

Protech Home Medical Corp.^{1,11}

BUY

PTQ-TSXV

June 30, 2020

Last: **C\$1.14**
Target: **C\$2.00**

Cash balance boosted for potential M&A

M&A playbook works with 17 assets integrated and expected to resume:

We are resuming coverage on PTQ following a \$31.8mm financing that included insider participation. The pro forma cash position is expected to be around \$40mm, providing significant fire power for potential M&A. PTQ's CEO has integrated 17 assets with an M&A playbook that works, leading to good acquisitions at fair valuation. PTQ moves quickly to integrate these assets by consolidating distribution, rationalizing back office and duplicate functions, decreasing COGS through its larger purchase volume program, optimizing billing procedure and increasing sales resources. As a result, PTQ's acquisition multiples paid post-synergies is between 1x to 5x EBITDA, illustrating a value creating strategy. We also note a recent widening disconnect in valuation between PTQ and its peers at 6-7x forward EBITDA vs. ~12x. We expect PTQ valuation to re-rate higher as results continue to show scale benefits but also as the company acquires, given the track record of success. PTQ's business is showing resilience during COVID-19 as well, given its healthcare infrastructure-like offering for home care. **BUY.**

About PTQ and thesis: PTQ provides home medical equipment, supplies and services in the U.S., including oxygen and ventilator therapy (~40% of sales) and sleep therapy (~40% of sales), along with custom mobility equipment. We see PTQ as providing important solutions in keeping people healthy and out of the hospital or for early discharges, increasingly important now. PTQ's healthcare equipment also helps bridge virtual care with recent changes in Telehealth. More broadly, we see PTQ as a healthcare infrastructure company, evident in the stability of results, essential service status and recent reimbursement support by Medicare and Medicaid. Although the industry is competitive, PTQ has advantages as a solid operator with strong service, increasing scale and use of technology. We forecast that PTQ will continue a high-growth trajectory both organic and through M&A to \$113mm in sales next year (16% 2yr CAGR) with a path to double the business within 3-5 years.

Rating: We maintain a BUY rating and \$2.00 target based on 10x 2021 EBITDA. We modeled in the net cash contribution and dilution from the \$31.8mm financing that did not materially impact our target price. M&A is expected to resume in the near term, where the CEO has a solid track record and experience in acquiring and integrating good assets. As the M&A strategy plays out, we expect margin expansion and greater cash generation with scale. Exchange up-listings may also support higher valuation. **BUY.**

What's Changed	Old	New
Rating	BUY	n.c.
Target	\$2.00	n.c.
Revenue F2020E (mm)	\$95.3	n.c.
Revenue F2021E (mm)	\$112.6	n.c.
EPS f.d. F2020E	-\$0.02	n.c.
EPS f.d. F2021E	\$0.05	\$0.03

Share Data	
Share o/s (mm, basic)	83.6
52-week high/low	1.19/0.47
Market cap (C\$m)	\$140.7
*Enterprise value (C\$m)	\$125.5
Dividend	nil
Dividend yield	n.a.
Projected return	75%

Financial Data	2019	2020E	2021E
FYE Sept 30			
Revenue (mm)	\$81.0	\$95.3	\$112.6
EV/Revenue	1.5x	1.3x	1.1x
EBITDA (mm)	\$14.9	\$18.3	\$21.5
EV/EBITDA	8.4x	6.9x	5.8x
EPS f.d.	(\$0.09)	(\$0.02)	\$0.03
P/E	n/a	n/a	22.0x
FCFPS	-\$0.02	\$0.02	\$0.06
P/FCF	n/a	75.3x	15.7x
Net debt	\$12.7	(\$15.3)	(\$32)
Net debt/EBITDA	0.9x	n/a	n/a
Book value	\$19.1	\$50.1	\$56.5
P/BV	7.3x	2.8x	2.5x

All figures in C\$ unless otherwise noted
*Pro-forma net cash position

[Current Chart](#)
[Previous Research](#)

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