STIFEL | GMP

Equity Research

Protech Home Medical Corp.

BUY

PTQ-TSXV

April 29, 2020

Last: **C$0.86**
Target: **C$2.00**

Initiating coverage: Helping people breathe

Undervalued healthcare infrastructure company at ~6x EBITDA: PTQ provides home medical equipment, supplies and service in the U.S., including oxygen and ventilator therapy (~40% of sales) and sleep therapy (~40% of sales), along with custom mobility equipment. We see PTQ as providing important solutions in keeping people healthy and out of the hospital or for early discharges, increasingly important now. PTQ's healthcare equipment also helps bridge virtual care with recent changes in Telehealth. More broadly, we see PTQ as a healthcare infrastructure company, evident in the stability of results, essential service status and recent reimbursement support by Medicare and Medicaid. Although the industry is competitive, PTQ has advantages as a solid operator with strong service, increasing scale and use of technology. We forecast that PTQ will continue a high growth trajectory both organic and through M&A to $111mm in sales next year (16% 2yr CAGR) with a balance sheet to support (~$14mm pro-forma cash). PTQ is trading at a discount of ~6x EBITDA as an important healthcare provider. **BUY**.

Telehealth billing code changes boost the opportunity set: PTQ's business model has stability with 68% of recurring sales in a primarily rental/lease offering of equipment and repeat orders of consumable supplies. PTQ's oxygen and ventilator segment enables patients to avoid hospitals in receiving care at home, while sleep therapy has been shown to be effective in reducing cardiovascular risk and other complications associated with obesity, including diabetes. These target markets have attractive attributes with organic growth around 5% that we see shifting higher with a preference for home care, now more relevant with changes in billing codes for Telehealth. As a result, we see PTQ's 80k patient base as very valuable with an opportunity to supply additional point of care solutions.

$100mm of sales in-sight with a goal to double in three years: We forecast PTQ to generate $95mm in sales for 2020, up 17% YoY with most of the growth already attributed for from an acquisition and baking in some conservatism. For 2021, we forecast $111mm in sales, up a similar rate of 18% YoY with an expectation that M&A will resume more meaningfully but also increased organic growth as PTQ offers additional point of care solutions. PTQ has recently launched Telehealth technology to support the evolution of home care for its 80k patient base. More broadly, PTQ is seeking to double sales in three years. We see a $100mm+ healthcare infrastructure and tech business with 20% EBITDA margins as warranting much higher valuation than ~6x EBITDA.

Rating: We initiate with a BUY and $2.00 target based on 10x 2021 EBITDA. **BUY**.

Rating	BUY
Target	$2.00
Revenue F2020E (mm)	$94.7
Revenue F2021E (mm)	$111.4
EPS f.d. F2020E	-$0.02
EPS f.d. F2021E	$0.05

Share Data

Share o/s (mm, basic)	83.6
52-week high/low	1.19/0.47
Market cap (C$mm)	$82.2
Enterprise value (C$mm)	$99.6
Dividend	nil
Dividend yield	n.a.
Projected return	133%

Financial Data

FYE Sept 30	2019	2020E	2021E
Revenue (mm)	$81.0	$94.7	$111.4
EV/Revenue	1.2x	1.1x	0.9x
EBITDA (mm)	$14.9	$17.1	$21.3
EV/EBITDA	6.7x	5.8x	4.7x
EPS f.d.	($0.09)	($0.02)	$0.05
P/E	n/a	n/a	15.9x
FCFPS	-$0.02	$0.05	$0.09
P/FCF	n/a	20.6x	11.4x
Net debt	$12.7	$11.8	$4.5
Net debt/EBITDA	0.9x	0.7x	0.2x
Book value	$19.1	$20.2	$26.9
P/BV	4.3x	4.1x	3.1x

All figures in C$ unless otherwise noted

Current Chart **Previous Research**

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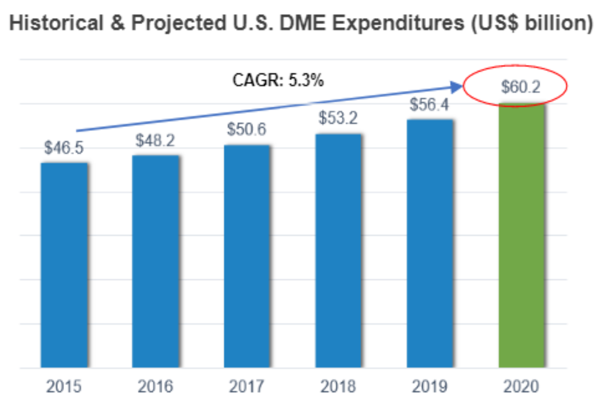
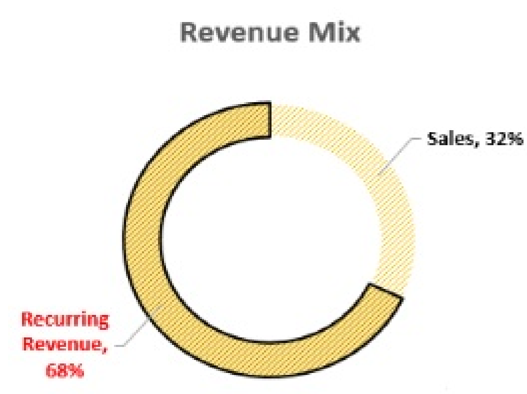
Figure 1. Key trends

