NOT JUST A ROLL-UP, BUT A COVERUP: IS AHCO THE NEXT MDCA?

We believe that AdaptHealth (AHCO), a roll-up of roll-ups with excessive debt, is deceiving the investor community via its financial reporting practices. While management claims (and consensus estimates reflect) an organic growth trajectory of 8-10%, **AHCO is in fact experiencing double-digit organic decline. It is also, in our opinion, taking steps to obscure that decline which are expressly forbidden by the SEC.**[i] This may explain the recent departures of the CFO, CSO, CTO and CEO, and a major (but quiet) stock sale by that CEO.

Of course, when asked for detail on its vague organic growth claims, management says that it is too "difficult" to calculate and "we don't follow…the traditional organic growth view[ii]." But you can calculate it, and we did. The truth is that this business is falling off a cliff, and management began its worst obfuscations just as the decline accelerated.

The setup to short AHCO here reminds us of an earlier rollup that played games with organic growth and ended up nuking shareholders before being charged by the SEC: MDC Partners (MDCA). MDCA's stock fell precipitously as its CEO got into trouble and stepped down in 2015. Most investors likely thought that was the bottom for MDCA. But the stock then fell another 80% after the resignation price shock, over the following year, and MDCA was investigated and then charged by the SEC for secretly changing its organic growth calculations. AHCO is following a similar path, including the timing of its CEO's departure.

With its biggest conceivable acquisition now months behind it, the upcoming end of a special disclosure holiday, and the recent departure of its CEO due to an indictment for operating a tax fraud, organic growth results will be the focus going forward. **If the new CEO is smart, he'll throw the old CEO under the bus, reset expectations to a sane level, and stop the misrepresentation.** We would expect the new CEO to act in this way to preserve his career, even though it would mean the stock getting de-rated as the truth comes out.

(In fairness, perhaps the new CEO is the guy to find creative ways to manufacture growth. After all, he presided over Rotech Medical for the entire five years during which the DOJ alleged a massive Medicare fraud there. Charges include defrauding the government by overbilling, forging documents, and filing claims for the dead.[iii])

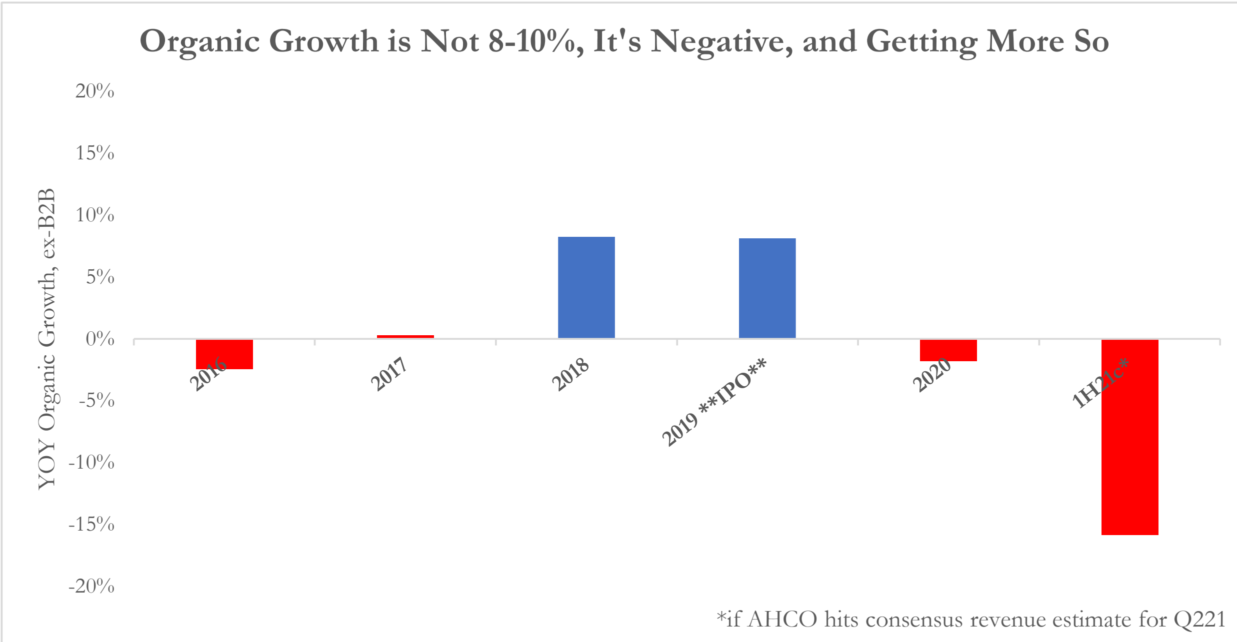
In our research, we spoke with former AHCO executives. One said the M&A process was a "barn fire," and the overall business is a "house of cards." Another described an unsustainably aggressive push to pile up assets using excessive leverage. One said that management had "no f**g clue" what organic growth was.

We also love the sentiment setup for this short: Only 4% short interest/float, and every single sell-side analyst has a Buy rating on AHCO (8 out of 8).

We have alerted journalists, AHCO's auditors, and other interested parties to our findings. We invite interested parties to contact us with questions at www.jehoshaphatresearch.com.[1]

[1] *Please see our Disclaimer at the end of this report before reading. This entire report consists of our opinions as outsiders of the company. We are, obviously, short AHCO. You can reach us at www.jehoshaphatresearch.com or follow us on Twitter: @jehoshaphatrsch.*

EXECUTIVE SUMMARY



Organic Growth Went from Sluggish to Awful, so Management Covered it Up:

- **Over the past five and a half years, actual organic growth has averaged not 8-10%, but rather ~0%. Recently, it's cratered to double-digit negative.**
- AHCO claims on its earnings calls that it had 6% organic growth in FY20 and that this accelerated to 12% in Q121. The Street accepts this characterization fully, and projects 8%+ organic growth going forward. But nowhere does management provide investors with numeric inputs for these numbers.
- In Q420 alone, organic revenues *declined* by more than -$20m year-over-year.[iv]
- AHCO recently took highly unusual steps to make it harder for investors to see organic growth. Some of these include:
  - Failing to disclose contributions from all acquisitions on a quarterly basis (even meaningful ones)
  - Offering its own organic growth "estimate" with no quantitative inputs available and confusing wording
  - Changing organic growth calculations without disclosure
  - Retroactively changing the organic number without disclosing such change[v]
  - Removing certain inorganic contribution disclosures from one SEC filing to the next, etc.

  We believe that some of these actions are prohibited by the SEC's rules on non-GAAP disclosures.
- We don't think it's a coincidence that management decided to take its organic growth disclosure from "translucent" to "totally opaque" in 2H20: this was just as true organic growth was going from negative to *very* negative. This was also when they decided to do their biggest deal ever[vi], and to set up the company for an exit of the CEO.

The Game Ends This Year:

- After AHCO loses its EGC status under the JOBS Act on December 31, the company will for the first time have its internal controls properly audited by an outside firm. This tends to drive increased disclosure of inorganic inputs.
- AHCO's roll-up strategy has masked its organic decline but requires the company to buy progressively more in larger amounts. As the gigantic Aerocare deal laps in Q122, the organic growth decline will become obvious to everyone.
- We expect the new CEO to tread lightly and be more discriminating with shenanigans in the "barn fire" he inherited.
- Forward earnings estimates are also Herculean for AHCO. The Street is implicitly modeling YOY organic growth exiting 2021 at approximately +13%. Thus, a massive re-acceleration is required to hit year-end 2021 numbers.

Former Employee Interviews Confirm Our Findings of Misrepresentation:

- Our key findings above were consistent with what former employees told us in interviews. Former executives described a chaotic, understaffed business, failing to do substantial M&A diligence in a race to accumulate assets.

- One interviewee said that the company's M&A department was "like a barn fire. There were two acquisitions happening a month. They didn't have the ability to disaggregate [organic growth], trust me. They had no f****ng clue. There was no concept of what organic growth actually was." He described the overall company as a "house of cards."
- One common refrain was disbelief at the idea that this business grows meaningfully faster than GDP.

A Levered Rollup with Anemic FCF and Low ROIC, Touting Stupidly "Adjusted" Numbers:

- Bulls ignore financial analysis so they can make the case that AHCO is a great business led by a brilliant team of executives and technologists. But just calculate the company's ROIC: at about 3%, it's well below its cost of capital.
- Free cash flow is embarrassingly low for AHCO: $75-80m in 2020, pro forma for Aerocare. The stock trades for 43x FCF (and much higher with EV/FCF). This level of FCF also leaves little ability for AHCO to de-lever naturally.
- Management likes to point to a fanciful "Adjusted EBITDA Less Patient Equipment Capex" as a clever proxy for free cash flow. "Adjusted EBITDA" for this business – a business that frequently does M&A, lays off acquired workers, and taps the debt markets – excludes costs related to M&A, layoffs, and tapping the debt markets. Its Patient Equipment Capex number understates actual cash payments for equipment.
- A more realistic "Adjusted EBITDA Less Capex" calculation yields only $77 million (which is 59% lower than management's given number). Enterprise value is over $5 billion. This business is insanely and dangerously levered.

Senior Executives Are Bailing:

- We count four C-level executive departures in the past year. Only two of these were disclosed publicly. How many executives must leave a company in the same 12-month period before it's considered alarming?
- The former CEO just sold $21m of his personal holdings of AHCO last month. This was not filed on EDGAR because the CEO is no longer an employee. The evidence exists in a paper filing at the SEC's reading room.[vii] The CEO did this only days after he was out of the spotlight as CEO (during which time the sale would have been publicized in a Form 4 filing).
- The AHCO CEO offered Aerocare $1.2-$1.3bn to acquire it. The Aerocare CEO countered with $2.0-$2.5bn.[viii] The transaction ended up closing right where the Aerocare CEO countered. Was the AHCO CEO so desperate to buy Aerocare that he wasn't price-conscious at all?

To touch on valuation: The best public comp to this business is Apria (APR), a direct and named competitor in AHCO's 10-K, though not a rollup. APR is substantially less levered[ix], and unlike AHCO it has grown FCF every year for three straight years.[x] Yet, APR trades at a fraction of the multiples of FCF[xi] and earnings[xii] that AHCO does, and at a substantial discount on an EV/EBITDA basis as well[xiii]. If AHCO merely traded at parity with this pure comp on NTM EV/EBITDA (6.5x vs. 8.5x), it would be a $12 stock, for >50% downside.

And pure-comp APR's organic growth? Low single digits.[xiv]

TABLE OF CONTENTS

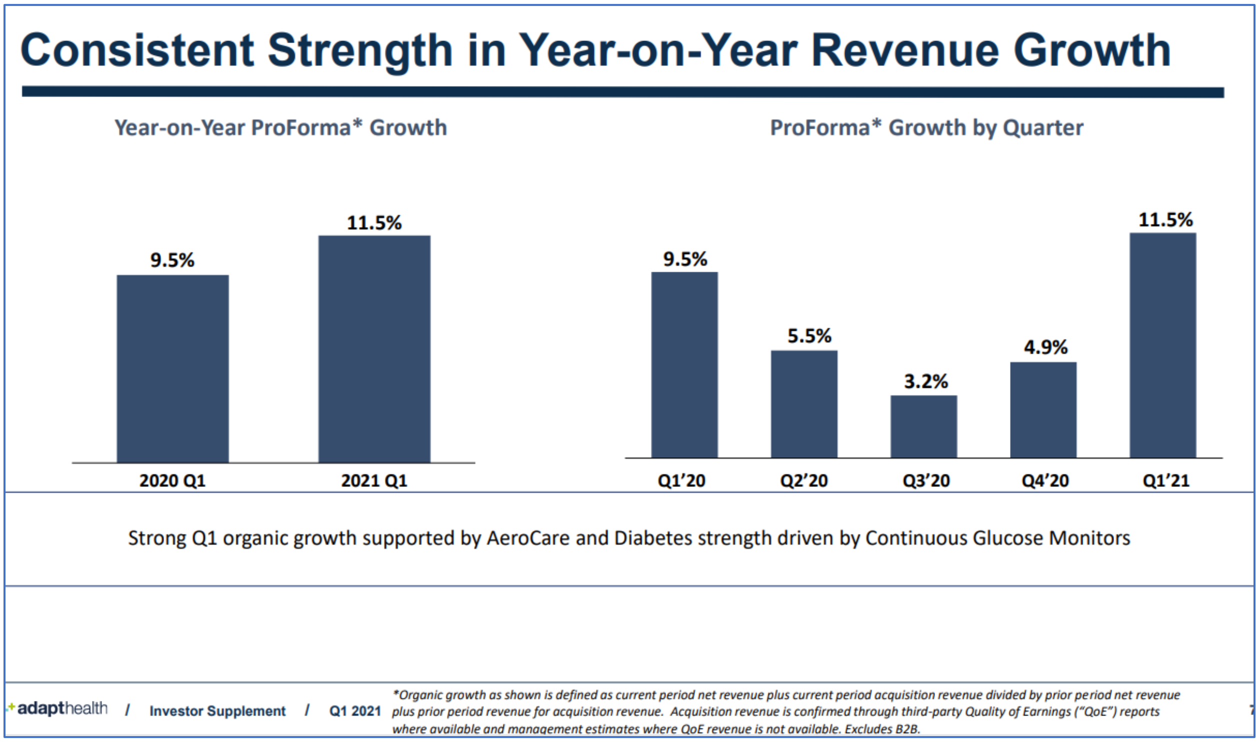
QUICK COMPARE: MDCA VS. AHCO

	MDCA	AHCO
Roll-up	√	√
Heavily leveraged	√	√
Key man out	√	√
Poor EBITDA quality	√	√
Manipulated organic growth metric	√	√
SEC investigation	√	TBD
Stock crash beyond CEO exit impact	√	TBD
Exiting CEO facing personal charges	√	√

AHCO'S ORGANIC GROWTH IS DEEPLY NEGATIVE, BUT OBFUSCATED BY ACCOUNTING GAMES

a. What AHCO says its organic growth is (8-10%)

Pull up the last quarter's financial supplement from AHCO's website[xv] and you'll find a generally strong organic growth rate represented, with an especially impressive Q121 against a remarkably strong Q120 comp:



AHCO indicated its expectations for similarly impressive organic growth in 2021 and 2022 at the Jefferies Healthcare Conference on June 2, 2021:

"*…we're still confident with 8 to 10 organic growth in this year and right now we see similar, if not the same in future and for 2022 as we get closer to the year end, I'm sure we'll update that.*"

And of course, the analyst community dutifully accepts this guidance, modeling 8%+ organic growth in the years to come. All currently known acquisitions will have been lapped by the second half of 2022, and analyst convention is to model future revenues without assumed acquisitions:

AdaptHealth Corp Periodicity Quarterly Source Standard Currency USD

Measure Revenue

	2018	2019	2020	2021	2022	2023
Q1 Mar	--	--	191.44M	482.12M	616.80M	717.00M
Q2 Jun	--	--	232.12M	575.44M	630.75M	716.00M
Q3 Sep	--	--	284.40M	601.22M	651.00M	753.00M
Q4 Dec	--	149.54M	378.43M	640.22M	686.75M	812.00M
Year	--	529.64M	1.06B	2.30B	2.61B	2.94B
Cal Yr	--	529.64M	1.06B	2.30B	2.61B	2.94B

1) YoY % Growth 2) PoP % Growth

		2019	2020	2021	2022	2023
Q1 Mar	--	--	--	152%	28%	16%
Q2 Jun	--	--	--	148%	10%	14%
Q3 Sep	--	--	--	111%	8%	16%
Q4 Dec	--	--	153%	69%	7%	18%
Year	--	--	99%	117%	14%	12%
Cal Yr	--	--	99%	117%	14%	12%

(Fiscal Period: Reported, Estimated)

We believe that the Street is unwittingly modeling approximately 13% YOY organic growth exiting 2021 as well. The Street models $640m of revenues for that quarter, which compares to $345m of ex-B2B net revenues for Q420 (Bloomberg's Q420 number above is wrong). That's an increase of $295m. AHCO has only purchased companies with revenues of about $225m quarterly in Q121, and about $26m quarterly so far in Q221 (our estimate for Spiro), or $251m in total.

