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VieMed Healthcare, Inc.
Second Quarter 2022 Earnings Call
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Presenters
Casey Hoyt, CEO
Todd Zehnder, COO

Q&A Participants
Brooks O'Neil – Lake Street Capital Markets
Doug Cooper – Beacon Securities
Prasath Pandurangan - Bloom Burton

Operator
Greetings, and welcome to VieMed Second Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded.
I would now like to turn this conference over to your host, Mr. Todd Zehnder, COO. Thank you, sir. You may begin.

Todd Zehnder
All right. Thank you. Good morning, everyone. Please note that our remarks in this conference call may include forward looking statements under the U.S. federal securities laws or forward looking information under applicable Canadian securities legislation, which we collectively refer to as forward looking statements. Such statements reflect the company's current views and intentions with respect to future results or events and are subject to certain risks and uncertainties which could cause actual results or events to vary from those indicated in forward looking statements.

Examples of such risks and uncertainties are discussed in our disclosure documents filed with the SEC or the securities regulatory authorities in certain provinces of Canada. Because of these risks and uncertainties, investors should not place undue reliance on forward looking statements. The forward looking statements made in this conference call are made as of today, and the company undertakes no obligation to update or revise any forward looking statements except as required by law. The second quarter financial news release, including the related financial statements, are available on the SEC's website.

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Now I'll turn it over to Casey to get things started.

Casey Hoyt
Okay. Thank you, Todd. Good morning, everyone, and thank you for joining our call today. As always, we'd like to begin by acknowledging and thanking the dedicated team of respiratory therapists, behavioral health specialists, staffing professionals, and administrative support staff who work tirelessly to deliver the best-in-class care to our patients living within the communities we serve. As of June, our VieMed family grew to 715 employees, a 25% increase over the number of employees a year before. We expect to continue to grow our labor force through strong retention of our existing employees and by identifying and recruiting top talent throughout the country.

In addition to investments in our workforce, we are investing heavily in inventory and supplies in response to the pent-up demand coming out of the COVID-19 pandemic. Our renewed unrestricted access to referral sources and partners resulted in robust growth during the second quarter, a trend that we expect to continue based on feedback from the field. It's clear that health systems continue to struggle to address the demand for all services across the care spectrum. Overcrowding in physical facilities, labor shortages, and supply chain constraints are reinforcing the critical need for the home-based care solutions that we provide to patients. Our strong relationships with manufacturers, our well-trained labor force, and our innovative approach to care and data capture is demonstrating to partners that VieMed is a premier solution to larger-scale population health programs.

Previously published confirmed -- previously published studies confirmed to our partners that our services are real drivers of improving health outcomes and preventing hospital readmissions. The latest research published by Respiratory Medicine Journal also shows that noninvasive ventilation in the home significantly reduces overall health care costs. According to the recently released peer-reviewed medical study, when patients are placed on noninvasive ventilation within the first week of diagnosis, total annual Medicare spending was reduced by 12%, while risk of death was simultaneously reduced by 43%. We were anxiously awaiting the publication of the results, and we are now incredibly excited to share the benefits with providers and referral sources.

During the second quarter, our sales force was provided with robust training on the pre-published results of the study in preparation for the official June 29th release. Our team is currently in the field executing on a national rollout of the new study, communicating with referral sources the need to get patients immediately on therapy after diagnosis. This is a very powerful message to physicians and payers, one that demonstrates we cannot afford to wait to try and fail other forms of lesser therapy upon determining of chronic respiratory failure diagnosis.

We also continue to see positive momentum in the regulatory environment. During the second quarter, we announced the successful appeal of the findings from the OIG report. While we have always maintained that the findings in the report were completely unsubstantiated, the success of the appeal sends a clear message to our external stakeholders that VieMed has consistently provided a true industry best standard of care.

In the first half of the year, we identified a tremendous opportunity and successfully executed on a capital strategy to buy back common shares at an incredible value. As the value of our equity shares approach pre-OIG report levels, our capital allocation strategies are able to shift towards acquisitive and transformative initiatives. Therefore, I'm extremely excited about the recently announced addition of two key executives to lead our acquisition and strategic partnership activities. We're currently developing our acquisition infrastructure and working closely with a number of potential acquisition targets to execute on these transactions when the capital environment stabilizes. As each month passes without action in the administrative window to institute a competitive bidding process for the 2024 round, the likelihood of implementation becomes less probable.

