AdaptHealth
Third Quarter 2021 Earnings Conference Call
November 4, 2021

<u>Presenters</u>
Steve Griggs, Chief Executive Officer
Josh Parnes, President
Jason Clemens, Chief Financial Officer

<u>Q&A Participants</u>
Brian Twinklet - Jefferies
Peter Chickering - Deutsche Bank
Kevin Fischbeck - Bank of America
Matthew Blackman - Stifel
Whit Mayo - SVB Leerink
Andrea Alfonso - UBS
Richard Close - Canaccord Genuity

Operator
Good day, ladies and gentlemen. And welcome to your Adapt Health Third Quarter 2021 Financial Results Conference Call. All lines have been placed on a listen-only mode. And the floor will be open for your questions and comments following the presentation. At this time, it is my pleasure to turn the floor over to Chris Joyce, General Counsel for AdaptHealth. Sir, the floor is yours.

Chris Joyce
Thank you, operator. I'd like to welcome everyone to today's AdaptHealth Corp Conference Call for the quarter ended September 30, 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 Q3 2021 results, is posted on the investor relations section of our website. In a moment, we'll have some prepared comments from Steve Griggs, Chief Executive Officer of AdaptHealth, Josh Parnes, President of AdaptHealth, and Jason Clemens, Chief Financial Officer of AdaptHealth. 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 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 at length in our annual and quarterly SEC filings.

AdaptHealth Corp. will 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 patients' 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 later today on our website. I'm now pleased to introduce our Chief Executive Officer Steve Griggs.

Steve Griggs
Thank you, Chris. And thanks to everyone on the line for joining today's call and for the opportunity to discuss how pleased we are with the accomplishments of our 9,531 employees over the past quarter, and the future of AdaptHealth. Since July 1, we've completed the integration of Aerocare, completed 10 more acquisition of HME and diabetes providers, issued 600 million of senior debentures, and navigated a challenging operating environment, including the resurgence of COVID-19, the Philips recall, a tightening labor market, and supply chain disruption.

And today, we're happy to report record quarterly net revenue and adjusted EBITDA and an organic growth rate of 6.5%. Although many of the challenges will likely continue to impact us in the near term, we've increased confidence in our ability to overcome them. And accordingly, we've raised guidance for 2021 and are providing an optimistic initial outlook for 2022. None of this is possible without the extraordinary efforts of our team members responding to the unusual circumstances and ensuring our patients get access to the therapy they need.

We continue to invest significant resources towards retention of the right talent and deployment of best-in-class tools to position our organization to capitalize on our increased scale and to take advantage of the attractive opportunities ahead of us across our product lines and addressable markets.

Over the last 18 months, the COVID-19 pandemic has demonstrated that HME and respiratory services delivered to the home are a critical part of the healthcare continuum. Within our HME product lines, we continue to see significant organic growth and operating efficiency opportunities well into the future. More than a year ago, we entered the diabetes business with acquisition of Solara. And we remain very pleased with this performance which continues to exceed our expectations for 2021.

We continue to grow this business with strategic acquisitions, the application of our resupply technology and processes, as well as the benefits of bringing over AdaptHealth's innovative e-prescribe capabilities. We continue to aggressively pursue a creative transactions that will complement our existing business in both HME and diabetes. The AdaptHealth and Aerocare acquisition teams have combined to create an efficient M&A process from target identification through operational integration.

In addition to the merger of AdaptHealth and Aerocare completed in February of this year, we've acquired more than $400 million in annualized revenue today. Our pipeline of accretive, HME, and diabetes acquisition targets remains robust. Looking ahead to 2022 and beyond, we will create shareholder value by continuing to focus on our key strategic pillars of organic growth, operational efficiency, and accretive acquisitions. We remain confident that we have the right people, the right technology, and the right capital structure to do so. I will now pass the call over to our president Josh Parnes.

Josh Parnes
Thanks, Steve. I would also like to start by thanking all our employees, particularly our operating and M&A integration teams, for delivering a solid quarter in the face of some market challenges, as well as working through a full pipeline of activity on the M&A and integration front. As Steve has mentioned, we have completed 10 acquisitions since July 1, which brings our 2021 acquired annualized revenue to more than $400 million. This acquisition activity is well in excess of our stated 2021 target of $150 million.

