, and you know, have been impressed. And you know, we've had off and on conversations about putting our businesses together, and the timing just wasn't right. But with, you know, sort of rate stability on the horizon with competitive bidding now being postponed, and you know, our relative developments now, you know, being very complementary on the resupply side, you know, Steve and his team on the customer-centric and the set-up side.

You know, we just looked and said, you know, we think these are the two best platforms out there, and so let's put them together. And so, I couldn’t be more thrilled on the revenue side.

You know, that $50 million is a cost synergy. It doesn't include any revenue synergy buckets, you know, that we do believe exist. A, you just look what Steve and his team have done on organic growth. We think that there's a lot we can learn there. You know, our sales force, you know, can learn from some of the training and sort of best practices from Steve and his team. We think we can just accelerate just the number of inbound orders on the resupply side. I believe there should be an uptick when we sort of migrate to our resupply platform in total for AeroCare.

On the path adherence, you know, there's a couple percentage points at minimum, that if we just mirror AeroCare's best practices, should help us sort of raise revenue. And so, you know, we're being conservative for now, and we're not including those in the synergy guide. The synergy buckets that we put out there, you know, really just are--it's the purchasing savings, it's some back office consolidation, it's the G&A and some location overlap. But we feel very, very confident that we'll be able to achieve that, you know, coming into 2022, we'll have achieved the full 50 million. As Jason mentioned, 2021 should have $25 million of costs, you know, in the guide that we put out there.

Brian Tanquilut
Awesome. Congratulations again, guys. Thanks.

Luke McGee
Thanks, Brian.

Operator
Thank you. Our next question is coming from Pito Chickering of Deutsche Bank. Please go ahead.

Pito Chickering
Good morning, guys. Thanks for taking my questions. Luke, I know that you and Josh have effectively been partners for many years running your companies. I was hoping I could hear from both Luke and Steve as to how the co-CEO structure will work, and why it's the best structure for this company.

Luke McGee
Yeah. So I'll start, and I'll turn it over to Steve. So, I mean, it starts with our shared history. You know, I've known Steve, you know, and we've gotten to know each other, you know, spent hours in meetings together, going out to dinner together, and sort of studied and shared best practices. And you know, we believe at AdaptHealth that you need to be self-reflective of your strengths and your weaknesses to succeed here. And you know, we looked and said, you know, Steve has done a better job of, you know, really perfecting the patient experience, the patient onboarding, the salesforce side.

So operationally, Steve will be more involved. He and Josh worked quite closely together on the technology side. Historically, I focus more strategically on the capital market side, and that's where I'm going to continue to spend my time. It's worked quite well for Josh and I historically. I have extreme confidence that Steve and I will work very well together and divide responsibilities. But I'll also turn it over to Steve to give his thoughts.

Steve Griggs
Yeah. Thanks, Luke. You know, like Luke said, we've been working together on industry things for several, several years. And there just doesn't seem to be much daylight between his viewpoints and mine, so, we should be able to do this very, very well and complement each other's skills quite well.

Like Luke said, he's done a great job with the capital composition of the company, and I focus on the operations as much as I can. And together, we'll probably, you know, cross up. But again, there just doesn't seem like there's a lot of daylight between out viewpoints. And with that, you know, we should be very confident that each of us will make the right decision that the other one would've made.

Pito Chickering
Okay. And then, this is actually a nice segue into sort of the sleep side of the business. Can you guys quantify for us, you know, the differences between the new starts for each company, versus resupply deltas between the two companies? Which technologies is each company using? And sort of how much, you know, can we start thinking about revenue synergies by optimizing a combination of new starts with resupply optimization?

Luke McGee
I think we're going to be a little bit--you know, we haven't had--you know obviously, when you put two companies together, we need to be careful of antitrust and what can be shared in the diligence process. And so, I think we're going to be reticent to share, you know, more specific details on the revenue side. What I can tell you is that, you know, when we look at, you know, the amount of orders per patient per year, most payers and the manufacturers recommend four--sort of four replacements per year.

