AdaptHealth
Fourth Quarter 2021 Financial Results Conference Call
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Presenters
Steve Griggs, CEO & Director Jason
Clemens, CFO
Josh Parnes, President & Director
Chris Joyce, General Counsel

Q&A Participants
Pito Chickering - Deutsche Bank
Brian Tanquilut - Jefferies
Courtney Fondufe - Bank of America
Kevin Caliendo - UBS
David Common - J.P. Morgan
Ben Hendrix - RBC Capital Markets

Operator
Greetings, and welcome to the AdaptHealth Fourth Quarter 2021 financial results conference call. At this time all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference please press star zero on your telephone keypad. As a reminder this conference is being recorded.

I would now like to turn the call over to Chris Joyce, General Counsel. Thank you. You may begin.

Chris Joyce
Thank you, Operator. I'd like to welcome everyone to today's AdaptHealth conference call for the fourth quarter and full year ended December 31, 2021. Everyone should have received a copy of our earnings release earlier this morning. If not, I'd like to highlight that the earnings release as well as a supplemental slide presentation regarding Q4 and full year 2021 results is posted on the investor relations section of our website.

In a moment we'll have some prepared remarks 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. shall have no obligation to update the information provided on this call to reflect such subsequent events. Additionally on this morning's call we will 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 later today.

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

Steve Griggs
Thank you, Chris. I'm going to begin with a review of 2021 and then provide an outlook for 2022. For the past two years the worldwide pandemic has directly impacted every part of our business. Despite this and the added stress caused by higher supply chain related costs and the reduction of supply of CPAP devices I am very proud to report our business has grown and prospered.

AdaptHealth more than doubled in size in 2021, as measured by 102% increase in net revenue and a 99% increase in adjusted EBITDA. We now provide needed and often lifesaving equipment and supplies to approximately 3.8 million patients each year. Every day more than 32,000 patients receive delivery of our products in order to live healthier lives in their homes.

We now have 11,049 team members across 757 locations in 47 states. It's a testament to their hard work, resilience, and creativity that we're able to carry out our mission, and I thank them all for their continued dedication. AdaptHealth always strives to serve the needs of our patients and referral partners in spite of any short term disruptions. The February 2021 merger with AeroCare was the most significant driver of our growth in 2021. By all metrics, including the achievement of projected synergies, this transaction's been a great success for AdaptHealth.

Aside from the financial improvements we also brought together and enhanced both companies' best in class technology solutions. With the AeroCare merger and the 22 other acquisitions we did in 2021 we are now truly a national company, thereby enhancing our value proposition for managed care partners and referral sources. In addition, we also expanded our direct to consumer ecommerce operations in 2021.

I think it's also worth noting how our capital structure evolved to fund these acquisitions and to begin to simplify our balance sheet. Since July 2021, we have raised $600 million in fixed rates to ventures. As rates have begun to rise that transaction looks increasingly attractive in retrospect. Some of these proceeds were used to retire expensive debt that AdaptHealth had incurred as a private company with a balance used to make accretive acquisitions.

The most significant challenge we faced in 2021 and that continue to face was the June 2021 Philips PAP device recall and the resulting reduction in the supply of PAP machines, which has had a more negative effect on our business than originally contemplated. Unfortunately Philips will be unable to provide new CPAP devices for longer than we originally anticipated, and other manufacturers have been unable to make up for the shortage.

The demand for these products continues to be robust, but we were unable to fill the needs of all of our patients in the fourth quarter and are projecting a continued shortfall in devices through 2022. This shortage will end at some point, hopefully by the end of this year. And when it does, AdaptHealth will be well positioned to resume its historic organic growth. As these situations improve we believe the actions we've taken and the investments we've made to ensure patients and referral sources are taken care of position us well to gain market share going forward.

And now I'll pass the call over to our President, Josh Parnes.

Josh Parnes
Thank you, Steve. I'd like to add my thanks to our AdaptHealth employees for their hard work throughout the past year and their ongoing dedication to improving the health of the 3.8 million patients we serve on a annual basis. In an environment of increased cost and supply chain challenges, it is even more important for us to be best in class operators as measured by efficiency and cost. Over the past 12 months the AeroCare and AdaptHealth teams have worked side by side to integrate our businesses, bring together our best in class technologies, and maximize financial and operational synergies.

For example, we implemented an enterprise wide delivery tracking system that allows for real time updates to patients waiting for their equipment as well as a consolidated sales reporting platform which gives our sales teams continuously updated patient order statuses that are vital to our physicians and facility referral partners. This produces a measurably better customer service experience for our patients.

As Jason will also touch on a bit later, we're excited to have also launched our enterprise wide Oracle ERP system on February first, which will dramatically improve visibility into our business and its trends. I'm also excited to announce the December 31st close of our acquisition of Community Surgical Supply, a clinically focused homecare equipment and services provider with over 50 years of healthcare experience headquartered in Tom's River, New Jersey. Community Surgical is the largest HME and respiratory acquisition in Adapt's history outside of the AeroCare merger, adding approximately 100 million in annual revenue.

This transaction further expands AdaptHealth's already robust product offering in the New York, New Jersey, and PA markets as well as many surrounding states, enhancing patients' service levels, response time, as well as deepening our relationships with local referral sources.