As you may recall, many of our targets are already operating on the Brightree platform, which helps ease the transition of ownership and revenue cycle processes, as well as allows for an easier and lower risk integration process. As other companies have noted, amid the tight labor market conditions, we have experienced some staffing shortages primarily in some hourly wage workers, including delivery personnel and certain back-office positions. This has resulted in some upward pressure on wage rates and, in some cases, unfilled openings, but not to the point that it affects our ability to meet our financial guidance.

The good news is that these challenges are forcing us to adapt, be more flexible, and better leverage technology to create efficiencies, for example, through better use of patient-facing technology, which enhances patient and referral source communications, as well as enables increased efficiencies for our frontline employees. We plan to build on the success of these technologies by investing in more automation of our manual processes and enabling our employees to focus on our 3.5 million patients' needs, with better adherence with their connected devices to ultimately drive better outcomes of these chronic conditions.

In recent weeks, we have begun to experience more challenges due to some supply chain disruptions separate from the Phillips recall issue. For the most part, this issue is currently limited to certain categories within our DME and related product lines, which represent approximately 15% of our total revenue. These categories include products shipped from Asia, which are impacted by poor backlog and shipping delays.

Despite these delays, we benefited from our national scale and procurement expertise to mitigate these issues and are implementing several strategies including sourcing from alternate suppliers, contracting directly with manufacturers, and entering into expedited shipping arrangements, including air freight. Nevertheless, we expect these issues to persist into 2022. We view this as a temporary challenge in the context of the multi-year opportunity ahead of us.

We continue to be a leader in bringing innovation to the markets we serve, which have historically been slow to embrace advanced technologies. For instance, more than half of our CGM orders are now coming in via e-prescribe up from zero just a year ago. We believe that in addition to helping drive better operating efficiencies, e-prescribe helps facilitate an easier referring physician experience by dramatically shortening the cycle time to get diabetic patients on CGM therapy. And the rapid uptake of this technology in the physician community is reflected in our strong growth rates.

Additionally, we are continuing to roll out our proprietary driver tracking technology, which provides a transparent experience for patients, allowing them to see exactly where their equipment and supplies are, who will be bringing them into their homes, and when they will be arriving, similar to many ride sharing apps. This technology has now been rolled out to more than 90% of Adapt locations and has been very well received with customer satisfaction statistics increasing accordingly.

We also continue to leverage technology as we advance connected care and chronic disease management. A key factor in connected care is patient engagement. And to that end, we have almost 10,000 patients who have downloaded and registered on our adapt plus diabetes care app. And of these approximately 30% has have significantly engaged by placing orders and digitally interacting. As well, a core focus at adapt health is getting patients to follow their physicians' directives and to be a resource for them staying adherent to their connected devices and therapy.

We will continue to advance this strategy and explore additional ways we can help add value for payers, providers, and patients. Combined with a continued emphasis on growth, as well as leveraging an ever-increasing patient base with chronic conditions, we believe we have an exciting opportunity to continue to transform the HME and diabetes supply industry. I'll now pass the call over to our CFO. Jason Clemens.

Jason Clemens
Thanks, Josh. Good morning, and thanks for joining our call. I'll discuss the third quarter trends supporting our full year 2021 guidance update, our cash flow and capital allocation activity during the quarter, then wrap up with 2022 guidance. For the third quarter ending September 2021, AdaptHealth reported net revenue of $653 million, representing 6.5% organic growth as outlined in our earnings supplement.

We're pleased with the resiliency of our business, despite the Phillips recall headwind of $10 million for the quarter and overall challenges in the global supply chain. Additionally, as outlined in our supplement, we reported $276 million of non-acquired revenue, representing 3.9% growth over the prior year. That reflects an increase from the second quarter as HME improved, our high growth Solera business entered the non-acquired portfolio, and our PCS

business performed as expected after the elimination in early 2021 of over $25 million of unprofitable contracts and products.