You know, we're doing, you know, whether it be a tenth or two-tenths of a point better than AeroCare on that side. You know, conversely, in terms of adherence, that new patient who gets set up on PAP therapy, AeroCare has done a better job. And it's not just one technology. If it was that easy, we would've done it years ago, and the entire industry would do it. I think that, you know, AeroCare has, you know, started and built proprietary sort of workflows in onboarding the patient and making sure that they understand the therapy very well, and then using both internal and some of the manufacturer tools to drive that adherence. I'd comfortable say they're five percentage points better than us on the new start adherence.

Pito Chickering

Okay, great. And then, a quick question on the synergy number you guys put out there. Any chance that that can be broken out into vendor savings versus SG&A? And how fast do you think you guys could realize those savings?

Luke McGee
I think as we achieve them, you know, and we come into, you know, our first quarter, our, you know, sort of Q4 call in the first quarter and Q1 call in the second quarter, we'll be able to share more about the actual realization of those savings. You know, fully expect that we'll be fully realized by Q3 of next year. You know, we obviously hope there are more, but 50 is the number we're comfortable putting out there.

Pito Chickering
Okay. And then last quick question here on Medicare--on Medicare. Obviously, competitive bidding has been pushed back a number of years. But you know, AeroCare was more focused on Medicare revenues relative to Adapt. So just curious if you can help quantify how much exposure you guys think would've existed for AeroCare if competitive bidding had gone through for 2021? Thanks so much, guys.

Luke McGee
So, similar to Adapt, I don't think AeroCare has targeted payers before. You know, they've targeted the referral source and done just a heck of a job building relationships with their prescribers, and making sure that they were meeting their needs and the patient needs. And so, in a lot of respects, they like Adapt would've been a basket taker from the payer side, and wanted to be in network.

You know, you're going to see a bigger contribution on a relative basis from Medicare fee-for-service and Medicare Advantage, and that's just driven by, you know, their strength and options in the respiratory category that tend to have, you know, Medicare or Medicare Advantage as the payer. You know, in terms of the competitive bid, you know, we had estimated the high end of the net impact in the high single-digits for us. Obviously that's--we're glad that's not coming to fruition. I would have tagged, on similar assumptions, AeroCare's number to be very similar to Adapt's.

Pito Chickering
Great. Thanks so much, guys.

Operator
Thank you. Our next question is coming from Matthew Blackman of Stifel. Please go ahead.

Matthew Blackman
Good morning, everyone, and congrats. Just a couple questions for me. I think to start, I just wanted to get a better handle on AeroCare's organic growth trajectory. There's a slide in the deck that talks about I think 12% same-store sales growth through August 2020 on a trailing

basis. Is that the right way to think about AeroCare organic growth, or is there some COVID tailwinds in there? And then, a couple of follow-ups.

Steve Griggs
No, 12%'s been historic for like three or four years, so I think we're pretty confident with that going forward. The COVID impact has helped in certain places and hurt in others, and probably netted to, you know, the same percentage or darn close to it. So I don't think the COVID impact is really, to date, has influenced us either positively or negatively, so I think the 12% is good.

Matthew Blackman
Okay, and then--thank you, I appreciate that. And then maybe for Jason, just give us a sense of sort of the cost of debt you're putting on the balance sheet, and maybe how we should think about that pay down and target levels over the next several years, again, assuming no more deals.

Jason Clemmons
Sure. I'd be happy to. I mean, I'll reference you to slide 15 in the Investor Deck posted to our website. You know, we believe that's going to be about 1.865. post transaction. Net of cash, you know, we believe that the leverage ratio will be right about 3.6 times, that's using a September 30, 2020 trailing pro forma EBITDA. You know, that--I don't know that we see that going any further. I mean, think of that as a hard cap. We--you know, we do intend to have some dry powder and continue the tuck-in acquisition activity, we don't intend for that to stop in any way. And as we continue to generate cash flow from operations, we'll see that leverage coming down over time.