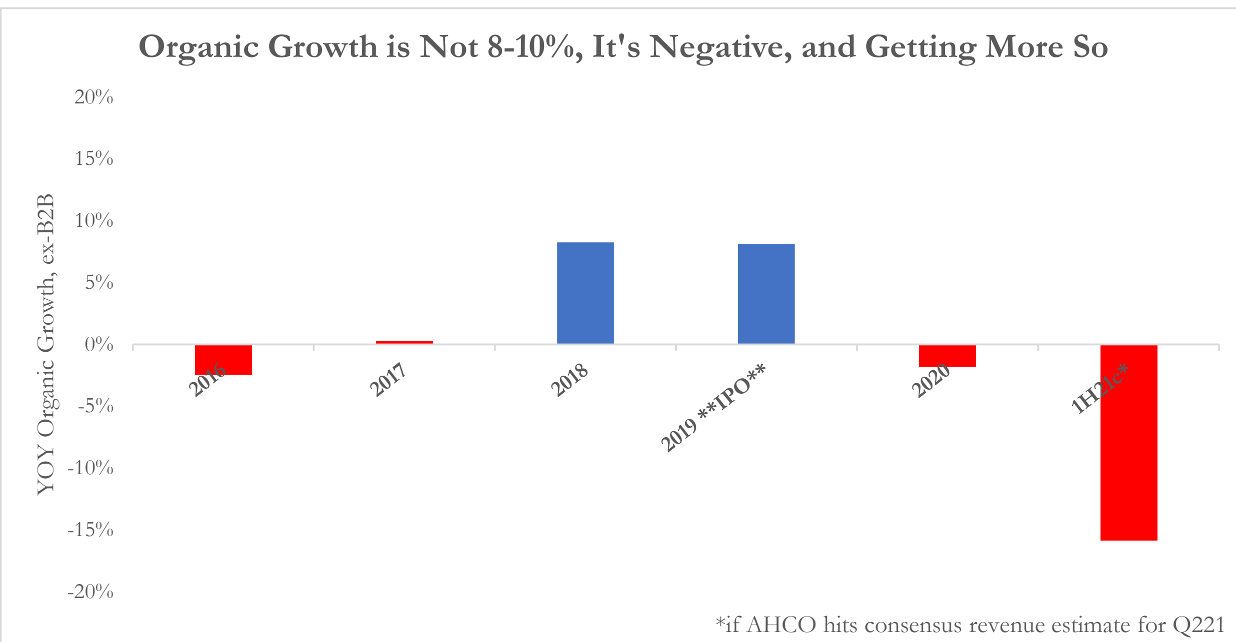
This implies that the Street is expecting roughly $44m of quarterly, YOY organic revenue growth in Q421, given Wall Street's convention of not modeling future acquisitions. This would represent a truly massive acceleration of currently negative organic growth, obviously.

Because AHCO just did a massive deal, far larger than anything it has ever bought before, the organic growth rate of the company is going to become even more important than it already was. This is because the company cannot realistically expect to maintain its *inorganic* growth rate anywhere near what it has been. Understanding the real organic growth of AHCO is important for any investor to begin with.

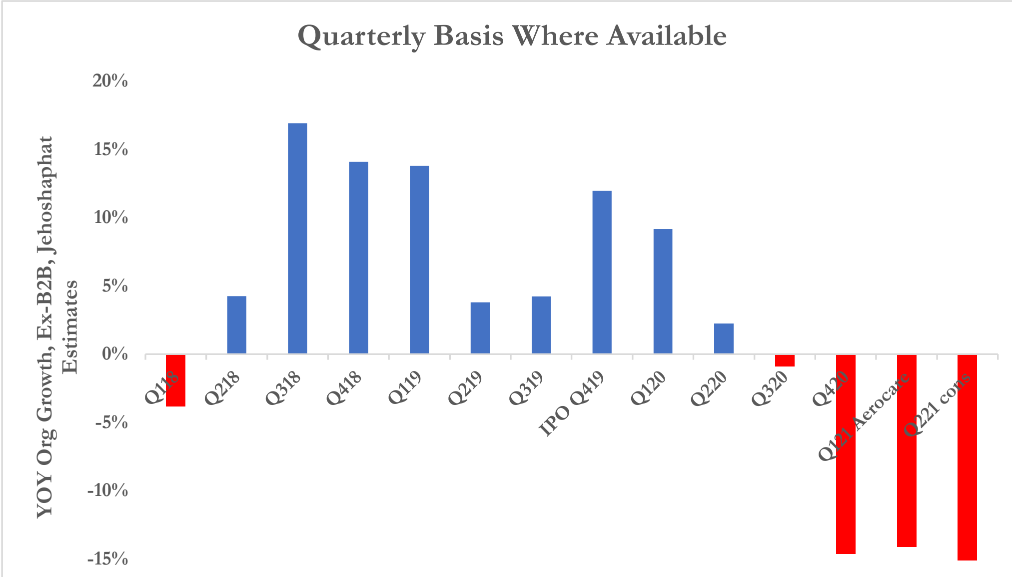
So what would it mean if AHCO's organic growth were actually negative, but the company were actively hiding that fact and investors were buying the story?

b. What AHCO's organic growth actually is (around zero, and -14% in recent quarters)

Restated for convenience, the chart from our Executive Summary section showing our independent calculations of organic growth appears here. We will elaborate in detail on our calculations shortly.



While we have annual revenue information going back to 2015, we have quarterly information for a limited historical period as well. We think a quarterly calculation is especially illuminating in one key respect: it highlights how the company's organic growth surged in late 2018 and 2019, just before the IPO, but faded after and has been downward since:



(Note that in this second chart, we include the Q221 consensus-estimated period as well. This represents what organic growth should be if the company hits the consensus revenue bogey, based on our estimates of inorganic contribution.)

We can pick different time periods over which to average these organic growth numbers, but they're consistently averaging in the low single digits (at best), and they're trending in the wrong direction.

c. How AHCO obscures its organic growth

Below is the list of tricks we think the company has employed to make what should be a simple process – removing inorganic contribution from year-over-year revenue growth to work out organic growth – into a nightmare.

- **Retroactively changing past organic growth numbers to be higher, with no disclosure about the change. (We believe this is illegal. This practice has resulted in charges from the SEC at MDCA.)**
- **Reducing disclosures on M&A contributions/removing complete contributions.**
- **Offering no quantified disclosure whatsoever on inputs into "organic growth" as defined by management.**
- **Understating upcoming inorganic contribution in order to boost apparent organic growth.**
- **Dodging the question when asked directly for organic growth information.**

Let's look more closely at each.

- **Retroactively changing past organic growth numbers to be higher, with no disclosure.**

Look at these three snapshots from the Q120, Q220, and Q320 earnings calls, and then at the slide that follows, which is from the Q420 financial supplement presentation (it did not appear in presentations before Q420).

<u>Q120 earnings call gives organic growth of approximately +8%:</u>

> Thanks, Luke.
>
> During the first quarter of 2020, we generated net revenue of $191.4 million; that's a 60% increase over the first quarter of 2019 and it's 28% higher than the fourth quarter of 2019. This includes $33.9 million of net revenue from PCS. For quarter, organic growth was at the high end of our previous guidance of 6% to 8%. In particular, CPAP resupply sales were quite strong, as were respiratory

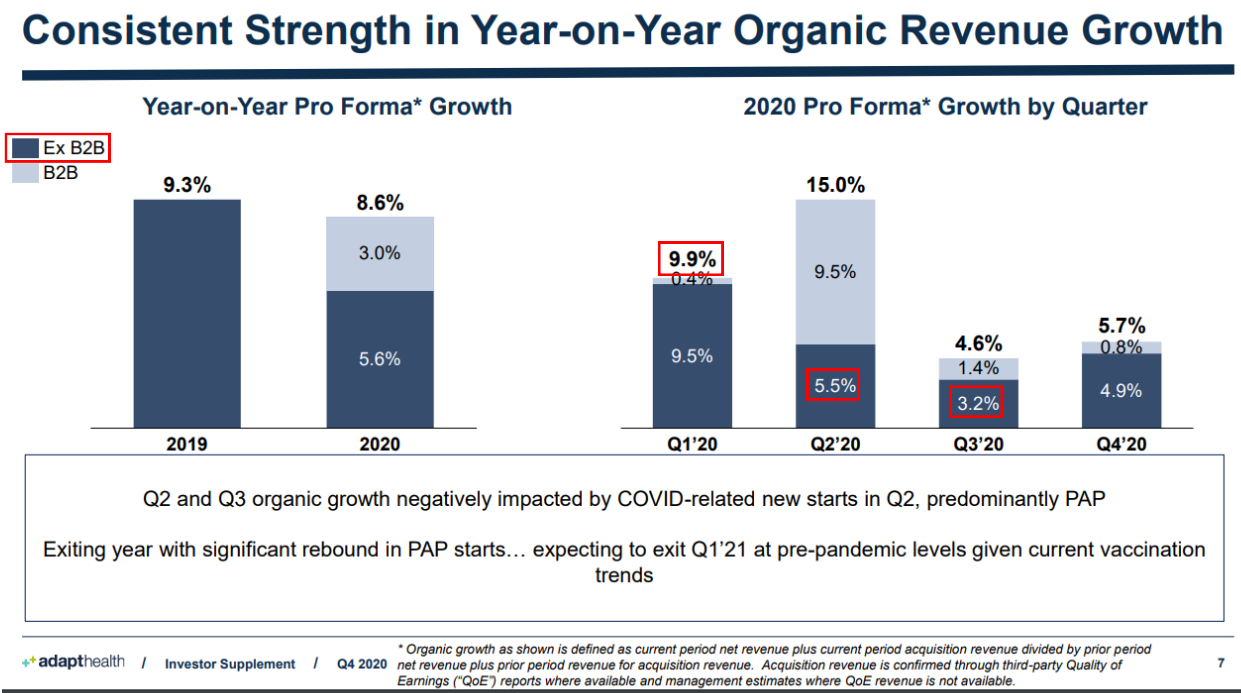
<u>Q220 earnings call gives organic growth of +2%, excluding temporary crisis B2B sales:</u>

> **Q - Mathew Blackman** {BIO 18960309 <GO>}
>
> Good morning, everyone. Thanks for taking the questions. Maybe Gregg, just to start. What was organic growth in the quarter? And what's roughly implied in the updated full-year guidance for organic revenue growth?
>
> **A - Gregg A. Holst** {BIO 15340210 <GO>}
>
> Yeah. So well, so for the quarter organic growth was extraordinary because of the B2B revenue, so was an excess of 25%, if you excluded B2B with the weakness and some of the related to COVID, the organic growth was a couple of percent -- 2%. And then for going forward we've essentially projected the kind of the same very steady amount of new business as [ph], and kind of a lower level because of COVID.

<u>Q320 earnings call gives organic growth of +1%:</u>

> **Q - Mathew Blackman** {BIO 18960309 <GO>}
>
> Okay. That's really helpful. And then maybe, Jason, do you have handy what you guys think the organic growth number was in the quarter and I just have one follow-up.
>
> **A - Jason Clemens** {BIO 21361708 <GO>}
>
> The organic growth for the third quarter was a little over a point. So in the face of COVID, I mean, we're actually pretty pleased with those results, as you've heard in our prepared remarks. Starts, particularly around sleep are coming back, as you know, there is a bit of a compounding effect on that. So as Q2 hit in the midst of COVID and starts were down materially, there is a compounding effect of that, that we're in the middle of. That we're starting to see flow through going in a positive direction.

But then the slide deck below paints a different picture – and we are left wondering, How did AHCO find several points of organic growth retroactively, and why isn't this change disclosed?



Apparently in Q420, AHCO's management discovered that time travel can be lucrative (perhaps they watched *Timecop*[xvi]?), so they went back and changed history:

- Q1 organic growth went from 8% to 9.9%
- Q2 went from 2% to 5.5%
- Q3 went from 1% to 3.2%

Q2 and Q3 transcripts both mentioned the number being ex-B2B. Q1 did not mention this distinction, as B2B, or emergency sales of respiratory equipment during the hospital crisis, was not a major factor yet.

(According to one former employee, "Luke knew what he was doing. He was going to push this to the limits of the envelope." Changing historical growth numbers fits the characterization painted by formers.)

Doubling or tripling your historical organic growth rate by waving a wand is nice work if you can get it. We were unable to find any disclosure to investors of the fact that these organic growth measurement numbers had been changed. **Management still has never quantified the inputs for either the old or the new numbers.** (The only change has been the addition of this "Consistent Strength in Year-on-Year Revenue Growth," which by the way is an insanely ironic title.)

To our knowledge this is a blatant violation of non-GAAP disclosure rules, for which companies get into huge trouble. Longtime followers of US stock frauds will remember MDC Partners (ticker MDCA), a company whose CEO was eventually banned for five years from serving as an officer or director of a public company, and which cost its shareholders over 90% of their investment in a relatively short period of time as the rollup's fraud unraveled. In 2017 the SEC brought charges against MDCA, in part for violating rules that sound pretty relevant here[xvii]:

*The SEC's order also finds improper use of non-GAAP measures, which are allowed under SEC rules to convey information to investors that a company believes is relevant and useful in understanding performance. But non-GAAP measures must be accurate and must be reconciled to the appropriate GAAP measures so investors and analysts can compare them. According to the SEC's order, MDC Partners presented a metric called "organic revenue growth" that represented the company's growth in revenue excluding the effects of two reconciling items: acquisitions and foreign exchange impacts. **But from the second quarter of 2012 to year end 2013, MDC Partners incorporated a third reconciling item into its calculation without informing investors of the change, which resulted in higher "organic revenue growth" results.** MDC Partners also failed to give GAAP metrics equal or greater prominence to non-GAAP metrics in its earnings releases.*

See for yourself – use a document search program to look for the word "organic" in Q420 SEC filings, earnings calls, or presentations from AHCO. Do you see any mention of retroactive changes to organic growth, or to its methodology? Neither did we!

- **Reducing disclosures on M&A contributions/removing complete contributions.** This one might not be illegal, but it's shady, and it makes calculating organic growth harder.

In 2019's 10-K, the MD&A section says simply that "acquisitions" increased revenue that year by a certain amount:

Net Revenue. Net revenue for the year ended December 31, 2019 was $529.6 million compared to $345.3 million for the year ended December 31, 2018, an increase of $184.4 million or 53.4%. The increase in net revenue was driven primarily by acquisitions, which increased revenue by approximately $156.3 million. The remaining increase in net revenue was attributable to organic growth resulting from demographic growth in core markets and CPAP resupply sales and marketing initiatives. For the year ended December 31,

But in 2020's 10-K, the exact same section modifies "acquisitions" ever so slightly with three words: "completed during 2020":

Net Revenue. Net revenue for the year ended December 31, 2020 was $1.06 billion compared to $529.6 million for the year ended December 31, 2019, an increase of $526.7 million or 99.5%. The increase in net revenue was driven primarily by (i) acquisitions completed during 2020, which contributed net revenue of $450.2 million during the year, (ii) organic growth resulting from stronger CPAP resupply sales and demographic growth in core markets, and (iii) net revenue of $36.5 million from referral partners and healthcare facilities in support of their urgent needs for ventilation and oxygen equipment for

This is a huge change. Here's how this works:

- ✓ When a company is describing impacts on its revenue growth in Year 2, any acquisition that closed after January 1st of Year 1 will have an impact on Year 2 growth (because it has not fully "lapped" until 365 days after closing).
- ✓ 2019's 10-K is describing the impact of 2018 and 2019 acquisitions on 2019 revenue growth…
- ✓ …but 2020's 10-K omits the impact of 2019's acquisitions and only shows 2020's.
- ✓ **This change reflects an intentional action on the part of management to start hiding the impact of total inorganic contributions.**

There is no way that 2019-only acquisitions could have contributed $156m to 2019's revenues.[xviii] Therefore, in the 2019 10-K, AHCO was clearly referring to both 2018 and 2019 acquisitions when describing inorganic growth, which was the right way to report inorganic growth for 2019. AHCO then changed the language in the 2020 10-K, which was an intentional, material reduction of necessary disclosure.

