

Protech Home Medical (PTQ – V)

Significantly Accretive Acquisition Could be First of Many

August 31, 2020

Doug Cooper, MBA

Analyst - (416) 643-3863

dcooper@beaconsecurities.ca

- PTQ announced this morning that it has closed its previously announced LOI to acquire Health Technologies Resources (HTR), a Chicago-based respiratory company with a strong focus on non-invasive vents (NIV).
- On a trailing basis, HTR reported revenue of \$5.5 million with EBITDA of \$1.65 million (30%). Post integration, PTQ believes the company will contribute \$1.8-\$2.0 million of incremental EBITDA.
- Under the terms of the definitive purchase agreement, PTQ will acquire HTR for total cash consideration of \$5.4 million, which equates to 1x trailing sales and less than 3x incremental EBITDA. Consequently, the acquisition is significantly accretive to PTQ.
- We believe the acquisition of HTR is very significant on a few fronts:
 - Accretive:** Firstly, as noted above, the transaction is very accretive to PTQ. We had not previously modeled it as we preferred to wait until it closed. As such, we are raising our FY20 (1 quarter of contribution) and FY21 (full-year contribution) forecasts. In particular, we now model rev/EBITDA for FY20 of \$102.4m/\$21m (was \$101.1m/\$20.7m) and \$120.2m/\$27.1m (was \$113.2m/\$24.9m). Given the purchase price was paid in cash, the transaction is immediately accretive to EBITDA/share.
 - Increases Exposure to NIV:** Prior to this transaction, NIV represented ~17% of PTQ's revenue. HTR has ~33% exposure to NIV. As such, PTQ's exposure to the higher margin NIV segment is expanded, which has the impact of "dragging up" PTQ's over EBITDA margin (+60 basis points in FY21). Recall that NIV is major growth market (less than 10% adoption of late-stage COPD patients despite significant data showing strong efficacy). Furthermore, NIV is NOT being included in the 2021 competitive bidding program, which should ensure the sustainability of the margins.
 - Extends Geographic Reach to Chicago:** PTQ is predominantly focused on the mid-west and north-east. This transaction extends its geographic reach to the Chicago area – the 3rd largest metro area in the United States. This should make for significant cross-selling opportunities.
 - Balance Sheet Still in Great Shape to Fund More Acquisitions:** Prior to this transaction, PTQ had \$45 million in cash. Its only debt is a \$15m convertible debenture (@ \$1.30) and capital leases. After spending \$5.4 million on this transaction, PTQ will still have ~\$40 million in cash for future acquisitions. Note that we have not factored any further acquisitions into our model.
- As we noted in our last note, we are very pleased with the progress PTQ has made in its free cash flow generation. In particular, we noted the strong EBITDA flow-through in its Q3/FY20 (June) results. It has now layered on a materially accretive acquisition, which has caused us to raise our FY20 and FY21 revenue/EBITDA as noted above. The stock continues to trade at a massive 50-65% discount to its immediate peer group who trade at 10-13x FY21 EBITDA. PTQ trades at 4.5x.
- Based on our increased FY21 EBITDA forecast, we are raising our target price to \$2.70 (was \$2.50). We continue to have an upward bias to our forecast and thus target price upon additional accretive acquisitions.

Acquisition

BUY (Unch)

\$2.70 (was \$2.50)

Recent/Closing Price	\$1.18
12-month Target Price	\$2.70
Potential Return	129%
52 Week Price Range	\$0.47 - \$1.35

Estimates

YE: Sept. 30	FY19	FY20e	FY21e
Revenue (\$MM)	\$81.0	\$102.4	\$120.2
EBITDA (\$MM)	\$14.9	\$21.0	\$27.1
Adj EPS	-\$0.11	-\$0.01	\$0.07

Valuation

	FY19	FY20e	FY21e
EV/Sales	1.5x	1.2x	1.0x
EV/EBITDA	8.2x	5.8x	4.5x
P/E	-	-	18.1x

Stock Data (MM)

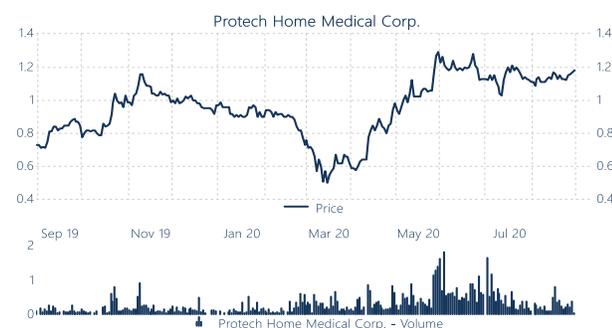
Shares Outstanding	
Basic	111
FD	149
Market Cap (C\$)	
Basic	\$131
FD	\$175
Net Cash	\$9
EV (C\$)	\$122

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

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

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 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

Dissemination

Beacon Securities distributes its research products simultaneously, via email, to its authorized client base. All research is then available on 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.