Protech Home Medical (PTQ – V)

Continued Execution Should Lead to Narrowing of Glaring Valuation Gap vs Peers

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- PTQ reported Q4/FY20 (Sept 30) results that were a little lighter than our expectations but nonetheless showed solid organic growth and margin profile. Revenue was $19.5 million versus $18 million in the year ago period, +8% on a y/y basis. Adjusted EBITDA was $3.7 million (19% margin). For the year, revenue was $81 million versus $70.5 million (+15%) with EBITDA of $14.8 million versus $10.6 million in the year ago period.
- Note that the aforementioned results exclude the revenue/EBITDA impact of its coumadin division which was divested in FY19 for ~$4.5 million in cash. Prior reporting periods had included the results of that division. We note that if such results had been included in the full-year FY19 results, revenue would have been ~$86 million with EBITDA of ~$15.5-$16 million, which was in-line with Street estimates.
- FY19 was a roller-coaster year for the company wherein it started its turnaround from FY18 strongly only to be hit with the cyber-crime, then it recouped the money and exited the year with the strongest balance sheet in its history and thus the ability to finance its FY20 strong organic growth coupled with its M&A program. In particular:
  - a) Period ended cash was $13 million versus $4 million last year. Note that we believe current cash balance is ~$9 million after the acquisitions of Cooley and Acadia.
  - b) Working capital was $12 million versus $4.6 million last year and, more telling, adj working capital (cash + A/R – A/P – current lease payable) was $8.6 million versus $0.9 million last year.
- As noted, subsequent to YE, PTQ made two acquisitions. Based on its $81 million in revenue and assuming an 8% organic growth rate (in-line with Q4/FY19) as well as $9 million from Cooley and $3 million from Acadia, we expect PTQ to generate $101 million in revenue, down slightly from our prior forecast of $104 million. We note, however, that we are modeling no further acquisitions despite M&A being a key component of its model. As such, we have an upward bias to our FY20 forecast.
- In terms of EBITDA, we are modeling $19.2 million (19% margin) – in-line with FY19 albeit down slightly from our prior forecast of $20.8 million. We do note that we could see some softening of the margin in Q1/FY20 as PTQ integrates Cooley and Acadia.
- Based on this forecast, the stock is trading at 4.5x our EBITDA forecast – a 50%+ discount to its peer group. In particular, there is now a clear DME comp (AdaptHealth – AHCO: US, NR) who recently starting trading. With key similarities (ie. same demographic macro drivers, similar product offerings, similar margin profile, similar growth strategy) with the only key difference being revenue size, there is a massive valuation discrepancy at 10x EBITDA versus 4.5x.
- We continue to believe such a valuation gap will be narrowed upon continued execution by PTQ**.** If not, we also believe that PTQ itself could become a very accretive acquisition for someone such as AdaptHealth, who has publicly stated its goal of acquiring US$100 million in revenue per year.
- We maintain our Buy recommendation and $2.50 target price.

Q4/FY19 Results

BUY (Unch)	**$2.50** (Unch)
Recent/Closing Price	$0.92
12-month Target Price	$2.50
Potential Return	172%
52 Week Price Range	$0.66 - $1.19

Estimates

YE: Sept. 30	FY18	FY19	FY20E
Revenue ($MM)	$70.5	$81.0	$101.1
EBITDA ($MM)	$10.4	$14.9	$19.2
Adj EPS	-$0.07	-$0.11	$0.06

Valuation

	FY18	FY19	FY20E
EV/Sales	1.3x	1.1x	0.9x
EV/EBITDA	8.9x	6.2x	4.8x
P/E	-	-	16.1x

Stock Data (MM)

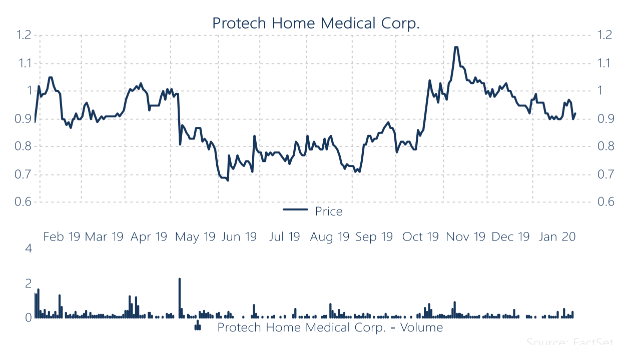
Shares Outstanding	
Basic	84
FD	107
Market Cap (C$)	
Basic	$77
FD	$99
Net Debt	$15
EV (C$)	$92

About the Company

PTQ is focused on a highly fragmented and developing market of small privately-held US companies servicing chronically ill patients with multiple disease states. PTQ is actively working to identify and evaluate profitable, annuity-based companies to acquire their patient databases and technical expertise at favorable prices. PTQ's post acquisition organic growth strategy is to increase annual revenue per patient by offering multiple services to the same patient, consolidating the patient's services and making life easier for the patient.

All prices in C$ unless otherwise stated

Stock Performance



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As at December 31st, 2019	#Stocks	Distribution
BUY	62	72.9%
Speculative Buy	8	9.4%
Hold	3	3.5%
Sell	0	0.0%
Under Review	11	12.9%
Tender	1	1.2%
Total	85	100%

BUY	Total 12-month return expected to be > 15%
Speculative Buy	Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
Hold	Total 12-month return is expected to be between 0% and 15%
Sell	Total 12-month return is expected to be negative
Under Review	
Tender	Clients are advised to tender their shares to a takeover bid or similar offer

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