Turning the profitability, our adjusted EBITDA was $156 million for the quarter, resulting in an adjusted EBITDA margin of 23.9%, up slightly from the second quarter. We're very pleased that we maintain this margin profile net of the recall impact in the ongoing challenges regarding supply chain and a tough labor market. Although we expect continued challenges in the supply chain and continued headwind related to the recall in the fourth quarter, we're still raising guidance for the balance of the year. For 2021, we are now increasing our guidance to net revenue of 2.41 billion to $2.46 billion, adjusted EBITDA of $570 million to $580 million, and adjusted EBITDA less patient equipment capex of $365 million to $375 million.

This increase includes our improved performance for the third quarter, $10 million dollars of in year revenue for the additional acquisitions announced today, and our updated estimate for potential Philips Respironics shortages of $10 million of revenue in the fourth quarter. For September year to date, our cash flow from operations was $175 million net of approximately 27 million of recoupment associated with the CARES Act. The amount recouped during the second and third quarter of 2021 represents over half of the 2020 advanced payment that will be recouped by CMS.

As anticipated in connection with the integration of Aerocare, third quarter cash flow was lower than normal due to a temporary spike in DSO since the second quarter. There were a variety of claim holds related to consolidating billing operations, and we expect to pull the DSO back into normal run rates by the time we exit the year. We've already noted improvements in October cash collections reflecting this trend.

We also executed on a planned inventory investment of about $12 million aimed at mitigating fourth quarter supply chain disruption. Capital spending for the quarter was $60 million, and in line with our general expectation to follow approximately 9% to 11% of revenue. At the end of the third quarter, our net debt to adjusted EBITDA of leverage was just under 3 times and our available liquidity was over $750 million, considering cash on the balance sheet and an undrawn revolver.

Turning the 2022 guidance, there are a few assumptions to focus on. First, we're planning for at least 8% organic growth across our product lines. We believe DME and supplies to the home will grow 4%. We believe respiratory will normalize to 5%. And we believe sleep will continue to improve to around 7% growth. We remain very excited about our diabetes business. And we believe it will grow about 18% into 2022.

In 2021, the company benefit from the sequestration suspension and public health emergency funding. It is unclear whether these programs will continue and accordingly all such benefits are excluded from our guidance. In addition, although we expect an increase to the (INAUDIBLE) fee schedule, we do not know the magnitude and therefore it is not included in our guidance.

We expect it to be announced in December as in previous years and will refresh future guidance accordingly. For 2022, we are guiding to net revenue of $2.70 billion to $2.90 billion and adjusted EBITDA of $635 million to $695 million.

We continue to estimate total capital expenditures to be 9% to 11% of net revenue. We anticipate that as a result of the inherent seasonality in our business, which is most pronounced in diabetes. The first quarter will represent 23% to 24% of full year revenue. As a reminder, guidance does not include any contribution from acquisitions that have not yet closed. That being said, we remain confident that we'll acquire at least $150 million of annualized revenue over each of the next few years. And we certainly have the existing capital to do that. With that, I'll turn it back over to Steve.

Steve Griggs
Thanks, Josh and Jason. And we, again, want to thank all of our employees across 47 states for their hard work, focus and commitment. At this time, we'll turn the call back over to the operator to queue for questions.

Operator
Thank you. The floor is now open for questions. If you do have a question, please press "*" "1" on your telephone keypad at this time. If you're using a speakerphone, we ask that while posing your question, you pick up your handset to provide the best sound quality. Again, ladies and gentlemen, if you do have a question or a comment, please press "*" "1" on your telephone keypad at this time. Please hold a moment while we pull for questions. We'll take our first question from Brian Twinklet (PH) with Jefferies. Please go ahead.

Brian Twinklet
Hey. Good morning, guys. Congrats on a good quarter. So I guess my first question, just going back to the Philips discussion, how do you think that will play out over the next few months or few quarters just operationally? And how should we be thinking about what it does to the P&L?

Steve Griggs
Brian, this is Steve. Thanks for the question. Yeah, so Philips, I think their issues are going to last at least into mid next year, if not throughout the full year. And it's a good question how fast they can produce replacement equipment and get patients to resupply. So for us, what we've been able to utilize our inventory now. And the allocations from ResMed (PH), which are less than our historic, they allocated it, but they didn't exactly get it to us at the same time. They've caught up now, so we feel pretty confident that we'll be able to produce those allocations and be able to manage our inventory at reduced amounts.

