



October 28, 2020

Protech Home Medical Corp.

PTQ - TSX

Rating: Buy

Price Target: C\$2.50

Reason for Report: Estimate Changes

Another Acquisition Helps Build Scale. Affirm Buy Rating and Increasing PT To C\$2.50.

Investment Conclusion:

The Sleepwell acquisition is larger than previous tuck-ins and with its focus on sleep services, Protech's scale is enhanced. With an estimated revenue run-rate now over \$120M, Protech is nearing an inflection point whereby it should be able to turn its size into better contribution margins.

Similar to its own sleep services dynamics, Sleepwell possesses a strong re-supply business and healthy margins. Sleepwell brings deeper market penetration in Georgia and adds three new markets in Dayton OH, resulting in ~15K new, active patients to Protech.

Protech remains committed to its broad growth strategies of which acquisitions remain a key pillar. Protech maintains a strong financial position which was recently strengthened with a new \$20M revolving credit facility.

We are increasing our estimates to reflect the Sleepwell acquisition. With that, we affirm our Buy rating, and we are increasing our Price Target to C\$2.50 from C\$2.25. This Price Target is based on using a 10x multiple of FY21 Adj. EBITDA and 1.4x P/S. The multiple is in line with trading levels of comparable companies.

Key Points:

Details – Sleepwell LLC: On a TTM (unaudited) basis, Sleepwell had revenues of ~\$13.0M, adjusted EBITDA of ~\$3.25M, net income of ~\$2.5M and no debt. Protech has acquired Sleepwell for a combination of cash and share consideration of approximately \$9.3M and \$5.1M, respectively. The share consideration is being issued at \$1.47 per share.

Sleepwell Contribution: Post integration, management expects Sleepwell will increase Protech's annual revenues by ~\$13.0M and adjusted EBITDA by ~\$3.4M-\$4.0M. Leveraging existing infrastructure and payor contracts, Protech expects to achieve additional revenue generated from organic growth, cross selling and corporate synergies.

Richard Ryan

(612) 376-4162; dick.ryan@colliers.com

Changes

	Previous	Current
Price Target	C\$2.25	C\$2.50
Annual '21 Revenues (MM)	C\$111.2	C\$125.0
Annual '21 EPS	C\$0.07	C\$0.10
Annual '21 Adj EBITDA (MM)	C\$25.1	C\$28.8

Price		C\$1.07
52 Week Range		C\$0.47 - C\$1.19
Mkt Cap (MM)		\$94
EV (MM)		\$96
Shares Out (MM)		88.3
Avg Daily Vol (000)		384
Long-term Growth		10%
Net Cash/Share		C\$0.53
Tangible BVPS		C\$0.45

Revenues (MM)	FY 19A	FY 20E	FY 21E
Dec	C\$20.5	C\$22.8A	C\$28.9
Mar	C\$21.9	C\$24.1A	C\$31.2
Jun	C\$21.1	C\$25.9A	C\$33.4
Sep	C\$17.4	C\$25.1	C\$31.5
FY	C\$81.0	C\$97.8	C\$125.0
EV/Sales	1.2x	1.0x	0.8x

EPS	FY 19A	FY 20E	FY 21E
Dec	C\$0.00	C\$(0.02)A	C\$0.01
Mar	C\$(0.01)	C\$0.02A	C\$0.02
Jun	C\$(0.14)	C\$(0.04)A	C\$0.03
Sep	C\$0.07	C\$0.01	C\$0.03
FY	C\$(0.09)	C\$(0.04)	C\$0.10

Adj EBITDA (MM)	FY 19A	FY 20E	FY 21E
Dec	C\$3.7	C\$4.4A	C\$6.8
Mar	C\$4.0	C\$4.9A	C\$7.3
Jun	C\$3.9	C\$5.5A	C\$7.6
Sep	C\$3.2	C\$5.8	C\$7.2
FY	C\$14.8	C\$20.7	C\$28.8
EV/Adj. EBITDA	6.5x	4.6x	3.3x

Protech Home Medical Corp., provides in-home monitoring and disease management services for patients in the United States healthcare market. It seeks to continue to expand its offerings to include the management of several chronic disease states focusing on patients with heart or pulmonary disease, sleep disorders, reduced mobility and other chronic health conditions.

