

## Protech Home Medical (PTQ – V)

### Break-Out Quarter: Strong Operating Leverage Leads to FCF

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- PTQ reported very strong, and **record, Q3/FY20** (June 30, 2020) results with revenue and EBITDA that slightly exceeded its pre-announcement. Revenue was \$25.9 million with EBITDA of \$5.54 million.
- On an absolute basis, revenue growth was 17% y/y and 7% q/q. Excluding the FX impact (C\$ weakened in the quarter), organic q/q revenue growth was 4%, implying an **annualized growth rate of 16%**, much stronger than the industry growth rate. Growth was driven by COVID-tailwind products such as vents and oxygen. Its sleep-related products, such as CPAPs, however, were actually down q/q as referring clinics were closed during the period. **As such clinics re-open, we would expect pent-up demand for its sleep products to continue to drive strong organic growth in Q4 and FY21.**
- EBITDA was +50% y/y and +14% sequentially as margins expanded by 300 basis points y/y to reach a record 21.4%.
- We believe its cash flow generation is worth "digging into" as this historically (ie. lack of translation of EBITDA to FCF) has been a focus for investors:
  - As noted earlier, EBITDA was a record \$5.54 million (21.4%);
  - Margin expansion was driven by strong operating leverage and strong "flow through" of incremental revenue growth to EBITDA. In particular, this flow through was 40% in Q3, up from 33% in Q2 and 21% in Q1. This improvement in flow through was primarily driven by operating leverage. Of note, "payroll" (its largest cost by far) as a percentage of revenue dropped to 30.3% from 32.1% in Q2, a 180 basis point improvement;
  - Excluding the cash from the recent bought deal and US government support programs, cash on the balance sheet increased by \$1 million. This includes a decrease in A/P by \$2.2 million and a decrease in capital leases of \$1.1 million. In other words, EBITDA of \$5.54 million translated to \$4.3 million of actual cash flow.
  - Looking at another way, \$1.2 million of cap-ex (new monitoring equipment) was added in the quarter. Subtracting that from \$5.54 million of EBITDA nets \$4.3 million of EBITDA less patient cap-ex, a 16.6% margin.
  - Either way investors look at it, PTQ generated not only record EBITDA but material FCF in the quarter, primarily due to its operating leverage, which should only improve with more scale.**
- Speaking of scale, PTQ ended the period with **\$45 million in cash** – the best financial position of its existence. This will be used primarily for acquisitions, the first of which should close in the coming weeks. **We believe this cash balance could "buy" ~\$7 million of EBITDA.** This could be augmented with the addition of a bank facility, which would increase its ability to make further acquisitions. Note that we have modeled no acquisitions into our FY21 forecasts, even the LOI that was announced. As such, our forecasts (and target price) have an upward bias.
- Based on the strong results, **we are increasing our FY20 and FY21 forecasts.** We now expect rev/EBITDA of \$101m/\$20.7m in FY20 (was \$101m/\$19.2m) and \$113m/\$24.9m for FY21 (was \$111m/\$24.5m). **As noted, any acquisitions would be accretive to those forecasts.**
- Based on our FY21 forecast, PTQ trades at 4.7x (and 5.2x LQA). Its peer group trades at average of 12.5x, a 165% premium despite similar margin profiles. **This valuation gap will narrow.** We maintain our Buy and \$2.50 target price.

### Q3/FY20 Results

**BUY** (Unch)

**\$2.50** (Unch)

Recent/Closing Price	\$1.18
12-month Target Price	\$2.50
Potential Return	112%
52 Week Price Range	\$0.47 - \$1.35

#### Estimates

YE: Sept. 30	FY19	FY20e	FY21e
Revenue (\$MM)	\$81.0	\$101.1	\$113.2
EBITDA (\$MM)	\$14.9	\$20.7	\$24.9
Adj EPS	-\$0.11	-\$0.01	\$0.05

#### Valuation

	FY19	FY20e	FY21e
EV/Sales	1.4x	1.2x	1.0x
EV/EBITDA	7.9x	5.7x	4.7x
P/E	-	-	25.7x

#### Stock Data (MM)

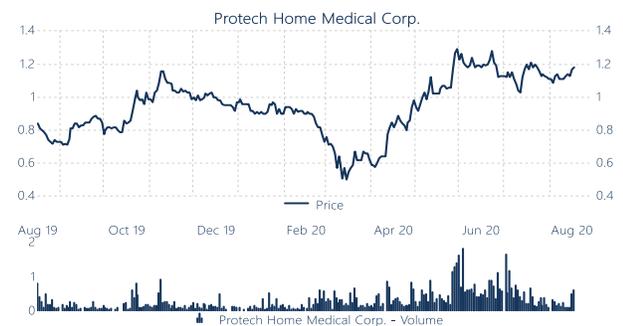
Shares Outstanding	
Basic	111
FD	149
Market Cap (C\$)	
Basic	\$131
FD	\$175
Net Cash	\$14
EV (C\$)	\$117

#### 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 July 31st, 2020	#Stocks	Distribution
BUY	54	69.2%
Speculative Buy	11	14.1%
Hold	1	1.3%
Sell	1	1.3%
Under Review	11	14.1%
Tender	0	0.0%
Total	78	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

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