In addition, our patient recovery, asset recovery has improved dramatically of getting the assets back from people that aren't using. And third, we've engaged with other suppliers to fill that gap. So we're feeling pretty good about the fourth quarter about being able to increase. October was a very, very good month for us for setups, back just short of our June level. So

we're feeling pretty good. And so I think if all that kind of happens, ResMed continues to increase their allocation to us, and to the industry, really, and other suppliers can continue to make product and be in pretty good shape, until Respironics is able to send patients back to--equipment for new for new patients.

Jason Clemens
Yeah, Brian. This is Jason. I'd add, we'd originally guided up to $10 to $30 million of revenue risk in the second half of 2021. We've narrowed that today. We're very confident that the number's 20. So we see it in our P&L, it was $10 million of impact in Q3. We're expecting $10 in Q4. Looking ahead to '22, we think we'll see about $20 million of headwind in the first half of '22. But we're confident as we get into the second half of '22, we'll, we'll be growing out of this.

Brian Twinklet
Appreciate that. And then, Jason, thank you for giving guidance, early guidance for 2022. But as we think about the organic growth in cells acquired businesses, such as Aerocare, how are you thinking about how that plays out, thinking about cost synergies that you guys are squeezing out of Aerocare? Any update of that. And then how should we just be thinking about maybe the difference in the growth rate between some of the acquired businesses that will hit the same store base versus what we're seeing right now?

Jason Clemens
Sure, Brian. So first on the cost, synergy, we'll reaffirm today, the $50 million of exit rate synergy. We will achieve that. $30 of that is coming in year in 2021 and is included in our refreshed guidance for '21. The $20 million of stub period synergy is included in our 2022 guidance. And we believe we'll get every dollar of the entire 50. Your question on the growth of the various businesses, we've introduced a new slide in our earning supplement that you can find posted to our IR website. On page eight, we've broken out the growth from non-acquired versus acquired. And so you're seeing that difference in black and white on those pages.

For the non-acquired portfolio, we've grown 3.9% year over year. That's up quite a bit against Q2, as I stated in our prepared remarks for the for the reasons cited, improving HME, high growth Solara coming into the non-acquired portfolio, as well as the dynamic on PCS that I discussed in the in the prepared remarks. Turning to the acquired businesses, as a portfolio, they grew 8.6% over the prior year. Of course, both of those calculations have Philips as part of that. And those numbers are going to continue to converge as we laugh the anniversary dates of the acquisitions.

Brian Twinklet
Awesome. Thanks. And congrats again, guys.

Steve Griggs
Thank you.

Operator
We'll take our next question from Peter Chickering with Deutsche Bank. Please go ahead.

Peter Chickering
Good morning, guys. Thanks for taking my questions. Just as a follow up on a 2022 revenue guidance from Brian's question, can you help us or bridge more between 2022 revenues from 2021? So you talked about 8% organic. How much of that '22 revenues comes from M&A? And then, can you remind us what sort of the bad guys already are dealing with for next year just to help us create this bridge?

Jason Clemens
Hey, Peter. This is Jason. Sure. I'd probably start by bridging you to a jump off point for exiting 2021. And so if you take the midpoint of our revenue guidance at $2.435 billion, you'll see when the 10Q is published here in a couple of days, the proforma revenue will be $200 million. So you'll add that, and you're going to get to $2.635 billion. That's a good jump off point as you bridge into next year.

When you apply 8% organic growth on that number, you're going to get a touch over $200 million, probably about $210 or so. And then you've got to add in the Q4 '21 acquisitions that we announced this morning. So you throw that all in the mixer that's going to give you a good view of revenue and how we've built the guide. To your question on the risk factors, there are a few, and we're accounting for all of them at kind of full risk, if you will, within the guidance.

So the first is sequestration. And we're all aware, right, it is still unclear if sequestration relief will continue or not. The guide assumes that it is excluded, and there's no dollars from sequestration relief. Secondly, the demi post (PH) fee schedule is typically published first or second week of December. We anticipate that that's when it will be published. We do anticipate a rate increase on the fee schedule. But we've got zero assumed in our guidance. And so as those numbers become clearer, we will come out and refresh those numbers for you all.

