

## Research Update

October 26, 2020

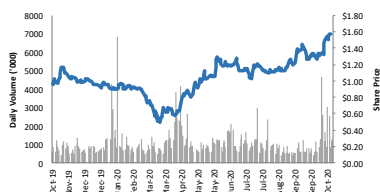
Rating:	BUY	(unchanged)
Target Price:	\$3.20 ↑	(previously \$2.60)
Last Price:	\$1.56	
Ticker:	PTQ-V	

### Market Data

Target return (incl. dist.):	105.1%
Dividend/yield:	\$0.00 / 0.0%
Shares outstanding (M):	110.1
Market capitalization (\$M):	172
Enterprise value (\$M):	159
52-week range (\$):	0.47 - 1.59
Last Fiscal year end:	Sep. 30, 2019
Average weekly volume:	617,492
Currency (unless otherwise indicated):	CAD

Forecast summary	F19A	F20E	F21E	F22E
<b>Revenue (\$M)</b>	81.0	100.6	128.3	156.6
Previous	99.3	113.7	125.1	
<b>Adj. EBITDA (\$M)</b>	14.8	20.3	26.1	32.2
Previous	20.1	22.5	25.0	
<b>EPS fd (\$)</b>	(0.08)	(0.03)	0.09	0.22
Previous	n/c	0.11	0.19	

Key trading multiples	F19A	F20E	F21E	F22E
EV/Revenue	1.0x	1.0x	1.2x	1.0x
EV/adj. EBITDA	10.8x	7.8x	6.1x	4.9x



	Q1	Q2	Q3	Q4	YE
<b>Revenue (\$M)</b>					
F2019	20.5	20.8	20.2	19.5	81.0
F2020	22.8	24.1	25.9	27.8	100.6
F2021	29.7	30.7	32.8	35.1	128.3
F2022	36.6	37.7	39.9	42.4	156.6
<b>Adj. EBITDA (\$M)</b>					
F2019	3.7	3.8	3.8	3.5	14.8
F2020	4.4	4.9	5.5	5.4	20.3
F2021	6.0	6.2	6.7	7.1	26.1
F2022	7.5	7.7	8.2	8.7	32.2
<b>EPS fd (\$)</b>					
F2019	0.0	(0.0)	(0.1)	0.1	(0.1)
F2020	(0.0)	0.0	(0.0)	0.0	(0.0)
F2021	0.0	0.0	0.0	0.0	0.1
F2022	0.0	0.0	0.1	0.1	0.2

shaded values above are iAS forecasts

### Company Profile

Protech Home Medical is a market-leading healthcare services company that aims to improve the home management of chronic illness by providing a diverse offering of home durable medical equipment (DME) and services to patients in the US.

Chelsea Stellick | [chelsea.stellick@iagto.ca](mailto:chelsea.stellick@iagto.ca) | 1.403.705.4982

## PTQ Can Sleepwell on Their Accretive Acquisition

### Event

Today before market open, PTQ announced the acquisition of Sleepwell, LLC (Sleepwell, Private).

### Highlights

- **Accretive acquisition.** PTQ announced it has acquired Georgia based Sleepwell for \$9.3M cash and \$5.1M in share consideration (at \$1.47/share). Sleepwell will add an additional \$13.0M in annualized revenues and \$3.4-4.0M in Adj. EBITDA with 25% Adj. EBITDA margins (PTQ ~20% Adj. EBITDA margins). This acquisition is highly accretive adding ~\$0.30/share in additional value.
- **The details.** Sleepwell is a sleep therapy business servicing patients in the State of Georgia and in addition it provides sleep services in Dayton, Ohio, representing a new market for Protech. The acquisition will add five new locations and three new markets lifting the Company's active patient count by 15,000. Following this acquisition, PTQ's active patient count will be ~110,000 active patients in 48 locations across 10 states.
- **The readthrough – sound quality of earnings.** This is a positive move for PTQ as it is a highly accretive acquisition. Sleepwell has a patient centric re-supply subscription-based model of which will compliment PTQ's current sleep therapy business segment. The sleep re-supply program is increasingly important during the COVID-19 pandemic and in the event of a second wave as most sleep labs were shut down temporarily or operating at reduced capacity. The sleep re-supply program adds more certainty in incoming revenue streams since it is more insulated from the impacts of pandemic.
- **Model updates.** We have updated our estimates to reflect the new acquisition and have rolled our valuation forward to F2021.

