

Protech Home Medical (PTQ – V) Closes Biggest Acquisition to Date. Raise Forecasts and Target Price

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- PTQ announced this morning that it has closed its previously announced (Sept 8) LOI to acquire Sleepwell LLC, a company based in Georgia. On a TTM basis, Sleepwell generated ~\$13 million in revenue with EBITDA of \$3.25 million (25%). The purchase price is \$14.1 million consisting of \$9.3 million in cash and \$5.1 million in shares, issued at \$1.47 (3.5 million shares).
- Sleepwell is a leader in sleep services in Georgia and also participates in the Ohio market through its presence in Dayton, which is a new market region for PTQ and thus opens-up cross-selling opportunities. Sleepwell not only provides products such as CPAP, biPAP and nebulizers but also focuses on service and education. As such, it generates a significant recurring revenue stream that carries high margins. Note that its 25% EBITDA margin is 360 basis points higher than PTQ's Q3/FY20 consolidated EBITDA margin of 21.4%, which in itself was a record for the company.
- This was PTQ's largest acquisition to date, from both a revenue/EBITDA perspective and purchase price perspective. In fact, it is larger than all of its prior acquisitions combined. We believe this is telling in terms of where PTQ is in terms of its infrastructure and its balance sheet. From that perspective, we believe this is a real inflection point for the company, especially as it has significantly more firepower to close more and bigger deals. Post the \$9.3 million cash payment for this acquisition, **PTQ still has ~\$35 million in cash with an extra \$20 million from the untapped (recently announced) credit facility with CIT Bank.** Based on the 4.5x EBITDA that PTQ just paid for Sleepwell, such liquidity could buy an incremental \$12 million in EBITDA.
- Given we had not factored the Sleepwell acquisition into our financial forecast, we are now including it.
 - Q3/FY20 (June) Run Rate:** We remind clients that PTQ reported \$25.9 million in revenue with (then) record EBITDA of \$5.54 million for an annualized run-rate of \$104m/\$22.2m;
 - Health Technologies Acquisition:** Post the Q3 results, PTQ acquired HT that had \$5.5 million in revenue with \$1.7 million of EBITDA. This would take the run-rate to \$110m/\$24m;
 - Sleepwell Acquisition:** With the addition of \$13 million in revenue and \$3.25 million of EBITDA, the aforementioned run-rate increases to \$123m/\$27.3m;
 - 11% Organic Growth in FY21:** Assuming no more acquisitions, such organic growth leads to our new FY21 rev/EBITDA forecast of \$136m/\$31.3m.
- Note that the number of basis shares in our calculation has increased to 127 million (from 111 million). This reflects not only the addition of 3.5 million from the Sleepwell acquisition but also moving the \$15 million convertible debenture (@ \$1.30) from debt to equity. PTQ can force conversion of that instrument if/when the daily average volume weighted average price of the shares exceeds \$1.62 for 20 days.
- PTQ continues to perform very well and, as we noted in our last update, has hit a number of significant milestones over the past several months. Today's announcement is the latest and is the biggest (to date) acquisition in the company's history. PTQ has the best balance sheet in its history and has the ability to acquire even larger companies, albeit we have not modelled any further ones. Based on our increased forecast, we are raising our target on PTQ to \$3.00 (was \$2.70) based on 12x our FY21 EBITDA forecast. We maintain our Buy recommendation.

Closes Largest Acquisition to Date

BUY (Unch)

\$3.00 (was \$2.70)

Recent/Closing Price	\$1.57
12-month Target Price	\$3.00
Potential Return	91%
52 Week Price Range	\$0.47 - \$1.59

Estimates

YE: Sept. 30	FY19	FY20e	FY21e
Revenue (\$MM)	\$81.0	\$104.4	\$136.1
EBITDA (\$MM)	\$14.9	\$21.4	\$31.3
Adj EPS	-\$0.11	-\$0.01	\$0.10

Valuation

	FY19	FY20e	FY21e
EV/Sales	2.0x	1.6x	1.2x
EV/EBITDA	11.0x	7.7x	5.2x
P/E	n/a	n/a	15.7x

Stock Data (MM)

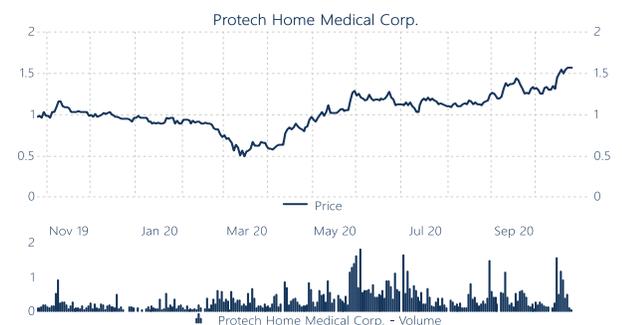
Shares Outstanding	
Basic	127
FD	153
Market Cap (C\$)	
Basic	\$199
FD	\$240
Net Cash	\$35
EV (C\$)	\$164

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



Source: FactSet

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As at September 30th, 2020	#Stocks	Distribution
BUY	55	67.9%
Speculative Buy	15	18.5%
Hold	0	0.0%
Sell	0	0.0%
Under Review	11	13.6%
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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