Luke McGee
And let me hop in, I think you asked about the relative cost to debt. I think the best way to think about that--you know, obviously we'll see how the bond market reacts to our transaction today, but we do have a reference bond that trades--I think it was bid, you know, slightly below 5% yesterday or in the mid-fours. You know, we would hope that that would be--you know, once we're able to take out to the Blue Mountain capital note. That's the expensive piece of debt capital in our structure at 12% that's callable in the third quarter. You know, I would think that that--you know, where those bonds are being bid should be the outside bound of our interest cost.

Matthew Blackman
Alright, that's helpful. I appreciate that color. And then the final one, just on additional M&A, maybe sort of conceptually how this combined platform potentially impacts your M&A outlook for the year. Do you have to digest this for most of 2021, and does that also open more opportunities for M&A targets further down the line?

Luke McGee

Yeah. So I think that obviously in the near term--I mean, we have a pipeline, AeroCare had a pipeline, we intend to close on the transaction in the pipeline. You know, we'll need to be a little more conservative, you know, until we have the integration well underway of aggressively building that pipeline. I think that's a fair way to look at things. I think we'll still hit the 100 to 150 million of revenue acquired for 2021 that we put out there as our long term target, and we'll update it in the investor presentation.

You know, over the long term, and I think if you look, AeroCare and Adapt have been the most acquisitive companies over the last three or four years, sort of using, you know, our relative strengths and the businesses we've built in competitive bidding, you know, to be a magnet for folks looking to exit or join a larger platform. And so, I think the hope would be, you know, that only amplifies that over time.

And then as Josh mentioned, you know, the diabetes acquisitions, you know, including the one we announced this morning, you know, they put different stresses on the organization. It's--you know, Steve Foreman and the team at Adapt Diabetes are doing a great job. You know, we're excited about our Q4 there, and you know, we're going to build the pipeline on diabetes and grow that business.

You know, as part of this transaction our revenue drops to about 17% pro forma for diabetes. You know, we're going to be working--and luckily the market's going to help us since this is growing organically, quickly, that you know, we want to get that back into the 20s and hopefully over--you know, to 30% over the long term.

Matthew Blackman
Alright, appreciate it. Thanks so much.

Operator
Thank you. Our next question is coming from Antoine Hee (SP) of RBC Capital Markets. Please go ahead.

Antoine Hee
Thanks. Most of mine have been asked and answered already. But just building off that last one, Luke, on getting back up to 30%, you know, diabetes mix, is that primarily a function of selling through into the AeroCare, you know, footprint, or is that--do you think it's going to be a focus through M&A?

Luke McGee
I certainly think we'll do a few M&A on the diabetes side. I do think that--you know, obviously, I think we're well-positioned to benefit from the market growth for CGM and insulin pumps. And then, you know, Steve has built a team of, you know, 200+ best-in-class sellers out in the field who have relationships with our referral sources, primarily in complementary geographies. And so, you know, we would be silly not to leverage that asset and to get those folks, you know,

comfortable with selling diabetes. And I think that can be an accelerant and a way for us to push our diabetes mix even higher.

Antoine Hee
Okay, that's great. And then I'm not sure I heard you specifically reference kind of what you see this doing for your managed care relationships over time?

Luke McGee
It's a big focus of ours. I think that--you know, as Steve mentioned earlier, we've shared a lot of similarities, which is, you know, when we both grew our own small companies, we haven't had the most well-developed managed care relationships. You know, this transaction cements us as the second-largest provider, gets us darn close, we think, to being the first largest, and so that's an area that we think we need to invest in. I think Steve, you know, you can hop in there too, but I think we believe that it's an area where the combined AdaptHealth should be investing.

Steve Griggs
Yeah, absolutely. I think the managed care entities are looking for more consolidated solutions for the home, as things just move more and more to the home. COVID has proven that for everybody, the stresses on the healthcare system, and the answers that we can provide for that. So, this combination really puts us in a position to have an offering for not only just the managed care patient population, but also our patients at home. And that is pretty unique, and I think it's going to be very, very attractive to them. But it's going to take a lot of work, a lot of selling, and a lot of getting in front of them. But everybody seems to be focused in on how can we take care of people at the home and in a more cost-effective environment? And that's not going to change anytime soon, so I think it'll just get accelerated.