CMS' annual inflation adjustments to the reimbursement rates also create regulatory relief in the current operating environment of rising costs across the industry and economy. The inflationary cost increases are nearly impossible to avoid and are having an impact on short-term profitability. Inflation-based annual statutory reimbursement rate resets are expected to counteract the long-term impact. We further believe that most of the repricing effects on our costs have already peaked. We believe that top line revenue growth will quickly offset the inflationary cost increases in recent periods.

During the first half of the year, most of the increases in our costs were associated with the hiring and retention of our labor force to support our significant organizational growth. Our organic expansion has helped us to create an internal promotional opportunity -- many internal promotional opportunities for our existing employees to grow their careers within the organization, while simultaneously developing our people and minimizing the turnover. Our sales-based performance compensation arrangements with existing employees has also helped us to retain top talent while keeping up with a good pace of growth.

We continue to seek innovative ways to invest in our people so that we create an organization where all employees want to belong. Our external recruiting efforts continue to benefit from the impressive growth of our health care staffing division. We were able to enter in nine new territories during the first half of 2022 as a result. VieMed Healthcare Staffing has sourced approximately a third of the new sales hires in 2022, and we are extremely proud of the growth of the incremental revenue producing staffing activities as well.

We are significantly diversifying our portfolio mix through the strong growth of non-vent products and services. While margin percentages have also been impacted by the evolution of our product mix, we are seeing the positive long-term benefits of revenue synergies based on the diversification of our portfolio. For example, the growth of the oxygen business serves as a wellspring for ventilator patients as disease states progress. Our behavioral health division is having a considerable impact on the compliance rates and length of stay on existing ventilator patients. We are also seeing similar results from our proprietary remote patient engagement technologies currently connected to 45% of our ventilator patients following the ongoing national rollout.

Our high-touch, high-tech model creates strong relationships with patients that can evolve over the course of their care journey. While many other corporations and sectors are preparing for a possible recession by slowing investments, we believe there is significant and growing demand for the cost-effective, life-saving services that we provide. We will continue to invest in our ability to meet this demand and serve the patients in need.

With more on our operations, financials, the buyback, and the regulatory landscape, I will now turn the call over to our Chief Operating Officer, Todd Zehnder.

Todd Zehnder
All right. Thank you, Casey. When reviewing the financial results, all figures are in U.S. dollars and the full results have been made available on the SEC website as well as SEDAR.

Our core business generated net revenue of $33.1 million during the second quarter of 2022 as compared to net revenues of $26.3 million in the second quarter of '21, which equates to a 26% increase. Our sequential growth for the core business was 10%. We've once again seen solid growth in our major product lines being vents, PAPs, and oxygen. Our COVID-related revenue was only $200,000 for the quarter as we have seen the needs for these services go down as the country gets back to normal post the pandemic.

Our margin percentages, both gross and EBITDA, are once again very healthy and are now back to being just from the core business lines. We continue to see our margin profile be influenced by our ever-changing product mix and have staffed up for the significant growth that we are currently seeing. Our gross and EBITDA margins during the quarter came in at 61% and 19%, respectively. Our second quarter gross and EBITDA amounts came in at $20.4 million and $6.5 million, respectively. We are once again encouraged by the rapid growth of our oxygen and sleep businesses as they continue to benefit from our ongoing national rollout of these products.

Our second quarter revenue from vents was approximately 69% of our core revenue as compared to 79% in the second quarter of 2021. Importantly, our vent revenue has grown during the same time, but the product diversification is beginning to show up more and more each quarter. To put this in further context, our second quarter vent-active patient growth was the highest quarterly growth since the second quarter of 2019.

The impressive stat is that we have now doubled our total rental patients, which includes vents, vests, O2 and PAPs, since the beginning of the pandemic. We see our organic growth ramping back up to even greater levels now that access is not an issue and are extremely pleased with the recent vent patient growth. Our SG&A for the quarter totaled approximately $17.5 million as compared to $12.9 million in the second quarter of 2021.

