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RESEARCH NOTE

April 21, 2020

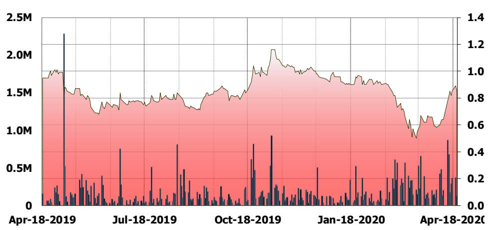
PROTECH HOME MEDICAL CORP. (PTQ – TSXV, $0.86)

Rating: BUY
Target Price: $2.30

WELL-POSITIONED DURING AND AFTER COVID

PROTECH HOME MEDICAL CORP.			TSXV:PTQ
(Currency is C$ unless noted otherwise)			
Last Price ($)			$0.86
Target Price ($)			$2.30
Return to Target			167%
52-Week Trading Range ($)			$0.47 - $1.19
Average Daily Volume (90-Day)			242.5K
MARKET INFO			
Shares Outstanding (M)			83.6
Market Capitalization ($M)			$72
Enterprise Value ($M)			$94
FYE: SEP 30	**F2019A**	**F2020E**	**F2021E**
Revenue ($M)	$81	$96	$110
Gross Margin	71%	73%	73%
Net Income ($M)	($7)	($1)	$4
Diluted EPS ($)	($0.09)	($0.01)	$0.04
Adj. EBITDA ($M)	$15	$19	$24
Cash ($M)	$13	$15	$21
Debt ($M)	$17	$20	$22
VALUATION	**F2019E**	**F2020E**	**F2021E**
EV/Revenue	1.2x	1.0x	0.9x
EV/EBITDA	6.4x	4.9x	3.9x
RELATIVE VALUATION (EV/EBITDA)	**F2019E**	**F2020E**	**F2021E**
N. American Small Cap Health Care	12.0x	8.7x	6.9x
MAJOR SHAREHOLDERS			
Management & Insiders (5%), Claret Asset Management (8.14%), Quadrant Capital Group (3.12%), Greg Crawford (4.59%), StoneCastle Investment M (0.53%)			
DISCLOSURE CODE:			2
(Please refer to applicable disclosures on the back page)			

Source: M Partners, Capital IQ



Protech Home Medical Corp. is a Kentucky-based distributor of durable medical equipment (DME) across 10 states and 13,000 referring physicians in the U.S. Protech's focus on service offerings that take advantage of favourable demographic trends in the U.S. should support strong organic growth for many years. PTQ can also leverage its financial strength and unique positioning in the market to acquire smaller businesses in a rapidly consolidating industry.

Protech Home Medical has issued a couple of press releases over the past two weeks with updates regarding the impact of the ongoing COVID-19 pandemic on its business in the United States. These releases have strengthened our conviction that PTQ is one of the best investment opportunities in the current business environment.

As indicated on its first business update on March 18, Protech is part of a critical infrastructure industry. Thus operations have largely continued at a normal - or in some cases accelerated - pace. PTQ's position in the healthcare system offers hospitals the ability to free up capacity by sending patients home for health care needs when possible. While Protech is not selling directly to hospitals, it is using its referral network and existing patient base to expedite the shift from hospital to home care for patients unaffected by COVID-19. To meet this influx in demand, Protech has accelerated its purchases of respiratory equipment in particular, with no issues in receiving orders despite indicated shortages of ventilators in the United States. On April 13, another press release indicated that the uptick in demand had continued, and we believe that demand for some products may be up over 30% vs. last year (offset by declines in some business like sleep labs). To support the expanded inventory purchases, PTQ received a C$1.5M grant as part of the CARES Act Provider Relief Fund. In the same time frame, the Centers for Medicare and Medicaid Services (CMS) removed non-invasive ventilators from the 2021 Competitive Bidding Program to facilitate patient access. These products were to be included in the bidding program for the first time after this past year's hiatus, and the addition would have pressured margins on those products. Ventilators in total account for 17% of Protech's revenues. The vast majority of these revenues are from non-invasive ventilators, though Medicare/Medicaid is not the only payor.

On April 20, the series of positive press releases continued with the announcement of receipt of C$5.97M under the Payroll Protection Program administered by the U.S. Small Business Administration. The loan has a two-year term and bears interest payable at 1% annually after 6 months. Most importantly, the loan is forgiven if the proceeds are used to cover payroll, rent and utilities in the following 8-week period. As a result, management anticipates full loan forgiveness, and these funds cover roughly half of the quarterly SG&A expenses.

In essence, PTQ has received $7.5M in cash injections over the past two weeks, on top of its existing cash of $8.4M at the end of Q1. We also believe it is a possibility that health care businesses obtain

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further grants considering the stress on the U.S. health care system. While we are expecting higher levels of spending on inventory in Q2 and Q3 at PTQ, these government programs should support a strong balance sheet on top of our expectations of positive cash flow (after payments on finance leases) by Q4.

We anticipate Q2 results released in May to be supported by nearly full integration of the Acadia and Cooley Medical businesses acquired in late 2019, resulting in 6% top-line growth YoY despite the exclusion of the Patient Home Monitoring business which was sold later in the summer of 2019. There will likely be a significant uptick in inventory considering purchases were made near the end of the quarter to prepare for the acceleration of COVID-19 at the end of March. However, we anticipate the coming quarters will benefit from these purchases and higher demand from hospital outpatients.

Amidst a very challenging environment, we believe PTQ's position has only strengthened, and it will emerge with a more attractive balance sheet. Further, we also anticipate that once conditions stabilize, Protech will be able to find even more appealing terms for potential acquisition targets. We also believe that the COVID-19 pandemic has alerted the wider public to U.S. hospitals' capacity issues and the importance of administering home health care when possible. This situation could cause a wider, accelerated shift to home care in which Protech would stand to benefit. We also anticipate that the mass production of ventilators to treat COVID-19 will result in an oversupply once the pandemic subsides, and could push prices down for future inventory purchases.

Despite it's enviable positioning in the currently uncertain economic environment, Protech continues to trade very cheaply relative to peers at 4.9x our 2020 EBITDA estimate and 3.9x 2021 EBITDA. As the business approaches a $100M run-rate on revenues, with the balance sheet to make meaningful acquisitions, we do not expect the valuation discount to persist. **We are maintaining our BUY recommendation and $2.30 target based on 9.0x 2021 EBITDA.**

Disclosure Code: 2

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