

## Protech Home Medical Corp.

BUY

PTQ-TSXV

May 13, 2020

Last: C\$1.12  
Target: C\$2.00

## FLASH: Investor call notes

## \$100mm revenue run-rate business with \$200mm goal

- Summary:** We hosted investor calls with PTQ's CEO and continue to see a compelling investment case for essentially an undervalued infrastructure company within healthcare at ~6x EBITDA. PTQ has a goal to double its business in 3-5 years to \$200mm through M&A but also benefiting from favourable organic growth trends for home care. These trends may benefit further from recent changes in Telehealth, where PTQ can provide additional solutions to its patient base already in place. Combined, we see PTQ as having a solid operator and at an inflection point in both sales and market cap that should garner greater investor interest. We highlight key observations below.
- Goal to double business in 3-5 years:** PTQ sales have increased from \$70mm in 2018 to a \$100mm run-rate business and we forecast sales of \$111mm in 2021. Our estimates are conservative on the prospect of doubling the business to \$200mm in 3-5 years but we see the goal as achievable. PTQ expects 20-25% EBITDA margins at \$200mm in sales (~18% margins currently). Some back of the envelope math could suggest an EV of \$400mm+ if this goal is achieved.
- M&A a focus:** PTQ has been acquisitive with 11 transactions and is seeking smaller companies with sales of \$4mm-\$12mm and EBITDA margins of 5-10%. These target companies are generally under the radar of larger competitors and lead to good acquisitions at fair prices. As a result, PTQ typically acquires at 5x EBITDA and 2.5x post synergies.
- COVID-19 and supply chain:** COVID-19 has not materially impacted PTQ as an essential service, where demand has actually seen an uptick for certain products, including oxygen systems. PTQ moved quickly to shore up inventory, including home ventilator systems and does not see material near-term risk for the current growth forecasts.
- Takeout prospect:** We believe that PTQ will become an acquisition target as scale continues to build higher with about 10 larger peers as potential acquirers. We also see the CEO's prior exit of Patient Aids for \$32mm in 2016 as indication of another possible exit with PTQ ahead.
- Preliminary Q2 results:** On April 29, PTQ released strong preliminary Q2 results (end March 31) that will be reported on May 20<sup>th</sup>. PTQ expects \$24.0mm-\$24.3mm in sales and \$4.7mm-\$5.0mm in adj. EBITDA, along with \$1.5mm-\$1.7mm in net income. The growth rate is ~10% YoY with 20% EBITDA margins at the mid-point. This speaks to the resilient nature of PTQ's business and infrastructure-like essential service, where COVID-19 has not materially impacted operations.
- Rating and valuation:** PTQ trades at ~6x 2020 EBITDA, below a broad set of peers at 10x-12x EBITDA. We note that larger but close peers to PTQ, AdaptHealth and Viemed, also trade higher at ~12x. In our view, PTQ is an undervalued stock. We maintain our \$2.00 target based on 10x 2021 EBITDA. **BUY.**

## Share Statistics

Shares o/s (mm, basic)	83.6
52-week high/low	\$1.19/\$0.47
Market capitalization (mm)	C\$107
Projected return	79%

All figures in Canadian dollars, unless otherwise

[Current Chart](#)[Previous Research](#)Justin Keywood, CFA  
[jkeywood@stifel.com](mailto:jkeywood@stifel.com)

(416) 943-6658

Prepared by Stifel Nicolaus Canada Inc.

Stifel does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**All relevant disclosures and certifications appear on the last three pages of this report.**

## Important Disclosures and Certifications

Each research analyst and associate research analyst who authored this document and whose name appears herein certifies that: (1) the recommendations and opinions expressed in the research report accurately reflect their personal views about any and all of the securities or issuers discussed herein that are within their coverage universe; and (2) no part of their compensation was, is or will be, directly or indirectly, related to the provision of specific recommendations or views expressed herein.

All relevant disclosures required by regulatory rules (including The Investment Industry Regulatory Organization of Canada) and Stifel Canada's recommendation statistics and research dissemination policies can be obtained at [www.Stifel.com/Research](http://www.Stifel.com/Research) or by calling Stifel Canada's Compliance Department.

Stifel Canada will provide, upon request, a statement of its financial condition and a list of the names of its Directors and senior officers.

The superscript(s) following the issuer name(s) mentioned in this report refers to the company-specific disclosures below. If there is no such superscript, then none of the disclosures are applicable and/or required.

