

BUY
COMPANY UPDATE

Financial Summary			
Changes	Previous	Current	
Rating	—	Buy	
Target Price	C\$2.00	C\$2.30	
FY21E EPS	C\$0.05	C\$(0.01)	
FY22E EPS	—	C\$0.13	
FY21E Revenue	C\$113.7	C\$130.3	
FY22E Revenue	—	C\$165.5	

Price (01/05/21):	C\$1.61
52-Week Range:	C\$2 - C\$0.47
Market Cap.(mm):	C\$198.7
Shr.O/S-Diluted (mm):	123.4
Enterprise Val. (mm):	C\$189.6
Avg Daily Vol (3 Mo):	662,395
Dividend / Yield:	C\$0.00 / 0.0%
Price: (intraday 1-5-21)	

Revenue	2020E	2021E	2022E
FY (Sep)	C\$98.9	C\$130.3	C\$165.5
EV/Rev	1.9x	1.5x	1.1x
EBITDA	C\$20.4	C\$27.4	C\$36.4
EV/EBITDA	9.3x	6.9x	5.2x
EPS	C\$(0.05)	C\$(0.01)	C\$0.13
P/E	NM	NM	12.4x

Price Performance



M&A picking up steam

Summary

PTQ announced an LOI this morning to acquire an unnamed private respiratory care company in the southern U.S. with \$7mm in annual revenue. Assuming the transaction closes, this represents PTQ's third acquisition in the past six months with an estimated ~\$27mm in capital deployed and would be the ~20th deal executed on by the CEO. PTQ has an M&A playbook that works, where it acquires smaller operators, which may fall under the radar of larger consolidators and moves quickly to integrate and increase the value of these assets. We also had an update with PTQ's CEO recently and believe that the pipeline for M&A remains solid with about six additional near term companies to acquire, representing ~\$40mm in combined sales as other opportunities progress. PTQ has the balance sheet to execute on further M&A with ~\$40mm in cash and has paid 0.5x to ~1x sales for past acquisitions. **BUY**.

Key Points

Overview: The LOI announced this morning would add a state to PTQ's footprint, 10k active patients, and C\$7mm in annual revenue (resulting in a +C\$130mm annual run rate). Although, no margin information was disclosed, the target is said to be profitable on an adj. EBITDA and would be immediately accretive. In the recent past, PTQ has paid around ~1x sales and ~3x to ~4x EBITDA for acquisitions. The transaction is expected to close within the next month, subject to final due diligence and approvals.

More M&A in 2021: We expect PTQ to continue its M&A pursuits with a playbook that works with six near-term targets that represent \$40mm in combined sales but with hundreds of other potential targets to acquire in a fragmented industry. PTQ will continue to focus its efforts on acquiring profitable companies in the annual revenue range of C\$5mm-C\$20mm+.

Figure 1 - Recent M&A Summary

Target	Type	Date	Consid. TTM			
			C\$M	Sales	EV/Sales	EV/EBITDA
Unnamed	Respiratory	Q1/2021	TBD	7.0	TBD	TBD
Sleepwell, LLC	Sleep	Q4/2020	14.4	13.0	1x	4x
Health Technology Resources, LLC	Respiratory	Q3/2020	5.4	5.5	1x	3x
Acadia Medical, Inc.	Respiratory	Q4/2019	2.3	4.0	0.5x	3x
Cooley Medical, Inc.	Respiratory	Q4/2019	4.0	9.0	0.5x	2x
Riverside Medical & Central Oxygen	Respiratory	Q4/2018	0.9	n.d.	n.d.	n.d.
Coastal Med Tech Inc.	Respiratory	Q3/2018	0.9	4.0	0.2x	1x

Source: Company filings, Stifel GMP

Updating forecasts: We've updated our estimates to reflect recent M&A and greater than expected organic growth, along with rolling out our 2022 forecasts. For F2021, we have increased our sales estimate from C\$115mm to ~C\$130mm, up 30% YoY, which is in-line with the current annual run rate of the business. Our F2022 estimates account for a combination of continued solid organic growth and additional M&A, leading to \$165mm in sales, up 27% YoY. We see a combination of ~30% average sales growth and 20%+ EBITDA margins over the next nine quarters as leading to a much greater share price.