Consistent with many of the transactions we complete, Community Surgical brings not only strong operational and financial performance but also experienced sales and executive leadership. We have known and competed with this team there for 20 years, and we are thrilled to be joining forces.

This combination brings the complementary strengths of both organizations together. The integration is well underway and we expect a smooth transition with high expectations for improved performance and patient care. AdaptHealth continues to invest in innovative workflow solutions and technologies that not only enhance our operating efficiencies and leverage our capabilities but also continue to move us up the chain of value based care.

The company already has over 50 million in programs underway with managed care payers based on shared savings and value based reimbursement models, and as these programs prove themselves out through improved cost of care as well as better patient outcomes and satisfaction we anticipate the opportunities with payers will continue to increase. We believe that as the last mile provider into approximately 3.8 million patient homes across all 50 states, we are uniquely positioned to add significantly more value in the coming years to the healthcare continuum.

We will do this by continuing to work with our payer and referral partners to improve clinical outcomes through the connected therapies and devices that we provide, and we are excited about what the future holds on that front.

With that, I'll pass the call over to our CFO, Jason Clemens. Jason?

Jason Clemens
Thanks, Josh. Good morning and thank you for joining our call. I'll discuss the fourth quarter operating results, our cash flow and capital allocation activity for the fourth quarter and full year 2021, and conclude with our updated guidance for 2022. For the fourth quarter ending December 31st, 2021, AdaptHealth reported net revenue of $702 million, representing year over year growth of 102% including contribution from the AeroCare acquisition that closed in February 2021.

Organic growth for the quarter was 2.7% and non-acquired growth was 2.4% as outlined in our earnings supplement. As Steve noted, we were pleased with our ability to deliver revenue ahead of expectations despite the ongoing impact of the Philips recall. However, our profitability was negatively impacted by these factors, leading to adjusted EBITDA and margin below our expectations. Specifically, adjusted EBITDA was $158 million for the quarter, representing adjusted EBITDA margin of 22.5% which included the one-time benefit of $11 million in PRF funds.

While we had anticipated some cost pressures related to these factors, our margin performance was further affected by lower than expected availability of PAPs from manufacturers which resulted in lower rental revenue. Even though PAP resupply and diabetes products outperformed, these businesses carry significantly higher cost of goods relative to the rental business, thus reducing our overall EBITDA margin. On the positive side we were pleased to see sequential improvement in cash flow performance for the quarter. Recall, third quarter 2021 cash flow was lower than normal due to a temporary spike in DSOs partly related to the consolidation of billion operations in connection with the integration of the AeroCare acquisition.

As expected, AR collections improved sequentially, contributing to free cash flow of $37 million during the fourth quarter, up significantly from negative $33 million in the third quarter and representing just over five percent of fourth quarter net revenues. Additionally, the company increased inventor levels in order to mitigate continued supply chain disruption and we anticipate that inventory levels and AR will remain elevated in the short term and convert to cash in over the next few quarters.

For the full year cash flow from operations was $276 million and free cash flow was $72 million. We estimate that the recoupment of CARES Act funding and other factors represented an approximate $70 million reduction to cash flow for the year. We expect $13 million of final recoupment and approximately $10 million of other one-time impacts in the first half of 2022. Even with this continued recoupment of the CARES Act funding we expect to improve free cash flow conversion and we remain comfortable with our long term target for free cash flow of approximately six to seven percent of net revenue.

We also remain confident that our acquisition strategy is adding significant shareholder value. Note that for the 22 transactions we completed outside of AeroCare, the average multiple on last 12 month EBITDA was under six times, and year one performance has exceeded that through synergy. That being said, we acknowledge that an escalating rate environment it will be increasingly important for the company to exercise discipline with capital allocation decisions.

At the end of 2021, our net debt to adjusted EBITDA leverage was just under 3.2 times as defined under our bank covenants and leverage on trailing 12 month EBITDA was 3.7 times. Available liquidity was approximately $585 million including cash on the balance sheet and the revolver. Turning to our 2022 guidance, we are updating our outlook based on the latest developments and what we are seeing across the business lines.

As discussed in this morning's press release, we now anticipate Fiscal 2022 net revenue of $2.825 billion to $3.025 billion versus our prior range of $2.7 billion to $2.9 billion, and adjusted EBITDA of $610 million to $670 million versus our prior range of 635 to $695 million. We continue to anticipate total CapEx representing nine to 11% of net revenue. Although we believe the organic growth for our business in a normal operating environment is at least eight percent, given the performance in the fourth quarter and the continuing impact from the recall we think it is prudent to set 2022 organic growth at a midpoint of four percent.

That includes about one point of pricing from the demi post fee schedule and about three points from volume growth. We also added approximately $100 million of revenue through the Community acquisition discussed earlier. As it relates to our previous guidance, we are now estimating a $45 million greater reduction in our EBITDA from the Philips recall and PAP supply challenges and the resulting impact on our rental mix. This is partly offset by contribution from the community acquisition that was not in our previous guidance.