### Company-Specific Disclosures:

1. Stifel Canada or an affiliate has, within the previous 12 months, provided paid investment banking services to the issuer.
2. Stifel or an affiliate act as corporate broker and/or adviser to the Company.
3. Stifel Canada or an affiliate owns 1% or more of this issuer's securities.
4. An officer, director, or an employee of Stifel Canada or an affiliate is on the board of directors of the Company.
5. The analyst is related to an officer, director or advisory board member of this issuer.
6. The analyst has viewed the material operations of this issuer and the issuer paid all or a portion of the travel expenses associated with the analyst's site visit to its operations.
7. The analyst has viewed the material operations of this issuer.
8. The analyst and/or a member of their household has a position in this issuer's securities.
9. A member of the Board of Directors of this issuer is also a member of the Board of Directors of Stifel Canada.
10. The analyst owns this issuer's securities in a managed account but has no involvement in the investment decisions for that managed account.
11. Stifel Canada or an affiliate managed or co-managed a public offering of securities for the subject company in the past 12 months.
12. Stifel Canada or an affiliate expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
13. Stifel Canada or an affiliate is a market maker or liquidity provider in the securities of the subject company.

Stifel Canada Analysts are compensated competitively based on several criteria. The Analyst compensation pool is comprised of several revenue sources, including secondary trading commissions, new issue commissions, investment banking fees, and directed payments from institutional clients.

### The Stifel Canada research recommendation structure consists of the following ratings:

**Buy:** A Buy rating reflects 1) bullish conviction on the part of the analyst; and 2) typically a 15% or greater return to target.

**Speculative Buy:** A Speculative Buy rating reflects 1) bullish conviction on the part of the analyst accompanied by a substantially higher than normal risk, including the possibility of a binary outcome; and 2) typically a 30% or greater return to target.

**Hold:** A Hold rating reflects 1) a lack of bullish or bearish conviction on the part of the analyst; and 2) typically a return of 0 to 20%.

**Reduce:** A Reduce rating reflects 1) bearish conviction on the part of the analyst; and 2) typically a 5% or lower return to target.

**Tender:** Clients are advised to tender their shares to a takeover bid or similar offer.

### Additional Disclosures

Please visit the Research Page at [www.Stifel.com/Research](http://www.Stifel.com/Research) for the current research disclosures.

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of Stifel, or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed within. Past performance should not and cannot be viewed as an indicator of future performance.

As a multi-disciplined financial services firm, Stifel regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as a placement agent in private transactions.

### Affiliate Disclosures

This report has been prepared by Stifel Nicolaus Canada Inc. ("Stifel Canada"), which is authorized and regulated by the Investment Industry Regulatory Organization of Canada ("IIROC").

"Stifel", shall include our group affiliate companies: (i) Stifel, Nicolaus & Company, Incorporated ("SNC"); (ii) Keefe, Bruyette & Woods, Incorporated ("KBWI"), which are both U.S. broker-dealers registered with the United States Securities and Exchange Commission ("SEC") and members of the Financial Industry National Regulatory Authority ("FINRA"), respectively; (iii) Stifel Nicolaus Europe Limited ("SNEL"), which is authorized and regulated by the United Kingdom Financial Conduct Authority ("FCA") (FRN 190412) and is a member of the London Stock Exchange and also trades under the name Keefe, Bruyette & Woods Europe ("KBW Europe"); (iv) our MainFirst affiliates (collectively "MAINFIRST"): MainFirst Bank AG, which is regulated by the German Federal Financial Services Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; "BaFin"), MainFirst Schweiz AG, which is regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"), and MainFirst Securities US Inc. which is a U.S. broker-dealer registered with the SEC and a member of FINRA; and (v) Stifel Nicolaus Canada, Inc. ("Stifel Canada") which is authorized and regulated by Investment Industry Regulatory Organization of Canada (IIROC), and also trades under the names Stifel GMP & Stifel First Energy.

**Registration of non-US Analysts:** Any non-US research analyst employed by Stifel Canada contributing to this report is not registered/qualified as a research analyst with FINRA and is not an associated person of the US broker-dealer and therefore may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

### Country Specific and Jurisdictional Disclosures:

**Canada:** Stifel Canada is a member of IIROC and a participant of the TSX, and TSX Venture Exchange. 145 King Street West, Suite 300 Toronto, Ontario M5H 1J8 Tel: (416) 367-8600.

**United States:** Research produced and distributed by Stifel Canada is distributed by Stifel Canada to "Major US Institutional Investors" as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended.

**UK and European Economic Area (EEA):** This report is distributed in the EEA by Stifel Canada. Research produced by Stifel Canada is not intended for use by and should not be made available to non-professional clients.

In jurisdictions where Stifel is not already licensed or registered to trade securities, transactions will only be affected in accordance with local securities legislation which will vary from jurisdiction to jurisdiction and may require that a transaction is carried out in accordance with applicable exemptions from registration and licensing requirements. Non-US customers wishing to effect transactions should contact a representative of the Stifel entity in their regional jurisdiction except where governing law permits otherwise. US customers wishing to effect transactions should contact their US salesperson.

The securities discussed in this report may not be available for sale in all jurisdictions and may have adverse tax implications for investors. Clients are advised to speak with their legal or tax advisor prior to making an investment decision.

**Other countries:** circulation of this report may be restricted by laws and regulations in other countries and persons in receipt of this document must satisfy any relevant legal requirements in that country.

**Additional Information is Available Upon Request**

© 2020 Stifel Canada. This report is produced for the use of Stifel Canada customers and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Stifel Canada.