Protech Home Medical Corp. thousands of CAD, except per share	Dec-18 1Q19	Mar-19 2Q19	Jun-19 3Q19	Sep-19 4Q19	Dec-19 1Q20	Mar-20 2Q20	Jun-20 3Q20	Sep-20 4Q20E	Dec-20 1Q21E	Mar-21 2Q21E	Jun-21 3Q21E	Sep-21 4Q21E
Revenue												
Total revenue	20,509	21,913	21,123	17,422	22,769	24,101	25,869	25,088	28,917	31,211	33,436	31,485
Cost of revenue	6,230	6,356	6,337	4,604	6,029	6,502	7,437	7,275	7,952	8,583	9,028	8,501
Gross profit	14,279	15,557	14,786	12,818	16,740	17,599	18,432	17,812	20,965	22,628	24,408	22,984
<i>Gross profit margin</i>	69.6%	71.0%	70.0%	73.6%	73.5%	73.0%	71.3%	71.0%	72.5%	72.5%	73.0%	73.0%
SG&A	10,543	11,402	10,927	9,710	12,552	12,740	12,892	12,042	14,458	15,605	17,052	16,057
Depreciation	3,167	2,985	3,334	3,880	4,551	4,495	5,016	4,454	3,796	3,045	2,443	1,959
Amortization of intangible assets	151	151	153	148	239	167	172	158	158	147	137	127
Stock-based compensation	530	361	446	726	42	92	73	73	575	575	575	575
Goodwill and intangible asset impairment	-	-	-	531	-	-	-	-	-	-	-	-
Other expense	6	-	1,401	1,535	(146)	(55)	11	-	-	-	-	-
Loss (gain) from distribution on spin-off	-	-	-	-	-	-	-	-	-	-	-	-
Fraud related expenses	-	-	9,184	(9,184)	-	-	-	-	-	-	-	-
(Gain) loss on disposal of PPE	(2)	165	(39)	(144)	(79)	(11)	(15)	-	-	-	-	-
Continuing Operating Expenses	14,395	15,064	25,406	7,202	17,159	17,428	18,149	16,728	18,987	19,373	20,207	18,719
Operating income (loss) - EBIT	(116)	493	(10,620)	5,616	(419)	171	283	1,085	1,977	3,255	4,201	4,265
Financing Expenses:												
Interest on subordinated debentures	-	162	430	1,952	-	300	300	387	528	509	491	474
Other interest expense	396	182	516	(1,128)	604	320	351	-	-	-	-	-
Other expense	-	420	1,105	305	-	-	-	-	-	-	-	-
Loss (gain) on derivative financial liability	(68)	96	(161)	38	735	(2,549)	3,314	-	-	-	-	-
Net gain (loss) from continuing operations before taxes	(444)	(367)	(12,510)	4,449	(1,758)	2,100	(3,682)	698	1,450	2,746	3,710	3,791
Provision for income taxes	(58)	163	29	135	-	44	49	7	14	27	37	38
Net gain (loss) before disc. ops.	(386)	(530)	(12,539)	4,314	(1,758)	2,056	(3,731)	691	1,435	2,719	3,673	3,753
Discontinued Operations:												
Net income from net assets held for dist.	521	-	-	1,234	-	(416)	-	-	-	-	-	-
Gain on settlement of distribution liability	-	-	-	-	-	-	-	-	-	-	-	-
Combined Operations:												
Net gain (loss) from continued operations	135	(530)	(12,539)	5,548	(1,758)	1,640	(3,731)	691	1,435	2,719	3,673	3,753
EBITDA	3,202	3,209	(8,238)	11,170	4,371	4,833	5,471	5,697	5,931	6,447	6,781	6,352
Adjusted EBITDA	3,732	3,990	3,882	3,198	4,413	4,925	5,544	5,770	6,756	7,272	7,606	7,177
Other Comprehensive Income (Loss):												
Cumulative translation adjustment	1,455	(492)	(708)	416	(538)	2,567	(1,300)	(1,300)	(1,300)	(1,300)	(1,300)	(1,300)
Comprehensive income (loss)	1,590	(1,022)	(13,247)	5,964	(2,296)	4,207	(5,031)	(609)	135	1,419	2,373	2,453
Net income (loss) per share:												
EPS - Basic	0.00	(0.01)	(0.15)	0.07	(0.02)	0.02	(0.04)	0.01	0.02	0.03	0.05	0.05
EPS - Diluted	0.00	(0.01)	(0.14)	0.07	(0.02)	0.02	(0.04)	0.01	0.01	0.02	0.03	0.03