Strong secular trend already in progress



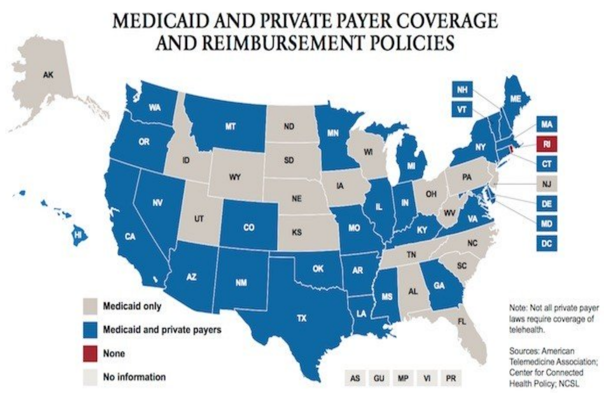
Sources: Protech Home Medical Corp.

Healthcare infrastructure model has high recurring sales



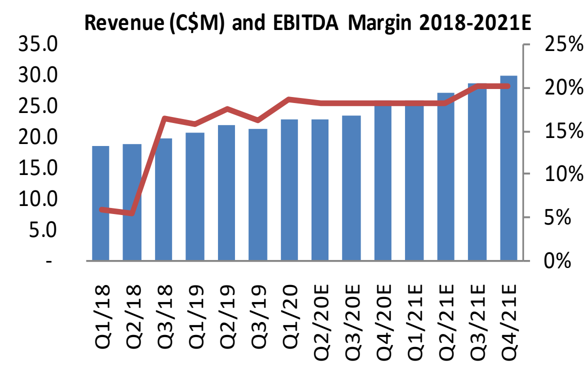
Sources: Protech Home Medical Corp.

Telehealth coverage has improved



Sources: American Telemedicine Association

And we forecast higher growth with additional solutions



Sources: Protech Home Medical Corp., Stifel GMP

Investment thesis

We see PTQ as offering important respiratory infrastructure services within healthcare that helps keep patients out of the hospital or leads to early discharges 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. Supplementing this organic growth is a pursuit for acquisitions, where PTQ is targeting companies with sales in the range of $4mm-$12mm that is generally under the radar of larger competitors, leading to good acquisitions at fair prices. PTQ's CEO has been in the industry for over 25 years and has been able to successfully manage the U.S. reimbursement process with compounding value and a business that's now approaching $100mm in sales, a key threshold to garner investor interest. Combined, we see PTQ as an undervalued stock at ~6x EBITDA for the opportunity ahead. We breakdown the key components of our thesis:

- **Resilient business model**: About 68% of PTQ's sales is recurring with respiratory equipment rental/leases and consumable supplies. 80% of total sales is in respiratory therapy that helps keep patients out of the hospital. This segment has infrastructure-like qualities as the alternative of hospital care or reduced care is not favourable. CMS (Centers for Medicare and Medicaid services) recently provided reimbursement support for non-invasive ventilator services, speaking to the important nature of the solutions that PTQ provides.
- **Organic expansion**: We expect a good organic growth rate of around 5% to continue and trend higher with an increasing preference for at-home care that has become much more relevant with recent changes in Telehealth billing codes as a result of COVID-19. PTQ has recently incorporated a Telehealth platform to support the evolution of home care.
- **M&A**: PTQ has been acquisitive with 11 transactions and is seeking smaller companies with sales of $4mm-$12mm and EBITDA margins of 5-10%. These target companies are generally under the radar of larger competitors and leads to good acquisitions at fair prices. There are also significant synergies with acquisitions as PTQ seeks to expand EBITDA margins from the 5-10% range to its corporate-wide average of 18% currently and trending higher.
- **Undervalued stock:** We see PTQ as trading at a significant discount of ~6x EBITDA, below a broad group of peers at 10x-12x. PTQ's market cap and revenue may be factors in the disconnect in valuation, along with concerns for reimbursement changes. However, we see PTQ as offering an increasingly important infrastructure service within healthcare that supports favourable reimbursement, along with confidence in the CEO in navigating these processes over the past 25 years. PTQ is also now approaching $100mm in both market cap and sales that should garner greater investor interest and highlights multiple expansion.
- **Putting it all together:** We forecast PTQ to generate $95mm of sales in 2020, increasing to $111mm in 2021 and $135mm by 2022. EBITDA margins scale up from 18% to 20%+ over this period. Our forecasts are conservative to management goals as we bake in some cushion for potential COVID-19 impacts on the custom accessibility segment and other unforeseen risks. PTQ has not seen a material impact from COVID-19 yet, speaking to the resilient business model and essential service status in providing healthcare infrastructure. Combined, a $100mm+ revenue and market cap company with ~20% EBITDA margins should warrant much higher valuation. We initiate on PTQ with a BUY and $2.00 target.