This change doesn't just affect the annual reporting, either. We looked at the 10-Qs and found that the old method was in place through Q320, then changed in the 10-K and remained in place in Q121.

The Q320 10-Q showing the old, normal method:

> ***Net Revenue.*** Net revenue for the three months ended September 30, 2020 was $284.4 million compared to $136.5 million for the three months ended September 30, 2019, an increase of $147.9 million or 108.4%. The increase in net revenue was driven primarily by (i) acquisitions, which increased net revenue by $146.2 million, (ii) organic growth resulting from stronger CPAP resupply sales and demographic

And the Q121 10-Q showing the new, less-informative method:

> ***Net Revenue.*** Net revenue for the three months ended March 31, 2021 was $482.1 million compared to $191.4 million for the three months ended March 31, 2020, an increase of $290.7 million or 151.8%. The increase in net revenue was driven primarily by (i) acquisitions completed during the three months ended March 31, 2021, which contributed net revenue of $142.6 million during the period, (ii) net

AHCO's management is taking strikingly aggressive steps to keep investors from seeing its organic growth (actually, organic decline), while at the same time providing their own "estimate" of organic growth. The estimate is backed by nothing anyone can validate and it is unlike virtually all other acquisitive, public companies.

- **Offering no quantified disclosure whatsoever on inputs into "organic growth" as defined by management.**

It would be one thing if AHCO merely provided (incomplete) information about acquisition contributions and let investors do their own analysis to compute organic growth. In fact, management actually provides its own organic growth metric as a Key Performance Indicator, or "KPI," as we've shown above…it just doesn't show you how it gets there, and the results make no sense.

Careful readers may have noticed the fine print on the investor presentation slide above, which reads:

> *Organic growth as shown is defined as current period net revenue plus current period acquisition revenue divided by prior period net revenue plus prior period revenue for acquisition revenue. Acquisition revenue is confirmed through third-party Quality of Earnings ("QoE") reports where available and management estimates where QoE revenue is not available. Excludes B2B.*

We have been doing forensic analysis for a long time, but we have never seen an organic growth disclosure quite like this:

- "[P]rior period net revenue plus prior period revenue for acquisition revenue" is not a typo on our part; maybe it's a typo on their part, or maybe it's intentionally confusing.
- They have to confirm their acquisition revenue through Quality of Earnings reports? They don't just have it?
- They have to estimate their acquisition revenue if someone else doesn't give it to them?
- Why is organic growth defined differently in the first place? (The traditional definition of organic growth is simple: The revenue growth you would have had if you hadn't done any acquisitions.)

And anyway, have you ever seen a company that had so much room for error in estimating its own historical organic growth, that it needed such disclaimers about third-party reports and estimates?

But the most important thing missing from this word salad is *the numbers*. The least they could do would be to have a footnote listing all the acquisitions they're subtracting, or even the aggregate numbers from each period. What's even worse is that prior to Q420, there was apparently no disclosure whatsoever about organic growth – not in writing anyway. The slide with the word salad didn't exist until Q420; organic growth was given on earnings calls, with no explanation on those calls of how it was calculated.

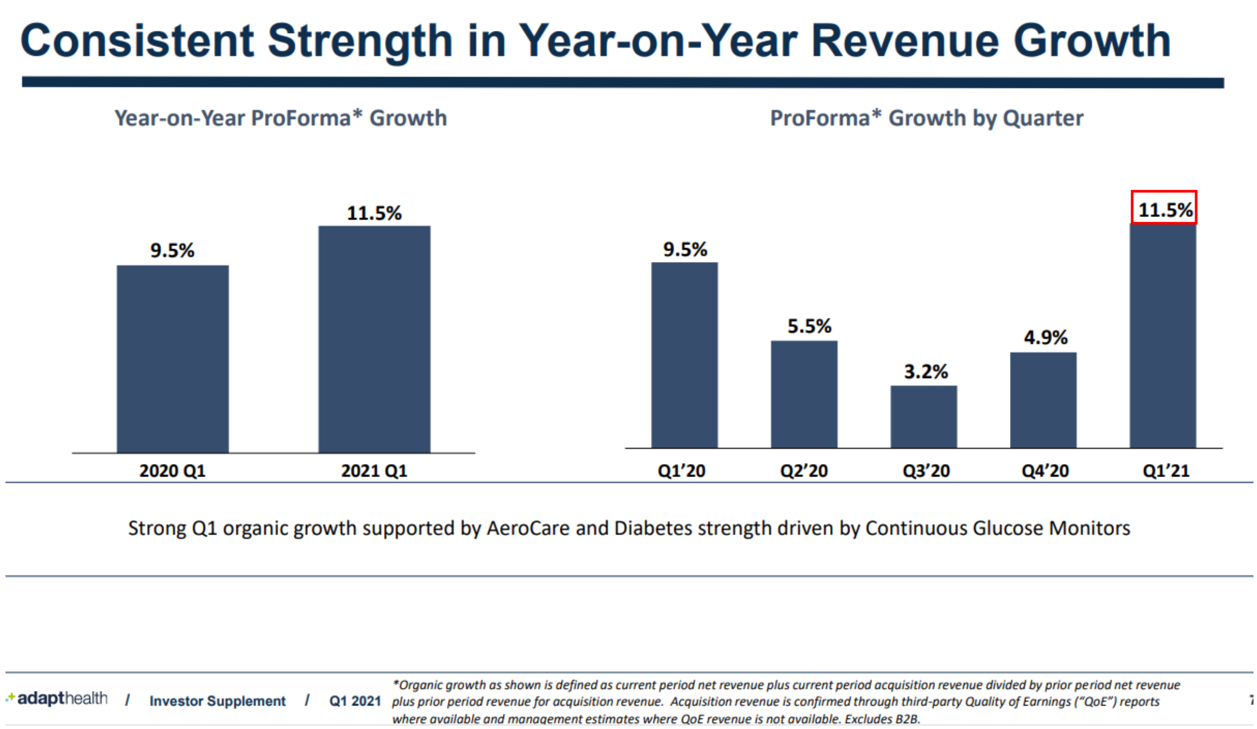
Caution: Newcomers to this story might see management using the word "pro forma" interchangeably with the word "organic" and think that the company is referring to this disclosure from its 10-Qs/K's:

Pro-Forma Information

The unaudited pro-forma financial information presented below has been prepared by adjusting the historical results of the Company to include the historical results of the significant acquisitions described above. The unaudited pro-forma financial information is presented for illustrative purposes only and may not be indicative of the results of operations that would have actually occurred. In addition, future results may vary significantly from the results reflected in the pro-forma information. The unaudited pro-forma financial information does not reflect the impact of future events that may occur after the acquisitions, such as the impact of cost savings or other synergies that may result from these acquisitions, and does not include interest expense associated with debt incurred to fund the acquisitions.

(in thousands)	Three Months Ended March 31, 2021	2020
Net revenue	$ 564,148	$ 482,471
Operating income	$ 21,511	$ 41,059

This would be a mistake. As the following slide shows, AHCO's management touted an "organic," also called "pro forma," growth rate of 11.5% in Q121:



This 11.5% "organic" growth rate, in addition to being utterly nonsense on its own, also bears no relation to the "Pro-Forma Information" in the 10-Q just above. If we use the 10-Q's numbers, the "pro forma" revenue growth rate is 16.9% ($564.1m/$482.5m – 1). But at least we're consistently getting multiple sets of incoherent and useless "pro forma" numbers from this company.

Note: Lest anyone be tempted into comfort by the implied growth of the 10-Q's "pro forma" numbers, we'll add this additional bit of caution. Not only are they meaningless because they exclude tons of acquisitions worth hundreds of millions of dollars ("significant acquisitions described above" excludes everything "insignificant" bought in Q120 or Q121, and it also excludes EVERYTHING bought in Q220, Q320, and Q420), but they're also meaningless because the largest acquisition of all, Aerocare (purchased in Q121), was itself an aggressive rollup.

When we have a "pro forma" comparison of [AHCO + Aerocare Q121] vs [AHCO + Aerocare Q120], that's not a remotely organic number, because Aerocare *also* bought a ton of companies in between Q120 and Q120. Aerocare was growing at ~30% a year, but not because of organic growth obviously. In other words, Aerocare was ~30% bigger in Q121 than it was in Q120, and that feeds into the "pro forma" growth rate of AHCO, but that has nothing to do with organic growth from Aerocare.

- **Understating upcoming inorganic contribution in order to boost apparent organic growth.** This is among the more boilerplate accounting games played by companies, but certainly worth mentioning because it's still very misleading. (Note: It is possible AHCO isn't doing this last one, we just think it's very unlikely.)

AHCO announced its Q121 earnings and raised its 2021 revenue guidance on May 6th, by which date AHCO had already closed the acquisition of Spiro Health:

"…the Company is increasing its previously issued financial guidance for fiscal year 2021 as follows: Net revenue of $2.22 billion to $2.39 billion, up from prior guidance of $2.18 billion to $2.35 billion…"

AHCO's prior FY21 guidance of $2.18bn-2.35bn was made on Q420 earnings day, March 4th, with just over three weeks left in the quarter. AHCO then acquired Spiro Health on April 30th, and then had its Q121 earnings call the following week. It raised its guidance from a midpoint of $2,265m to a new midpoint of $2,305m, or an increase of $40m.

On the Q121 earnings call, AHCO said its guidance increase was due to both the Spiro acquisition and an increase in certain reimbursement rates:

Q - Eric White Coldwell {BIO 3012804 <GO>}

Sorry, I was going to ask about that sequester question too because based on management prior comments, we thought it was the holiday extension was not in guidance. So I think that's been clarified. I did want to just also clarify, Spiro, the acquisition, the most recent deal. Have you provided revenue for that deal and the specific EBITDA you're looking for on an annualized basis? Again I apologize, I've been toggling a couple of calls here, so.

A - Jason A. Clemens {BIO 21361708 <GO>}

Eric, this is Jason. No problem. We have not put out specific revenue or profitability guidance on Spiro nor really on any acquisition. It's just been our internal policy to not do that. However in terms of the updated guide, I mean you can run the math on our comments regarding the oxygen rates. That went in place April 1. That certainly is part of the guide raise. The other half of that, I shouldn't say half. The other side of that raise is directly attributable to Spiro.

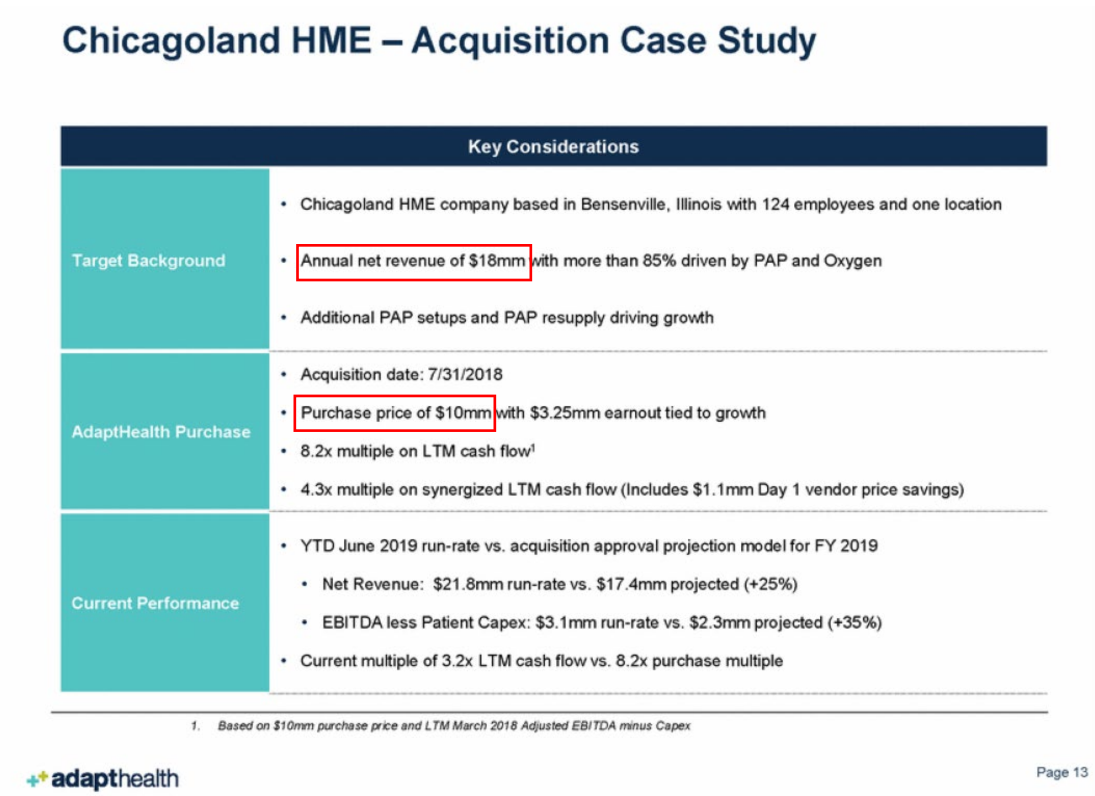
From this comment we can clearly deduce that AHCO is saying that the Spiro acquisition will contribute less than $40m for the rest of 2021. Some material part of the $40m raise is from another factor, and some of it is from Spiro.

The problem we see here is the Spiro price tag. AHCO paid $73m for Spiro.[xix] Spiro is probably going to contribute a lot more than $40m for the rest of 2021.

Spiro is a traditional HME – home medical equipment – business, much like the traditional businesses that AHCO has been rolling up for years. These tend to go for multiples of revenue well below 1x (as opposed to, say, the pure-play diabetes product businesses that it started buying in 2020 which typically go for over 1x revenue). Back when AHCO wasn't trying to hide the ball, they disclosed both their "significant" acquisition prices and LTM revenues in list form. All but one of the transactions listed in a November 2019 8-K[xx] were completed for less than 1x revenues:

- Gould's: 0.7x price/revenues
- SleepMed: 0.6x
- CCLI: 0.3x
- Med Way: 0.9x
- HMEI: 0.8x
- Verus: 1.4x (CPAP resupply business, which is a more recurring type of revenue than just generically selling HME goods, and hence more stable/more deserving of a high multiple)
- PPS: 0.7x

Even AHCO's own case study from its pre-SPAC deck describes a typical deal for which the company paid $10m upfront for an $18m revenue business, or 0.56x revenues:



If Spiro, which AHCO paid $73m for, were acquired for, say, 0.6x revenues, it would be a $122m annual run rate business. (0.8x? $91m.) AHCO bought it with exactly 2/3 left in the year, which – at the "typical" HME business multiple - would leave it with <u>$81m left of revenues to go in 2021</u>. Yet to hear it from management, it sounds like they're saying Spiro is going to contribute only something like $20m, give or take? And then of course, credulous analysts will treat any growth above that level as organic (if they even notice).

- **Dodging the question when asked directly for organic growth information.**

From the Q121 earnings call:

> **Q – [Analyst]**
> *Got it. Then I appreciate the comments on organic growth and the pro forma way you do that. I am curious, Jason, do you have the more traditional calculation on organic growth where a company would just take out all deals yet to annualize and look at the base business that was intact 365 days prior?*
>
> **A – [CFO]**
> *Yes. It's a little difficult in this sector of health care, because as the business comes on, right? I mean -- so start with the patient, right? That patient may have produced resupply revenue last year, but as they come on to our platform, right? I mean the whole part of AdaptHealth is that we are going to resupply smarter and more efficiently to the patient of what they need when they need it. Patients will move around the system, right? I mean so there's no real kind of like classic same store to even compare against because we don't operate that way. So there's a number of reasons why we don't follow, I guess in your words, the traditional organic growth view. What we do provide in our supplement is visibility to the prior year revenue in the quarter, regardless of ownership of the business, right? And so we're validating that with QEs ["Quality of Earnings" reports] and such. So what you're seeing year-over-year is the revenue of AdaptHealth compared against the businesses that, again regardless of ownership year-over-year. And at 11.5%, frankly, we're feeling great. I mean we're feeling great about the year and the growth that's come since Q4.*

This is horsest.** Any company that can calculate its inorganic growth, as AHCO was doing in its SEC filings until last year, can calculate its organic growth.