FY17	FY18	FY19	FY20E	FY21E
76,369	70,514	80,967	97,827	125,048
22,256	21,737	23,527	27,243	34,064
54,113	48,777	57,440	70,583	90,985
70.9%	69.2%	70.9%	72.2%	72.8%
53,056	38,401	42,582	50,226	63,173
11,202	14,475	13,366	18,516	11,243
4,247	621	603	736	569
(1,500)	2,128	2,063	280	2,300
12,342	-	531	-	-
22	15	2,942	(190)	-
-	-	-	-	-
-	-	-	-	-
(11)	(273)	(20)	(105)	-
79,358	55,367	62,067	69,464	77,286
(25,245)	(6,590)	(4,627)	1,120	13,699
1,235	1,908	2,544	987	2,002
114	(2)	(34)	1,275	-
-	-	1,830	-	-
60	(167)	(95)	1,500	-
(26,654)	(8,329)	(8,872)	(2,642)	11,697
440	130	269	100	117
(27,094)	(8,459)	(9,141)	(2,742)	11,580
3,335	5,697	1,755	(416)	-
-	21,509	-	-	-
(23,759)	18,747	(7,386)	(3,158)	11,580
(9,856)	8,506	9,343	20,372	25,511
995	10,634	14,802	20,652	28,811
(6,036)	843	671	(571)	(5,200)
(29,795)	19,590	(6,715)	(3,729)	6,380
(0.06)	0.25	(0.09)	(0.04)	0.14
(0.06)	0.23	(0.09)	(0.04)	0.10

IMPORTANT DISCLOSURES

RISKS (PTQ)

- Limited Business History.** The Company has a limited operating history in its current form. Results will likely remain volatile with little assurances that consistent profitability can be generated.
- Critical Relationships:** Protech is dependent on reimbursement from Medicare, Medicaid and private insurance entities. Stretch outs of payments could impact cash flow. Protech also relies on key suppliers for equipment and pricing and supply/demand issues can impact future performance. Adoption by patients and physicians can depend on education of products and services and, therefore, take time.
- Competitive Bids:** The new round of competitive bidding is underway with results likely during the summer of 2020, for contracts taking place between January 2021 and December 31, 2023. The company may or may not be awarded its bids in some or all of the Competitive Bidding Areas (CBAs) and/or some or all of its product categories.
- Government regulations:** Certain aspects of the Company's operations require licenses and certifications by U.S. government agencies. Adverse regulatory actions could impact operations of the Company.
- Highly Competitive Markets:** The DME market is highly competitive and other companies may be better capitalized.
- Common Share Liquidity:** The Company is currently pursuing listing shares on the OTCQX exchange in an attempt to increase liquidity. Up to this point, the shares were listed on the TSX-V and have experienced substantial volatility in the past.
- Access to Capital:** The Company may require additional funds to further its growth plans and there can be no assurances that such funding may be available, on reasonable terms.
- Reimbursement Rates:** Reimbursement for services provided by Protech will come primarily from Medicare and private health insurance companies. The reimbursement rates offered are outside the control of the Company. Reimbursement rates are subject to continual reductions as health insurers and governmental entities attempt to control health care costs. Reductions in reimbursement rates can have a material impact on the profitability of the Company's operations.
- Related Party Transactions:** The Company has entered into six market rate leases for office, warehouse, and retail space with a rental Company affiliated with the Company's Chief Executive Officer. Lease payments under these leases are approximately C\$68,000 per month, plus taxes, utilities and maintenance.

I, Richard Ryan, certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers.

We believe structural changes in the markets have created strong headwinds for active money managers. Along with a smaller audience for small/micro-cap issues, the current investment environment may offer inefficiencies in valuations for such companies. Our research frequently identifies undiscovered small and micro-cap stocks that may present an opportunity for attractive investment returns. As a result, it is our opinion that the value of the underlying businesses often may be understated due to lack of institutional audience, insufficient trading liquidity, listing on smaller exchanges, inconsistent fundamental results or a misunderstanding of the underlying business. Our Special Situation Coverage is being produced to help identify these stocks and give our clients an opportunity to capitalize on under-appreciated investment opportunities. As many of these companies may have volatile business models, investors need to be cognizant of the speculative nature of these companies.

