

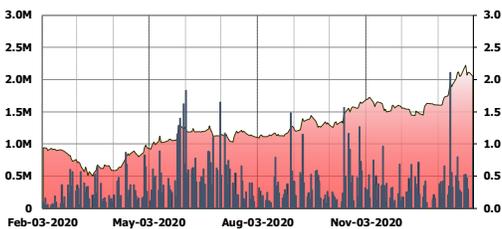
February 2, 2021

PROTECH HOME MEDICAL CORP. (PTQ-TSXV, \$2.10)

Rating: **BUY**
Target Price: **\$3.50**

ACCRETIVE ENTRANCE INTO THE SUNSHINE STATE

PROTECH HOME MEDICAL CORP. PTQ	
<i>(Currency is C\$ unless noted otherwise)</i>	
Last Price (\$)	\$2.10
Target Price (\$)	\$3.50
Return to Target	67%
52-Week Trading Range (\$)	\$0.47 / \$2.28
Average Daily Volume (90-Day)	405.5K
MARKET INFO	
Shares Outstanding (M)	114.8
Market Capitalization (\$M)	\$241
Enterprise Value (\$M)	\$236
FYE: SEP 30	F2020A F2021E F2022E
Revenue (\$M)	\$98 \$136 \$164
Gross Margin	73% 72% 72%
Adj. EBITDA (\$M)	\$21 \$30 \$39
Net Income (\$M)	(\$7) \$8 \$18
Diluted EPS (\$)	(\$0.05) \$0.06 \$0.14
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	2.4x 1.7x 1.4x
EV/EBITDA	11.3x 7.9x 6.0x
EV/EBITDA	F2020A F2021E F2022E
North American Small Cap Health Care	16.1x 12.1x 10.9x
DISCLOSURE CODE:	2, 6
<i>(Please refer to applicable disclosures on the back page)</i>	
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 11 states, with 120,000 active patients and 17,000 referring physicians in the U.S. Recently, PTQ's focus has been on leveraging its financial strength and unique positioning to acquire smaller businesses in a rapidly consolidating industry.

This morning Protech Home Medical announced that it has acquired Mayhugh's Medical Equipment (MME), a Florida based respiratory home care services company (the non-binding LOI was first announced on January 5). MME marks another accretive acquisition for Protech and the Company's entrance into its 11th state and 49th location. MME strengthens PTQ's reach in the Southeast and provides immediate access to Jacksonville (1.5M metro population). Additionally, the transaction:

- Increases PTQ's run-rate revenue to \$130-135M. We now anticipate Protech to record a top line of \$136M in 2021.
- Increases PTQ's run-rate EBITDA to \$26-30M. We now expect EBITDA of \$30M (22% margin) in 2021.
- Increases Protech's active patient count to 120K (from 110K) and unique referrals to 17K.

Under the terms of the definitive purchase agreement, PTQ will acquire MME for total consideration of \$5.8M (\$2M cash and \$3.8M in assumed liabilities). MME reported unaudited trailing 12-month revenue of approximately \$7M and adjusted EBITDA of approximately \$1.2M, implying acquisition multiples of 0.8x sales and 4.8x adjusted EBITDA. Upon integration, PTQ expects MME to contribute \$7M in revenue and \$1.4-1.8M in adjusted EBITDA annually. PTQ will leverage its existing infrastructure and payor contracts to drive the margin improvements in MME.

We believe Protech has once again found great value, this time in MME at 4.8x adjusted EBITDA. While the multiple is generally higher than previous acquisitions, it reflects MME's profitability and significant active patient count. We outline recent acquisition multiples below:

- Sleepwell (October 2020) – 1.1x sales and 4.4x adjusted EBITDA
- HTR (August 2020) – 1.0x sales and 3.3x adjusted EBITDA
- Acadia (December 2019) – 0.6x sales and 2.9x adjusted EBITDA
- Cooley (October 2019) – 0.4x sales and 2.4x adjusted EBITDA

We view the MME deal as very strategic given the synergies and cross-selling opportunities – over 5,000 patients can be immediately added to Protech's existing subscription-based resupply program. MME also adds a very attractive payor mix (no more than 50% coming from one particular source) and product mix (over 85% respiratory).

Following this acquisition, we estimate PTQ still has over \$25M in cash on the balance sheet plus an additional US\$20M in untapped liquidity from the revolving credit facility with CIT Bank. As a result, we expect PTQ to remain active as an acquirer, driving continued revenue and EBITDA growth in 2021.

We believe that as PTQ closes further accretive acquisitions and uplists to the NASDAQ, shares will re-rate closer to peers. **We are maintaining our BUY recommendation and target price of \$3.50/share based on 11x 2022 EBITDA.**

Disclosure Code: 2, 6

Disclosure

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