And then, thirdly, is the ongoing benefit from the PHE. It's again, just unclear how long it will last. We are assuming that it effectively terminates. We get zero benefit from the PHE in 2022. And so, again, all those I guess, ins and outs of the government programs and the fee schedules we've accounted for with a very conservative expectation within our guides.

Peter Chickering
Okay, great. And then, sir, two follow up questions. I'll out them together. The supply chain pressures, which you guys talked about, and also on the labor side, can you quantify, excluding the Philips, how much supply chain pressure you guys saw in 3Q? How this traction in 4Q (INAUDIBLE) for '22? And same question for labor. How much impact did you see from the staffing and pressures and 3Q? What are you guys assuming in 4Q? And how much of that continues in 2020 guidance? Thanks so much.

Josh Parnes
Peter, this is Josh. I'll just handle the high level on what we're seeing there. So on the supply chain, again, we reference increased costs, particularly related to surcharges related to things coming in from Asia, as well as us trying to get ahead of some of the CPAP things paying a little bit more for product, but also trying to expedite product, getting around the poor backlogs on the West Coast, particularly. Some of that is kind of increased costs. We built in some of that continuing into next year, but mostly guided to impact in Q3 and Q4.

On the labor side, and Jason will talk to the numbers, how that fits into the model, but on the labor side, we're seeing increases and in hourly wage workers and particularly delivery drivers as everyone's competing for drivers these days, and some back-office functions. We've been able to mitigate some of that with additional automation and technology and trying to try to do more with less, and so far been largest accessible that, although we are seeing a little bit of a wage increase creep in those positions, particularly. But I'll let Jason talk to where that fits into the guide.

Jason Clemens
Yeah. Thanks, Josh. So first on overall supply chain. Those costs were really flowing through patient equipment CapEx and just overall CapEx. So you might note that we've inched up our expectations on CapEx for Q4 as well as next year a touch. So rather than our traditional 9% to 10%, we put that at 9& to 11%. As we get deeper into this year and early next year, we expect to refresh those numbers. But we think that that's a very conservative expectation to account for the acquisition costs, essentially, through surcharge and freight forwarding.

In terms of labor, for Q2, we ran 23.9% of revenue. That's about 50 60 pips higher in Q3. But don't forget, we had $10 million in revenue fall out on account of Philip. So you know, it's up a touch. I'd expect that to continue through Q4. And that is our expectation over the course of 2022, that we expect labor to be ballpark 24%, o more than 25% of revenue.

Peter Chickering
Great. Thanks so much, guys.

Operator
Our next question comes from Kevin Fischbeck with Bank of America. Please go ahead.

Courtney
Hey, guys, this is actually Courtney (PH) on for Kevin. Thanks for taking the question. So I guess one quick follow up on your 2022 guidance. Thanks for the color, by the way. I just noticed you guys us disclose the total CapEx expected to be 9% to 11% of revenue. So I just wanted to confirm that this includes non-patient related CapEx. And if you could break that out, that'd be helpful.

Jason Clemens

Hey, Courtney. Sure. This is Jason. So yes, it does include the patient equipment CapEx in that number. We are changing our guidance approach going into ‘22, frankly, because our company's evolving and maturing. We think providing a total CapEx is a more complete picture that can help investors easily get to free cash flow. I mean, that is how we look at it internally, And I think how many investors assess the company. In terms of the patient equipment CapEx, really no change. It's going to be roughly 85% of that number. It's going to continue to follow rental revenue, which is a third of our revenue, as I think you know, and that that old standard 22% or so rental revenue, flowing as patient equipment CapEx. Nothing's changed there. I mean, that will continue. We just think it's more appropriate to take a total picture for capital expenditure.

Courtney
Okay, hanks. That's helpful. And then, I guess, one quick follow up. I guess a few months ago we saw CMS relaxed the standards for CDM device qualification. And I'm not really sure the extent to which you guys have insight into how your patients qualify for these devices. But have you seen any material lift to volumes from this?

