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Equity Research

Protech Home Medical Corp.[1,11]

BUY

PTQ-TSXV

July 20, 2020

Last: **C$1.20**
Target: **C$2.00**

FLASH: Preliminary Q3 results show strength

+20% sales growth, ~60% EBITDA growth (~20% margin)

- **Summary:** PTQ released record preliminary Q3 results (end June 30) with an expectation of $25.6-$25.9mm in sales and $5.3mm-$5.5mm in adj. EBITDA (~20% margin). We estimated $23.6mm in sales and $4.7mm in EBITDA (18% margin). The results indicate +20% YoY sales growth and ~60% in adj. EBITDA expansion, demonstrating PTQ's resilient and infrastructure-like business model during COVID-19. PTQ also recently closed a $31.8mm financing in June with good insider participation, where we expect the capital will be used for M&A in achieving greater scale and driving higher margins and cash flow. PTQ's CEO has integrated 17 assets with an M&A playbook that works, leading to good acquisitions at fair valuation. PTQ continues to trade at a wide disconnect to peers at ~7x 2020 EBITDA, vs. 14x and we expect results and M&A as catalysts to drive the stock higher. **BUY**.

Share Statistics

Shares o/s (mm, basic)	83.6
52-week high/low	$1.35/$0.47
Market capitalization (mm)	C$140.7
Projected return	67%

All figures in Canadian dollars, unless otherwise

Current Chart   Previous Research

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- **M&A playbook works with 17 assets integrated and expected to resume:** PTQ's pro 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.
- **About PTQ and thesis**: PTQ provides home medical equipment, supplies and services in the U.S., including oxygen and ventilator therapy (~40% of sales) and sleep therapy (~40% of sales), along with custom mobility equipment. We see PTQ as providing important solutions in keeping people healthy and out of the hospital or for early discharges, increasingly important now. PTQ's healthcare equipment also helps bridge virtual care with recent changes in Telehealth. More broadly, we see PTQ as a healthcare infrastructure company, evident in the stability of results, essential service status and recent reimbursement support by Medicare and Medicaid. Although the industry is competitive, PTQ has advantages as a solid operator with strong service, increasing scale and use of technology. We forecast that PTQ will continue a high-growth trajectory both organic and through M&A to ~$115mm in sales next year (16% 2yr CAGR) with a path to double the business within 3-5 years.
- **Rating and valuation:** PTQ trades at ~7x 2020 EBITDA, below a broad set of peers at 14x EBITDA. We note that larger but close peers to PTQ of AdaptHealth, Addus HomeCare and Viemed also trade higher at an average of 14x for these three companies. In our view, PTQ is an undervalued stock. We maintain our $2.00 target based on 10x 2021 EBITDA. **BUY.**

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