As a recent example, another company that claimed their organic growth was too complex to calculate was WageWorks (WAGE), which the SEC later charged with essentially committing accounting fraud[xxi]. WAGE eventually downgraded its organic growth talk from a lofty 9-14% to an unexciting 0-3%, which we think AHCO management will have to do as well. Of course, the WAGE example also included an implosion in the stock price on the order of 50% between the last brazen organic growth evasion and the admission of the real organic growth of the company. (WAGE, a low-growth but well-positioned savings account business with useful AUM, was eventually acquired at a deep discount to the prices that prevailed in 2016-17, when it was lying about its organic growth.)

- **Doubling the threshold for what's considered a "significant" acquisition that must be disclosed.**

At first glance at this trick, one might reasonably think that it's harmless. After all, AHCO is growing its assets rapidly, so wouldn't it make sense to raise the threshold for what's "significant"? In this case, no.

Because the company now skips providing inorganic disclosures from "insignificant" acquisitions, raising the threshold of what's "significant" means allowing more inorganic revenues to get excluded from disclosure. This makes it appear, at least to anyone who hasn't read our report, that organic growth is higher. (That is, if you can't see the insignificant contributions, you might think the "significant" contributions are the entire inorganic amounts. The more you can exclude from "significant," the higher the apparent organic growth.)

In 2020's 10-K, AHCO mentions both years' "significant" acquisition thresholds:

> In addition, during 2019, the Company completed certain other acquisitions which individually had a consideration paid of less than $ 10 million.

> In addition, during 2020, the Company completed certain other acquisitions which individually had a consideration paid of less than $ 20 million.

AHCO clearly discloses the different thresholds in the same 10-K. The curious thing is that they felt the need to raise the threshold at all. Let's put a couple of things into perspective:

- At the typical purchase multiple of ~0.6x revenues for the HME businesses, a $20m acquisition buys you around $33m of annual revenues. A $33m revenue acquisition would have added 6 percentage points of growth in 2020 (as 2019 had $530m in revenues). <u>Is an acquisition that adds, say, ~5% to your annual revenue not worth mentioning?</u>

- AHCO does over a dozen acquisitions per year in most years, the vast majority of them under $20m in price. As we previously showed, we calculate that AHCO did around $171m in "insignificant" (under $20m, apparently) acquisitions in the second half of 2020 alone. There's a lot hiding under this "insignificant" threshold.

So if AHCO is withholding critical information, changing its organic growth measurements while not telling anyone about it, removing useful inorganic disclosures from SEC filings, and (we think) sandbagging future acquisition contributions, how are we supposed to figure out the organic growth? Glad you asked!

THE HEAVY LIFTING: HOW TO CALCULATE ORGANIC GROWTH YOURSELF

> *They weren't doing any calculation of their own organic growth. It was like a barn fire. There were acquisitions happening at the rate of two a month. They didn't have the ability to disaggregate organic from inorganic, trust me. They had no f*****g clue. There was NO concept of what organic growth actually was.* – Former AHCO M&A executive

Now for the fun part.

	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119	Q219	Q319	Q4 (IPO)	Q120	Q220	Q320	Q420	Q1 (Aero)	Q221c
Revenue (ex-B2B in 2020)	$45	$45	$47	$56	$56	$79	$102	$109	$120	$124	$137	$150	$188	$204	$281	$345	$482	$575
Inorganic YOY Contr			**$5**	**$13**	**$13**	**$31**	**$48**	**$45**	**$56**	**$43**	**$30**	**$28**	**$58**	**$77**	**$146**	**$217**	**$320**	**$407**
Calculated YOY Org Growth ex-B2B					*-4%*	*4%*	*17%*	*14%*	*14%*	*4%*	*4%*	*12%*	*9%*	*2%*	*-1%*	*-15%*	*-14%*	*-18%*
Roberts (Q317, last day of Q)				$8.0	$8.0	$8.0	$8.0											
Other 2017, est (if 0.56x rev per 2018 case study)			$4.9	$4.9	$4.9	$4.9												
Verus (Q218)						$8.8	$17.5	$17.5	$17.5	$8.8								
PPS (Q218)						$9.7	$19.4	$19.4	$19.4	$9.7								
HMEI (Q318)							$2.7	$4.0	$4.0	$4.0	$1.3							
CCLI and Medway (Q418)								$4.0	$6.3	$6.3	$6.3	$1.5						
Q119 "Significant" M&A									$8.6	$9.0	$9.0	$9.0						
Q219 "Significant" M&A										$0.0	$0.0	$0.0	$0.0					
Q319 "Significant" M&A											$7.1	$7.1	$7.1	$7.1				
Q419 "Significant" M&A												$3.5	$5.2	$5.2	$5.2	$1.8		
2019 plug from "insignificant" M&A, imputed/assumed										$5.0	$6.3	$6.7	$4.9	$3.0				
Q120 "Significant" M&A													$40.7	$53.0	$53.0	$53.0	$12.3	
Q220 "Significant" M&A														$0.0	$0.0	$0.0	$0.0	
Q320 "Significant" M&A															$62.0	$62.0	$62.0	$62.0
Q420 "Significant" M&A																$103.3	$103.3	$103.3
2020 plug from "insignificant" M&A per 10-Qs														$8.7	$25.9			
Negative Q4 plug to match 10K total 2020 contr																($2.7)		
Q121 "Significant" M&A																	$142.6	$224.6
Q221 "Significant" M&A																		$17.2
CHECKS:																		
10K-given 2017 + 2018 M&A Contr to 2018								**$134**										
Nov 2019 8K-given 2018+2019 M&A Contr to 9m19											**$129**							
10K-given 2018+2019 M&A Contr to 2019												**$156**						
Implied Q419 inorganic contr (FY - 9m)												$28						
10Q-given 2019+2020 M&A Contr to 2020 Qs													$58	$77	$146			
Reduced-Disclosure-10K: 2020 M&A Contr to 2020																**$450**		
Check: 2018 Total Match?								**$2.8**	*($0.7m/Q)*									
Check: 9m19 Total Match?											**($0.0)**							
Check: 2019 Total Match?												**($0.0)**						
Check: 2020 Qs Match?													$0.0	$0.0	($0.0)			
Check: 2020 10-K Match?																**($0.0)**		

In the top right of this image above, you can see how quarterly organic growth has cratered to negative double digits in recent quarters. **A big part of discovering this is understanding that AHCO did nearly $200m worth of spending on "insignificant" (minimally disclosed) deals in 2H20 alone.** The amount of inorganic contribution explodes as you move through 2020, because the amount of "insignificant" M&A explodes:

	Q120	Q220	Q320	Q420
PCS price	$14			
Advanced price	$68			
Solara price			$455	
ActivStyle price			$66	
Pinnacle price				$136
Total "Significant Deals" Spend	$82	$0	$521	$136
Total Given M&A Spend (incl contingent)	$112	$2	$605	$223
Implied Insignificant Deals Spend	**$31**	**$2**	**$84**	**$87**

We don't show annual numbers in the organic growth table for space reasons – we'll show those later – but taking the longer view, AHCO has been a 0-1% organic growth company over time.

As we discussed, AHCO has reduced its disclosure about inorganic contributions over time. In the pre-IPO materials, AHCO listed its major recent deals, their prices paid, and their revenue run rates altogether. At some point post-IPO, AHCO management decided to stop providing this information, but continued to list quarterly inorganic contributions from all deals, so we could use those to check our assumptions. Eventually, the company removed even this level of disclosure, replacing it with just information from deals consummated that year or, in the case of Q121, just that quarter.

As disclosure fell and fell, we had to dig more and more to find the triangulating information as the chronology rolled toward present-day, but enough "checks" are available that we can continue to piece together organic growth to date.

Organic growth was unremarkable for years (prior period is shown in annual analysis) until Q318, when it surged, and stayed elevated right through the Q419 IPO. After this conveniently-timed improvement which started to fade in the first quarter post-IPO, organic growth fell back down to low single digits, and then all way to deeply negative where it remains today. We calculate an average of approximately 2% YOY organic growth in the 3.5 years from Q118-Q221, assuming of course that the company hits the consensus revenue target for Q221.

Of special note: The number for Q221 is especially alarming. If the company's revenue hits consensus expectations, the company is going to post estimated organic revenues of negative -18% (assuming no more deals), but against an "easy" 2% comp. **This implies that the business isn't just reverting to its old 0-1% growth rate, but that something is actually deteriorating in real time – either the legacy business or some of the recently acquired business.**

Let's go through the quarterly organic growth calcs first, which we were able to piece together going back to part of 2017, and then we'll do the annuals which go back to 2015-16. We'll take each quarter in turn and see the sources or assumptions behind it. Being able to replicate our work is important in order to understand this short thesis fully.

a. <u>Quarterly organic growth math:</u>

- <u>Q117:</u> Revenue isn't given explicitly, but full-year 2017 revenue and quarterly revenues from Q217-Q219 are all given in the proxy filing prior to the AdaptHealth business combination.[xxii] So we can back into Q117 revenue.
- <u>Q217:</u> See Q117.
- <u>Q317 + Q417:</u> The first disclosed "significant" deal that we found was Roberts. From page 192 of the aforementioned proxy filing:

Roberts. On September 30, 2017, AdaptHealth Holdings acquired Roberts Home Medical, LLC and Home MediService, LLC. (collectively, "Roberts") for total consideration of $9.6 million, consisting of $8.6 million in cash and $950,000 of deferred payments (the "Roberts Acquisition"). Roberts was a regional supplier of home healthcare equipment and related services in Virginia, Maryland and Delaware. At the time of the acquisition, Roberts had annual net revenues of approximately $29 million based on the results for the 12 months ended December 31, 2017. The deferred payments of $950,000 were subject to certain net working capital conditions, which were not met and the payments were not made.

Roberts was acquired on the last day of Q317, and appears to have been the only "significant" acquisition made in 2017, which is relevant here:

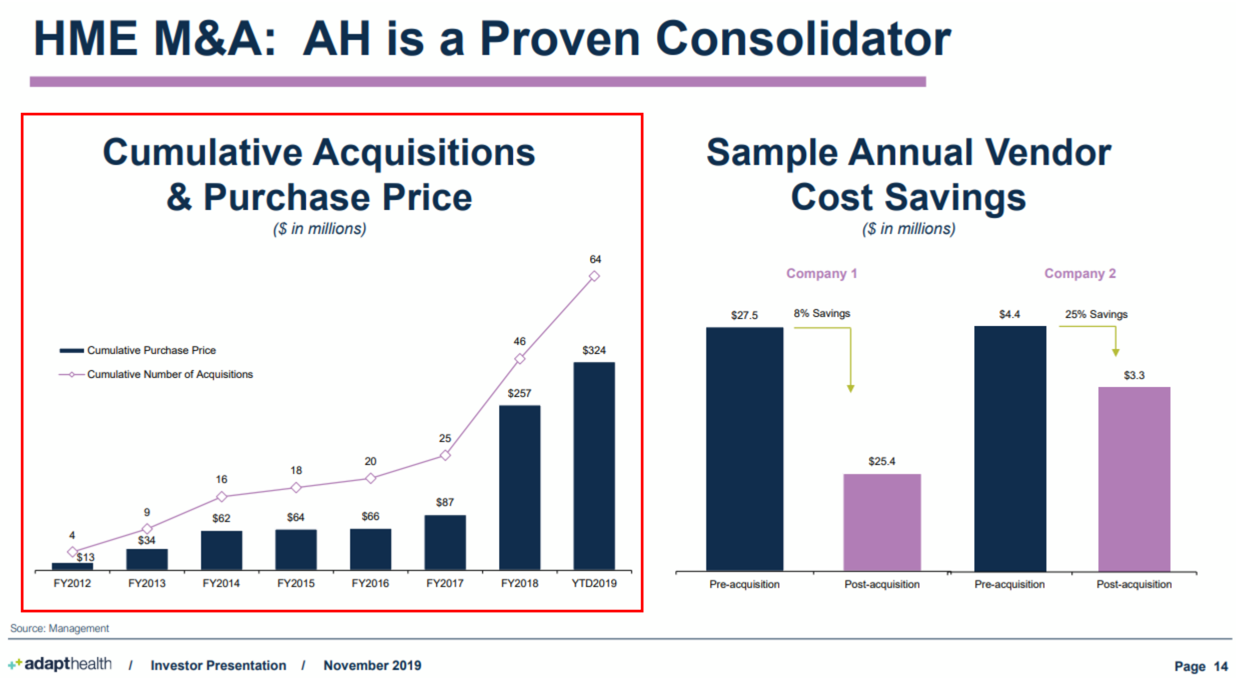
Results of Businesses Acquired

The amount of net revenues and operating income of the significant businesses acquired in 2018 and 2017 since the respective acquisition dates included in the Company's consolidated statements of net income (loss) for the years indicated are as follows:

	Year ended December 31, 2018	2017
Net revenue less provision for doubtful accounts	$ 107,047,267	7,970,628
Operating income	(6,597,299)	(856,542)

We assume its YOY organic impact, which began in Q417, was flat for the next four quarters. As you can see, we roll that $8.0m forward for the following three quarters, after which point, Roberts has lapped. (In our spreadsheet, blue cells are hardcoded while black cells are linked to other cells.) This is our a basic tenet of our methodology for calculating inorganic YOY growth – it assumes no changes in acquired businesses once acquired.

We also know that while Roberts cost only $10m (0.3x revenue multiple), AHCO spent a total of $21m on five deals in 2017, according to the Nov 2019 investor presentation, page 14:



We have to make estimates on timing as well as on revenues for 2017 deals because there is so little quarterly disclosure. Fortunately, we have some annual inorganic disclosures from the company that allow us to fact-check our quarterly work.

We assume that AHCO purchased the other companies in 2017 for 0.56x revenues, consistent with the case study example we previously discussed. We also assume that this all this other M&A spending was done at the very middle of the year. $11m/0.56 = $19.6m.

The result is $4.9m/Q of inorganic growth for four quarters from the non-Roberts 2017 M&A, beginning in Q317.

(Note: If AHCO paid the same multiple for these other deals as it did for Roberts, inorganic growth would be much higher and organic growth would be much lower.)

So we've got a total of $4.9m of inorganic YOY growth in Q317, and $12.9m in Q417. Because we don't have quarterly revenues for 2016, this doesn't factor into our quarterly organic growth analysis but it will help us with the 2017 full-year organic growth rate.