### Valuation & Bottom Line

Today before market open, PTQ announced the acquisition of Sleepwell, for \$9.3M cash and \$5.1M in share consideration. This is an accretive acquisition adding \$13.0M in revenues and \$3.4-4.0M in adj. EBITDA annualized. Sleepwell adds new locations and markets to PTQ's existing patient base. While many sleep businesses and labs were temporarily shut down as a result of the COVID-19 pandemic, Sleepwell's re-supply program provides more dependable income streams and more certainty, which will compliment PTQ's current sleep business. PTQ trades at a significant discount to its peers (~6.0x vs. ~11.0x F2021E EV/Adj. EBITDA), which we believe is unwarranted given its strong track record of successfully improving profitability; as such, we apply a 10.5x multiple on our F2021 Adj. EBITDA forecast, and have included the acquisition into our model overall resulting in our increased target price of \$3.20 (previously \$2.60). We maintain our Buy recommendation.

## Exhibit 1: Financial Snapshot

	Q1-19 Dec-18	Q2-19 Mar-19	Q3-19 Jun-19	Q4-19 Sep-19	F2019 Sep-19	Q1-20 Dec-19	Q2-20 Mar-20	Q3-20 Jun-20	Q4-20 Sep-20	F2020 Sep-20	F2021 Sep-21	F2022 Sep-22	F2023 Sep-23	F2024 Sep-24
<b>Balance Sheet</b> in C\$ thousands														
<b>Current Assets</b>														
Cash and cash equivalents	6,249	19,129	4,184	12,855	12,855	8,363	6,210	44,678	40,897	40,897	44,230	71,775	102,894	139,167
Accounts receivable	14,963	17,201	15,942	12,390	12,390	11,778	15,047	12,572	14,517	14,517	18,333	22,119	26,553	31,710
Other	7,935	8,350	7,070	5,538	5,538	7,166	8,897	9,617	8,221	8,221	10,253	12,185	14,690	17,506
<b>Total Current Assets</b>	<b>29,147</b>	<b>44,680</b>	<b>27,196</b>	<b>30,783</b>	<b>30,783</b>	<b>27,307</b>	<b>30,154</b>	<b>66,867</b>	<b>63,635</b>	<b>63,635</b>	<b>72,816</b>	<b>106,079</b>	<b>144,138</b>	<b>188,383</b>
<b>Asset held for distribution</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Non Current Assets</b>														
Property and equipment, net	20,701	19,523	18,976	19,590	19,590	25,280	26,128	22,381	22,097	22,097	19,797	12,907	9,848	8,886
Goodwill	2,803	2,770	2,548	1,881	1,881	5,377	5,744	5,505	6,005	6,005	10,405	10,405	10,405	10,405
Intangible assets, net	3,296	3,076	2,863	2,911	2,911	2,619	2,685	2,417	2,745	2,745	2,057	1,369	681	-
<b>Total Non Current Assets</b>	<b>26,800</b>	<b>25,369</b>	<b>24,387</b>	<b>24,382</b>	<b>24,382</b>	<b>33,276</b>	<b>34,557</b>	<b>30,303</b>	<b>30,847</b>	<b>30,847</b>	<b>32,259</b>	<b>24,681</b>	<b>20,934</b>	<b>19,291</b>
<b>Total Assets</b>	<b>55,947</b>	<b>70,049</b>	<b>51,583</b>	<b>55,165</b>	<b>55,165</b>	<b>60,583</b>	<b>64,711</b>	<b>97,170</b>	<b>94,482</b>	<b>94,482</b>	<b>105,075</b>	<b>130,760</b>	<b>165,072</b>	<b>207,674</b>
<b>Current Liabilities</b>														
Trade payables and accrued liabilities	10,292	11,100	10,181	10,441	10,441	12,881	14,498	12,581	15,608	15,608	18,237	21,120	24,627	28,704
Financial lease payable	7,796	8,843	8,404	8,528	8,528	10,659	8,873	9,883	10,852	10,852	2,570	3,932	5,967	6,314
Other liabilities	659	8,460	552	-	-	-	-	7,596	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>18,747</b>	<b>28,403</b>	<b>19,137</b>	<b>18,969</b>	<b>18,969</b>	<b>23,540</b>	<b>23,371</b>	<b>30,060</b>	<b>26,460</b>	<b>26,460</b>	<b>20,807</b>	<b>25,052</b>	<b>30,594</b>	<b>35,017</b>
<b>Liabilities held for distribution</b>														