Rating: PTQ shares are up ~30% over the last 3 months but continue to trade at a deep discount of ~8x CY2021e EBITDA vs peers at ~15x. We believe continued solid execution, M&A, and a possible Tier 1 U.S. listing should help bridge the valuation gap. Our new \$2.30 target price is based on 10x revised 2021 EBITDA estimates and compares to our prior \$2.00 target, based on 10x prior estimates. Our conviction in PTQ is rising. **BUY**

Investment Thesis

We see PTQ as offering important respiratory infrastructure services within healthcare that help keep patients out of the hospital or lead to early discharges, something that has become increasingly important. We expect a good organic growth rate to trend higher with increasing preference for at-home care, spurred by Telehealth and related innovation. PTQ is also seeking scale by rolling up smaller competitors with an aggressive, but disciplined, approach that includes an M&A playbook that works. We expect the combination of organic growth and M&A in an increasingly valuable home healthcare space to result in a positive re-rating in valuation and a much higher share price.

Target Price Methodology/Risks

Our \$2.30 target price is based on 10x 2021e EBITDA.

Acquisition risk: PTQ's strategy includes growth by acquisition. Expected synergies may not materialize for these acquisitions or integration costs may be more than expected.

Reimbursement changes: PTQ's business model is based on reimbursement from Medicare, Medicaid and private insurance in the U.S. The industry is subject to competitive bid processes that may result in lower pricing for certain services and/or products.

Supply chain: There are a concentrated number of suppliers from which PTQ sources its equipment, and they are largely domestic. If there were disruptions in this supply chain, growth and the ability to serve customers well could be affected.

Bad debt expense: PTQ's customers may not return medical equipment or equipment may otherwise be damaged under a rental/lease model. PTQ has the ability to turn off some products remotely, and serialisation of equipment helps prevent theft, but some bad debt expense exists.

COVID-19: PTQ's business has been deemed an essential service. Providing healthcare infrastructure at home, thereby keeping patients healthy and out of the hospital or resulting in early discharges, is increasingly important now. PTQ's business has not been materially affected by COVID-19, speaking to the resilience of the model, but prolonged periods of shutdowns could impact the business, including unforeseen risks.

Company Description

Protech provides in-home monitoring and disease management services, with a specific focus on offering end-to-end respiratory solutions for patients in the U.S. 80% of PTQ's business is providing respiratory equipment rental/leases with associated consumable supplies and 20% related to mobility and related home equipment. PTQ's respiratory segment breaks down further to 40% related to Oxygen and Ventilator services and 40% for sleep therapy solutions.

Protech Home Medical (TSXV:PTQ)

Income Statement		2019	2020e	2021e	2022e
Revenue	\$mm	\$81	\$99	\$130	\$166
COGS	\$mm	\$24	\$27	\$38	\$48
Gross Profit	\$mm	\$57	\$72	\$93	\$118
Margin	%	71%	72%	71%	71%
OPEX	\$mm	\$59	\$72	\$91	\$98
Adj. EBITDA	\$mm	\$15	\$20	\$27	\$36
Margin	%	18%	21%	21%	22%
EPS	\$/sh	(\$0.09)	(\$0.05)	(\$0.01)	\$0.13

Cash flow Statement		2019	2020e	2021e	2022e
Cash from Ops	\$mm	\$11	\$23	\$17	\$31
Cash from Investing	\$mm	\$2	(\$6)	(\$9)	(\$10)
Cash from Financing	\$mm	(\$5)	\$17	\$0	\$0
Free Cash Flow	\$mm	(\$1)	\$17	\$8	\$21

Balance Sheet		2019	2020e	2021e	2022e
Cash & Equivalents	\$mm	\$13	\$47	\$54	\$75
Total Receivables	\$mm	\$12	\$16	\$27	\$29
Total Current Assets	\$mm	\$31	\$72	\$93	\$118
PP&E	\$mm	\$19	\$20	\$5	\$0
Total Assets	\$mm	\$55	\$99	\$105	\$125
Accounts Payable	\$mm	\$8	\$10	\$16	\$17
Curr. Portion of Leases	\$mm	\$9	\$10	\$10	\$10
Total Current Liabilities	\$mm	\$19	\$32	\$37	\$39
LT Debt	\$mm	\$14	\$15	\$15	\$15
Total Liabilities	\$mm	\$36	\$53	\$58	\$60
Common Stock	\$mm	\$198	\$225	\$227	\$228
Retained Earnings	\$mm	(\$213)	(\$218)	(\$218)	(\$202)
Total Equity	\$mm	\$19	\$46	\$47	\$65

Source: Stifel GMP estimates, Company disclosures

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Protech Home Medical (PTQ CN) as of January 04, 2021 (in CAD)



*Represents the value(s) that changed.

Buy=BUY; Speculative Buy=SBUY; Hold=HOLD; Sell=S; Discontinued=D; Suspended=SU; Initiation=I

For a price chart with our ratings and target price changes for PTQ CN go to <http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=PTQ CN>

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¹ This rating is only utilised by Stifel Canada.

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