

Protech Home Medical (PTQ – V)

Closing the (Valuation) Gap

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Doug Cooper, MBA

Analyst - (416) 643-3863

dcooper@beaconsecurities.ca

- PTQ reported strong Q2/FY20 (March 31, 2019) results with revenue and EBITDA that were in-line with its April 28 pre-announcement. Revenue was \$24.1 million with EBITDA of \$4.9 million.
- On an absolute basis, revenue growth was 16% with organic growth of ~10% on a y/y basis (recall that Cooley and Acadia were not in the Q2/FY19 results). More impressively, revenue was +6.6% sequentially, which is an apples-to-apples comparison. Revenue was driven by patient growth and an increased number of equipment set-ups.
- EBITDA was +29% y/y and +11% sequentially as margins expanded by 220 basis points y/y to reach 20.4%, which is a new high-water mark for the company.
- Perhaps the best metric we saw was that incremental revenue flowed through to EBITDA at a 40% margin in Q2 versus Q1. In other words, the company's infrastructure is sufficiently built to support significantly higher revenue levels. As such, as revenue grows, EBITDA margins can continue to expand. From its record (to date) margin of 20.4% in this latest quarter, management believes margins could expand to ~25%.
- Heading into Q3/FY20 and beyond, we believe PTQ is poised to continue its strong growth and margin profile. In particular:
 - Given the COVID tailwind, we believe PTQ's respiratory product line, including vents and oxygen, should continue to see above average growth;
 - PTQ ended Q2 with \$6.2 million in cash. Subsequent to the quarter, the company received \$7.5 million in government loan programs, giving the company a proforma cash position of over \$13 million. This improved balance sheet should accelerate its acquisition program;
 - CMS has excluded non-invasive vents (NIV) from the 2021 competitive bidding program. This product line represents ~17% of its revenue. This is extremely positive in terms of revenue and margin visibility and stability;
 - The Canadian dollar in Q3 has weakened by 4.5% versus the average FX rate in PTQ's Q2 period (\$1.40 versus \$1.34). Given PTQ's business is 100% based in the United States yet it reports in Canadian dollars, the weaker C\$ will act as another tailwind to the results.
- While we are going to maintain our current FY20 and FY21 estimates, given the strong Q2 results and positive momentum, we do have an upward bias to them.
- Based on current price of \$1.09, the stock is trading at 5.3x LQA EBITDA and 4.3x our FY21 forecast. Its peers are trading at over 9x with other "COVID tailwind" stocks, such as Resmed (RMD – N, NR), a vent manufacturer, trades 19x. Over the past month, this valuation gap has narrowed but we believe it will continue to narrow as investors reward the strong PTQ results with a multiple expansion.
- We maintain our Buy recommendation and \$2.50 target price.

Q2/FY20 Results

BUY (Unch) **\$2.50 (Unch)**

Recent/Closing Price	\$1.09
12-month Target Price	\$2.50
Potential Return	129%
52 Week Price Range	\$0.66 - \$1.19

Estimates

YE: Sept. 30	FY19	FY20	FY21e
Revenue (\$MM)	\$81.0	\$101.1	\$111.2
EBITDA (\$MM)	\$14.9	\$19.2	\$24.5
Adj EPS	-\$0.11	-\$0.04	\$0.06

Valuation

	FY19	FY20	FY21e
EV/Sales	1.3x	1.0x	1.0x
EV/EBITDA	7.1x	5.5x	4.3x
P/E	-	-	19.5x

Stock Data (MM)

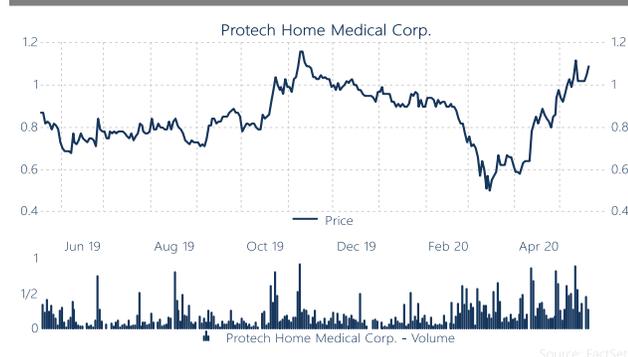
Shares Outstanding	
Basic	84
FD	107
Market Cap (C\$)	
Basic	\$91
FD	\$117
Net Debt	\$15
EV (C\$)	\$106

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 April 30th, 2020	#Stocks	Distribution
BUY	56	69.1%
Speculative Buy	8	9.9%
Hold	4	4.9%
Sell	0	0.0%
Under Review	13	16.0%
Tender	0	0.0%
Total	81	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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