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We have ramped up hiring to serve our growing patient count around the country and expand our organic growth model in new areas. As we continue to grow our ancillary product lines, we should see cost efficiencies through scale as well as the positive effects of offering a wide array of respiratory products around the country. We, like most companies, are seeing inflationary effects across the board, but have managed those as much as possible while continuing to offer superior clinical care to our growing patient count.

For the quarter, we invested approximately $7 million on capital expenditures. The CapEx continues to be spent across all of our major product lines as we continue to grow all products and manage this through a diversified supplier network. As we have managed through the lengthy pandemic as well as the Philips recall, we are happy that we have maintained adequate supplies to service our growing patient base. We will continue to diligently monitor supply chain issues in the future in order to maintain adequate inventory levels. We've once again funded all the CapEx through discretionary cash flow during a quarter where organic patient growth is as high as we've seen in a couple of years.

We continue to have a pristine balance sheet, where at June 30, we had a cash balance of $22 million and an overall working capital of $24 million. Our total long-term debt remains at $4.3 million, and we have continued executing on the stock buyback. As mentioned last quarter, we began our buyback efforts on the previously disclosed board-approved buyback.

During the second quarter, we bought back 960,689 shares for total expenditures of approximately $5.1 million. As of June 30, we had purchased 1.35 million shares out of the total available approximately 2 million shares under the plan. We are pleased that we've been able to execute on our organic growth strategy as well as our stock buyback, all while remaining an extremely low leverage company.

Moving on to the ongoing OIG and CMS issue related to our NIV claims, we are continuing to work through the process of finalizing the results on these claims. Importantly, during the second quarter, we received the results from the qualified independent contractor, whereby they ruled that the patients in question actually were deemed medically necessary. There are eight patients that have been deemed ineligible for several factors and the company has filed the next level of appeal on these patients, which is going to the ALJ. While we continue to seek a resolution to this issue, the company has reduced the total exposure for this review to approximately $1.1 million.

Moving over to the third quarter. We've provided net revenue guidance in the $34.5 million to $35.5 million range, all related to our core business. Our core revenue is guided up 24% to 28% over the third quarter of 2021.

With that, I'm going to turn it back over to Casey to wrap things up.

Casey Hoyt

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Okay. Thank you, Todd. Looking back to the second quarter, we really began to see some interesting trends with our hospital and physician referral-source partners. Hospital bed capacity seems to be at an all-time high despite the relief around the country from the COVID patients filling beds. Yes, there was certainly pent-up demand from patients just getting back in to see their doctors, but our hospital partners are giving us no indication that they will be receiving any kind of relief anytime soon.

Health systems are all expressing that the growing Medicare population is driving the majority of the hospital bed demand. Unfortunately, the health systems struggle with this demand as Medicare patients tend to be more needy, making them less profitable. This trend has ignited many hospital-at-home and strategic partnership conversations with home care providers across the country. At VieMed, we have been developing these programs for our hospital partners, and we'll continue to pursue a new way of treating more patients in the home in greater volumes.

Our other strategy of treating patients in higher volumes is to partner with our payers through value-based and population health contracts. We've begun to see many technology-related platforms in great positions to collect and collaborate with leading disease management companies across the country. Rather than trying to be a company who treats every disease state for all people, these technology platform companies are looking to partner with leading disease management companies who can perform care with the human touch. Again, at VieMed, we are uniquely positioned as a respiratory thought leader who has the data that reflects cost savings and superior clinical care.

In closing, our organic growth strategy is as strong as it's ever been and growing at a fast rate. We have proven that we can recruit and retain a best-in-class employee base to support our growth. While we are experiencing inflationary cost pressure, our management team is laser-focused on creating operational efficiencies that maximize our capacity to help reduce this exposure as we look to grow through this challenge. With the help of our diversification products, we have doubled our patient count since the pandemic began. So we have a huge opportunity to expand patient satisfaction and our clinically oriented VieMed brand throughout the communities that we serve.

Perhaps the most exciting piece to all of this is that we have yet to grow through acquisitions, and we see a major opportunity to do so in teaching our organic model to others as we bring them into the fold. With regulatory headwinds at an all-time low, the future seems extremely bright for VieMed. We thank all of you on the call who have placed your trust in our company, and we look forward to continue to add shareholder value throughout 2022 and beyond.