Although we believe the PAP shortages discussed on this call will alleviate by the end of 2022 we believe it is appropriate to rebase our guidance with the assumption that it will take the entire year before Respironics equipment is back on the market, and that we will not return to prior allocations with our main supplier until the back half of the year. As is typical, our guidance does not include contribution from acquisitions that have not yet closed.

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

Steve Griggs
Before we start the Q and A I'd like to make a few additional comments about the PAP supply situation. We are now either the first or second largest supplier of PAPs in the country. So the current shortage of supply will affect us, but only as long as this temporary situation persists. We estimate that over two million PAPs are delivered in a typical year, but with the shortage in supply that began last year we estimate that only approximately 70% of the patients who will need machines will receive them.

This suggests that at the end of 2022 after a year and a half of reduce PAP supply there will be approximately 900,000 patients diagnosed with OSA waiting for delivery of a PAP device to begin their prescribed therapy. Given our leadership position in the industry, we expect to capture a significant share of this backlog and benefit from the historic organic growth of the sleep sector.

Operator, please open the line for questions.

Operator
Thank you. We will now be conducting a question and answer session. If you would like to ask a question please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. For participants using speaker equipment it may be necessary to pick up your handset before pressing the star key. One moment please while we poll for your questions.

Our first questions come from the line of Pito Chickering with Deutsche Bank. Please proceed with your questions.

Pito Chickering

Hey, good morning guys. Thanks for taking my questions. I guess going back to the 2022 EBITDA bridge, you said that these, you know, the 22 guidance came down in the midpoint about 25 million. You said that CPAP was actually 45 million worse. Can you just sort of get back to the bridge sort of where we were before, you know, what are the good guys and bad guys here just so we understand better sort of what, you know, what occurred sort of, you know, for the 22 guidance.

Jason Clemens
Hi, Pito. Good morning. This is Jason. Sure, I'd be glad to address that. So, you know, to help shine a light on the trends we saw in Q4 I'd point you to slide five in our supplement. You know, that sleep rental line is really where the big impact is and we just missed on the Philips expectations. I mean, we tightened the band last quarter to expect about a $10 million hit and the reality is that came in closer to 30, plus another five in oxygen noise. Really just we had a bit of a COVID spike in Q3 and those patients fell off faster than we thought. So that was about five million.

But the 30 million on the sleep side, if you look at Q2 2021 that sleep rental run rate was about 66 million. Well, it is declining but not as rapidly as it might appear, because certainly we have acquisitions that are piling in there. So what we should have expected on a normal growth rate of about one and a half to two percent sequentially per quarter, that, you know, that 66 should have been closer to about 69 in Q4 and that same unit portfolio if you will delivered 52. So ended up missing by 17 and then there is a compounding effect with the sleep resupply.

So, you know, that's some of the gory detail of what we're seeing in Q4. As we bridge to 2022, yes, we brought guide down by $45 million. So most of that is the negative impact of the recall and the continuing trend that we saw in Q4, at least for the early part of 22. And then we have it -- we have netted some upside for demi post fee schedule and kind of PHE benefits. And then 20 million for Community. So that'll bridge you out to the 640 in our midpoint.

Pito Chickering
Got it. So, I mean, so fundamentally actually ironically the guides would have been going up if you guys did not increase the CPAP headwinds which should fade when Philips gets their act together.

Jason Clemens
Oh, without question. Yeah, without question. I mean, we had last quarter -- so, when we reported November fourth we thought the impact of the recall in 2022 would be in the neighborhood of 20 million. So kind of the same 20 million we had in back half 21 we thought that would be about 20 million first half 22. And now just with the -- with a much bigger miss in Q4, you know, that number's closer to 65 million of PAP rental impact in 22.

So yeah, without the impact we would have been up. It's disappointing but it's just where we are.

Pito Chickering
Okay. All right. One more quick question here. Can you walk us through the, you know, I look at 22. We've obviously seen a lot of manufacturers say, you know, both waits in raw material and inflation. Are we seeing any vendors try to push through price increases to you guys and as, you know, we model gross margins in 22, you know, thinking about a combination of your long term contracts versus manufacturers trying to push price. Thanks so much.

Jason Clemens
Yeah. Sure, Pito. I mean, I'll start on the numbers side then I'll pass it to the guys to talk operationally what we're seeing. So, you know, first the demi post fee schedule was announced in mid-December. So that was around a ballpark five percent increase. And we've accounted for that in our guidance on the top line. So we brought top line up about a point, maybe a touch higher as you heard in my prepared remarks.

But, you know, that Medicare demi post fee schedule increase, I mean, that's a very heavily inflation based metric, which is a good thing because we're certainly seeing inflation as you said. So, you know, there is some dollar pass through of that but, you know, downstream if you will at the manufacturer level, you know, they're certainly seeing inflation and surcharge on raw materials. And so if, you know, a sizeable portion of that increase, you know, will hit our COGS.

Guys, you wanna weigh in on what you're seeing with the main manufacturers operationally?

Steve Griggs
Certainly they in particular the public ones that we deal with, you've seen that their price raises that they have posted. So we're dealing with those. Outside of that in -- this is Steve, by the way. Outside of that, you know, the non-public ones have also tried and successfully raised their prices too. Not to the level of the increases that we've gotten, so that's been good. But the freight surcharges and the increased freight expenses certainly are being passed on to us. And we look for those as, you know, post supply chain issues and stuff -- those be -- start coming off, you know, towards the later part of 2022 and certainly into 2023.