Josh Parnes
Sure. This is Josh. I'll handle the question on CGM. So the relaxed qualifications really just helped clarify some of the existing processes that were in place with providers previously. So definitely it made it easier to actually document these orders for physicians and as such. But in terms of actual patients that were being prescribed these devices that qualified, it didn't really change the total applicable universe of these patients, and therefore was more administrative than anything else. And we didn't really see any kind of meaningful numbers up or down either way, but really just eased the administrative burden of documenting these patients.

Courtney
Okay, thanks, guys. That's helpful.

Operator
Our next question comes from Matthew Blackman with Stifel. Please go ahead.

Matthew Blackman
Good morning, everybody. Thanks for taking my questions. I’m going to start--a couple for Jason on the ‘22 guidance. He did a nice job pulling out some of the risks. But can you maybe give us a sense--be a little bit more optimistic and give us a sense of some of the factors that might flex you to the upper bounds of the revenue and EBITDA guide? And then, a couple of follow ups.

Jason Clemens
Yeah. Sure, Matt. You know, I think first I'd start with the demi post fee schedule. We are assuming literally zero change in that fee schedule. Last year it was up 60 basis points. I would tell you that this year that when you consider the factors that go in the calculation of the demi

post fee schedule, it really starts with an inflation factor. And so that's the urban CPI through June of the previous year, or in this case, June of 2021.

I mean, that number was over 5%. So there will be a labor adjustment, not going to try to estimate what that will be. But that will impact that number. You know, could it be as high as somewhere in between 0.6 and 5 change? It’s possible. But we're assuming zero. I'll tell you in terms of sequestration, again, we're assuming zero, I think we'll likely know, in the next 45 days, maybe 90 days, what that will be. And by the time we’re reporting in following Q4, we'll have those numbers, and we'll refresh that accordingly.

Finally, the public health emergency, that as you know, is refreshed every 90 days. A determination made if the PHE will continue or not. And so periodically and every quarter next year, we will have updates for you all on what those numbers could mean.

Matthew Blackman
All right. Appreciate it. And then, on G&A, it's been running at a much slower clip the last couple quarters than at least we were thinking. So what's going on there? And is sort of the last two quarters that are reasonable run rate to think about going forward?

Josh Parnes
Yeah, Matt. I'd say, for G&A, it is a touch lower this quarter. I mean, frankly, we're just getting some gearing on revenue growth there. We've maintained that XD EBIT adjustments, G&A, SG&A as a percent of revenue, should be about ballpark five points on revenue. I mean, I think you're probably referring to the 3.8% or 4% or so that we're showing for this quarter. I would expect that to go somewhere in between, more likely up to 5%. 5% of revenue is what we've got in our guide for next year.

Matthew Blackman
And then, just if I could squeeze one last one on M&A, just the bigger picture. Just what are you focused on in terms of prioritizing targets? Is it filling in sort of geographic whitespace, still interested in adding product lines, all the above or something else? Just get an update on where you're focusing your efforts there. Thanks.

Steve Griggs
Yeah, Matt. This is Steve. I think we're pretty opportunistic. I mean, we can't predict who's for sale and what they want to do and that kind of stuff. So we have to be opportunistic in that and take advantage of that. Obviously, we love the smaller transactions that are in markets. Those are easy to do. And so those will come along. There's a lot of assets out there in both the diabetes and HME that we're looking at, and we like. As far as expanding products, that's not really a focus today. But we're always looking at them. Somebody is bringing them. There's a banker that's bringing an idea to us every so often. And we'll look at that. But right now, we're pretty focused on HME and diabetes assets.

Matthew Blackman
Appreciate it. Thanks so much.

Operator
Our next question comes from Whit Mayo with SVB Leerink. Please go ahead.

Whit Mayo
Thanks. Just a couple quick ones here. Jason, appreciate the organic numbers that you provided by category. Is there any way as a frame of reference to compare the organic growth of each of the categories to, let's say, 2019, as sort of a baseline just to get a sense of what a more normalized environment, what the growth would have been?