Colliers Securities LLC has been engaged for investment banking business with PTQ during the past 12 months or anticipates such business in the next 3 months.

The ratings used in Colliers Securities LLC research reports are defined as:

Buy: Expected to outperform the broader market and/or its sector over the next six to twelve months.

Neutral: Expected to perform generally in-line to moderately below the broader market and/or its sector over the next six to twelve months.

Sell: Expected to materially underperform the broader market and/or its sector over the next six to twelve months.

Rating	%	IB %
Buy	86.1	100.0
Neutral	13.9	93.8
Sell	0.0	0.0

This report has been prepared solely for informative purposes and is not a solicitation or an offer to buy or sell any security. The information contained herein has been taken from trade and statistical services believed, but not guaranteed, to be accurate, reliable or purported to be complete. Any opinions or estimates expressed in this report reflect a judgement made of this date, and are subject to change. The securities described may not be qualified for purchase in all jurisdictions. Because of individual requirements, advice regarding securities mentioned herein should not be construed as suitable for all accounts. Some securities mentioned herein relate to small speculative companies (these securities are currently below investment grade), which may be unsuitable for some accounts. Recommendations are made in a general sense, suitability for individual acquisition or sale should be a matter of discussion between the Investment Executive and the client before any transactions occur. Past performance does not guarantee future results. From time to time, Colliers Securities LLC, or its officers, directors or agents, or members of their families, may have a position in securities mentioned and may make purchases or sales of the same in the open market or otherwise, and may own options, rights or warrants to purchase the same. Colliers Securities LLC as a market maker may act as principal or agent with respect to the sale or purchase of securities mentioned. All the views expressed in this research report accurately reflect my personal views about this security. No part of my compensation was, is or will be directly or indirectly related to the views expressed in this report. My compensation may be derived from various factors including a percentage of hard dollar sales of research products to customers, trading commissions received from customer trades in stocks that I cover for research purposes and total firm or departmental revenues which may, in part, be generated by Colliers Securities' investment banking activities. Additional information is available upon request.

This research report is being distributed on the basis that each person in the United Kingdom to whom it is issued is reasonably believed to be an investment professional (as defined in the Financial Services and Markets Act 2000). Non-investment professionals may not act upon the information contained in this report and must return it to the sender immediately.

This document is for the use of intended recipients only and should not be forwarded to any third party.

Equity Capital Markets Directory

Research		Institutional Sales and Trading	
Steven Frankel Senior Vice President, Director of Research	617-652-0179	David Edwards Senior Vice President, Equity Capital Markets	612-317-2152
Research		Institutional Sales and Trading	
Charles Anderson Senior Research Analyst - Mobile Computing	612-376-4157	Sales: Anthony Felling Senior Vice President, Head of Sales	612-317-2123
Kyle Bauser, Ph.D. Senior Research Analyst - Healthcare	612-376-4191	Tom Meader Vice President - Sales	612-376-4176
Steven Frankel Senior Vice President, Analyst - Digital Media	617-652-0179	Ron Martin Vice President - Sales	708-368-3254
Gene Mannheimer Senior Research Analyst - Healthcare	858-412-5485	David Morgan Vice President - Sales	612-376-4146
Richard Ryan Senior Research Analyst - Industrials	612-376-4162	Joel Rosenthal Vice President - Sales	612-376-4144
Michael Shlisky Senior Research Analyst - Industrials/Consumer	212-831-3025	David Sortland Vice President - Sales	612-317-2192
Catharine Trebnick Senior Research Analyst - Data and IP Networking	612-376-4117	Dan Waggoner Vice President - Sales	612-376-4193
		Trading: David Edwards Senior Vice President - Equity Capital Markets	612-317-2152
		Mark Kjesbo Vice President - Sales Trading	612-317-2047
		Bill Schaefer Vice President - Sales Trading	612-376-4113
		Jesse Wallace Vice President - Sales Trading	612-376-4069
		Trading Desk	888-817-8664