Josh Parnes
Pito, this is Josh. I'll just jump in for one second here with a little color. So what we baked in also for 22 was not only on the shortage of the PAPs and therefore affecting the rental census but also we're spending a fair amount of money expediting whatever product we can get our hands on, because strategically we wanna be positioned coming out of 22 to be able to capture market and be able to capture referral sources that stuck with us or didn't get PAPs from other vendors during this Philips recall issue that we expect to last kind of mostly -- most of 22 with the back half improving a little bit. But generally we baked in a more kind of conservative approach to how quickly we feel that's gonna resume.

But there's a fair amount of air freight and other very expensive freight forwarding costs that we're incurring strategically. Because we feel that obviously this is gonna impact us in 22, but we really wanna be positioned to jump out of the gates in 23 and beyond to capture that backlog.

Pito Chickering
Okay. Just one question on the expense(PH) -- shipping. That's just on the CPAP or you have to do that on the diabetes just because I know that the margins on the diabetes are thinner. And because you're expediting shipping, you know, that can really crash those margins I believe.

Steve Griggs
It's just on CPAP right now. We're not having any kind of -- we're not having any access issues with other supplies at this point.

Pito Chickering
Thank you.

Operator
Thank you. Our next questions come from the line of Brian Tanquilut with Jefferies. Please proceed with your questions.

Brian Tanquilut
Hey, good morning guys. I guess my first question just on CPAP to stay on the topic. Steve, you talked about how there's backlog building here. So how do you envision that being recaptured? I mean obviously folks are still showing up in doctor's offices. And, you know, is there a system that, you know, you guys are putting in place to keep track of that as you get the referrals or just, you know, kind of like to hear your thoughts on how this will all play out as we look past, you know, 2022.

Steve Griggs
Yeah. Thanks, Brian. Yeah, the backlog is gonna continue. We keep track of those patients. They come and they're being told that it's, you know, used to be a, you know, a few weeks before we could get their PAP. Now it's a few months. And they're going on that list. And that list unfortunately and the time to get on there is growing. But they're doing on it. And some doctors are sitting there saying well I'm not sure I want to prescribe with this long list. And we tell them, well, the list isn't getting any shorter as far as time period, so let's get em(PH) on the list.

So the doctors are continuing to prescribe but, you know, we're doing a better job of educating the patients up front of, you know, this is global supply chain. So they're on a list now. The reality is is we know going, you know, being in this business for as long as we have the longer between when something's ordered to when it's delivered the higher likely of a decline that's gonna happen. So X amount of those patients will decide, you know, boy I don't need this. But that doesn't cure their sleep apnea. So they're still gonna have it, so those get back into the system later.

But I think it's really, really important to understand that approximately a million patients will be out there with a prescription for a PAP device. And so they're gonna be looking for somewhere and anywhere, you know, to get that solved. And so right now it's just gonna be on who can process and who can get that product. So we're all getting the same allocations of our historical demand, so we're just keeping track of em(PH) and we're getting em(PH) done as fast as we can and they just fall into the line in the queue and we keep em(PH) informed.

Brian Tanquilut
Gotcha. And then I guess Jason, just to follow up on Pito's question from earlier maybe looking past the CPAP discussion just cause we've spent a lot of time on that already, but as we think about the other product categories how should we be thinking about, you know, what you're seeing there growth wise and then what you're seeing in terms of the margins? I guess diabetes is one that we can focus on for a little bit here.

Jason Clemens
Yeah. Sure, Brian. So I'd say, you know, there's no change in our guidance on the organic growth within each of these product categories outside of sleep. So I'll start there. You know, so diabetes we believe will grow at 18% or more in 2022. We believe that respiratory will grow five percent in 2022. And we believe that the HME and other categories will grow at four percent in 2022. So there's no change there.

We think sleep, when you look kind of big picture, it's probably down about five or six percent year over year. And so when you run the weighted average of that you'll land right at that four points in our mid. So, you know, no change across the other product categories. I mean if it weren't for the recall I think we'd all be feeling pretty good about the quarter and where we're heading. But, you know, outside of sleep and getting our hands on PAPs, I mean, you know, it's all systems go.

In terms of margin, you know, you're seeing deterioration in Q4 as well as into 22, again on that sleep line. So the nuance of the rental product lines and the billing that comes with that and just the accounting that comes with that is, you know, a dollar of rental revenue doesn't drop to margin the same as a dollar of sales revenue. So on the rental side, you know, a dollar rented -- of rental revenue drops essentially 100% to EBITDA. I mean, probably 95% or so cause you got a little equipment depreciation in there.

But, you know, it essentially all drops down. On the sales side, so if you're looking at, you know, diabetes, sort of PAP resupply, and supplies to the home, you know, those gross margins are, you know, depending on the product anywhere between 30 and 50%. So although we outperformed on those resupply lines and we were -- we felt great about that, you know, that's coming with a very heavy cost burden as I mentioned in my prepared remarks. So, you know, only 30 to, you know, 50 cents dropping depending on the product.

