Protech Home Medical (PTQ – V)

Integration of Acquisitions Should Lead to Margin Expansion and Re-Start of Organic Growth in 2H20

BEACON Securities Limited

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- PTQ reported Q1/FY20 (Dec 31, 2019) results with revenue and EBITDA that was a little lighter than our expectations. Headline rev/EBITDA was $22.8m/$4.4m.
- The biggest news of Q1/FY20 was the acquisition of the acquisition of Cooley Medical (effective Oct 1), which was on a revenue run-rate of $9 million as well as the acquisition of Acadia Medical (effective Dec 1), which was on a run-rate of $4 million. We estimate, therefore, that the two companies contributed $2 million and $0.35 million respectively.
- Starting from a revenue base of $20.5 million in Q1/FY19, the addition of those aforementioned acquisitions would equal $22.8 million of revenue, which is the total that the company reported. As such, PTQ recorded minimal organic growth in the quarter. We believe this is reflective of the company's efforts to integrate the two "turnaround" acquisitions. They should be fully integrated by the end of Q2 (March). **As such, we would expect a return to PTQ's organic growth rate of 5-7% in 2H20.**
- From a margin perspective, PTQ reported a 19.4% EBITDA margin versus 18.2% in Q1/FY19. However, we note that this was entirely driven by a change in accounting (IFRS 16 for leases) that boosted the margin by 1.7%. As such, on an apples-to-apples basis versus Q1/FY19, EBITDA margin was 17.7%. As we noted in our last note, we expected a softening of its margin as it integrated Cooley and Acadia. If we assume that Cooley and Acadia generated ~10% EBITDA margins in the quarter, this would imply that its "base" business generated an EBITDA margin of 18.5% in Q1/FY20 (prior to positive impact of IFRS) – in-line with last year. Put another way, "bad debt" expense was 8.7% of revenue versus 6.2% last year. We believe this extra accrual is predominately related to Cooley and Acadia and is reflective of the lower margin contribution of those two companies. **With the completion of their integration, we would expect the EBITDA contribution of its recent acquisitions to rise to company average.**
- From a balance sheet perspective, PTQ finished Q1/FY20 with $8.4 million in cash v/s $12.8 million as of Q4/FY19. **We note that the drop in cash is entirely due to the $4.1 million cash component of the two acquisitions.** We do note that capital leases increased sequentially to $15.8 million versus $11.6 million. Note that the change in accounting to IFRS 16 increased leases by $3.2 million (property) while PTQ also absorbed $1.9 million of capital leases from its acquisitions. **Therefore, on an apples-to-apples, capital leases were actually down by ~$1 million versus Q4/FY19.**
- Based on the Q1/FY20 results, we believe the company is on track to achieve our FY20 forecasts. As noted above, we would expect 2H20, in particular, to see stronger organic growth and margin expansion.
- We maintain our Buy recommendation and $2.50 target price.

Q1/FY20 Results

BUY (Unch)	**$2.50** (Unch)
Recent/Closing Price	$0.79
12-month Target Price	$2.50
Potential Return	216%
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	-$0.04

Valuation

	FY18	FY19	FY20E
EV/Sales	1.1x	1.0x	0.8x
EV/EBITDA	7.8x	5.5x	4.2x
P/E	-	-	-

Stock Data (MM)

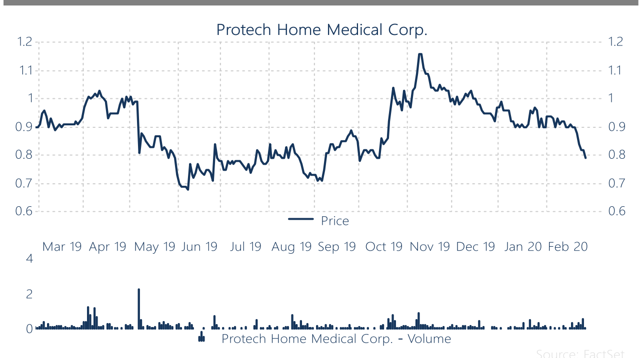
Shares Outstanding	
Basic	84
FD	107
Market Cap (C$)	
Basic	$66
FD	$85
Net Debt	$15
EV (C$)	$81

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 January 31st, 2020	#Stocks	Distribution
BUY	62	73.8%
Speculative Buy	8	9.5%
Hold	3	3.6%
Sell	0	0.0%
Under Review	11	13.1%
Tender	0	0.0%
Total	84	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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