This concludes our prepared remarks. I want to thank everyone for taking time to join our call today and look forward to answering further questions. Thank you.

Operator

At this time, we'll be conducting a question and answer session. If you would like to ask a question, please press star one on your telephone keypad; a confirmation will indicate your line is in the question queue. You may press star two to remove your question from the queue. For participants using speaker equipment, it may be necessary for you to pick up your handset before pressing the star keys. One moment while we pull for questions.

Our first question comes from the line of Brooks O'Neil with Lake Street Capital Markets. You may proceed with your question.

Brooks O'Neil
Good morning, guys. Sorry, I was sleeping on the job there. Good quarter. Good progress. I'm excited for all you're doing.

Todd Zehnder
Thank you.

Casey Hoyt
Thank you, Brooks.

Brooks O'Neil
So let's just talk about a couple of things. I'm guessing maybe one reason the stock is down today is the jump in the SG&A line. And you guys talked about it, what's going on, what you're doing to drive organic growth, but how do you think about that line in terms of the future? Are you thinking about absolute dollar levels? Are you thinking about SG&A as a percentage of the revenue you expect to get? And do you expect to continue to grow SG&A spending in absolute dollars aggressively for the rest of the year?

Todd Zehnder
Yes, I'll take that, Brooks. The answer is, we think about it in both ways. We're always monitoring -- we always monitor G&A as a percentage of our revenue. And that's just historically the way we've analyzed it and have not been as concerned about the gross amount because revenue was always growing faster. I think we're in a period where we turned the organic engine on again, and it's always more expensive on the front end of our growth is what we've historically seen, along with inflationary items. I mean everything from hiring new people is costing more money, retaining people is costing more money, commissions are at an all-time high because growth is at an all-time high. And then the things like travel and fuel and all those things that are hitting us just combine to, I guess, what I'd call, somewhat of a perfect storm.

We are managing that. We're looking at what we can stabilize from a headcount standpoint on the back half of the year and be very strategic to make sure that we're getting the revenue contribution out of our G&A dollars as much as possible. So we're not putting our head in the sand about it. We want to reverse the trend, but we're also not going to quit growing G&A because it is the fuel for our future revenue growth. We're just -- we're going to have to be a little bit more diligent in the back half of the year to make sure we can get those margins back at a level where we want them to be.

Brooks O'Neil
Sure. That's perfect. I understand that. It sounds like you're doing all the right things. Let's talk just a little bit about availability of labor. It doesn't sound like you're having difficulty finding good people out there, but comment on that, if you will, and availability of equipment. Obviously, the Philips recall, but it doesn't sound like you're having great difficulty getting the equipment you need to service the patients, but talk about that, if you will.

Casey Hoyt
Yes. We're executing on both of those. The people really points back to the good work that VieMed Healthcare Staffing is doing, our new division. They've gotten really good at understanding what makes a successful VieMed sales rep, respiratory therapist, clinically, so on and so forth. And we're very pleased with them being able to hire a third of the workforce basically in the second quarter. We expect that number to increase. We expect it to take less pressure off of our current internal recruiting efforts, which really fall on our regional sales managers, it frees them up to manage more people, to hold more folks accountable, and really get these new people up and running at a faster rate. So by -- our goal is by 2023, we'd like VieMed Healthcare Staffing to take over all recruiting efforts. Right now, it's kind of a combined effort.

So very fortunate to have that resource to not be in a pinch to find good people. As you know, Brooks, you've been with us for a while, that is the driver to our organic growth strategy. The faster we find salespeople, the faster we get incremental new areas up and running, and that's why we've been able to add nine new areas here this year.

As it relates to equipment, we -- it's still the same story as it was last quarter. We have equipment for our patients. We have not been able to not put out equipment for a patient in need up at this point. We've got inventory on the shelves ready to go for future growth. Our strategy, whenever the Philips recall began, was to do a patient acquisition movement throughout the country. Rather than going out and spending the money on buying distressed companies, we wanted to go out and really capture those patients who were sitting on waiting lists in need. We were able to do that. We doubled our patient count. A lot of it came from sleep from since the pandemic began. And so we're pleased with where we're at on that. We're not having any restraints as it is right now.