And we lost rental, and we lost rental big. You know that 25 incremental miss that we mentioned. And so that's all dropping down and accounts for, you know, when you take out PRF basically missed our mid by 20 million. And so that math is carried forward into 2022. You'll see that in our overall margin profile. We're showing adjusted EBITDA at 21.9% at the mid. And we've got every confidence that that will repair to the upper 23s, pushing into the low 24 percents as we exit 22 and look ahead to 23.

Brian Tanquilut
Awesome. Appreciate it. Thank you.

Operator
Thank you. Our next questions come from the line of Joanna Gajuk with Bank of America. Please proceed with your questions.

Courtney Fondufe
Hi, guys. This is actually Courtney Fondufe on for Joanna. Thanks for taking the question. I guess just turning back to, you know, the inflation conversation. You know, you guys mentioned I think last quarter that you were seeing some minor staffing shortages in some back office positions like delivery personnel. You know, can you just give an update on what you're seeing there now and I guess, you know, what is the wage inflation for those positions looking like?

Steve Griggs
Certainly on what you have to pay people, the cost has gone up. And so we're building in a, you know, two to three percent there because we already took care of most of em(PH) in 2021. But going forward we built that in there. On the personnel side, you know, we've had some challenges, you know, with personnel in the beginning of 2021 but as the year has gone out and now with less cap available that's actually freed up some people to be able to use in different functions and different things.

So, you know, as far the personnel side it's still we -- we're still having a hard time getting people but our need is just less in 2022 than it would have been without the PAP resupply issues. So that's kinda the offset of the good news related to it. You know, we can certainly have more people to be able to, you know, performing the functions that's needed out in the field.

Josh Parnes
And this is Josh. I'll just add a little color to that, which is, you know, a lot of the things that we do with some more efficiencies on technology we're essentially not as much of a people business as a lot of other folks in the homecare business. So, you know, back office, revenue cycle management, customer service positions are less impacted in terms of we can use

technology and other things to drive efficiencies there which, you know, somewhat offsets the increase in labor. So as labor comes up and we get more efficient we're not really seeing labor as a percentage of revenue increase that much.

So that's kind of - that's a good story here is that we feel like we have that at a good spot in terms of we don't expect any massive deterioration on the labor to net revenue line.

Jason Clemens
Yeah. And to add some specific numbers to that, in Q3 our labor as a percent of net revenue was 26.1%. That's actually come down a touch. So in Q4 as you'll see when the K drops early next week we're down to 25.3%. Now, you know, some of that is the outperformance of revenue, specifically in diabetes and resupply lines. So again, we feel great about that. But, you know, we're holding firm at that 26% of revenue in terms of labor. So Steve mentioned, you know, we are facing some pressure and ideally we're not gonna grow labor at the same level we're growing revenue. That's not ideal but, you know, we're certainly not growing any faster.

Courtney Fondufe
Yeah, that's really helpful. And I guess just one last one for me. You know, you guys mentioned that the recall impact is coming in worse than expected and is, you know, gonna have a longer overhang than what you were initially baking in. So could you just talk through kind of the cadence of what you are currently assuming in terms of how the supply chain improvement largely plays out?

Steve Griggs
Yeah. And so in our guidance we show no product from Philips. So Philips is able to produce product in for new patients in 2022. That would be an increase to our guidance. In our guidance also we show the historical allocation from ResMed. If ResMed's able to produce more product then their historical that will improve our guidance. But to date they haven't been able to do that except for the last few months.

So, you know, that's what's gonna, you know, change the guidance in looking forward. I will tell you this though, the people at ResMed are working hard to try to figure out how to get more product into place. They have the manufacturing capacity to do it, they just don't have the components. If they get the components they will get product out there to exceed their production beyond -- before Philips gets there. Why? Because they will have a determinant, you know, market share increase.

So they're desperately doing it. At the same time, Philips knows that so they're desperately trying to get to market -- back to market faster too. So it's just a race between those two, if you will, and we will be the benefactor of it. I think it's important to realize that every PAP made will be put out in 2022. Every PAP made in 2023 will be put out. And probably every PAP made in 2024 will be put out.

So there's a -- and the supply chain and the chips related to that won't last forever. And when it does I think there's gonna be plenty of product and product of patients waiting for that product.

Courtney Fondufe
Okay. Thanks, guys. Super helpful.

Operator
Thank you. Our next questions come from the line of Kevin Caliendo with UBS. Please proceed with your questions.

Kevin Caliendo
Moring. Thanks for taking my call. I guess my question is around the acquisition environment. When you have these kind of pressures and supply chain issues does it limit or does it prompt you to want to slow down acquiring products? Like, does that create more of a logjam for you if you continue to buy? Or is it steady state and let's keep going and the plan isn't really for near term but for long term. Can you sort of help us think about how this impacts your acquisition strategy?

Steve Griggs
Yeah, it's definitely gonna affect our strategy. So let's say there's a provider out there that's a great provider, but they were a heavy Philips Respironics customer. So, you know I just don't think we can make a deal with them that they would accept. It would have to get very, very creative and that kind of (INAUDIBLE). And most of the smaller players out there are predominantly Philips. If you look at the market share that ResMed had, I think all the three major suppliers were well over what they were in the market share.

