

October 26, 2020

PROTECH HOME MEDICAL CORP. (PTQ-TSXV, \$1.54)

Rating: **BUY**
New Target Price: **\$2.50**

INVESTORS CAN SLEEP WELL HOLDING THIS ONE

Old Target Price: **\$2.40**

PROTECH HOME MEDICAL CORP.		PTQ	
<i>(Currency is C\$ unless noted otherwise)</i>			
Last Price (\$)			\$1.54
Target Price (\$)			\$2.50
Return to Target			62%
52-Week Trading Range (\$)		\$0.47 /	\$1.59
Average Daily Volume (90-Day)			433.3K
MARKET INFO			
Shares Outstanding (M)			111.8
Market Capitalization (\$M)			\$172
Enterprise Value (\$M)			\$147
FYE: SEP 30	F2019A	F2020E	F2021E
Revenue (\$M)	\$81	\$101	\$132
Gross Margin	71%	73%	73%
Net Income (\$M)	(\$7)	(\$3)	\$5
Diluted EPS (\$)	(\$0.09)	(\$0.02)	\$0.05
Adj. EBITDA (\$M)	\$15	\$21	\$29
Cash (\$M)	\$13	\$28	\$43
Debt (\$M)	\$17	\$19	\$22
VALUATION	F2019A	F2020E	F2021E
EV/Revenue	1.8x	1.5x	1.1x
EV/EBITDA	10.0x	6.9x	5.1x
RELATIVE VALUATION (EV/EBITDA)	F2019A	F2020E	F2021E
N. American Small Cap Health Care	16.0x	12.0x	10.2x
DISCLOSURE CODE:			2, 6
(Please refer to applicable disclosures on the back page)			
Website: https://www.protechhomemedical.com/			
Source: M Partners, Capital IQ, Bloomberg, Company Documents			



Protech Home Medical Corp. is a Kentucky-based distributor of durable medical equipment (DME) across 10 states, with 110,000 active patients and 17,000 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.

This morning Protech Home Medical announced that it has acquired Sleepwell LLC, a sleep services-focused DME company in the Southeast and Ohio. We note the non-binding LOI was previously announced on September 8. Sleepwell offers equipment and supplies within the sleep therapy segment and has a strong re-supply business.

Under the terms of the definitive purchase agreement, PTQ will acquire Sleepwell for total consideration of \$14.4M (\$9.3M in cash and \$5.1M in shares). The \$5.1M in shares is being issued at \$1.47/share and is payable as 2.5M shares on January 4, 2021 (subject to a 10-month hold) and up to 982K shares on August 31, 2022 (subject to a 4-month hold). Sleepwell reported unaudited trailing 12-month revenue of approximately \$13M and adjusted EBITDA of approximately \$3.25M, implying acquisition multiples of 1.1x sales and 4.4x adjusted EBITDA. Upon integration, PTQ expects Sleepwell to contribute \$13M in revenue and \$3.4-4M in adjusted EBITDA annually.

The total consideration of 4.4x adjusted EBITDA is higher than Protech's previous acquisitions (HTR was 3.3x, Acadia was 2.9x and Cooley was 2.4x), however is still immediately accretive. The higher purchase price reflects the strong financial performance of Sleepwell and the scale of its business. Sleepwell strengthens Protech's positioning in Georgia and the Southeast and extends Protech's reach to Dayton, Ohio (800K metro population). Additionally, Sleepwell adds 15K active patients and brings a diversified referral source and payor base, and a strong recurring revenue platform. Sleepwell's owner Dave McLeod will also join the Protech team as Director of Sleep Services.

In sum, this marks another encouraging acquisition from Protech, and given the Company's financial flexibility, not the last to come. Protech's balance sheet remains strong with ~\$28M in cash and is further supported by US\$20M in untapped liquidity from the revolving credit facility with CIT Bank.

We do not model any acquisitions in our forecasts, and as such, we are increasing our outlook for FY21. We now model revenue of \$131.8M and adjusted EBITDA of \$29M. Management has guided the Company is currently at run-rate revenue of \$120-125M and run-rate adjusted EBITDA of \$26-30M.

Despite the recent improvements to its balance sheet and string of accretive acquisitions Protech continues to trade very cheaply at 6.9x our 2020 EBITDA estimate and 5.1x 2021 EBITDA. We believe as PTQ continues to successfully execute upon its M&A strategy, this valuation gap will narrow.

In light of the acquisition, we are maintaining our BUY recommendation and increasing our target price to \$2.50/share (from \$2.40/share) based on 9.0x 2021 EBITDA.

Disclosure Code: 2, 6

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