

Protech Home Medical Corp.^{1,11}

BUY

PTQ-TSXV

July 29, 2020

Last: C\$1.14
Target: C\$2.00

Home care in focus ahead of U.S. election

Competitive bid for oxygen/sleep therapy not seen as impactful: We see PTQ's low valuation (7x 2020 EBITDA vs. peers at ~12x) as in part related to a Medicare competitive round of bidding for home oxygen and sleep therapy solutions that is currently in progress. ~10% of PTQ's revenue is subject to potential pricing changes from the bid but with perceived higher exposure. The Centers for Medicare and Medicaid Services (CMS) recently deferred non-invasive home ventilators from the competitive bid program until 2024 and we believe a similar situation could play out for oxygen and sleep therapy. Home care has become of increasing focus ahead of the U.S. election and a potential second wave of COVID-19, where related services are seen as lower cost healthcare infrastructure but also important in freeing up capacity at hospitals. As a result, we believe that there will be a minor pricing impact if the bid were to proceed or if the bid were deferred, similar to home ventilators. PTQ's valuation is low ahead of the potential outcomes at 7x EBITDA with an opportunity to re-rate higher towards peers at 12x. We also believe that PTQ will continue acquiring smaller companies with an M&A playbook that works after a recent \$32mm financing.

M&A playbook works with 17 assets integrated and expected to resume:

PTQ's forma cash position is expected to be around \$40mm, providing significant fire power for potential M&A. PTQ's CEO has integrated 17 assets with an M&A playbook that works, leading to good acquisitions at fair valuation. PTQ moves quickly to integrate these assets by consolidating distribution, rationalizing back office and duplicate functions, decreasing COGS through its larger purchase volume program, optimizing billing procedure and increasing sales resources. As a result, PTQ's acquisition multiples paid post-synergies is between 1x to 5x EBITDA, illustrating a value creating strategy. We expect PTQ valuation to re-rate higher as results continue to show scale benefits but also as the company acquires, given the track record of success. PTQ's business is showing resilience during COVID-19 as well, given its healthcare infrastructure-like offering for home care.

Rating: We maintain a BUY rating and \$2.00 target based on 10x 2021 EBITDA. We do not see a material impact from a Medicare competitive round of bidding that may be deferred entirely. M&A is also expected to resume in the near term, where the CEO has a solid track record of integrating good assets. PTQ recently disclosed strong preliminary Q2 results as well with 20% growth and 20% EBITDA margins, showing resilience in the business, despite COVID-19. **BUY.**

| What's Changed | Old | New |
|---------------------|---------|------|
| Rating | BUY | n.c. |
| Target | \$2.00 | n.c. |
| Revenue F2020E (mm) | \$95.3 | n.c. |
| Revenue F2021E (mm) | \$112.6 | n.c. |
| EPS f.d. F2020E | -\$0.02 | n.c. |
| EPS f.d. F2021E | \$0.03 | n.c. |

| Share Data | |
|--------------------------|-----------|
| Share o/s (mm, basic) | 83.6 |
| 52-week high/low | 1.19/0.47 |
| Market cap (C\$m) | \$140.7 |
| *Enterprise value (C\$m) | \$125.5 |
| Dividend | nil |
| Dividend yield | n.a. |
| Projected return | 75% |

| Financial Data | | 2019 | 2020E | 2021E |
|-----------------|----------|----------|---------|-------|
| FYE Sept 30 | | | | |
| Revenue (mm) | \$81.0 | \$95.3 | \$112.6 | |
| EV/Revenue | 1.5x | 1.3x | 1.1x | |
| EBITDA (mm) | \$14.9 | \$18.3 | \$21.5 | |
| EV/EBITDA | 8.4x | 6.9x | 5.8x | |
| EPS f.d. | (\$0.09) | (\$0.02) | \$0.03 | |
| P/E | n/a | n/a | 22.0x | |
| FCFPS | -\$0.02 | \$0.02 | \$0.06 | |
| P/FCF | n/a | 75.3x | 15.7x | |
| Net debt | \$12.7 | (\$15.3) | (\$32) | |
| Net debt/EBITDA | 0.9x | n/a | n/a | |
| Book value | \$19.1 | \$50.1 | \$56.5 | |
| P/BV | 7.3x | 2.8x | 2.5x | |

All figures in C\$ unless otherwise noted
*Pro-forma net cash position

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