Jason Clemens
Hey, Whit. Sure. So I'm going to I'm going to talk X diabetes for a minute, because as you know, we didn't we didn't operate that business until well into 2020. But the product lines are performing at I guess what we'd call pre pandemic expectations. DME, we've got that in at 4%. And as you know, that follows pretty closely, electives, as well as general Medicare age and populations. And with just the growth of that category or profile, I mean, DME is operating as expected.

Respiratory, it's actually been up against what we've got our guide over the course of 21, frankly, on account of COVID discharges, and oxygen and being an important part of COVID treatment and therapy. So for ’22, we think that normalizes to a run rate of what we see in 2019 and expectations for respiratory. Sleep, probably a touch of a drag of all the categories going into ‘22. I mean, we've got it at 7% growth. I think if you look back in 2019, it’s a touch higher, probably closer to 8%, even 9%.

So we still have that growing out of the pandemic census drag. And then, we get to diabetes. I mean, I think that over the last several years that end market just continues to grow very rapidly. We think we're right in line with within market growth and diabetes in ‘22. Frankly, we think we're capturing a couple of points a share, as well, based on the comments that Josh talked about in his prepared remarks.

Whit Mayo
On oxygen for a second since you mentioned that. I think there was some changes in the national coverage determination around home oxygen or relaxing the CMN requirements or something. Does this mean anything to you? Or should this mean anything to us as we think about the growth going forward?

Steve Griggs
Yes, definitely. I mean, it just gonna make it easier for doctors to document the need of oxygen. And I think that's important criteria. And I think they're going to allow us more on the short-term oxygen patients. So yes, it will be--it’ll will help the growth of that business. You just offset

by all the COVID activity over the past year and a half. But if you look at it long term, yes, it's a factor to continue to increase patients going on oxygen.

Whit Mayo
One, just last one, Jason. I was looking at my notes. And I'm just trying to make my numbers add up here. I thought through the third quarter we had sort of circled $300 million of annualized acquired revenue. And so do the deals that you've closed subsequent to the quarter account for the other $100 million? Just trying to bridge the gap here.

Jason Clemens
Yeah, sure, Whit. Well, the devils in the details there. So last quarter, we said, we had acquired over $300 million of annual revenue. It was quite a bit above that, probably closer to $350, $340, $350. And so that's the difference you're seeing. So use the same logic, but I would bring your comparison up a touch.

Whit Mayo
Okay. All right. Thanks, guys. Appreciate it.

Operator
As a reminder, everyone, if you do have a question or comment, you may press "*" "1" on your telephone keypad at this time to join the queue. Again, that's "*" "1" if you'd like to ask a question. We'll take our next question from Andrea Alfonso with UBS. Please go ahead.

Andrea Alfonso
Hi, everyone. It's Andrea Alfonso on for Kevin Caliendo. Thanks so much for taking the questions. So I just wanted to sort of get a little bit more granularity on the labor and supply costs that you outlined? As we think about if there are mounting pressures, is there wherewithal all within your existing contracts, or perhaps maybe just qualitatively discuss that ability to pass through those heightened costs to customers?

Jason Clemens
Sure. So, yeah. I mean, we're obviously looking at passing through some of these costs more to the payers. It's little bit longer discussion in terms of just a cycle of those conversations. We're definitely having those, and we're gonna see where they go. We didn't build any of that into guide for '22. And clearly our quicker opportunity is really trying to mitigate the increase costs, particularly on the supply chain products. And I mentioned those in my earlier comments about going directly to manufacturers, bypassing some of these poor backlogs, obviously, some temporary short-term pain there in terms of increased surcharges and things like that. But ultimately, over the long term, particularly as we scale and get larger and our purchasing power gets larger, we feel like we will be able to mitigate some of those costs over the long term. So some kind of short and medium term pressure on that, on the cost there.

Andrea Alfonso

Got it. Thank you for that. And then, you mentioned the puts and takes, including some of the good guys, that that helps you bridge ‘21 to ‘22 EBITDA. But I want to just put a little bit of a finer point on that. I guess, when we think about the margin expansion that's implicit within the organic business, I think part of the narrative has really been improving underlying business trends. I think you outline e-prescribing within diabetes to make you much more efficient. Could you just sort of maybe walk me through some of the examples that implicitly get better or rather the drivers that take you to that margin expansion going forward?