- Q118: No deals disclosed and no retroactive information available.
- Q218: In this quarter, we know that AHCO bought Verus and PPS. Both of these targets had certain historical information provided in a proxy[xxiii].
  - Verus did $26.3m in net revenues in the stub period from Jan 1 to May 17, 2018 when it was acquired. If $26.3m = 4.5 months of revenue, then 3 months of revenue = $17.5m. This means $8.8m in Q218 (half the quarter), and $17.5m per quarter thereafter, lapping halfway through Q219.
  - Using the same type of information provided for PPS - $29.1m of revenues for the 4.5 months prior to acquisition on May 17th – we can assume $9.7m of inorganic contribution in Q218, double that in Q318, and roll it through until the Q219 lap.
- Q318: AHCO bought HMEI on July 31st. This was a smaller deal so it didn't have complete financials, but we know from the S-1 that it had a $16m revenue run rate. That's $1.3m/month, meaning $2.7m in Q318, $4.0m in each quarter thereafter until the Q319 lap (stub of one month in Q319).
- Q418: AHCO bought CCLI ($19m revenues) and Med Way ($6m revenues), both disclosed in the same way as HMEI. CCLI was bought on October 15th, so multiply its quarterly run rate ($4.75m) by 5/6 to get the quarterly contribution of $4m. Med Way was bought on the last day of the quarter so it contributed nothing; inorganic contribution from the Q418 deals is $4.0m this quarter.
- Q119: In this quarter, we start relying on the "Significant Acquisitions" disclosures available in the 10-Qs, which tell us the revenue contribution from deals that AHCO management deems "significant." We'll then use other available disclosures, when it's possible to do that, to plug in what "insignificant" contributions must have been.
  - Gould's was purchased on the first day of the quarter, a $33m revenue business. However, in this quarter we can get the "significant acquisitions" contribution retroactively, straight from the Q120 10-Q:

Results of Businesses Acquired

The following table presents the amount of net revenue and operating income (loss) since the respective acquisition dates included in the Company's consolidated statements of operations for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net revenue	$ 40,724,747	$ 8,626,378
Operating income (loss)	$ (5,559,851)	$ 1,431,523

- Q219: No new "significant" acquisitions took place this quarter, but the retroactive information about contributions from 2019's significant acquisitions shows that $9m of revenue showed up from these in Q219.

- Q319: In this quarter, we need to use the 9m19 retroactive disclosure from the Q320 10-Q:

Results of Businesses Acquired

The following table presents the amount of net revenue and operating income (loss) since the respective acquisition dates for the significant acquisitions described above that is included in the Company's consolidated statements of operations for the three and nine months ended September 30, 2020 and 2019:

(in thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net revenue	$ 115,077	$ 16,137	$ 208,803	$ 33,732
Operating income (loss)	$ 4,637	$ 1,872	$ (2,984)	$ 5,285

If the first nine months of 2019 had $33.7m of contributions from 2019's significant acquisitions, and the first six months had $17.6m ($8.6m + $9.0m), then Q319 must have had $16.1m of contribution from significant acquisitions. That's really the number that matters for this part. But, we try to isolate the "significant" Q319 deal (which is SleepMed) so that we can run it forward for the future quarters of the waterfall. We get there by taking $16.1m and subtracting $9.0m (the assumed run rate of Gould's, still contributing inorganically). This tells us that SleepMed contributed $7.1m in the quarter, which tracks approximately with its revenue run rate when acquired. [xxiv]

It's important to note here that it doesn't so much matter what we specifically assume SleepMed did. We are just backing into the Q319 contribution from "significant acquisitions," because we'll need to keep track of those. It does help to sanity-check our deal sizes, though, as a trail of bread crumbs (so to speak).

- Q419. AHCO went public this quarter and so was probably busy, and only did one deal, buying Choice for $25m on the last day of the first month of the quarter. The "results of businesses acquired" section for 2019 showed $53.3m of contribution for the year. Holding the prior acquisitions steady implies $3.5m for the Q4 purchase of Choice. We multiply those revenues by 3/2 to get the quarterly run rate of $5.2m, and run that forward until lap in Q420.
- 2019 plug (from "insignificant" M&A). We know that AHCO's total (significant + insignificant, current year plus prior year) acquisition contribution in 2019 was $156.3m, per the disclosures they used to offer which we previously discussed (page 45, 2019 10-K). We also know from the S-1 filed on Feb. 28, 2020 that in the first 9 months of 2019, acquisition contribution was $128.5m. This imputes $27.8m of revenue contribution in Q419.
  - Since we already have "significant" acquisitions in our waterfall accounting for $21.1m of contribution in Q419, we can plug in the difference - $6.7m – and call that the "insignificant" acquisition contribution for Q419.
  - Further, knowing that the total acquisition contribution in the first 9 months of 2019 was $128.5m is useful as well. This is $11.3m more than the inorganic contribution we had identified thus far for the first 9 months of that year. Assuming all that M&A wasn't done on the first day of 2019 – that the revenue contribution layers in – we just need to spread out that annual contribution by quarter from Q1-Q3. This is a judgment call but we assume $5.0m in Q219, rising to $6.3m in Q319, so that it can rise to the hard-plugged $6.7m in Q419, and then begin falling in Q120 into Q220. (We'll later use the 2020 10-Qs to check our total contributions and see that they tie down to the tenth of a million for the first 3 quarters of 2020, which we have better information for because the company was public by then.)
- Q120: The "significant" acquisitions contribution is $40.7m. It refers only to acquisitions made in Q120, which is why we've got a waterfall of older deals rolling on behind us, of course.
- Q220: There were no "significant" acquisitions made in this quarter, so the $53.0m in this 10-Q is driven by the full run rates of the Q120 "significant" deals.

- Q320: In this one, the full quarter contribution of 2020-to-date deals is $115m. We just subtract the $53m which is assumed to be the ongoing run rate of the Q120 deals which are still contributing.
- Q420: This is where things get really interesting. Just sticking to "significant" acquisitions, we can see that the full year contribution from such deals – everything bought at any point in 2020 – is $427.0m. So to find the Q420 contribution from the Q420 "significant" deals, we just subtract the inorganic contributions from the "significant" deals of Q120 and Q320, which we've assumed to be running flat.
    - It's very important to note one thing: The full year 2020 contribution of $427m from "significant" deals and the 9m20 contribution of $209m from "significant" deals made through that point imputes a Q420 contribution from "significant" deals of $218m. **So it really doesn't matter, for Q420, what you were assuming for prior quarters or run rates. $218m is the number for "significant" deals' contributions in Q420, and it means Q420 obviously has negative organic growth - if you're willing to ignore management's stupid "organic growth" claims to the contrary.**
- 2020 plug from "insignificant" M&A: For Q1, Q2 and Q3 of 2020 we did have the benefit of management's old style of disclosure, so we can simply plug in the "insignificant" M&A contribution for those three quarters:
    - For Q120, we took care of this with the 2019 plug line; that is, we're assuming $4.9m from 2019 "insignificant" deals which is just the right amount to bridge us to the $57.9m given in the 10-Q as total Q120 acquisition contribution:

Net Revenue. Net revenue for the three months ended March 31, 2020 was $191.4 million compared to $119.5 million for the three months ended March 31, 2019, an increase of $71.9 million or 60.2%. The increase in net revenue was driven primarily by acquisitions, which increased revenue by $57.9 million (including $33.9 million generated by PCS). The remaining increase in net revenue was primarily attributable to organic growth resulting from stronger CPAP resupply sales and demographic growth in core markets. Net revenue,

    - For Q220, having assumed a roll-off to $3.0m of the 2019 plug deals, we are still $8.7m short in order to get to the total acquisition contribution of $77m, so we plug in that exact amount for "insignificant" M&A.
    - For Q320, same methodology, but AHCO has been on a buying spree since Q320. The total acquisition contribution is a lot larger than the "significant-only" contribution; we need $25.9m to plug to the total contribution for that quarter.
- Negative Q4 plug to match 10K total 2020 contribution: This is a tricky one to understand. **We don't have a "total contribution from all acquisitions" for 2020 because management took it out when they published the 2020 10-K.** But we know that 2020 had $450.2m in total contribution from **2020** acquisitions, so we just have to decide how much of the "insignificant" acquisition contribution plugs we have are from 2020 deals and how much are from 2019 deals.
    - This is actually not as hard as it sounds, because we know that AHCO went on a buying spree of "insignificant" acquisitions beginning in Q320. We calculate that here using disclosures from the 10-Qs and 10-K (significant deals' purchase price allocations for each quarter, and total purchase price allocations for each quarter, then subtract one from the other). We show this table again for convenience:

	Q120	Q220	Q320	Q420
PCS price	$14			
Advanced price	$68			
Solara price			$455	
ActivStyle price			$66	
Pinnacle price				$136
Total "Significant Deals" Spend	$82	$0	$521	$136
Total Given M&A Spend (incl contingent)	$112	$2	$605	$223
Implied Insignificant Deals Spend	**$31**	**$2**	**$84**	**$87**

- If we assume that our $25.9m contribution in Q320 from "insignificant" deals is from 2020 deals only, then that actually gets us pretty close. Just take $450.2m (total 2020 deals' contribution in 2020) minus $427.0m (the aggregate "significant" acquisitions contribution in 2020) minus $25.9m (the "insignificant" contribution in Q320) and you get negative $2.7m. What this tells us is that while we know the total 2020 contributions and we are pretty darn close to getting them down by quarter, we are over by $2.7m and need to reduce the Q420 contribution by that much. This isn't much of a needle-mover at this point, as you can guess – it may not be pretty but it's getting things to tie out pretty well as you'll see in a minute.
- Q121: Straightforward $142.6m which is mostly from the 2 months of Aerocare. Roll that forward to a full quarter run rate of $224.6m for Q221.
- Q221: AHCO bought Spiro and we've already gone through why we think that's a $104m or so business. They bought it with 2 months left in the quarter to go. We're just using the consensus revenue expectation to see what organic growth should look like for Q221, given these inputs (in other words, we're saying that $407.1m of Q221's revenues will be from acquisitions made in the preceding 12 months).

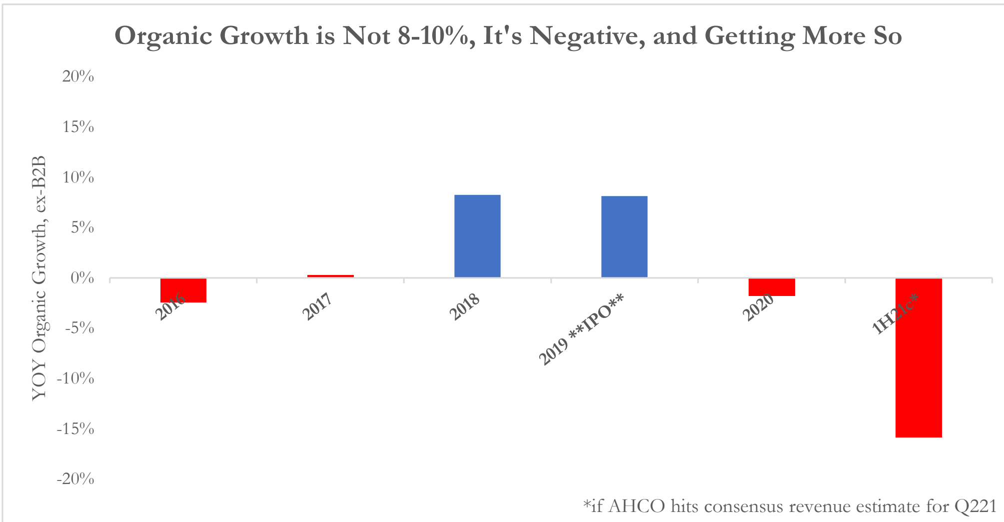
Checks: This is how we know that our organic growth math is really close to perfect. Even if we don't know for sure what deal-by-deal contributions were, we do know a lot about aggregate contributions and can fill in a lot of missing pieces. We check that against total contributions from the Ks, Qs, and S-1s.

- 2018 total: We have little information about 2018 compared to the other years, but we're off by just $2.8m for the year, or less than $1m/quarter (we don't know which quarter is missing what). 2018 had $134m of total inorganic revenues from all sources, and our total estimates arrive at $137m.
- 9m19 total: There were $128.5m of inorganic contributions from all sources in this period and that's exactly what our quarter-by-quarter process has drilled down to.
- 2019 total: We're spot on here too, for the aggregate of 2019, a total of $156.3m.
- 2020 10-Qs: We're spot on here for each quarter, which is easy because we are just plugging by the time we get to Q2.
- 2020 10-K: Given the previously mentioned insight that almost all of the "insignificant" M&A was done in 2H20, which drives the assumption that the $8.7m from Q220 is all from 2019 deals, we're matching here too. (The math for the check is: the sum of all the "significant" M&A contributions in the box for 2020, plus the $25.9 for Q320, minus the $2.7m correction in Q420, minus the $450.2m total 2020 contribution of all 2020 deals.)

If you can do this math and find your way through the filings to source everything, your numbers might come out *slightly* differently but you're going to find the same main thing: **Organic growth, which averaged 0-2% over time to begin with, imploded right around the time management started obscuring it.**

b. Annual organic growth math:

Image shown again for convenience:

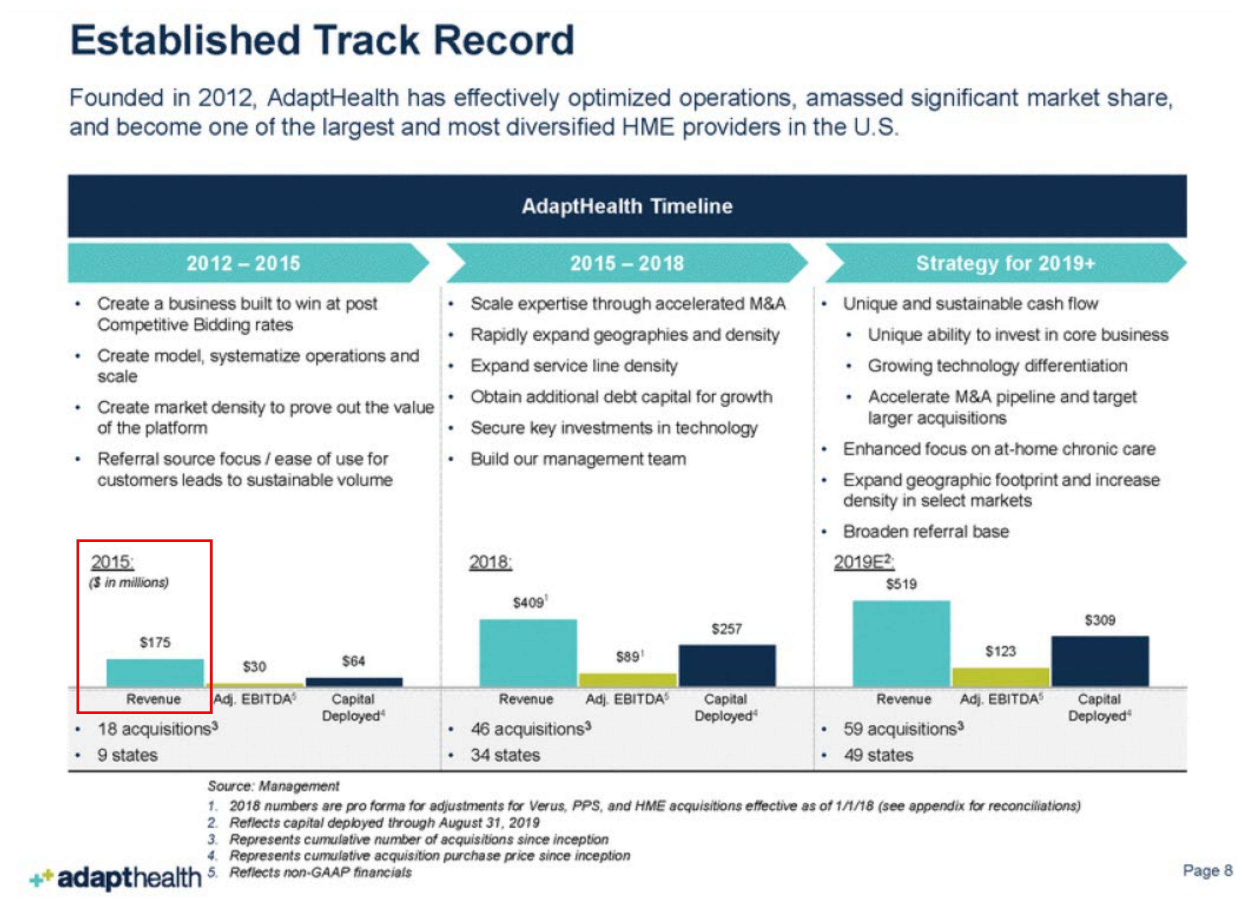


The inputs for the chart are as follows (the third row is what appears on the chart):