The only thing that we struggle with is we've got a little bit of an internal process going to where we have to get machines back to Philips, they've got to fix them and get them back up and running, get the foam out of the back of the machine, then we've got to get it out back into the field. But our referral sources are not affected by that nor are our patients.

Brooks O'Neil
Perfect. Let me just ask you one more. I appreciate the color. So it sounds like you've got the OIG investigation pretty much under control. If I was listening properly, $1.1 million kind of estimated future exposure. Can you just talk about how you think about that in terms of -- at what point do you kind of blow the whistle and call the game off and say, okay, let's meet in the middle and settle this and move our separate ways. Or is it a point of important principle for the future that you feel you have to fight to the bitter end?

Todd Zehnder
It's really the latter. It's about our name at this point, Brooks. We -- and it's truthfully, it's -- the lift at this point is pretty minimal. We're down to just talking about eight patients. And we've already filed that with the ALJ. So basically, it's just us and a judge and anybody from the government talking about eight specific patients, which we feel very comfortable that we'll have a positive outcome.

So the time that we've spent on this, the time that we have outside help spending on it is definitely at a minimal pace now. And truthfully, we kind of feel like this whole issue is relatively in the rearview mirror now. But we want to finish the race and clear our name. I think at the end of the day, the most positive thing for us and our industry is we now have learned from another audit that we're doing the right thing and treating the right patients. And we've always been confident and have always said that. It's unfortunate we had to go through the situation that we've gone through, but it does "vindicate" us that we have been doing the right thing and we continue to do the right thing. And it's just -- it's not a whole lot of work to finish it, but we are going to finish this.

Brooks O'Neil
Okay. Makes sense. Let me just ask one more, sorry. So you hired these two guys from your neighbor at LHC Group. Just talk a little bit more about the opportunity for acquisitions and whether you think it's the right time to be pulling the trigger on something here, this year or into 2023?

Casey Hoyt
Yes. We're very excited about Jeremy Trahan and Michael Freeman. We made an official announcement for those on the call that would like to brush up on their backgrounds, but the short story is that these guys together were at the lead of over $1.9 billion worth of acquisitions for LHC and handled 100 acquisitions in-house. So they bring a lot of experience on just internal processes that we need to get ready in order to start flipping these fish into the boat, for lack of a better term. We've got a target list for them to get going on. They are developing a plan to really get to those folks. They're using a lot of their old contracts to start finding new targets for us as well.

And so this is really the beginning of a dedicated team to the M&A strategy, whereas before, we were all somewhat moonlighting on that growth strategy. Now it's a dedicated team with direct responsibilities of acquiring folks and developing strategic partnerships with hospital partners and health systems throughout the country that we can be just more relevant to their continuum of care to the home.

This is also something that they had experience with LHC. So we're just -- we're blessed to have that here in our small town of Lafayette. They had a shakeup over there across the street with United purchasing them. And so the timing was right for them to come and really start what they did over there at VieMed all over from ground zero, if you will.

Brooks O'Neil
Great. Thank you very much for taking my questions.

Casey Hoyt
Thanks, Brooks.

Operator
Our next question comes from the line of Doug Cooper with Beacon Securities. You may proceed with your question.

Doug Cooper
Hey, good morning, guys. Just following along from -- well start off with following on from the SG&A topic. I guess according to your MD&A, you had 715 full-time employees at the end of Q2 versus 662 in Q1, so that's up 8%, where G&A was up 10%. So you could see it's the majority is head count, I guess, in my opinion. So where do you see staffing -- full-time staffing going over the next couple of quarters?

Todd Zehnder
It's going to continue to grow as we continue to expand, but I think you're going to see the absolute headcount slow down some. We've really added quite a few positions that are related to these growing product lines. We've hired quite a few more oxygen or delivery drivers around the country as that business has expanded. We were stressing the RTs from a patient count standpoint, so we've had to hire some drivers. We've had to hire some more back-office people because, like I said, we've doubled the rental patients.