Jason Clemens
Yeah. So I think the drivers, like you mentioned are obviously organic growth drives margin expansion. But just particularly in terms of the details of that additional technologies and really more operational efficiencies across the platform, doing more with less. The fact that we haven't increased our labor spend in line with what some other companies are seeing is, I think, a testament to what we're doing on operational efficiencies to drive a much more efficient organization.

And really a lot of that’s leading with technology to drive more innovative, less manual processes. So we're gonna see that. And then, also, operational improvement means doing a better job of monetizing our existing patient base. So we have 3.5 million patients. Many of them have comorbidities. And I think we're still early innings. But we're starting to figure out how to better monetizes patients. A lot of patients who have sleep, also have diabetes, sleep issues have diabetes issues And vice versa across our platform with COPD, CHF, COPD. A lot of these kind of clinical situations are related. And they may be getting one product from us but can be getting other products from us.

So strategically, we're thinking about ourselves as the ability to offer more products to more customers. We view that as an opportunity that we're starting to get our arms around in terms of monetizing that ever-growing patient base. But that's also going to drive margin expansion over time.

Josh Parnes
I would add that going into next year, I mean, we're showing margin expansion from ‘21 into ‘22. And that's net of absorbing what we see is worst case scenario for sequestration, for PHE, for a 0% demi post fee schedule change. So as those programs become clearer, and we bring them into the guide, I mean, those are dollar for dollar drops from revenue and EBITDA. And so we would expect that margin to improve as we get clarity on these programs. So even with that, we're expanding margin into ’22.

Andrea Alfonso
Got it. Super helpful. And I guess just one last question for me, just housekeeping related. I noticed that the other revenue number had a pretty sizable jumps in the quarter. What exactly what was the cause that jumps?

Josh Parnes
Yeah, sure. So other represents a series of product lines. It represents orthotics. We're a pretty new entrant into that business. We haven't talked about a lot of it yet. But it is growing very rapidly. That's a big part of that jump. Secondly, our hospice business is inside of other and it's performing quite nicely despite, I think, headwinds and other things we're hearing externally, our hospice business performing in line and growing nicely. We've got other programs that we're running in here, a very small home infusion revenue stream that we're bringing on as part of acquisitions that might have a little bit of infusion here and there.

And so we're getting more formal about those programs. I'd probably go out and say it's a formal pilot at this point. But that's inside of that category, and also growing very, very rapidly. So, you know, as these as these programs become a larger part of the pie, you'd expect us to break them out. But that's what's happening inside of other.

Andrea Alfonso
Thank you so much.

Operator
We'll take our next question from Richard Close with Canaccord Genuity. Please go ahead.

Richard Close
Yeah, thanks. Congratulations. Glad my question's been addressed. But on the supply chain, can you just talk a little bit whether it's impacting the competitive environment? Do you see this driving share gains through for Adapt and maybe increasing the acquisition opportunity?

Steve Griggs
Well, yeah. This is Steve, Richard. Certainly with our size, we get some benefit from these things in particular markets, where we have enough product. So, yeah. It definitely happens. And then on the acquisition side, it's just another reason for somebody to, say this is time that they probably need to consider joining the DAT (PH) family or another company. So I think, yes, that plays into both those.

Richard Close
Okay. And then with respect to the pipeline just to dig into that a little bit more, I appreciate you said, diabetes and DME, whatnot. Has the proposition changed meaningfully over the last several quarters? Anything to point out?

Steve Griggs
No, not really. We love the diabetes business. We love what we're doing there. There's not a lot of assets in that. There's more assets in the HME business, but that business is bigger. So right now it seems to be falling in line with our current business mix. So we don't see significant shifts one way or the other.

Richard Close
Okay. Thank you.

Operator
There appears to be no further questions at this time. I'll pass the floor back to management for closing remarks.

Steve Griggs
Yeah, this is Steve. Just want to thank everybody for their interest and continued support and, once again, thank our fantastic employees out there delivering care to our patients. Thank you.

Operator
This does conclude today's teleconference. We thank you again for your participation. You may disconnect your lines at this time. And have a great day.