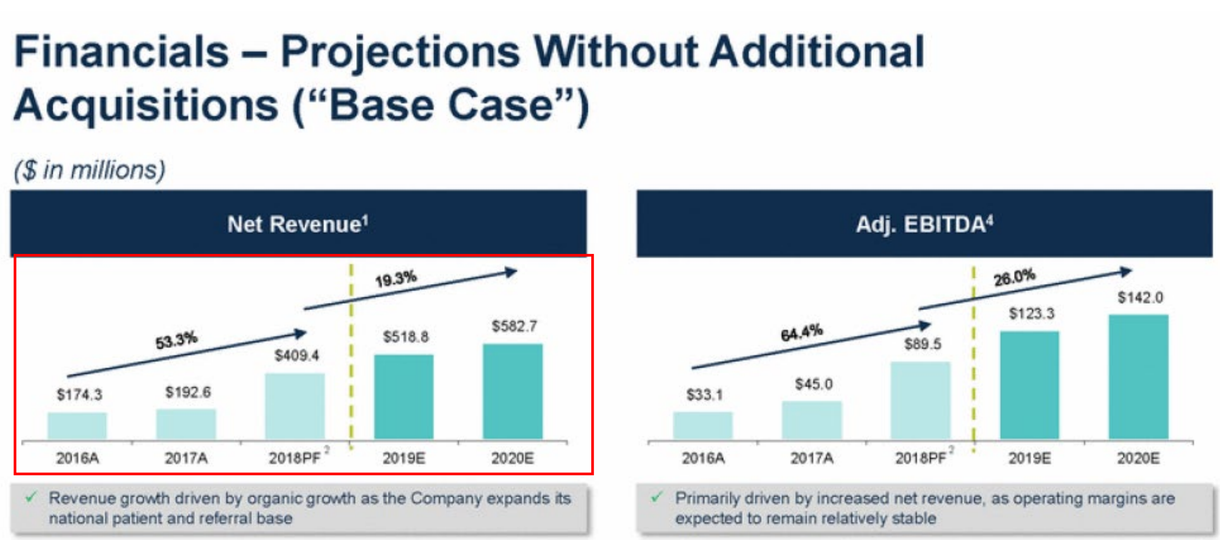
	2015	2016	2017	2018	2019	2020	1H21c*
Revenue (ex-B2B in 2020)	\$175	\$174	\$193	\$345	\$530	\$1,019	\$1,057
Inorganic YOY Contr		\$4	\$18	\$137	\$156	\$499	\$727
Calculated YOY Org Growth ex-B2B		*-2%*	*0%*	*8%*	*8%*	*-2%*	*-16%*

The process for figuring the annual organic growth rates is much simpler for the most part since it mostly relies on work we already did for the quarterlies. Where it doesn't, we use older historical information or make generous inferences:

- 2015: We begin here with a revenue number that appears in an old SPAC deck:



As an aside, one thing that's cute about how management shows the 2015 number: While it served AHCO's purposes on this slide, they don't include it in a later slide, preferring instead to start their revenue-progression slide with 2016:



Isn't it a little unusual for companies to begin four-period revenue growth tables with only <u>one</u> year of actual revenue growth? That's exactly what AHCO did here, by having just two real years of revenue. We think they purposely skipped the opportunity to make a more fulsome graph, because 2016 was slightly smaller than 2015, and they didn't want to show their recently negative revenue growth.

- 2016: We know AHCO did $2m worth of acquisitions in each of 2015 and 2016 from the slide we showed earlier, but we don't know when they were done in each year. We assume they were done in the middle of each year at a 0.56x multiple, meaning 2016 would have $3.6m of inorganic growth contributions. (Even if AHCO had done no deals, we'd still have negative organic revenue growth, because we had slightly negative total revenue growth in 2016.)
- 2017: We take the Q317 and Q417 total inorganic contributions from our quarterly numbers and use those to get the 2017 total inorganic. (2017's organic growth could actually be lower than 0%, if the acquisitions were done earlier in the year and hence contributed more revenues. We don't have an SEC filing to verify the total 2017 contribution, so we're being conservative and assuming we captured all the inorganic growth this way.)
- 2018: We know the total 2018 inorganic contribution from the Feb. 28, 2020 S-1/A.
- 2019: We know the total 2019 inorganic contribution from the 2019 10-K.
- 2020: We know most of the 2020 inorganic contribution from the 2020 10-K, and we have our other work and checks to round out the rest.
- 1H21: We know Q121's inorganic contribution, and we have an estimated inorganic contribution based on simply run-rating the Q121 deals for a full quarter and adding the Spiro deal. (Even if we reduced Spiro to management's implied, and we believe sandbagged, revenue run rate it still gets us to negative-double-digit organic revenue growth for Q221, by the way.) We combine the inorganic contributions of Q1 and Q2, remove those from the combined revenue of Q1 and (consensus) Q2, and compare that organic number to 1H20.

The organic picture is pretty consistent – **over the long term, this business has close to zero organic growth**, give or take a bit depending on your timeframe for measurement. Over the short term, organic growth is deeply into negative territory and shows no signs of improving. All of this flies in the face of the Street expectations for revenue, which would be inexcusable if they weren't being done by analysts who have to take management's words at face value. The blame lies with AHCO's executives, not with Wall Street analysts…for the most part, anyway…

And we'll ask this question again: If we can do this, and you can do this, why can't management do this? Remember what the CFO said: "*So there's a number of reasons why we don't follow, I guess in your words, the traditional organic growth view.*"

We think there's just one really good reason!

c. How some analysts and investors miss (or choose not to see) the real organic growth

We didn't write this report to pick on Wall Street, even though that can be fun too. But in order to understand how the market could so miserably fail to price in the truth, we need to look at what some analysts have said about this topic. Thousands of investors rely on sell-side and certain buy-side analysts to distill information for them and save them time, so when a sell-side analyst regurgitates an "organic growth" number, the market's trust in that number becomes entrenched.

Here's some of what the Deutsche Bank analyst has written on the AHCO organic growth number:

Dec 2020:

> was able to achieve this during a global pandemic. Over the past year, investors have been asking us how they should value AHCO; should it be on the organic growth of 8-10% or from upside from acquisitions, or a combination of the two.

May 2021:

> was ahead of expectations. However, part of the difficulty the Street is having is that "organic" growth is virtually impossible to back into because of all the deals.

And here's Baird (July 2021):

> Philips news (we suspect better outcome than feared). Regardless of valuation metric chosen – 9x EV/2022 adjusted EBITDA, 14x EV/2022 adjusted EBITDA less patient equipment CapEx – we believe shares are undervalued for an 8%-10% organic grower with margin expansion potential.

And as we have shown, other analysts have asked for the organic growth number on calls, and apparently consider that a checked box in lieu of doing any actual work on the item.

But it's not only members of the sell side that believes this fantasy of organic growth. Even some thought leaders on the buy side have been willing to underwrite it publicly. Here's a post from Value Investors Club[xxv] written by "SanQuinn," who we believe manages a hedge fund based in the Western US (we have no desire to embarrass the guy, so we'll leave it at that):

> VIC Ideas Topics
> Value Investors Club
> ADAPTHEALTH CORP AHCO
> March 11, 2021 - 7:43pm EST by SanQuinn

> from the ground up distributing medical supplies and equipment in several high growth areas like sleep and diabetes through tactful acquisitions and organic growth. The simple thesis is you are investing in a great capital allocator on a very solid platform that has underlying 8-10% organic growth with a very good runway for future acquired and organic growth at an attractive price.

When everyone – management, Wall Street, investors with a public soapbox – is repeating the same garbage, it's easy for an investor to take it as fact. This is clearly what's happened with organic growth for AHCO.

THE FAÇADE WILL DISAPPEAR WITHIN SEVERAL QUARTERS

A handful of recent and upcoming events conspire to surface the truth for AHCO investors soon enough. They include the departure of the CEO, the huge acquisition of Aerocare and its upcoming lap, and the end of Emerging Growth Company status and the impact it will have on organic growth disclosures.

a. "Emerging Growth Company" status ends Dec 31, and with it certain tools to hide organic growth

We have noticed that inexperienced short sellers frequently chide companies for being "JOBS Act IPOs," which by itself means nothing as an element of a short case. The JOBS Act, enacted in 2012, was used to help rebuild the market for IPOs in the United States by making it easier for companies to go public. The Act, in this respect, was a good thing for American business. But like any law that makes things easier, some people will abuse it.

The JOBS Act brought with it the ability for "Emerging Growth Companies" to seek exemptions to traditional filing requirements around financial disclosures. AHCO is one such company that has availed itself of these exemptions, some of which include[xxvi]:

- Less extensive narrative disclosures
- Only two years of audited financial statements instead of three (reducing year-over-year growth disclosures)
- **No need for an auditor to attest to a company's internal controls**
- No need for a Critical Audit Matters section

It's the third one that's most obviously going to be the problem for AHCO's organic growth story. The 10-K risk factors basically spell this out for us in legalese regarding the third item:

> ***We may not be able to timely and effectively implement controls and procedures required by Section 404 of the Sarbanes-Oxley Act that are applicable to us.***
>
> As a public company, we are required to comply with the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of internal control over financial reporting. To comply with the requirements of being a public company, we are required to provide attestation on internal controls, and we may need to undertake various actions, such as implementing additional internal controls and procedures and hiring additional accounting or internal audit staff. The standards required for a public company under Section 404 of the Sarbanes-Oxley Act are significantly more stringent than those that were required of AdaptHealth Holdings as a privately held company. Management may not be able to effectively and timely implement controls and procedures that adequately respond to the increased regulatory compliance and reporting requirements that became applicable to us after the Business Combination. If we are not able to implement the additional requirements of Section 404 in a timely manner or with adequate compliance, we may not be able to assess whether our internal controls over financial reporting are effective, which may subject us to adverse regulatory consequences and could harm investor confidence and the market price of our Class A Common Stock. Further, as an emerging growth company, our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal controls over financial reporting pursuant to Section 404 until the date we are no longer an emerging growth company. At such time, our independent registered public accounting firm may issue a report that is adverse in the event that it is not satisfied with the level at which our controls are documented, designed or operating.

Here's what the first few paragraphs of a typical auditor's report section of a 10-K looks like for a healthcare rollup (Amedisys, or AMED):

> **Report of Independent Registered Public Accounting Firm**
>
> To the Stockholders and Board of Directors
> Amedisys, Inc.:
>
> *Opinion on the Consolidated Financial Statements*
>
> We have audited the accompanying consolidated balance sheets of Amedisys, Inc. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.
>
> We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 25, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.
>
> *Change in Accounting Principle*
>
> As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*; ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; and ASU 2018-11, *Targeted Improvements (collectively, Topic 842)*.
>
> *Basis for Opinion*
>
> These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the

And here's what this entire section looks like for AHCO – note the absence of the above sentence with the red box around it:

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
AdaptHealth Corp:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of AdaptHealth Corp. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity (deficit) / members' equity (deficit), and cash flows for each of the years then ended, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2015.

Philadelphia, Pennsylvania
March 16, 2021

Okay, so AHCO's auditors don't yet have to audit its internal controls. What does that mean practically? In Internal Controls sections for acquisitive companies, you'll typically see a specific disclosure of inorganic contributions from substantial acquisitions. Such as in the following Internal Controls sections of two healthcare rollups:

<u>AMED</u>:

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act. Under the supervision and with the participation of our principal executive officer and our principal financial officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in *Internal Control – Integrated Framework (2013)*, our management concluded our internal control over financial reporting was effective as of December 31, 2020.

Under guidelines established by the SEC, companies are allowed to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition while integrating the acquired company. Accordingly, our assessment of internal controls excluded our acquisition of AseraCare Hospice ("AseraCare"), completed on June 1, 2020. See Item 8, Note 4 - Acquisitions to our consolidated financial statements for additional information on our acquisition of AseraCare. Operations from this acquisition represented approximately 3% of total assets and 3% of total revenue as of and for the year ended December 31, 2020.

KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Form 10-K, has issued a report on our internal control over financial reporting, which is included herein.

<u>ADUS</u>:

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on our assessment under the framework in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

Under SEC Staff guidance, companies are permitted to exclude acquisitions from their first assessment of internal control over financial reporting which covers the period in which such acquisition was completed. We excluded A Plus Health Care, Inc., County Homemakers and Queen City Hospice, each of which are wholly-owned subsidiaries, from our assessment of internal control over financial reporting as of December 31, 2020 because they were acquired in purchase business combinations on July 1, 2020, November 1, 2020 and December 1, 2020, respectively.

- A Plus Health Care, Inc. represented 0.6% of our revenues and 2.2% of our operating income, respectively for the year ended December 31, 2020.
- County Homemakers represented 0.3% of our revenues and 0.5% of our operating income, respectively for the year ended December 31, 2020.
- Queen City Hospice represented 0.6% of our revenues and (1.4)% of our operating income, respectively for the year ended December 31, 2020.

The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report which appears within Part IV, Item 15—"Exhibits and Financial Statement Schedules.".

For AHCO, being forced to quantify the revenues from many of its acquisitions would make hiding organic growth a lot more difficult, for obvious reasons.

So, being an Emerging Growth Company has been nice for AHCO. It's allowed them to eschew cumbersome reporting requirements that make organic growth more visible for other companies. **When does Emerging Growth Company status end? December 31, 2021.** Per the sec.gov link we previously provided:

"A company continues to be an emerging growth company…unless one of the following occurs: It's total annual gross revenues are ***$1.07 billion or more****…"*

Take a moment to look up AHCO's revenues for 2020. We wonder if this is a coincidence, but we won't dwell on it.

b. <u>With the Aerocare deal done, organic growth becomes the story</u>

In Q121, AHCO purchased Aerocare, itself a rollup growing rapidly through acquisition (30% a year). Aerocare did $695m of revenues in 2020[xxvii] and, because of its 2020 M&A, will do significantly more than this in 2021. This plus other acquisitions AHCO completed in Q121 added an approximate annualized revenue amount of over $900m ($225m approximate pro forma contribution in Q121 from Q121 "significant" deals alone). This means that the Q121 acquisitions AHCO completed will nearly double the size of the business.

It's really hard to follow an act like that. AHCO can't continue obscuring its organic declines with piecemeal deals, but at the same time, integrating Aerocare and legacy AHCO effectively is going to be all but hopeless if the company does another transformational deal too quickly.

Said differently: When your assets are growing nearly 600% a year, it's easy to obscure organic growth and hide from analysts who simply throw up their hands because it's "too complicated." When asset growth slows, penciling in the organic math becomes a lot easier, because inorganic revenue contribution is far smaller and simpler as a percentage of overall growth. (At its extreme, if inorganic growth went to zero, organic growth would be obvious to even the laziest analyst.) We think that Aerocare was AHCO's last and best hurrah in its obfuscation of the organic growth picture.

Once Aerocare laps in Q122, and <u>total</u> revenue growth hits the skids as it must do, organic decline will have a much easier time bubbling to the surface, even if Emerging Growth Company status were not ending.

c. <u>New CEO – if he values his career – will stop the organic growth reporting charade</u>

As we mentioned in our introduction, the new CEO of AHCO is no stranger to government investigation – or at least, to companies under his charge being investigated for malfeasance. He left Rotech Medical before (because?) it was charged with Medicare and Medicaid fraud, but the alleged fraud took place over a five-year period in which he was President the entire time.

The departure of the founder CEO who began this whole charade with organic growth puts the new CEO in a difficult position. He could certainly choose to look the other way and continue the reporting misrepresentations, but will he? He must understand how hard it's about to get to keep this game going. He would walk a far easier path if he simply reset expectations, guiding investors to expect less organic growth over time, or even for a short time that eventually gets extended again and again (continual disappointments to guidance to try to engineer a "soft landing"). It would be easy to throw the old CEO under the bus – implicitly, not explicitly – and reject the principles of misrepresentation that guided the company before the new CEO arrived.