So it's just taking more people to do the task in the home office as well, billing, intake, working with insurance companies, all those type things. So I think that we've hired a big wave of people to help with that growing patient base. So I don't see the absolute growth in the back half of the year that you've seen over the last quarter or two.

Doug Cooper
Maybe I'll come at in another way, too. So the revenue in the quarter is just over $33 million. Growth is back up to that sort of 25% plus. If I look out four quarters, and assuming the top line revenue growth continues, what

kind of EBITDA flow through would you expect from that incremental revenue? In other words, what do you -- can you get EBITDA margins in, say, in four quarters from now back up to 22%, 23%? Is that a realistic target?

Todd Zehnder
I would definitely say that's what we're shooting for. I can't say that that's guidance. But the other factor to this is, as you guys know, we will get our -- I mean, the thing that will go straight to the bottom line is when we get our CPI adjustment from the first quarter of '23. We're not waiting on that to work on our margins, but the inflation base was 9.1% at the end of June. So we'll wait and see what the actual adjustment is, but we are due to have a pretty good rate increase from CMS, which translates into most of our commercial payers as well. But just without that, I would tell you that we are going to grow revenue and we're going to -- we will start to normalize G&A as a percentage. So I think you're going to see us work towards -- getting back into the low 20s here over the next couple -- three quarters.

Doug Cooper
Okay. Maybe just on that CPI adjustment. This quarter, revenue per active vent patient on an annual basis was, by my calculation, $14,625, which is a record, and that's up from $13,270 last year. And I guess part of that is due to maybe some product mix. How high can that vent per average vent patient go?

Todd Zehnder
Yes. I mean you heard me quote it, we went from 79% in the second quarter of 2021, contribution of vents is 69%. So when that -- the PAPs, oxygen, and vests primarily get 10 extra percentage points, that's obviously going to drive that up. So the revenue per vent patient will be driven by, a, how much we're getting reimbursed for vents; and then b, how much of these ancillary products make up of the contribution.

So it could go way higher if we went to 50-50, let's say. But our goal at this point is to get vents growing again at the same rate as these other product lines. That's obviously going to help with margin. It's going to be -- it will show that these other products are doing what they're supposed to do, which is entering patients into the VieMed cycle earlier in their disease state.

Doug Cooper
And speaking of vent patients, you finished the quarter with 8,837. Is that a number you think by the end of the year can sort of be north of 9,000, 9,200, 9,300? Is that a possible number?

Todd Zehnder
Absolutely. I mean, look, we grew at 400 sequentially. We're not taking our foot off the gas on that. I would like to think that we can do that again this quarter and hopefully next, but we'll just have to wait and see.

Doug Cooper

Okay. And my final -- maybe the final question on M&A. You talked in the past about not looking to acquire a company right in your core competency or another vent company. What sectors, in particular are you focused on?

Casey Hoyt

Well, I mean, that's not entirely true. We would consider another vent company as well in a region that we're not in, with insurance contracts that we don't have, Doug. So we don't turn our nose up to just a strictly vent company, but we're still looking for respiratory type durable medical equipment businesses that are inclusive of the majority of the products that we sell. We know that we might pick up a product line or two that we don't really manage over here at VieMed, but we certainly have the legacy DME knowledge and the teammates here in house to kind of work through all of those processes. But we're really looking at all DMEs throughout the country at this point just to see if we can find a good fit.

Doug Cooper

Okay. Maybe my last -- sorry, my last one. You mentioned, Casey, you're in nine new territories. Can you just remind us how many states you're in right now and what states you would like to enter in the next, call it, 12 months?

Casey Hoyt

Doug, I mean, I know the last time I looked at it, it was still at like 45, but it could be higher right now. I don't -- I think I'm getting the signal it might be 48 states right now. So don't quote me on that. But yes, we're pretty close to having total lower 48 coverage right now.

Doug Cooper

Okay. So in particular, is the -- like from an M&A perspective, for example, if you're looking to a company who was in a region that you weren't particularly in or not as strong in, what would that region be in from your wish list?

Casey Hoyt

I'll just give you an example, like New York State is a state that we would have to have a brick-and-mortar facility with a working storefront and so on and so forth. We have patients in that state and we have therapists in that state treating folks. So technically, we would call that a state that we're in. However, we're not really doing the business that we know we need to be doing in New York State.

