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RESEARCH NOTE

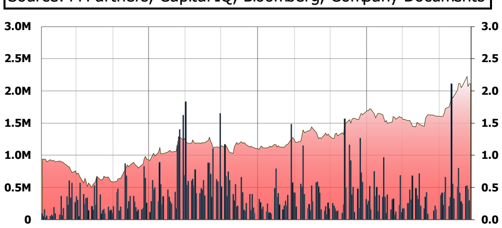
February 1, 2021

PROTECH HOME MEDICAL CORP. (PTQ–TSXV, $1.93)

Rating: BUY
New Target Price: $3.50
Old Target Price: $2.50

Q4 FINANCIAL RESULTS – SET FOR A CATALYST RICH 2021

PROTECH HOME MEDICAL CORP.			PTQ
(Currency is C$ unless noted otherwise)			
Last Price ($)			$1.93
Target Price ($)			$3.50
Return to Target			81%
52-Week Trading Range ($)		$0.47 /	$2.28
Average Daily Volume (90-Day)			401.4K
MARKET INFO			
Shares Outstanding (M)			114.8
Market Capitalization ($M)			$222
Enterprise Value ($M)			$197
FYE: SEP 30	**F2020A**	**F2021E**	**F2022E**
Revenue ($M)	$98	$132	$158
Gross Margin	73%	72%	72%
Adj. EBITDA ($M)	$21	$29	$38
Net Income ($M)	($7)	$7	$17
Diluted EPS ($)	($0.07)	$0.08	$0.18
MOST RECENT QUARTER			**Sep-20**
Revenue ($M)			$25.0
Gross Margin			73%
Adj. EBITDA ($M)			$5.9
Net Income ($M)			($3.0)
Cash ($M)			$39.0
Debt ($M)			$33.7
VALUATION	**F2020A**	**F2021E**	**F2022E**
EV/Revenue	2.0x	1.5x	1.2x
EV/EBITDA	9.5x	6.8x	5.2x
EV/EBITDA	**F2020A**	**F2021E**	**F2022E**
North American Small Cap Health Care	15.9x	11.8x	10.6x
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.

Protech Home Medical reported its Q4/20 financial results this morning. We note that preliminary results were released on November 30. Protech delivered revenue below expectations and its own preliminary guidance; however, we recognize this is due to $1.6M of revenue being reclassified as other income (related to the COVID Relief Fund). Nonetheless, the Company's revenue run-rate continues to grow and now sits at $125M, which does not include the LOI announced on January 5. Moreover, the quarter was strong from an operational standpoint – PTQ's customer base increased to 44,185 unique patients (up 35% YoY), respiratory resupply set-ups/deliveries to 19,613 (up 54% YoY) and equipment set-ups to 68,909 (up 29% YoY). Additional highlights from Q4 include:

- Revenue of $25M vs. guidance of $26.1-26.5M and $25.9M in the prior quarter. The miss is due to the aforementioned revenue reclassification, in addition to negative FX effects.
- Gross margin of 73%, in line with our expectations of 73% and an improvement from 71% in Q3/20.
- Adjusted EBITDA of $5.9M (24% margin) vs. guidance of $5.6-6.1M and $5.5M (21%) last quarter. The margin falls directly inline with the Company's target of 22-25%. Management believes this to be a sustainable level moving forward.
- Net loss from continuing operations was $2.2M vs. our expectations of net income of $0.7M and a loss of $3.7M in Q3/20.
- CFO was $17.6M for the year ended in September. PTQ ended the quarter with a cash balance of $39M.

On January 5, Protech announced an LOI to acquire a Southern based respiratory home care services company that generated $7M in trailing revenue, positive adjusted EBITDA and positive NI. The acquisition provides an entry into a new Southern State and adds over 10,000 active patients. The target's product mix is heavily weighted towards respiratory products (over 85%), and its payor mix is stable and diverse (no more than 50% coming from one particular source). The acquisition also provides cross selling opportunities (of over 5,000 patients) that can be added to Protech's existing subscription-based resupply program. Closing is expected this week.

Our thesis remains intact – Protech continues to boast a strong balance sheet ($28M in cash and US$20M in untapped liquidity from CIT Group) that it intends to continue deploying on accretive acquisitions. With 6,000 DME providers in the U.S. PTQ has no shortage of targets. The Company emphasized that its focus continues to be on profitable $5-20M revenue companies, implying room for several more M&A opportunities with the Company's available liquidity.

Additionally, Protech is currently pursuing an uplisting to the NASDAQ which will increase PTQ's exposure and accessibility to U.S. capital markets. As a result, we believe Protech presents a unique buying opportunity ahead of U.S. institutional fund flows. **We are maintaining our BUY recommendation and increasing our target price to $3.50/share (from $2.50/share) based on 11x 2022 EBITDA (from 9x 2021 EBITDA).**

Paul Piotrowski
416.603.7381 x283
ppiotrowski@mpartners.ca

Disclosure Code: 2, 6

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