So that means everybody else was predominantly, you know, a Philips provider. So when you go out there and look at those, you know, we just can't do those today. So it -- if we had a great company we looked at, they're heavy Philips, I just don't see how we can make a deal that they would accept. So within that, you know, that limits us. And then, you know, we have this great acquisition that Josh is leading in Community that, you know, we feel, you know, very great about it cause it's right within our marketplace.

So I think the deals that we'll be looking at will be smaller in nature, they'll solve specific needs in specific markets. So yes, I think you could look to that. In a normal environment our acquisitions would be a lot higher than we expect em(PH)em to be in 2022. Josh?

Josh Parnes
Yeah, I mean I think like Steve said, you know, obviously Philips' heavy suppliers will be impacted in terms of both valuation and how we think about those deals in 22? Because essentially even some of the deals that we did in 21, some of those deals that had a bigger Philips kind of allocation of their business effected our total supply. So we're having to take

whatever PAPs we could get our hands on and have to allocate to those acquisitions as well. And that's why you're seeing some of the impact even in the core business is we're trying to cede some of these acquisitions that we did with products when they historically wouldn't have had had we not bought them.

That being said, you know, on the diabetes front on other kind of respiratory HME supply providers because of our wide breadth or products, we're still in the market kind of strategically looking at opportunities, geographically looking at opportunities. Definitely, you know, we have a lot to digest. I will say that. We have, you know, Community coming on and that is a hundred plus million dollar deal. You know, nice geography, presence for us up in the Northeast. So we feel really good about kind of being able to wrap our arms around that and utilizing kind of that clinical respiratory focus to grow in what's a very fast growing kind of end market at that size.

But, and I think around the country we're really looking at kind of all right, where's our geographies that we want a little bit more density. What products and teams are strategic? Are there any technologies that are embedded in any of these organizations? But I would definitely say kind of we're being more prudent and focused and also focusing internally on digesting a lot of the deals that we've done in 21. And we feel really good about being able to extract some real opportunities, you know, out of those as well that we anticipate in terms of synergies and operating efficiencies.

So we have our work cut out for us, and you're still gonna see us active. But definitely gonna be a focus to digest a lot right now.

Kevin Caliendo
Fair enough. And then can I ask a quick follow up? How should we think about cadence for the year? I mean is your expectation the backlog starts to get better? Is the year now gonna look a little bit more back half weighted because of that? Is there anything we should think about when modeling out the course of the year?

Jason Clemens
Hey, Kevin. This is Jason. The guys may round this out but in terms of the numbers, yes. I mean it's probably slightly more tilted than normal. You know, I think we talked about 22 to 23%, maybe 23 to 24% Q1 last quarter as a percent of kind of annual revenue. That probably comes off a point, maybe a touch higher, you know, due to this. Now for the rest of the business, I mean, again it's all systems go. And everything's operating as normal.

And so, you know, this sleep rental as a percent of total is certainly gonna tilt us a little bit. So again, a little lower Q1 and ramping as the year goes on.

Guys, you got anything to add there?

Steve Griggs

Yeah, I think that's right.

Kevin Caliendo
All right guys. That's been really helpful. Thanks so much for all the info today.

Operator
Thank you. Our next questions come from the line of Matthew Blackman with Stifel. Please proceed with your questions.

Matthew Blackman
Good morning everybody. Thanks for taking my questions. Just a couple for Jason. Jason, in the fourth quarter is it possible to tease out -- to get to sort of an adjusted we'll call it more normalized organic growth number? The impact of Philips and also some of the contracts you exited in early in 21, I assume those were also a headwind. Can you give us sort of a more normalized organic growth number if that's relevant?

Jason Clemens
Yeah, Matt. Sure. Be glad to. So I guess first I'd say on the exited contracts side, you'll see in our supplement we typically call out that impact from PCS. You know, that's dwindling as we expected in Q4. You know, it was probably I don't know, maybe two million, three million compression over the prior year. You might recall that was closer to between seven and eight million per quarter at the beginning of 21 because of those contracts were exited late 2020 and early 21 we're now reaching a more normalized level with PCS. So there's a couple of bucks there.

But the big picture is really on Philips. You know, we talked about a $10 million expected miss in Q4 and that ended up being about 35. And so, you know, adding that back in yeah, you're gonna be at a more normal upper single digit, you know, call it seven to eight percent organic growth if you make that adjustment. I mean, you know, again, we think it's prudent to expect closer to four overall for 2022 and certainly if that changes we'll provide that update.

Matthew Blackman
I appreciate that. And then just on the guidance ranges and mostly on the EBITDA range, is Philips sort of the toggle that gets you to the upper or to the lower bounds or is there some other elements that push it one way or the other that we should be keeping an eye on? Thanks.

Steve Griggs
Yeah, that's the right way to look at the toggle. I mean, I think some may look at say well gee, your margin's coming off so much. You know, are you contemplating a, you know, a material cost out initiative or something like that? And our response is we are not. I mean, we know how to do that. I think we've demonstrated that in the turnaround of PCS and just other cost down initiatives we've run over the years here.