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Non Current Liabilities</b>														
Long-term finance lease obligations	11,527	17,151	6,775	3,081	3,081	5,211	7,727	5,597	5,257	5,257	8,002	10,086	9,511	8,793
Debtentures	-	-	10,039	13,966	13,966	14,696	12,147	15,461	15,461	15,461	15,461	15,461	15,461	15,461
Deferred tax liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	241	243	249	249	249	249	249	249	249
<b>Total Non Current Liabilities</b>	<b>11,527</b>	<b>17,151</b>	<b>16,814</b>	<b>17,047</b>	<b>17,047</b>	<b>20,148</b>	<b>20,117</b>	<b>21,307</b>	<b>20,967</b>	<b>20,967</b>	<b>23,712</b>	<b>25,796</b>	<b>25,221</b>	<b>24,503</b>
<b>Total Liabilities</b>	<b>30,274</b>	<b>45,554</b>	<b>35,951</b>	<b>36,016</b>	<b>36,016</b>	<b>43,688</b>	<b>43,488</b>	<b>51,367</b>	<b>47,428</b>	<b>47,428</b>	<b>44,519</b>	<b>50,848</b>	<b>55,815</b>	<b>59,521</b>
<b>Shareholders' Equity</b>														
Total Shareholders' Equity	25,673	24,495	15,632	19,149	19,149	16,895	21,223	45,803	47,055	47,055	60,556	79,911	109,257	148,153
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>55,947</b>	<b>70,049</b>	<b>51,583</b>	<b>55,165</b>	<b>55,165</b>	<b>60,583</b>	<b>64,711</b>	<b>97,170</b>	<b>94,482</b>	<b>94,482</b>	<b>105,075</b>	<b>130,760</b>	<b>165,072</b>	<b>207,674</b>
<b>Income Statement</b> in C\$ thousands														
<b>Revenue</b>														
Sale of medical equipment and supplies	9,300	9,000	8,700	8,300	35,300	9,862	10,105	10,600	9,524	40,091	44,594	49,053	53,958	59,354
Rental of medical equipment / patient monitoring	11,200	11,900	11,500	11,200	45,800	12,907	13,996	15,269	18,300	60,472	83,752	107,557	136,369	170,863
<b>Total Revenue</b>	<b>20,500</b>	<b>20,800</b>	<b>20,200</b>	<b>19,500</b>	<b>81,000</b>	<b>22,769</b>	<b>24,101</b>	<b>25,869</b>	<b>27,824</b>	<b>100,563</b>	<b>128,346</b>	<b>156,609</b>	<b>190,327</b>	<b>230,217</b>
Cost of Revenue	6,200	6,100	6,100	5,100	23,500	6,029	6,502	7,437	7,958	27,926	35,513	43,010	52,268	63,222
<b>Gross Profit</b>	<b>14,300</b>	<b>14,700</b>	<b>14,100</b>	<b>14,400</b>	<b>57,500</b>	<b>16,740</b>	<b>17,599</b>	<b>18,432</b>	<b>19,867</b>	<b>72,638</b>	<b>92,833</b>	<b>113,599</b>	<b>138,058</b>	<b>166,996</b>
<b>Operating Costs</b>	<b>14,400</b>	<b>14,300</b>	<b>23,300</b>	<b>8,200</b>	<b>60,200</b>	<b>17,159</b>	<b>17,428</b>	<b>18,149</b>	<b>18,054</b>	<b>70,790</b>	<b>82,587</b>	<b>92,439</b>	<b>106,815</b>	<b>126,252</b>
<b>Net income from continuing operations before fi</b>	<b>(100)</b>	<b>400</b>	<b>(9,200)</b>	<b>6,200</b>	<b>(2,700)</b>	<b>(419)</b>	<b>171</b>	<b>283</b>	<b>1,812</b>	<b>1,847</b>	<b>10,246</b>	<b>21,160</b>	<b>31,243</b>	<b>40,743</b>
<b>Financing expenses</b>	<b>400</b>	<b>760</b>	<b>2,050</b>	<b>410</b>	<b>3,620</b>	<b>604</b>	<b>620</b>	<b>300</b>	<b>649</b>	<b>2,173</b>	<b>2,244</b>	<b>2,347</b>	<b>2,571</b>	<b>2,646</b>
<b>Net income from continuing operations before t</b>	<b>(500)</b>	<b>(360)</b>	<b>(11,250)</b>	<b>5,790</b>	<b>(6,320)</b>	<b>(1,758)</b>	<b>2,100</b>	<b>(3,682)</b>	<b>1,163</b>	<b>(2,177)</b>	<b>8,002</b>	<b>18,813</b>	<b>28,672</b>	<b>38,097</b>
Recovery for income taxes	(60)	160	30	140	270	-	44	49	(15)	78	(106)	(250)	(382)	(507)
<b>Net income from continuing operations after tax</b>	<b>(440)</b>	<b>(200)</b>	<b>(11,220)</b>	<b>5,650</b>	<b>(6,050)</b>	<b>(1,758)</b>	<b>2,056</b>	<b>(3,731)</b>	<b>1,179</b>	<b>(2,254)</b>	<b>8,109</b>	<b>19,064</b>	<b>29,054</b>	<b>38,604</b>
