

### Protech Home Medical (PTQ – V)

#### Tailwinds Gets Stronger with \$32 Million Raise

June 30, 2020

Doug Cooper, MBA

Analyst - (416) 643-3863

[dcooper@beaconsecurities.ca](mailto:dcooper@beaconsecurities.ca)

- PTQ announced that it has closed a \$31.8 million financing that included a share at \$1.15 and a half warrant at \$1.60. The financing included \$1.07 million participation by the management team.
- Prior to this raise, PTQ had ~\$13 million in cash. Now, including this new raise, the company has ~\$44 million in cash – the strongest financial position in its history. Counting the \$15 million convertible debenture (@ \$1.30) as equity, the company has ~\$0.35/share in cash, which represents ~30% of its current market cap (not including the lease liabilities as debt).
- Its now strong balance sheet augments its recent strong fundamental performance in which the company reported record quarterly results (Q2/FY20) in terms of revenue (\$24.1m, +15% y/y and +6% q/q) during which it also reported its strongest ever EBITDA margin at 20.4%.
- Heading into Q3/FY20, which starts tomorrow, and beyond, we believe PTQ is poised to continue its strong growth and margin profile. In particular:
  - a) Given the COVID tailwinds, we believe PTQ's respiratory product line, including vents and oxygen, should continue to see above average growth;
  - b) 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;
  - c) The Canadian dollar in its Q3 has weakened by 4.5% versus the average FX rate in 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;
  - d) PTQ has ~\$44 million in cash against the \$15 million convertible debentures noted above as well as ~\$16 million in lease liabilities (primarily on its monitoring equipment). One year ago, it had a net debt position of ~\$24 million. While the company has made some smaller acquisitions over the past year, even with its less than ideal balance sheet at that time, we would now expect such a program to greatly accelerate, both in terms of quality of targets as well as the size of the targetco's revenue profile. Recall that its last 2 acquisitions were valued at 0.5x sales. While we may not expect future transactions to be this cheap, we believe its cash hoard could buy well over \$10 million in EBITDA. Such accretive acquisitions are not factored into our current forecast.
- Based on the current price of \$1.13, the stock is trading at 5.7x LQA EBITDA and 4.7x our FY21 forecast. Its peers are trading at over 11x FY21 forecast while other "COVID tailwind" stocks, such as Resmed (RMD – US, NR), a vent manufacturer, trades at 28x EV/EBITDA. Note that PTQ's main peer group of Viamed (VMD – T, Buy, C\$15.50 TP), Resmed and AdaptHealth (AHCO – US, NR who announced a US\$100 million financing yesterday) have all recently traded at all-time highs.
- We maintain our Buy recommendation and \$2.50 target price.

#### Financing Closed

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

Recent/Closing Price	\$1.13
12-month Target Price	\$2.50
Potential Return	121%
52 Week Price Range	\$0.47 - \$1.35

#### 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	-\$0.03	\$0.04

#### Valuation

	FY19	FY20	FY21e
EV/Sales	1.4x	1.1x	1.0x
EV/EBITDA	7.6x	5.9x	4.6x
P/E	-	-	27.0x

#### Stock Data (MM)

##### Shares Outstanding

Basic	111
FD	149

##### Market Cap (C\$)

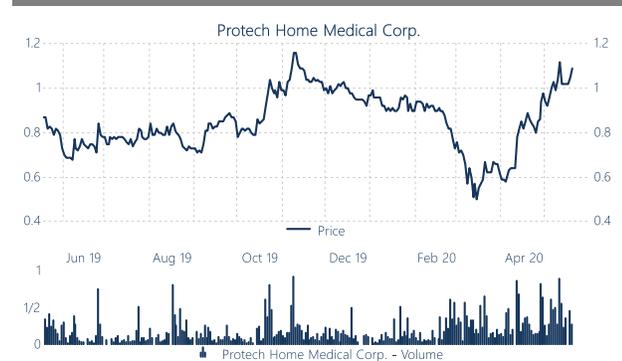
Basic	\$126
FD	\$168
Net Cash	\$13
EV (C\$)	\$113

#### 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



## Disclosure Requirements

Does Beacon, or its affiliates or analysts collectively, beneficially own 1% or more of any class of the issuer's equity securities?  Yes  No

Does the analyst who prepared this research report have a position, either long or short, in any of the issuer's securities?  Yes  No

Does Beacon Securities beneficially own more than 1% of equity securities of the issuer?  Yes  No

Has any director, partner, or officer of Beacon Securities, or the analyst involved in the preparation of the research report, received remuneration for any services provided to the securities issuer during the preceding 12 months?  Yes  No

Has Beacon Securities performed investment banking services in the past 12 months and received compensation for investment banking services for this issuer in the past 12 months?  Yes  No (VMD – T, AHCO – US, RMD – US)

Was the analyst who prepared this research report compensated from revenues generated solely by the Beacon Securities Investment Banking Department?  Yes  No

Does any director, officer, or employee of Beacon Securities serve as a director, officer, or in any advisory capacity to the issuer?  Yes  No

Are there any material conflicts of interest with Beacon Securities or the analyst who prepared the report and the issuer?  Yes  No

Is Beacon Securities a market maker in the equity of the issuer?  Yes  No

This report makes reference to a recent analyst visit to the head office of the issuer or a site visit to an issuer's operation(s)?  Yes  No

Did the issuer pay for or reimburse the analyst for the travel expenses?  Yes  No

All information contained herein has been collected and compiled by Beacon Securities Limited, an independently owned and operated member of the Investment Industry Regulatory Organization of Canada (IIROC). All facts and statistical data have been obtained or ascertained from sources, which we believe to be reliable, but are not warranted as accurate or complete.

All projections and estimates are the expressed opinion of Beacon Securities Limited, and are subject to change without notice. Beacon Securities Limited takes no responsibility for any errors or omissions contained herein, and accepts no legal responsibility from any losses resulting from investment decisions based on the content of this report.

This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell securities discussed herein. Based on their volatility, income structure, or eligibility for sale, the securities mentioned herein may not be suitable or available for all investors in all countries.

As at May 31st, 2020	#Stocks	Distribution
BUY	55	67.9%
Speculative Buy	9	11.1%
Hold	4	4.9%
Sell	0	0.0%
Under Review	13	16.0%
Tender	0	0.0%
Total	81	100%

BUY  
Speculative Buy  
Hold  
Sell  
Under Review  
Tender

Total 12-month return expected to be > 15%  
Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss  
Total 12-month return is expected to be between 0% and 15%  
Total 12-month return is expected to be negative

Clients are advised to tender their shares to a takeover bid or similar offer

## Dissemination

Beacon Securities distributes its research products simultaneously, via email, to its authorized client base. All research is then available on [www.beaconsecurities.ca](http://www.beaconsecurities.ca) via login and password.

## Analyst Certification

The Beacon Securities Analyst named on the report hereby certifies that the recommendations and/or opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of the report; or any other companies mentioned in the report that are also covered by the named analyst. In addition, no part of the research analyst's compensation is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.