

Protech Home Medical (PTQ – V)

CMS Decision Provides Revenue and Margin Certainty

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- Medicare (CMS) announced yesterday that 14 of the 16 product categories that were contemplated for its 2021 competitive bidding are not going forward. The only products that will be included are back and knee braces, neither of which PTQ provides.
- As pertains to PTQ in particular, we already knew (in April 2020) that non-invasive vents (NIV) were being excluded, which represents ~17% of PTQ's revenue. Yesterday, oxygen and CPAP/biPAP were also removed, the two of which represent ~20% of revenue.
- CMS's rationale for the exclusion of 14 of the 16 products categories was that "...the payment amounts did not achieve expected savings". In other words, any potential savings would not justify the likely disruption in service that naturally comes with price reductions. Or, put another way, these products have undergone re-imbursements cuts already such that there is "no more juice left in that lemon".
- What this means for PTQ is that investors can have confidence that the recent record revenue and margin profile is sustainable at least until the next round of competitive bidding, tentatively scheduled for 3 years but likely longer if there are no more "expected savings" by CMS.**
- The implications are severalfold for the stock:
 - Investors have seen in the past what happens to share prices upon a re-imbursement cut. Now that PTQ has revenue and margin certainty, we believe investors will reward the company with a multiple expansion. As a reminder, PTQ trades at a 50% discount to its immediate peer group;
 - PTQ can pursue its own M&A pipeline with confidence that its targets will not have any surprises. In particular, we believe some of the companies in its pipeline have material exposure to oxygen/sleep. As such, we would expect PTQ to accelerate its M&A program, especially with target margin certainty and with its strong balance sheet (\$35 million in cash and US\$20 million untapped credit facility);
 - With revenue and margin certainty, PTQ itself could become an M&A target with the most obvious suitor being AdaptHealth (AHCO-US, NR). With FY21 revenue expectations of US\$1.2 billion, we understand that AHCO has backed-away from smaller acquisition targets as they do not move the revenue needle. However, PTQ's expected revenue of \$136 million could be very material to it.
- 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. Yesterday's announcement from CMS provides yet another positive datapoint and further skews the risk-return very positively. We maintain our Buy recommendation and \$3.00 target price.

CMS Cancels 2021 Competitive Bidding Program

BUY (Unch) **\$3.00** (unch)

Recent/Closing Price	\$1.62
12-month Target Price	\$3.00
Potential Return	85%
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	2.1x	1.6x	1.3x
EV/EBITDA	11.5x	8.0x	5.4x
P/E	n/a	n/a	16.2x

Stock Data (MM)

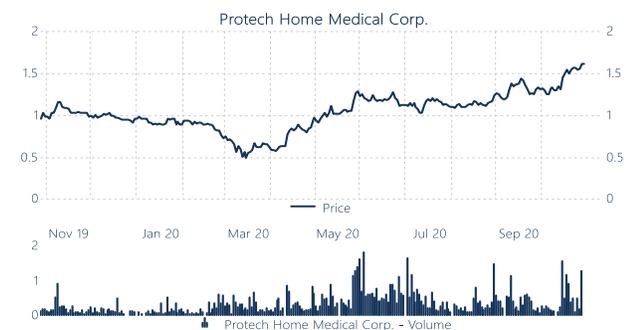
Shares Outstanding	
Basic	127
FD	153
Market Cap (C\$)	
Basic	\$205
FD	\$247
Net Cash	\$35
EV (C\$)	\$170

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 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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