We made a strong push in Florida. I think we've got some really good coverage now in Florida. That used to be a state that we weren't in. But we might have four or five, maybe six reps, something like that in Florida right now that are really doing well. And then California is still weak for us. We've got a couple of people over there and a handful of patients, but by no means are we making any movements in California. So these are good areas that are examples of where we might seek an M&A opportunity.

Doug Cooper
Okay. Sorry, one more if I can, just Philips came out the other day, I guess it was a week or so ago, and gave some sort of positive outlook on fixing the recall issue. ResMed stock has certainly perked up over the past couple of weeks, maybe on the back of that. Can you just talk a little bit about the supply, should we see it easing at all?

Todd Zehnder
On the vent side, we've never had an issue, as you know. I mean, there is -- like Casey mentioned on the call, we are repairing the foam, which is a process that we just had to transfer it back to Philips and that's ongoing. On the PAP side, we haven't seen new PAP shipments yet, but we're still anticipating -- I think the formal guidance they're giving us is later in the fourth quarter. We should get -- we should have the ability to get Philips PAPs again. We've been very progressive on the PAP side to where we were very acquisitive and got on a pretty good distribution early through the cycle. So we luckily or I guess, proactively not had that issue but it will be nice to get Philips back in the game from a PAP standpoint and have everybody contributing to the supply issues that are out there.

Doug Cooper
All right, thanks guys.

Todd Zehnder
All right, Doug.

Operator
Our next question comes from the line of Prasath Pandurangan with Bloom Burton. You may proceed with your question.

Prasath Pandurangan
Hi, good morning. Thanks for taking the questions. First, you've talked about the evolving product mix. Could you expand a little bit specifically in terms of the near-term guidance about the mix of ventilator and other durable medical equipment rentals going forward and the impact of this on margins?

Todd Zehnder
Yes, I would expect to continue to see a little bit of increased contribution from the oxygen and sleep businesses as we are seeing the benefits of our sales force around the country distributing that. But the vent patient growth that we saw in this quarter and what we're kind of seeing coming in the third quarter, to me, is showing a stabilization of that percentage some. I don't exactly know quarter-to-quarter where it's going to go, but I could see it trickling down a little, but I don't see it going down 10% like it has over the last 12 months. That's just rapid growth from the other products.

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So if we stay close to where we are or down a little bit, that will put a little bit of continued margin pressure on our percentages. Obviously, the notional amounts are going to keep going up. But I think that kind of like what I was telling either Brooks or Doug earlier, I think the offset is that the G&A is going to stabilize as we've ramped up headcounts for those divisions. I think we've got a pretty good crew of people at this point to adequately take on more growth. And so I would expect over time our margins to start creeping back up.

Prasath Pandurangan
Yes. Yes, that sounds fair. And could you talk about potential COVID response sales from the future as the disease becomes more endemic, with periodic spikes due to new variants, as we head into the fall?

Todd Zehnder
Yes. We're hopeful that the mass need for our COVID services is behind us. We've always said that it was good while it lasted, but we won't be -- we want patient access and physician access to be there. If it comes from an inventory standpoint, we're clearly ready to serve and to help different facilities.
And then the other thing is our call center. I mean we've clearly -- we've laid that down, if you will, but we can stand it right back up. We've got experience. And so those were the majority of the revenue drivers and we don't see a growing need for that right now. I would say the other piece that we're ready for is if there are hotspots and they are in a need for people, now that we have VieMed Healthcare Staffing up and running and effectively doing what they do, if there are COVID hotspots that need help, we could serve as a resource there.

Prasath Pandurangan
Great. Thank you.

Todd Zehnder
Thanks.

Operator
Ladies and gentlemen, we have reached the end of today's question and answer session. I would like to turn this call back over to Mr. Casey Hoyt for closing remarks.

Casey Hoyt
Okay. Thanks, everyone, for joining the call. We appreciate your participation and certainly appreciate the thoughtful questions coming from everyone as well. Let us know if we can be of help, feel free to reach out. Thank you.

Operator
This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, enjoy the rest of your day.

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