But, you know, the reality is as PAPs come we're not gonna have -- we're not gonna have enough people. We're not gonna enough bodies, enough trucks, enough, you know, of everything we need to meet the demand that Steve talked about. And so we think the right thing to do for this business is hold firm. You know, keep the trains running and do what we do every day taking care of patients and, you know, wait this out.

I mean, that's our view. So, you know, as we get late in the year, if, you know, there's further disruption outside of what we're already thinking, you know, would we contemplate something like that? Sure. But we just think where we are we're gonna need a lot more of everything we've got it if these PAPs come through.

Matthew Blackman
Got it. Thank you.

Operator
Thank you. Our next questions come from the line of David Common with J.P. Morgan. Please proceed with your questions.

David Common
Yeah, good morning all. Thanks for the question. I'm doing sort of updates and ticking and tying to your new commentary this morning. Wanted to go back to your traditional metric of EBITDA minus patient CapEx. I see the total CapEx is wrapped around I think $300 million. But I wondered if you could comment on whether we could use sort of a subset of that as patient CapEx or maintenance CapEx that's more sort of apples to apples than the whole 300.

Jason Clemens
Hey, David. Sure. So, you know, I'll point you to the press release that came out this morning, the statement of cash flows. You'll see the purchases and other fixed assets at 203 million. And in addition I don't think we have it in the press release but you'll see it in the K and then every time we produce statement of cash flows. There's a bit of a supplement at the bottom that'll call out equipment that was acquired on leases. That was -- been about 23 million through Q3. So I'd really add those numbers together, call it two and a quarter maybe 230.

You'll also note when the K drops, we had zero dollars of equipment acquired through leases. You know, we're really ceasing that activity. You know, one, it was just part of some deals that we cut at the manufacturer level earlier in the year. And secondly, we just think it's gonna provide a much cleaner view of free cash flow. You know, so overall that's the two and a quarter maybe 230. And then in terms of kind of maintenance versus growth, I mean, we generally run about a point. So we're guiding 10% of revenue in terms of CapEx for 2022.

So nine percent of that would be from patient equipment and call it about another point from non-patient equipment.

David Common
Okay. And even of that nine percent it seems to be an uptick versus -- well it just seems to be that there's some non-maintenance in there. I'm not trying to squeeze every last dime out, but to the extent that you can comment on how much that might be supporting growth or maybe I'm misreading it.

Jason Clemens
No, I don't think you're misreading it at all, David. I mean, some of this is what we're seeing in terms of free forwarding and surcharge activity and just the cost to acquire these units. That is increasing. Now in some (INAUDIBLE) we've got this, I mean, we technically get a benefit on CapEx if we're putting out less PAPs. I mean I, you know, we're not happy about that because we wanna put out more PAPs. But, you know, there's a little bit of noise in there.

But, you know, in general we're just seeing surcharges, freight forwarding impacting that line which is why we brought it up a point last quarter.

David Common
Very good. Thank you.

Operator
Thank you. Our next questions come from the line of Ben Hendrix with RBC Capital Markets. Please proceed with your questions.

Ben Hendrix
Thank you. Hey guys, just wondering if you could briefly go into a little more detail on the Community Surgical Acquisition and kind of the impact on business mix and kind of what that acquisition looks like with regard to the charge you have on page four? Thanks.

Josh Parnes
Hi, yeah. This is Josh. I'll take that. So, Community Surgical's really a kind of clinical respiratory program that focuses on oxygen, ventilation, sleep, and also full service HME. They also have a nice amount of VA business in a couple different (INAUDIBLE), which we feel is potentially attractive for us to be able to grow into and learn that model.

You know, what's nice about that business is that there's a lot of kind of cross pollination opportunities with a lot of our existing business in the Northeast. And, you know, that's from a business mix perspective I'd say it's skewed respiratory. Again, you know, some sleep but also ventilation. They have a very nice ventilation business and they have a very nice kind of oxygen business.

So, you know, good growers there, good opportunity we think for us on both the sleep side once we exit the Philips challenges and kind of the sleep resupply side but also there's an opportunity to take that high end kind of clinical respiratory expertise and pollinate it across the rest of Adapt over the next couple of years. But generally kind of really good talent, really good team there that can help us scale. So, you know, we're excited about it.

Ben Hendrix
Thank you.

Operator
Thank you. Our next questions come from the line of Richard Close with Canaccord. Please proceed with your questions.

Richard Close
Yeah, thanks for the questions. Josh, you mentioned some technology offsetting some of the labor wage pressures. You know, you also mentioned the enterprise tracking system and the rollout of ERP. How are those factored? Is there any benefit associated with those systems here in 2022 factored into the guidance?

Josh Parnes
Sure. I mean, I think what we're seeing is generally I would say more things coming to mark, coming to operational capacity after, you know, some investment in 21 and 20 both, you know, in the AeroCare delivery system and technology system that we had as well as some of the Adapt revenue cycle management systems that are not only being upgraded to support, you know, multi-billion dollar organization but also how do we scale this thing further.