<b>Discontinued operations</b>	<b>520</b>	<b>60</b>	<b>30</b>	<b>1,150</b>	<b>1,760</b>	<b>-</b>	<b>(416)</b>	<b>-</b>	<b>-</b>	<b>(416)</b>	<b>(416)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net income</b>	<b>80</b>	<b>(460)</b>	<b>(11,250)</b>	<b>6,800</b>	<b>(4,830)</b>	<b>(1,758)</b>	<b>1,640</b>	<b>(3,731)</b>	<b>1,179</b>	<b>(2,670)</b>	<b>8,109</b>	<b>19,064</b>	<b>29,054</b>	<b>38,604</b>
<b>Net income per share</b>														
Basic – continuing operations	0.00	(0.01)	(0.15)	0.07	(0.08)	(0.02)	0.02	(0.04)	0.01	(0.03)	0.09	0.22	0.33	0.44
Diluted – continuing operations	0.00	(0.01)	(0.14)	0.07	(0)	(0.02)	0.02	(0.04)	0.01	(0.03)	0.09	0.22	0.33	0.44
<b>Weighted average number of common shares outstanding</b>														
Basic	80,853	82,176	83,529	82,860	82,860	83,589	83,657	84,261	84,261	83,589	87,730	87,730	87,730	87,730
Diluted	85,790	87,625	89,093	82,860	82,860	83,589	88,496	84,261	84,261	84,261	87,730	87,730	87,730	87,730
<b>Cash Flow Statement</b> in C\$ thousands														
<b>Operating Activities</b>														
<b>Net income from continuing operations</b>	<b>(386)</b>	<b>(591)</b>	<b>(12,564)</b>	<b>4,400</b>	<b>(9,141)</b>	<b>(1,758)</b>	<b>2,056</b>	<b>(3,730)</b>	<b>1,179</b>	<b>(2,254)</b>	<b>8,109</b>	<b>19,064</b>	<b>29,054</b>	<b>38,604</b>
<b>Adjustments to reconcile net loss</b>														
Items not affecting cash	5,200	5,849	6,227	4,007	21,283	6,737	6,872	7,660	5,067	26,336	22,938	18,381	15,137	13,840
Change in Working Capital	(2,985)	(3,560)	136	1,349	(5,060)	(1,269)	(4,418)	6,118	(4,700)	(4,269)	(10,310)	(10,214)	(10,726)	(11,195)
<b>Cash Flow from Operating Activities</b>	<b>2,471</b>	<b>1,698</b>	<b>(6,201)</b>	<b>10,945</b>	<b>8,913</b>	<b>4,445</b>	<b>1,546</b>	<b>13,361</b>	<b>1,546</b>	<b>20,898</b>	<b>20,737</b>	<b>27,231</b>	<b>33,466</b>	<b>41,249</b>
<b>Investing Activities</b>														
<b>Cash Flow from Investing Activities</b>	<b>(591)</b>	<b>(488)</b>	<b>(323)</b>	<b>3,741</b>	<b>2,339</b>	<b>(4,111)</b>	<b>43</b>	<b>(381)</b>	<b>(5,956)</b>	<b>(10,405)</b>	<b>(11,867)</b>	<b>(3,132)</b>	<b>(3,807)</b>	<b>(4,604)</b>
<b>Financing Activities</b>														
<b>Cash Flow from Financing Activities</b>	<b>(361)</b>	<b>11,542</b>	<b>(8,032)</b>	<b>(8,209)</b>	<b>(5,060)</b>	<b>(4,979)</b>	<b>(4,066)</b>	<b>25,917</b>	<b>630</b>	<b>17,502</b>	<b>(5,537)</b>	<b>3,445</b>	<b>1,460</b>	<b>(371)</b>
<b>Net change in cash and cash equivalents</b>	<b>1,519</b>	<b>12,752</b>	<b>(14,556)</b>	<b>6,477</b>	<b>6,192</b>	<b>(4,645)</b>	<b>(2,477)</b>	<b>38,897</b>	<b>(3,781)</b>	<b>27,994</b>	<b>3,333</b>	<b>27,544</b>	<b>31,119</b>	<b>36,273</b>
Effect of exchange rate changes on cash held in for	399	189	(414)	-	174	153	324	(429)	-	48	-	-	-	-
Cash, beginning of year	4,331	6,249	19,129	4,159	4,331	12,855	8,363	6,210	44,678	12,855	40,897	44,230	71,775	102,894
<b>Cash and cash equivalents, end of year</b>	<b>6,249</b>	<b>19,129</b>	<b>4,159</b>	<b>12,855</b>	<b>12,855</b>	<b>8,363</b>	<b>6,210</b>	<b>44,678</b>	<b>40,897</b>	<b>40,897</b>	<b>44,230</b>	<b>71,775</b>	<b>102,894</b>	<b>139,167</b>
<b>EBITDA</b>														
Adj. EBITDA					9,342	4,371	4,833	5,471	5,325	20,000	25,801	31,870	38,796	46,991
Adj. EBITDA Margin (%)					18%	19%	20%	21%	19%	20%	20%	21%	21%	21%