Simply put, the sooner a new CEO who inherits a company with unreasonable expectations and a misinformed investor base can take the medicine, the better the medicine will taste.

ANEMIC FREE CASH FLOWS, LOADS OF DEBT, LOW ROIC, AND HEAVILY "ADJUSTED" EBITDA

AHCO is not a cheap stock, nor does it have a healthy balance sheet, nor is it a good business, nor does it have good quality of earnings. Let's look at these items one by one.

Free cash flow

AHCO's business is a capital-intensive one that requires heavy investment in patient equipment. The business has a hard time throwing off enough cash to make the debt-heavy roll-up model as interesting as it's made to sound when hand-waving concepts of cost synergies and reimbursement scale are discussed. Lots of adjusted EBITDA, not a lot of cash flow.

Because AHCO did its huge acquisition of Aerocare just months ago, we need to combine the historical free cash flows of legacy AHCO and Aerocare to understand the full picture of trailing FCF. We then need to add in the interest expense from the new debt that was taken on to cash out old Aerocare shareholders.

Our math is as follows (all for 2020):

- Legacy AHCO:
  - Cash from operations: $195.6m
  - Back out one-time CARES Act and CMS payments for crisis relief: ($63.0m)
    - Why? This is non-recurring (and the CMS payments will be paid back in 2021)
  - Capex: ($39.8m)
  - Payments on capital leases for patient equipment: ($39.1m)
    - Why? This is a cash expense of maintaining the business through equipment acquired on capital lease, rather than through outright purchases.
  - Payments of deferred financing costs: ($13.0m)
    - Why? These costs are capitalized, but they are an ongoing expense of doing business for a company that frequently borrows money to buy businesses. AHCO borrows money and pays bankers a fee. It gets to capitalize and amortize that fee, but it's a cash cost of the business model.
- Legacy Aerocare:
  - Cash from operations: $201.1m
  - Back out one-time CARES Act crisis relief: ($13.8m)
  - Capex: ($111.5m)
- Incremental debt resulting from acquisition of Aerocare by AHCO (approximated):
  - Legacy AHCO interest expense was $41.4m
  - Legacy Aerocare interest expense was $15.3m
  - Combined this interest expense was $56.7m
  - Post-deal AHCO consensus interest expense beginning Q221 ($24-25m/Q, per Visible Alpha, or approx. $97m/yr)
  - Approx. difference between 2020 actual interest and post-deal annual interest run rate: $40.3m

$195.6m - $63.0m - $39.8m - $39.1m - $13.0m + $201.1m - $13.8m - $111.5m - $40.3m = **$77m** of pro forma free cash flow as a run rate for the newly combined entity.

(Using the same method for the prior two years gets us to negative or near-zero free cash flow in either year. This is because combined free cash flow was $49m and $11m in 2018 and 2019 respectively, so the incremental interest expense of $40m just crushes both numbers. Excessive debt kills companies.)

$77m of annual free cash flow for a company with this market cap and capital structure is just not a lot. It is not enough to drive an attractive valuation (it's about 43x free cash flow, or a 2-3% FCF yield). More urgently, it is not enough to pay down any meaningful amount of AHCO's growing debt level, which is now just shy of $1.7bn.

Balance sheet

With a debt load as large as AHCO's, the company is at the mercy of the future interest rate environment as well as of regulators such as CMS. But it's also on a collision course with Street EBITDA numbers.

Bulls talk about AHCO's approximately 3x leverage ratio, which is a function of forecasted 2021 EBITDA. But as we have seen, analyst estimates for AHCO are unreasonably aggressive. This company is more than 3x levered, for two reasons, and one of them is that 2021 estimates are so unreasonable. (The other is that its "Adjusted EBITDA" number is laughably over-adjusted, as we'll see.) One big earnings miss for a levered company, and everything changes rapidly.

Low Returns on Capital

The combined AHCO/Aerocare business has a low-single-digit return on invested capital (ROIC).

ROIC Combined Cos:		
Invested Capital		
ST debt	$18	
ST capital leases	$20	
LT debt	$1,749	
Equity	$1,788	
Q121 (post-deal) AHCO Invested Capital	**$3,575**	
Pro forma 2020 NOPAT		
AHCO 2020 EBIT, ex-grant income	$57	
Aerocare 2020 EBIT, ex-grant income	$88	
Pro forma 2020 EBIT	$145	
Tax rate	21%	
NOPAT of AHCO + Aerocare	**$115**	
2020 Pro Forma ROIC AHCO + Aerocare, Est	**3%**	*WACC 6-7%*

This kind of well-below-cost-of-capital ROIC is not necessarily typical of all healthcare rollups, but it is a symptom of the high capital intensity of the AHCO and Aerocare businesses.

Quality of Earnings

AHCO likes to tout its "Adjusted EBITDA Less Patient Capex" metric:

Non-GAAP Reconciliation

(in thousands)

	Three Months Ended				
	March 31, 2021	December 31, 2020 (1)	September 30, 2020 (1)	June 30, 2020 (1)	March 31, 2020 (1)
Non-Gaap Reconciliation					
Net loss attributable to AdaptHealth Corp.	$ (3,966)	$ (80,516)	$ (51,035)	$ 4,470	$ (34,551)
Income (loss) attributable to noncontrolling interests	324	(9,996)	(10,944)	3,388	(14,902)
Interest expense, net	22,185	13,603	12,407	7,482	7,938
Income tax expense (benefit)	(1,695)	(7,219)	(4,921)	1,826	(1,641)
Depreciation and amortization, including patient equipment depreciation	47,206	24,583	22,748	18,374	16,740
EBITDA	**64,054**	**(59,545)**	**(31,745)**	**35,540**	**(26,416)**
Loss on extinguishment of debt (a)	4,213	-	5,316	-	-
Equity-based compensation expense (b)	8,582	7,702	5,501	3,244	2,223
Transaction costs (c)	31,854	9,962	10,212	3,541	2,858
Severance (d)	939	2,351	921	1,905	419
Change in fair value of contingent consideration common shares liability (e)	(1,965)	56,867	25,525	(42)	16,367
Change in fair value of warrant liability (f)	(3,168)	63,010	36,912	(654)	36,100
Other non-recurring expense (income) (g)	(334)	(982)	518	(900)	(1,091)
Adjusted EBITDA	**104,175**	**79,365**	**53,160**	**42,634**	**30,460**
Less: Patient equipment capex (h)	(42,258)	(20,853)	(17,248)	(12,068)	(12,967)
Adjusted EBITDA less Patient Equipment Capex	**$ 61,917**	**$ 58,512**	**$ 35,912**	**$ 30,566**	**$ 17,493**

(a) Represents write offs of deferred financing costs related to refinancing of debt.
(b) Represents equity-based compensation expense for awards granted to employees and non-employee directors. The higher expense in the 2021 period is due to overall increased equity compensation grant activity in that period, as well as expense resulting from accelerated vesting of certain awards in that period.
(c) Represents transaction costs related to acquisitions.
(d) Represents severance costs related to acquisition integration and internal AdaptHealth restructuring and workforce reduction activities.
(e) Represents a non-cash charge or gain for the change in the estimated fair value of contingent consideration common shares liability.
(f) Represents a non-cash charge or gain for the change in the estimated fair value of the warrant liability.
(g) The 2021 period includes a gain of $0.5 million for the receipt of earnout proceeds in connection with a cost method investment that was sold in 2020, offset by a $0.2 million charge for the increase in the fair value of a contingent consideration liability related to an acquisition.
(h) Represents the value of the patient equipment obtained during the respective period without regard to whether the equipment is purchased or financed through lease transactions.

(1) Certain amounts in these columns have been restated from amounts reported in prior financial supplements as a result of the change in accounting for the Company's contingent consideration common shares and the Company's warrants. These changes had no impact on the Company's historical reported net revenues, operating income, or Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex for any period. Refer to footnotes 2(a) and 20 in the Company's consolidated financial statements and related notes included in the Company's Form 10-K filed on March 16, 2021, and footnotes 2(a) and 20 in the Company's consolidated financial statements and related notes included in the Company's Form 10-K/A filed on April 30, 2021, for discussion of such restatements.

adapthealth / Investor Supplement / Q1 2021 10

This metric shows a nice straight line upward, but if you dig in further, the addbacks are questionable and the patient capex number is curiously low. We highlight the following line items:

- Loss on extinguishment of debt. This is an expense recognized when the company has to write off previously capitalized costs of raising money. It's an ongoing, if lumpy, expense **unless AHCO is going to stop doing M&A (at which point the growth story would totally implode, of course).**
- Equity-based compensation expense. We don't want to be sticklers, but this is a real expense in the form of stock issuance that's dilutive to shareholders. It's also growing steadily and rapidly.
- Transaction costs. **Unless AHCO is going to stop doing M&A**, this is an ongoing and core expense.
- Severance: Clearly part of the business model as well.
- Patient equipment capex:
  - This one requires some explanation. Look at the five quarters given:
    - Q120: $13.0m
    - Q220: $12.1m
    - Q320: $17.2m
    - Q420: $20.9m
    - Q121: $42.3m
  - Now look at the cumulative totals from the cash flow statement, for total capex plus payments on capital leases, for each quarter:

    - Q120: $18.3m ($5.3m higher)
    - Q220: $12.0m ($0.1m lower)
    - Q320: $22.2m ($5.0m higher)
    - Q420: $26.4m ($5.5m higher)
    - Q121: $45.5m ($3.2m higher)
  - Isn't it funny how in nearly every quarter the actual cash outlays for capex ("patient"-related or otherwise; we're not sure why the difference would matter) are materially higher than "patient equipment capex"?
  - Apparently the difference between "obtaining" a certain value of equipment under capital lease and "paying for" that equipment are pretty different? Who knew? It looks to us like the equipment is obtained with little upfront payment, and then the payments start later, so the cash payment rate is always playing catch-up (as long as the asset base is growing rapidly).

If we take the **LTM value of "Adjusted EBITDA minus patient equipment capex" of $187m,** and then clean it up so that we're only removing realistic expenses and subtracting the full cash payments for capex, **then the LTM value falls to…$77m:**

	LTM	Q121	Q420	Q320	Q220
EBITDA		$64.1	($59.5)	($31.7)	$35.5
Chg in FV of conting consid		($2.0)	$56.9	$25.5	$0.0
Chg in FV of warrant liab		($3.2)	$63.0	$36.9	($0.7)
Other non-recurring expense		($0.3)	($1.0)	$0.5	($0.9)
Properly Adjusted EBITDA	$183.1	$58.6	$59.4	$31.2	$33.9
Less: Actual capex + cap lease pmts		($45.5)	($26.4)	($22.2)	($12.0)
Adjusted EBITDA Less Capex	$77.0	$13.1	$33.0	$9.0	$21.9
Compare to:					
Management's Adjusted EBITDA	$279.4	$104.2	$79.4	$53.2	$42.6
Management's Adjusted EBITDA Less Patient Capex	$186.9	$61.9	$58.5	$35.9	$30.6
Jehoshaphat vs Mgmt Adj EBITDA	66%				
Jehoshaphat vs Mgmt Adj EBITDA Less Patient Capex	41%				

PATTERN OF INSIDER DEPARTURES AND SELLING CREATES A FOREBODING BACKDROP

How many C-level executives individually have to depart a company in less than a year before it becomes obvious that something is wrong?

In order of departure:

CFO – G.H. left the company in September 2020.

CSO (Chief Sales Officer) – N.G. left the company in January 2021.[xxviii]

CTO – Left in February 2021. (Because both CTO's have the same initials, we have to use their full names!) Andy Palan's hiring into AHCO was announced with some fanfare by management on its May 2020 earnings call:

> *We recently hired Andy Palan, as our Chief Technology Officer. Andy's experience as a digital first and business transformation leader brings an expanded set of skills to Adapthealth.*
>
> *Passion about patient and referral experience, Andy will also drive collaboration on initiatives that help AdaptHealth enhance its relationship with patients and healthcare partners across the country.*

He was further identified as important on the August 2020 earnings call:

> *Yes, and really leaning in with technology, and sort of apps and software. And we think we're uniquely positioned. Obviously, we're behind on the software side, and so need to invest in that but Andy Palan, who we hired in March has really helped us do some thinking on that.*

But less than a year after being hired, Andy Palan was gone (he left in February[xxix]), replaced by Albert Prest, who was mentioned on the Q121 earnings call:

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

Mr. Prest was first mentioned, quite casually, on this call; Mr. Palan's name didn't come up after the August 2020 earnings call. There was no mention of the loss of the first CTO. (Maybe AHCO thought nobody would notice the switch because the two men have the same initials?)

CEO – L.M left in June 2021. The circumstances of his departure were ostensibly entirely related to his indictment in Denmark for tax fraud, which the company announced in April 2021 upon placing him on unpaid leave. Two months later, he resigned from the company, ostensibly due to the same issue. **A week later, he pulled the trigger on a $21m stock sale:**

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 144

NOTICE OF PROPOSED SALE OF SECURITIES PURSUANT TO RULE 144 UNDER THE SECURITIES ACT OF 1933

OMB APPROVAL
OMB Number: 3235-0101
Expires: July 31, 2023
Estimated average burden hours per response........1.00

SEC USE ONLY
DOCUMENT SEQUENCE NO.
CUSIP NUMBER
WORK LOCATION

ATTENTION: *Transmit for filing 3 copies of this form concurrently with either placing an order with a broker to execute sale or executing a sale directly with a market maker.*

1 (a) NAME OF ISSUER (Please type or print): AdaptHealth Corporation
(b) IRS IDENT. NO.: 82-3677704
(c) S.E.C. FILE NO.: 001-38399
1 (d) ADDRESS OF ISSUER (STREET, CITY, STATE, ZIP CODE): 220 West Germantown Pike Suite 250, Plymouth Meeting, PA 19462
(e) TELEPHONE NO. (AREA CODE, NUMBER): (610) 630-6357
2 (a) NAME OF PERSON FOR WHOSE ACCOUNT THE SECURITIES ARE TO BE SOLD: Fresh Pond Investment LLC
(b) RELATIONSHIP TO ISSUER: Former Affiliate
(c) ADDRESS STREET (CITY, STATE, ZIP CODE): C/o AdaptHealth Corporation (see address above)

INSTRUCTION: The person filing this notice should contact the issuer to obtain the I.R.S. Identification Number and the S.E.C. File Number.

3 (a) Title of the Class of Securities To Be Sold	(b) Name and Address of Each Broker Through Whom the Securities are to be Offered or Each Market Maker who is Acquiring the Securities	SEC USE ONLY Broker-Dealer File Number	(c) Number of Shares or Other Units To Be Sold (See instr. 3(c))	(d) Aggregate Market Value (See instr. 3(d))	(e) Number of Shares or Other Units Outstanding (See instr. 3(e))	(f) Approximate Date of Sale (See instr. 3(f)) (MO. DAY YR.)	(g) Name of Each Securities Exchange (See instr. 3(g))
Common	J.P. Morgan Securities LLC 277 Park Avenue, Floor 13 New York, NY 10172		750,000	$21,427,500 *	129,244,574 *	06/22/21	NASDAQ
				* As of 06/22/21	* As of 05/05/21		

INSTRUCTIONS:
1. (a) Name of issuer
(b) Issuer's I.R.S. Identification Number
(c) Issuer's S.E.C. file number, if any
(d) Issuer's address, including zip code
(e) Issuer's telephone number, including area code

2. (a) Name of person for whose account the securities are to be sold
(b) Such person's relationship to the issuer (e.g., officer, director, 10% stockholder, or member of immediate family of any of the foregoing)
(c) Such person's address, including zip code

3. (a) Title of the class of securities to be sold
(b) Name and address of each broker through whom the securities are intended to be sold
(c) Number of shares or other units to be sold (if debt securities, give the aggregate face amount)
(d) Aggregate market value of the securities to be sold as of a specified date within 10 days prior to the filing of this notice
(e) Number of shares or other units of the class outstanding, or if debt securities the face amount thereof outstanding, as shown by the most recent report or statement published by the issuer
(f) Approximate date on which the securities are to be sold
(g) Name of each securities exchange, if any, on which the securities are intended to be sold

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1147 (08-07)

Proxy filings (not shown) indicate that Fresh Pond Investment LLC is the former CEO's personal investment vehicle. By waiting until he was formally let go from AHCO, the CEO avoided having to file a Form 4 that would have made his sale obvious to the world. As the *former* CEO ("former affiliate" is cute, no? Could be anybody!), he needed only to file this Form 144 in paper form with the SEC. This form does not appear on EDGAR but does end up in the SEC's reading room, which is where we found it.

