

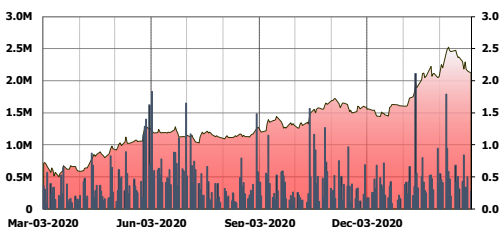
March 2, 2021

PROTECH HOME MEDICAL CORP. (PTQ-TSXV, \$2.20)

Rating: BUY
Target Price: \$3.50

Q1 RESULTS – LAYING THE GROUNDWORK FOR A NATIONAL DME

PROTECH HOME MEDICAL CORP. PTQ	
<i>(Currency is C\$ unless noted otherwise)</i>	
Last Price (\$)	\$2.20
Target Price (\$)	\$3.50
Return to Target	59%
52-Week Trading Range (\$)	\$0.47 / \$2.54
Average Daily Volume (90-Day)	443.4K
MARKET INFO	
Shares Outstanding (M)	115.4
Market Capitalization (\$M)	\$253.8
Enterprise Value (\$M)	\$255.3
FYE: SEP 30	F2020A F2021E F2022E
Revenue (US\$M)	\$72.6 \$103.3 \$123.9
Gross Margin (%)	73% 73% 72%
Adj. EBITDA (US\$M)	\$15.5 \$23.7 \$29.7
Net Income (US\$M)	(\$4.8) \$3.3 \$10.5
MOST RECENT QUARTER Dec-20	
Revenue (US\$M)	\$22.8
Gross Margin (%)	73%
Adj. EBITDA (US\$M)	\$5.1
Net Income (US\$M)	\$0.2
Cash (US\$M)	\$23.6
Debt (US\$M)	\$24.8
VALUATION	F2020A F2021E F2022E
EV/Revenue	2.8x 2.0x 1.6x
EV/EBITDA	13.1x 8.5x 6.8x
EV/EBITDA	F2020A F2021E F2022E
North American Small Cap Health Care	16.4x 12.8x 11.0x
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.

Protech Home Medical reported its Q1/21 financial results this morning. We note this is Protech's first quarter reporting in USD. The quarter once again demonstrated the potential of PTQ's organic growth strategy (organic growth was up 5% QoQ) and M&A strategy with partial contributions from the SleepWell acquisition. Organic growth in the quarter was largely driven by the respiratory resupply business. Management expects continued organic strength in 2021 with the reopening of sleep labs and an expansion of its sales force. Average recurring revenue was also notable this quarter at 75% of total revenue. It is important to note that figure only factors in partial contributions from SleepWell and as PTQ integrates the acquisition the mix of recurring revenue as a percentage of total will continue to improve.

Strong quarterly results were supported by continued operational growth in PTQ's customer base (up 33% YoY to 51,836 unique patients), respiratory resupply set-ups/deliveries (up 160% YoY to 34,996) and unique set-ups/deliveries (up 22% YoY to 76,691). Additional highlights from Q4 include:

- Revenue of US\$22.8M vs. our expectations of US\$22.6M and US\$18.8M in the prior quarter. The growth is attributable to strength in respiratory resupply and partial contributions from recent M&A.
- Gross margin of 73% vs. our expectations of 72% and 73% in Q4.
- Adjusted EBITDA of US\$5.1M (23% margin) vs. our expectations of US\$4.9M (22%) and US\$4.5M (24%) last quarter. Management expects to be able to maintain EBITDA margins over 22%.
- Net income from continuing operations of US\$229K vs. our expectations of US\$247K and a loss of US\$2M in Q4.
- CFO for the quarter of US\$2.8M. PTQ ended Q4 with a cash balance of US\$23.6M and US\$20M in undrawn credit from the CIT facility.

On the earnings conference call, management provided a 12-month run-rate target for revenue of US\$135M and adjusted EBITDA margins over 22%. Within three to five years, management expects Protech to topline over US\$250M at 25% adjusted EBITDA margins. The Company currently sits at a revenue run-rate of over US\$100M and with ~10% organic growth per year PTQ will need to close US\$25M in acquisitions to hit the run-rate target. Given the strength of PTQ's balance sheet (US\$23.6M in cash and US\$20M in undrawn credit) and quantity of accretive acquisition opportunities, we believe US\$135M is more than achievable.

While PTQ will continue to focus on acquisition opportunities in the \$5-20M range, management emphasized a separate focus on larger, transformational acquisitions of multi-state operators. We applaud the more aggressive strategy and believe that management's track record of accretive M&A should give investors confidence as PTQ pursues larger opportunities.

We are encouraged by the strong financial results and commentary from management and continue to view Protech as one of the most compelling investment opportunities in the durable medical equipment space. **We are maintaining our BUY recommendation and target price of \$3.50/share based on 11x 2022 EBITDA.**

Disclosure Code: 2, 6

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