Source: Protech Home Medical, IA Securities

## Exhibit 2: Comps Table

Company	Ticker	Close	Mkt Cap (\$M)	Debt+Pref (\$M)	Ent. Value (\$M)	EBITDA (\$M)			Debt/ EBITDA 20	EV/EBITDA			Revenue			EV/Revenue		
						2019A	2020E	2021E		2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E
BIOLASE Inc	BIOL-Q	0.30	30	9	39	(10.3)	(14.6)	(7.1)	-0.6x	n/a	n/a	n/a	41	22	41	0.9x	1.8x	1.0x
CareRx Corporation	CHH-T	4.06	210	61	271	9.3	13.0	20.4	4.7x	6.5x	20.9x	13.3x	126	170	207	2.2x	1.6x	1.3x
CRH Medical Corp	CRH-T	2.83	210	54	264	39.0	21.9	36.6	2.5x	1.4x	12.0x	7.2x	124	99	135	2.1x	2.7x	2.0x
Dynatronics Corp	DYNT-Q	0.68	10	14	24	n/a	n/a	n/a	10.6x	n/a	n/a	n/a	62	53	49	0.4x	0.4x	0.5x
IntriCon Corp	IIN-Q	12.49	120	(31)	89	n/a	1.4	10.5	-22.7x	n/a	65.8x	8.5x	112	97	117	0.8x	0.9x	0.8x
Savaria Corp	SIS-T	14.53	760	32	792	55.9	57.7	65.2	0.6x	0.6x	13.7x	12.1x	375	358	387	2.1x	2.2x	2.0x
Viemed Healthcare Inc	VMD-T	12.38	490	(134)	356	19.7	36.1	29.6	-3.7x	n/a	9.9x	12.0x	91	125	118	3.9x	2.8x	3.0x
<b>Totals / Average</b>			<b>1,800</b>	<b>1</b>	<b>1,800</b>	<b>110</b>	<b>120</b>	<b>160</b>	<b>-1.2x</b>	<b>0.0x</b>	<b>15.0x</b>	<b>11.3x</b>	<b>930</b>	<b>920</b>	<b>1,050</b>	<b>1.9x</b>	<b>2.0x</b>	<b>1.7x</b>
Protech Home Medical (IAS)	PTQ-V	1.56	170	(11)	159	15	20	26	-0.5x	10.8x	7.8x	6.1x	81	101	128	2.0x	1.6x	1.2x

Source: Protech Home Medical, Refinitiv, iA Securities

## Exhibit 3: Valuation and Target Price

EV/Adj. EBITDA Valuation	
2020e Adj. EBITDA (\$M)	26,093
Multiple	10.5x
Enterprise Value (\$M)	273,976
Net cash (debt) end of Q4/F20 (\$M)	9,327
Market Cap (\$M)	283,302
S/O (end of Q4/F20)	87,730
<b>Target Price</b>	<b>\$3.23</b>
<b>Target Price (Rounded)</b>	<b>\$3.20</b>

Source: iA Securities

### Investment Recommendation Rating System

<b>Strong Buy:</b>	Expected to provide a substantial return over the next 12 months, with a lower level of risk than comparable investments.
<b>Buy:</b>	Expected to provide a reasonably positive return over the next 12 months.
<b>Speculative Buy:</b>	Expected to provide a positive return over the next 12 months, but with a high level of risk, or based on a future uncertain event.
<b>Hold:</b>	Expected to remain in a trading range near the current share price for the next 12 months.
<b>Sell:</b>	Expected to deliver a negative return over the next 12 months.
<b>Under Review:</b>	Currently available information is inadequate to provide an investment rating.
<b>Tender:</b>	Investors should tender their shares to the current offer.

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Issuer Company	Ticker	Exch.	Disclosures
Protech Home Medical Corp.	PTQ	V	-

See legend of Disclosures on next page.

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