To us, the timeline here is curious and suggests that L.M. **may** have been pushed out for other reasons, such as the ones we have been explaining in this report.

- First, it is incredibly convenient that AHCO had split the CEO role into two "co-CEOs" with the acquisition of Aerocare only several months prior to this April 2021 announcement. This was a bizarre move when it happened because L.M., the founder and face of the company, was a huge part of the growth story.
- Second, L.M. announced family leave in March due to a new child. While we applaud AHCO for its progressive and public embrace of paternity leave – a policy that should be emulated across corporate America - we can't help but ask: How common is it for hard-charging, empire-building CEOs to formally announce paternity leave on a public earnings call? And then, how common is it for those CEOs' paternity leave to become unpaid leave a month later?
- Third, the tax fraud for which L.M. has been indicted took place, allegedly, in 2014-15. This was up to seven years before AHCO was ostensibly informed of this? To make this even more difficult to accept at face value, Denmark had already charged, fined, and collected from Germany's North Channel Bank in connection with this scheme…two years prior to when AHCO "found out about it":

*In **2019**, the bank paid a fine of 110 million crowns by a Danish court for its involvement in the dividend stripping scheme. The cum-ex trading scheme is also being investigated by authorities in Germany, Belgium and Britain. **Last year,** two Britons were convicted in Germany's biggest fraud trial in at least 75 years.*[xxx]

- Fourth – and this is really the point, isn't it? – look at the timing again, noting our descriptions of the last three quarters:

So maybe…there was more over which to fire the CEO than "just" a criminal charge for tax fraud?

We would note that as the architect of this misleading and now-flailing roll-up, L.M. was a "key man" who was likely the best person for the job of holding all this together. We suspect his successor, the new CEO Mr. S.G., will be hesitant to buy in fully to maintaining this façade. He has tremendous incentive to "reset" both Street expectations and financial reporting practices to a more sensible level. We would applaud the new CEO for coming clean, and what's more, we think it's vital for his career prospects to do so – whatever carnage it may create in the inflated valuation of AHCO. Take the medicine now, or take much more of it later, Mr. G.

APPENDIX: HIGHLIGHTS FROM FORMER EMPLOYEE INTERVIEWS

We found that former employees were unimpressed with how things were run at AHCO. Former M&A or Financial Planning & Analysis executives were the most informed, so we present only comments from such individuals here. These quotes are paraphrased closely and we will not disclose additional identifying information in order to protect our sources.

1. *They weren't doing any calculation of their own organic growth. It was like a barn fire. There were acquisitions happening at the rate of two a month. They didn't have the ability to disaggregate organic from inorganic, trust me. They had no f*****g clue. There was NO concept of what organic growth actually was.*
2. *The entire HME/DME industry CAGR has been 2.9%. How can Adapt's be much different? They're in all the same lines.*
3. *They just wanted to get deals done.*
4. *Luke knew what he was doing. He was going to push this to the limits of the envelope.*
5. [Different source than #4 who said essentially the same thing] *They will run this business into the ground if they have to [in order to lever up and buy things as fast as they can].*
6. *This company is a house of cards.* [Explains in a disjointed way across different comments how this is meant to communicate too much debt, too rapid an acquisition strategy, too much claimed organic growth that isn't justifiable, and a collection of assets put together by an untrustworthy CEO.]
7. *Adapt would tell you they have the scale and infrastructure to drive growth higher than the 3% - but are you gonna get [multiple times] that growth? It's almost mathematically impossible.*
8. *When Adapt saw a target it wanted, the decision was made pretty quickly to buy them. By the time it got to [those of us tasked with underwriting the deal] they had decided they wanted to buy it anyway.*

APPENDIX: SOURCES

i https://www.sec.gov/news/pressrelease/2017-21.html The SEC brought charges against MDC Partners, in part for violating non-GAAP disclosure rules by changing organic revenue growth calculations without informing investors. We believe that AHCO has done exactly this, as we detail herein. The SEC's guidance on related topics is as follows: https://www.sec.gov/divisions/corpfin/guidance/nongaapinterp.htm

Question: *Can a non-GAAP measure be misleading if it is presented inconsistently between periods?*

Answer: *Yes. For example, a non-GAAP measure that adjusts a particular charge or gain in the current period and for which other, similar charges or gains were not also adjusted in prior periods could violate Rule 100(b) of Regulation G unless the change between periods is disclosed and the reasons for it explained. In addition, depending on the significance of the change, it may be necessary to recast prior measures to conform to the current presentation and place the disclosure in the appropriate context. [May 17, 2016]*

ii Q121 AHCO earnings call.

iii https://www.justice.gov/archive/opa/pr/2002/February/02_civ_079.htm The period during which the Rotech fraud was alleged by the DOJ was 1995-2000, during which time the President of Rotech Medical was [the new AHCO CEO]. (We omit the use of individuals' names wherever reasonable to do so, so as not to cause them unnecessary personal disruption when they are searched for on Google, etc.)

iv Look at p. 19 of the Q320 10-Q and p. 92 of the 2020 10-K. "Significant" M&A completed in the first 9 months of 2020 contributed $209m in revenues to AHCO, while "significant" M&A completed in the full year contributed $427m. That implies <u>$218m</u> of inorganic YOY contribution in Q420, but revenue in Q420 was only <u>$198m</u> more than it was in Q419. This method <u>understates</u> the organic decline, because – as we will show – it omits contributions from dozens of small acquisitions.

v We looked, and if they disclosed the change, we couldn't find it. Search for the word "organic" in recent filings and call transcripts – there's no mention of any change to management's methodology. We believe this is a violation of non-GAAP disclosure rules, because we know of at least one other company that has been charged by the SEC for this same practice.

vi Merger proxy indicates discussions to buy Aerocare started in August 2020, within mere weeks of saying on an earnings call that they were going to avoid large M&A while they digested the major recent deals. YOY organic growth was going negative in this quarter, and the decline was accelerating to double-digits for Q420. The "co-CEO" structure, which we believe conveniently set the table for the founding CEO to exit, stage left, was put into place in Q420.

vii Paper image on file with the SEC of Mr. L.M. (former CEO)'s sale, filed 6/22/21, for 750,000 shares:

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 144

NOTICE OF PROPOSED SALE OF SECURITIES
PURSUANT TO RULE 144 UNDER THE SECURITIES ACT OF 1933

OMB APPROVAL
OMB Number: 3235-0101
Expires: July 31, 2023
Estimated average burden hours per response 1.00

SEC USE ONLY
DOCUMENT SEQUENCE NO.
CUSIP NUMBER
WORK LOCATION

ATTENTION: *Transmit for filing 3 copies of this form concurrently with either placing an order with a broker to execute sale or executing a sale directly with a market maker.*

1 (a) NAME OF ISSUER (Please type or print): AdaptHealth Corporation
(b) IRS IDENT. NO.: 82-3677704
(c) S.E.C. FILE NO.: 001-38399
1 (d) ADDRESS OF ISSUER (STREET, CITY, STATE, ZIP CODE): 220 West Germantown Pike Suite 250, Plymouth Meeting, PA 19462
(e) TELEPHONE NO. (AREA CODE, NUMBER): (610) 630-6357
2 (a) NAME OF PERSON FOR WHOSE ACCOUNT THE SECURITIES ARE TO BE SOLD: Fresh Pond Investment LLC
(b) RELATIONSHIP TO ISSUER: Former Affiliate
(c) ADDRESS STREET, CITY, STATE, ZIP CODE: C/o AdaptHealth Corporation (see address above)

INSTRUCTION: The person filing this notice should contact the issuer to obtain the I.R.S. Identification Number and the S.E.C. File Number.

3 (a) Title of the Class of Securities To Be Sold	(b) Name and Address of Each Broker Through Whom the Securities are to be Offered or Each Market Maker who is Acquiring the Securities	SEC USE ONLY Broker-Dealer File Number	(c) Number of Shares or Other Units To Be Sold (See instr. 3(c))	(d) Aggregate Market Value (See instr. 3(d))	(e) Number of Shares or Other Units Outstanding (See instr. 3(e))	(f) Approximate Date of Sale (See instr. 3(f)) (MO. DAY YR.)	(g) Name of Each Securities Exchange (See instr. 3(g))
Common	J.P. Morgan Securities LLC 277 Park Avenue, Floor 13 New York, NY 10172		750,000	$21,427,500 *	129,244,574 *	06/22/21	NASDAQ
				* As of 06/22/21	* As of 05/05/21		

INSTRUCTIONS:
1. (a) Name of issuer
(b) Issuer's I.R.S. Identification Number
(c) Issuer's S.E.C. file number, if any
(d) Issuer's address, including zip code
(e) Issuer's telephone number, including area code

2. (a) Name of person for whose account the securities are to be sold
(b) Such person's relationship to the issuer (e.g., officer, director, 10% stockholder, or member of immediate family of any of the foregoing)
(c) Such person's address, including zip code

3. (a) Title of the class of securities to be sold
(b) Name and address of each broker through whom the securities are intended to be sold
(c) Number of shares or other units to be sold (if debt securities, give the aggregate face amount)
(d) Aggregate market value of the securities to be sold as of a specified date within 10 days prior to the filing of this notice
(e) Number of shares or other units of the class outstanding, or if debt securities the face amount thereof outstanding, as shown by the most recent report or statement published by the issuer
(f) Approximate date on which the securities are to be sold
(g) Name of each securities exchange, if any, on which the securities are intended to be sold

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1147 (08-07)

viii Page 12 of merger proxy filed 1/20/21.
ix APR has $244m of net debt and leases at Q121, per 10-Q, against $213m of consensus 2021 EBITDA, per Bloomberg, for 1.1x leverage. AHCO has $1.654bn of net debt against $540m of consensus 2021 EBITDA for 3.1x leverage.
x APR 10-Ks indicate CFFO minus net capex were $50m, $60m, $70m and $149m in 2017, 2018, 2019 and 2020. (2020 includes a $44m add-back of a legal settlement payment.) This compares to our calculation, shown later, of AHCO + Aerocare FCF that is essentially flat over the past three years.
xi APR's market cap is approximately ¼ of AHCO's, but its 2020 pro forma FCF, after adding back a legal settlement payment of $43.6m and subtracting a deferred FICA tax benefit of $14.8m from the CARES Act, was $134m. This is much higher than AHCO and Aerocare's combined 2020 pro forma FCF, which approximates $77m after combining legacy FCF of both companies, subtracting $45.8m of CARES Act stimulus from AHCO, $17.2m of Medicare one-time stimulus from AHCO, and $13.8m of one-time CARES Act stimulus from Aerocare, and adding incremental interest due to the additional debt used to finance the buyout of Aerocare. Incremental interest of ~$40m is based on the difference between A) Visible Alpha estimates of quarterly interest ($24-25m/Q), annualized (~$97m), and B) the combined 2020 interest expense for AHCO ($41.4m) and Aerocare ($15.3m).
xii APR's simple 2020 net income of $46m compares to combined net income of 2020 AHCO + 2020 Aerocare + incremental interest post-deal of $58m. [-$64.5m loss, add back $98.7m of non-cash charges from change in fair value of contingent consideration liability from shares issuable as part of the SPAC Business Combination] and Aerocare [$63.8m net income], plus incremental interest charges from the additional debt used to finance the buyout and merge the two companies [we estimate -$40m of additional interest expense annually, given $41.4m of AHCO interest in 2020, $15.3m of Aerocare interest in 2020, and Street estimates for interest of the combined companies of approximately ~$24-25m a quarter or, annualized, ~$97m; the new entity has approximately $40m of interest expense that the individual companies did not have before.]
xiii Bloomberg shows EV/EBITDA NTM for AHCO of 8.5x vs APR's of 6.5x.
xiv 2020 growth and Q121 growth in both home respiratory and sleep apnea products was ~4% across the board; in 2019 these were approximately 0-2% (-1% in home respiratory but partly due to an accounting standard change, and partly to reduced reimbursement; +2% in sleep with same dynamics).
xv https://www.adapthealth.com/2021/05/06/q1-2021-financial-supplement-may-6-2021/
xvi https://www.microsoft.com/en-nz/p/timecop/8d6kgwzl5blp?activetab=pivot%3aoverviewtab *When his partner goes rogue and travels back in time to make a fortune on the Stock Market crash of 1929, [Van Damme] follows him back to the start of the Great Depression, and uncovers a scheme by an unscrupulous U.S. senator…*
xvii https://www.sec.gov/news/pressrelease/2017-21.html shows the SEC settlement with WAGE. On WAGE's Q117 earnings call, its CEO was talking about 9-14% organic growth for the quarter and year: *"If you wanted to look at organic growth for the first quarter, I would say you're safe to assume it in the mid-teens. However, what I would I would try to point out there is, it's getting more and more difficult as we have acquisitions as we have with ADP to really kind of break out as we go through a quarter on keeping track of what's new business from these relationships, what's existing business is – is one example."* After this CEO was thrown out along with several lieutenants for accounting fraud, new management downgraded the "organic growth" to 0-3% for 2018 and 2019: *"When you mentioned about accelerating the growth, I believe if you look at the guidance of the 0% to 3%, and it's pretty consistent with what we've, are coming out for 2018 as well, so I'm not sure that I would describe it as accelerating...Going to 2019, our expected growth rate is 0% to 3%. So, we assume that would be similar year-on-year levels."* Companies that "can't" calculate their organic growth usually have something to hide about it.
xviii AHCO made only three major acquisitions in 2019. One was of a $33m revenue company (Gould's) on the first day of the year, one was of a $26m revenue company (SleepMed), and one was a company whose revenue was not provided but whose price was $25m, and which our later math suggests had an annual run rate of fewer than $25m in revenues…and this was acquired in the last quarter of the year.
xix 10-Q for Q121, "Subsequent Events" footnote.
xx 8-K from 11-14-2019, table showing significant acquisitions including purchase accounting (to impute prices paid) and trailing revenues.
xxi https://www.sec.gov/news/press-release/2021-23
xxii https://www.sec.gov/Archives/edgar/data/0001725255/000104746919004803/a2239495zprem14a.htm#ce43801_selected_historical_fi__ce402269
xxiii https://www.sec.gov/Archives/edgar/data/1725255/000104746919005852/a2239918zdefm14a.htm
xxiv SleepMed. On July 5, 2019, AdaptHealth Holdings purchased certain assets relating to the durable medical equipment business of SleepMed Therapies, Inc. ("SleepMed") for total consideration of $15.4 million, consisting of $11.4 million in cash and $4.0 million in potential earn-out payments. SleepMed is headquartered in Atlanta, GA and provides positive airway pressure devices and related supplies to customers in their homes or other alternative site care

facilities. At the time of the acquisition, SleepMed had annual revenues of approximately $26 million based on the results for the 12 months ended June 30, 2019.
[xxv] https://www.valueinvestorsclub.com/idea/ADAPTHEALTH_CORP/7087062625#description
[xxvi] https://www.sec.gov/smallbusiness/goingpublic/EGC
[xxvii] June 29th 8k from AHCO.
[xxviii] https://www.linkedin.com/in/nick-gargano-81115338/
[xxix] https://www.linkedin.com/in/andrewpalan/
[xxx] https://www.reuters.com/world/europe/denmark-charges-another-six-us-uk-over-tax-fraud-scheme-2021-04-13/