

Protech Home Medical (PTQ – V) Secures US\$20 Million Credit Facility to Bolster Acquisition Program

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- PTQ announced this morning that it has entered into a 4-year, US\$20 million senior credit facility with CIT Group (CIT – N, NR). Interestingly, CIT is also the lender to Adapthealth Corp (AHCO – US, NR) and thus understands the nature of PTQ's business very well. We estimate that PTQ's borrowing costs under this facility are under 5%.
- This is the first credit facility that the company has entered into and speaks to the strengthening balance sheet/credit quality of the company as well as its cash flow. We do not believe it a coincidence that this credit facility comes on the heels of its strengthened balance sheet, improving financial results and especially its recently released Q3/FY20 results in which PTQ translated its EBITDA to material free cash flow for the first time.
- Looking at the recent events, it is clear that PTQ has broken-out to the next level in terms of financial performance, yet its share price continues to trade at less than 5x EBITDA, a valuation that is a 50%+ discount to its peer group. Consider:
 - Closed \$31.8 million Financing (June 29):** Dramatically strengthened balance sheet by raising equity at \$1.15.
 - Strong Q3 Results (August 18):** Record quarterly results (August with revenue of \$25.9 million (+17% y/y and +7% q/q). EBITDA was a record from an absolute basis (\$5.54 million) as well as from a margin basis (21.4%). Perhaps most significantly, EBITDA flow through from incremental revenue was 40% and led to \$1.2 million of FCF.
 - Recently Closed Acquisition (August 31):** Announced the acquisition of Health Technologies Resources (HRT), a mid-west respiratory company with a strong focus on NIV. Its TTM revenue of \$5.5 million with an EBITDA of \$1.7 million will be immediately accretive to earnings.
 - LOI to Acquire Company in Southeastern US (September 8):** Announced this LOI which has TTM revenue of ~\$13 million with "significant EBITDA". We believe the closing of the acquisition (anticipated in the next few weeks) would take its revenue run-rate to ~\$125 million with EBITDA of \$28 million. With high single digit organic growth rate, that would imply FY21 rev/EBITDA of \$135m/\$31m (versus our current estimates of \$120m/\$27m).
 - US\$20 Million Credit Facility (September 21):** Based on assumption that post closing of the aforementioned LOI (for cash), we believe this credit facility will boost PTQ's cash balance to ~\$45 million. This will give the company plenty of firepower for additional acquisitions once the above-noted LOI closes. We believe its pipeline remains robust and we would expect to hear news on this front in the next month.
- We continue to be very pleased with the progress PTQ has made on a number of fronts as noted above. While we have not changed our forecast, we believe we have an upward bias to both our forecast and target price based on the closing of the LOI as well as future M&A transactions.
- We maintain our Buy recommendation and C\$2.70 target price.

New Credit Facility

BUY (Unch) **\$2.70** (Unch)

Recent/Closing Price	\$1.42
12-month Target Price	\$2.70
Potential Return	90%
52 Week Price Range	\$0.47 - \$1.48

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	1.8x	1.5x	1.2x
EV/EBITDA	10.0x	7.1x	5.5x
P/E	n/a	n/a	21.8x

Stock Data (MM)

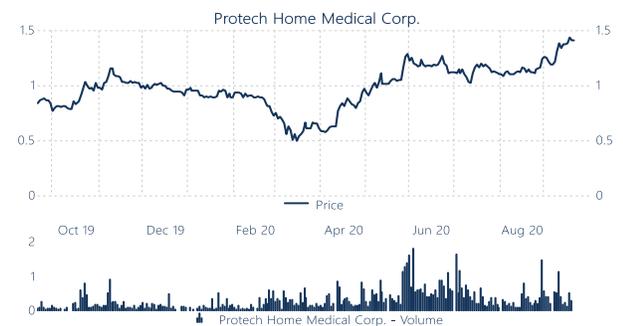
Shares Outstanding	
Basic	111
FD	149
Market Cap (C\$)	
Basic	\$158
FD	\$211
Net Cash	\$9
EV (C\$)	\$149

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 August 31st, 2020	#Stocks	Distribution
BUY	54	66.7%
Speculative Buy	15	18.5%
Hold	1	1.2%
Sell	1	1.2%
Under Review	10	12.3%
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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