Antoine Hee
Okay, great. Thanks, guys. Congrats.

Operator
Thank you. Our next question is coming from Richard Close of Canaccord Genuity. Please go ahead.

Richard Close
Yep, thanks for the question, a lot of mine have been answered as well. But I'm just curious with respect to--you know, maybe this is for Steve, but with respect to, you know, Aero's organic growth drivers. I'm curious your thoughts on how easy or hard it would be to layer that onto Adapt's business, and like the timing of where you would see the improvement in organic growth for Adapt?

Steve Griggs
Well, yeah, it's going to be a lot of work. We. don't have a magic pixie dust that we go over there and spread on them, and just make this happen. So, it's going to be a lot of work, and it's

just going to be that focus on it. And so, a lot of it is--I mean, if you just think of Adapt's past year of what they've been able to accomplish is pretty remarkable. And you know, it's just now time to hopefully put some resources into those same assets that they bought to make them grow.

And so, it's just attention, and work, and all that stuff, but it's incremental. And every day--if every day we improve, eventually we'll get to where we want to be. How soon that happens? I mean, there's a multitude of factors that roll into that. But it will improve, we're confident in that. You know, our salesforce is very, very capable, and has, you know--and just utilizing some of our technology will help them immensely in the very beginning. But it'll be a process, but it won't' be, wow, geez, it automatically happens. It'll still take a lot of work.

Richard Close
Thank you.

Operator
Thank you. Our next question is coming from Eric Caldwell of Baird. Please go ahead.

Eric Caldwell
Thanks very much. Maybe a couple here. Steve, I'm curious, we've heard a lot about each company's strengths and weaknesses, and what both parties liked about the other. I'm curious from your perspective, you know, put yourself--put an analyst hat on. When you look at AdaptHealth, what did you see as the most attractive attribute of Adapt? And then maybe on the flip side, the area where you thought there was the most room for improvement, or where you could add the most--single most value in terms of skillsets, technology, operations that you bring to the table. I'll start with that one.

Steve Griggs
Yeah, so both organizations pushed incredibly hard on technology and used that to their benefit over the past three, four, five years. So, each of us have pursued it. And so when you look at it, Adapt, where they had the most success was in a little bit different places in technology than we had success in technology. But if they would look at ours, it would just be stuff that, wow, they've done this stuff, that's stuff that we want to do, they just haven't got to it. And when we look at what--the tractions that they've made in technology, gee, that's great stuff that we want to do, we just haven't got to it.

So I think the combination brings much faster of each organization separate. of where they wanted to be. And so, I think it moves it up in considerable speed. And so their back office and how they move information and data across and to the most appropriate places is really remarkable. And they're in the very beginning to that, so there's--we see a lot of, a lot of efficiencies coming around there. We've been focused more on the patient and the referral source centric.

And so, we'll be able to bring that to them fairly quickly, too. And so those two combinations are powerful, it's all about data and information. You know, because everybody wants it; the patient wants it, the referral sources want it, and manage care want it. And they all want it desperately right now, and so we have the ability to do that. And so I think--you know, we've already kind of talked about what we think we can do to help Adapt, and that's going to be around the sales and marketing, around, you know, location operations, how we handle the patient and stuff like that. And mainly it's through our technology, but then it's just our focus on it every day, every week, every month, every year on that same process.

Eric Caldwell
Thank you for that. A follow-up on the original co-CEO questions, I'm just--is this a--is the vision here that this is a temporary situation, maybe a year, three years as you get the two companies combined, or is this--is the current thinking that this is the long haul for the organization, and this is--the long-term vision is to have the two CEO hats? Just any additional thoughts on that one.

Luke McGee
You know, long-term vision is, you know, we're going to do the right thing. And I think that there's no intent to change the structure, there's no time horizon on this. You know, right now, even I think that we can grow this organization together. You know, if and when that changes we'll let you know, but I think that this is going to work over the long term.