And what you're seeing I think, you know, we didn't bake it necessarily into the numbers but I think we generally think about these things as offsetting labor increases. As labor potentially tries to creep up our operational technology kind of brings more efficiencies which brings labor down in line. Which I think, you know, is a hidden benefit to kind of what our business model is is that it's not extremely exposed to labor increases, because it is inherent opportunity for more efficiencies in what we do, particularly the back office revenue cycle management, claims processing, customer engagement type of technologies which are going kind of more digital and more automated.

And kind of we're at the forefront of that and I think we're benefitting from being able to offset some labor dollars with that. But generally we didn't bake it into any of the guide with that. But, you know, Jason has, you know, I'll ask Jason to give a little more color.

Jason Clemens
Sure. Hi, Richard. So, you know, I'd add here that what we're seeing as we exit 21 is the full integration of technology across the company. And so we're seeing that across the revenue cycle platform. We've got common revenue cycle platform now. We fully integrated it. We talked about in Q3 the conversion activity that, you know, DSOs were up probably five, six days.

And as we said, we expected to add some -- to normalize as we exit Q4. You'll note in our financials, I mean, DSOs are back down four days. And correspondingly, the cash is flowing in as we expected. We're running a touch over five percent of revenue. And, you know, that will continue to increase.

Secondly, we're on a common HCM or HRIS platform for human capital. Single platform for every employee in the company, you know, 11,000 plus. And then finally, Oracle is fully live and enabled at, you know, all 750 plus locations. You know, as we stand here today requisitions are being placed there electronically. You know, POs are getting matched electronically. It's all flowing downstream and it, you know, payments go out electronically. I mean it's just a new day in the company in terms of the way we work, particularly in the back office.

And so that's really going to show itself in cash flow and the generation of cash flow over the course of 2022. You know, I'd say that between the CARES repayment and the cost to achieve the synergy that we talked about previously, we had pegged that at $20 million, you know, we're looking at 70 million plus of cash that would have been generated in 21 as you hear in my prepared remarks. I mean, you know, pushing 150 is what that number would have been without the cost to achieve and without the CARES recoupment.

So now as we're looking at Q1, Q2 there's a remaining 13 million that'll go out as part of CARES recoupment. And that'll be done and final. So that'll be non-recurring, won't deal with that again. And probably about another 10 million or so as we get Oracle finalized, some just general costs in insuring that we start extracting the value from these investments. And as we lap that, you know, you're gonna see cash flow, you know, a huge focus of the company will be reporting it out every quarter.

We think it's just such a core, you know, important part of our business that, you know, frankly was misunderstood in 21 due to all the ins and outs. So it's hard to blame anybody for that cause there are a lot of ins and outs. But as we stand here today we feel great about the investments we've made and about where we're heading.

Ben Hendrix
Okay. Appreciate that. And then my final question would be on the value based care programs. I think the number was like 50 million. Can you just walk us through, you know, your exposure on value based care there, where you expect that maybe to go over time? And then just sort of the economics associated with that as compared to, you know, regular business.

Jason Clemens
Sure. Yeah. So the number we threw out there was 50 million. It's probably somewhere between 50 and 100 right now today. And essentially what those programs do is with a plan kind of taking their full kind of HME respiratory and supply spend and then, you know, saying hey we're spending X number of dollars a year, we want to either PM it or we want to give you

the whole book of business and what could you underwrite it in terms of outcomes, in terms of patient satisfaction metrics and delivery times and different product mixes and things like that.

So, you know, that -- I'd say we're well into it. And essentially over the last year we spent some time on it. We're engaging with a number of payers across the U.S. and some different geographies that we operate in. And essentially what it does is it allows us to take cost out for the plan and essentially because we are, you know, our product mix is really everything from supplies to respiratory to ventilation to custom rehab we have a lot of capabilities to be able to offer plans sort of whatever flavor they want in terms of being able to take cost of if some plans wanna focus on, you know, improved customer satisfaction metrics, delivery times.

You know, every plan is obviously different so this is not a one size fits all situation. But what we believe is obviously being an efficient and low cost provider and being able to do these products in the home as what we mentioned, the last mile delivery, plus we have a lot of connected devices such as CPAPs, CGMs, and ventilators that are connected through cellular modem, those allow us to be able to help drive outcomes in patients at a lower cost.

Cause essentially we have the existing pipes into these patients' homes. We have existing relationships with the patients. We have existing relationships with the doctors, with the health plans, with the health systems that they came out of. So we sit at a very important crossroads between all these stakeholders in the healthcare continuum. And we feel like we're uniquely positioned to be able to not only take costs out but also be able to provide a better outcome over time.

So that's a core focus of what we're gonna do. We're gonna spend time on it. We're gonna spend investment in it both from a technology and a human capital perspective. You know, is that something that we're baking into 22 guidance, no. But we do believe that as we figure that out it could gain traction, you know, in the coming years, like, pretty quickly. So we're excited about it but, you know, we're not thumping our chests yet.

Ben Hendrix
Okay. Thank you.

Operator
Thank you. There are no further questions at this time. I would like to turn the call back over to CEO Steve Griggs for any closing comments.

Steve Griggs
Yeah. Thanks to all for your interest and your continued support and we look forward to updating you as things progress throughout the year. Appreciate it. Have a great day.

Operator

This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.