Steve Griggs
Yeah, and I'd like to add to that. I mean, there's just a ton of work that we feel like we need to do. And so, you know, the titles are one thing, but you know, come when this transaction closes, we're all going to go in to do our work that we need to get done. And how that gets done, who gets done with that is probably more important than anything else.

And so, there's a lot to accomplish if we want to accomplish what we think we can do with these combined organizations, which is make a better platform for our patients, our employees, our referral sources, and managed care. And so it's a ton of work, and so, there's plenty for everybody to do, so we're not worried about that too much at this time. And again, like we've said, we're going to do what's best for the organization, and what's best for the organization is to get this work accomplished.

Eric Caldwell
Okay. Thanks very much and congrats on the transaction.

Luke McGee
Thanks, Eric.

Operator
Thank you. Our next question is coming from David Common of J.P. Morgan. Please go ahead.

David Common
Great, thank you, lot of good Q&A already. If I could, just a couple of mundane housekeeping. The 3.6 pro forma leverage ratio, it's footnoted as sort of LTM inclusive of 50 million in synergies. Is that inclusive of today's AeroCare deal?

Luke McGee
Yes, David, it is.

David Common
Very good. And then, your current mix I think is about 40% loans, 60% bonds. Should we just assume that's a reasonable proxy for what it might look like going forward? I think you specifically reference sort of 5% being a decent placeholder for incremental bonds.

Luke McGee
Yeah, so I think, you know, David, obviously we're going to work with our advisors. You know, Jefferies has provided a, you know, fully, you know, back-stopped commitment here, and then we're going to work with our advisors to figure out exactly where in the fixed income capital markets we want to, you know, place our long-term structure. I do believe that that 5% should be the outside bound. You know, obviously markets change day to day, and you know, we'll look to get out to the fixed income markets, you know, prudently and quickly. But you know, I think--I wouldn't read too much into the mix yet, we're still having those discussions.

David Common
Okay. But the weighted average may be significantly lower, I guess, is my point, if it's a mixed bag of bonds?

Luke McGee
Yeah. It may be, you know, we'll see. Obviously, markets are a fickle thing.

David Common
Very good. Thank you.

Operator
Thank you. Our next question is a follow-up coming from Pito Chickering of Deutsche Bank. Please go ahead.

Pito Chickering
Hey. Thanks, guys, for taking the quick follow-up. Question for Steve on the cross-selling opportunity. Any chance you know what percent of your customers are on CGM or pumps for diabetes? And then as you look at--you know, look at like Adapt's product portfolio, what do you think are the biggest cross-selling opportunities that exist for your customer base?

Steve Griggs
Well, obviously diabetes is a huge one. And that's tricky, not easy to get. On the patient level it's a little easier, on the referral sources it takes a little bit more time to get that done. So, obviously there. You know, we at AeroCare have focused predominantly on the respiratory side of the business. And so 96% of our business is respiratory-related, where Adapt has done a fantastic job on how to take, you know, the durable medical equipment, bent metal products, supply products, and run them efficiently through their system. Where, we just didn't have that efficiency layer.

So, obviously we can pick up those not just on our existing referral sources and our existing patients, but also explore some new referral sources that we've avoided in our current geographics. So, you know, their system for that stuff is just so superior to ours, and the way they manage that through the e-prescribe and their connections with, you know, their suppliers and stuff like that. So, I think that's probably where it happens the quickest, fastest.

Pito Chickering
Great. Thanks so much. I appreciate the follow-up.

Operator
Thank you. At this time, I'd like to turn the floor back over to management for any additional or closing comments.

Luke McGee
Thanks everyone for joining the call. And just to reiterate, you know, to all the AdaptHealth and AeroCare employees out there, we appreciate all of you. We appreciate everything you've done to support our business, to support our patients, our referrals, our payers, you know, throughout the COVID-19 crisis. Sincerely, you know, to Steve, welcome to the team. We're thrilled to have you, and we're looking forward to delivering results for all our shareholders. Thank you.

Steve Griggs
Thanks, Luke.

Operator
Ladies and gentlemen, thank you for your participation. This conclude today's event. You may disconnect your lines at this time, and have a wonderful day.