About Protech Home Medical

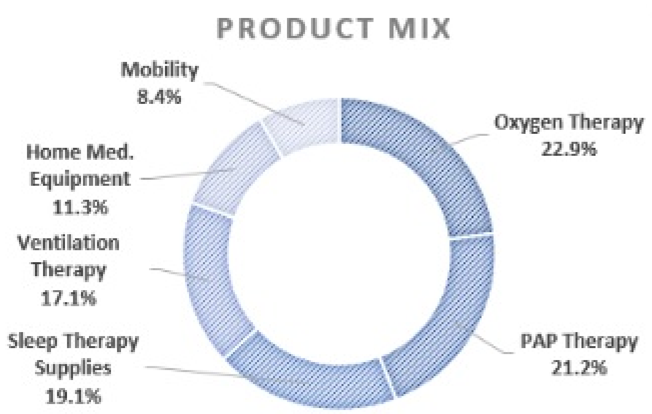
Protech Home Medical Corp. (PTQ:TSXV) was created as part of a spin-off of Patient Home Monitoring Corp. (PHM) with the businesses split as Protech and Viemed Healthcare (VMD:TSX) in 2017. The two companies now provide similar solutions but with different focuses and generally in separate geographical target regions. PTQ has also been acquisitive with 11 transactions, where Viemed has focused on organic initiatives. Although the businesses are in the same industry, we do not see the two companies as competitors. PTQ serves over 80k active patients across 10 states in the Midwest and East Coast.

PTQ's CEO, Greg Crawford joined Patient Home Monitoring when his company, Patient Aids was acquired for C$32mm in April, 2016. Mr. Crawford had some different roles with PHM before becoming the CEO and Chairman of Protech Home Medical in 2017. Mr. Crawford also has a long track record of value creation in the industry, where he began working at Patient Aids in 1994, became CEO in 2004 and grew sales from US$4mm to US$18mm until the exit in 2016. PTQ's business now generates over $80mm in sales with ~18% EBITDA margins. There have also been three major U.S. reimbursement challenges in the past 20 years that Mr. Crawford has been able to navigate successfully in ultimately creating more value.

Protech Home Medical's solutions

Essentially 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. We see PTQ's respiratory business as having attractive growth attributes that acts as an infrastructure within healthcare under a home care model. PTQ's mobility segment helps broaden the offering for cross-sales that is beneficial for certain referral programs in-place.

Figure 2. PTQ's product mix



Sources: Protech Home Medical Corp., Stifel GMP

Respiratory solutions (80% of sales):

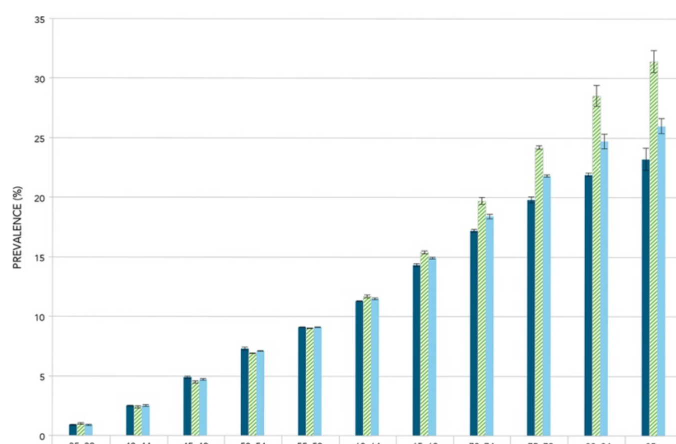
Ventilators (17% of sales): PTQ has around 1200 ventilators in its fleet with utilization rates over 80%. These ventilator systems primarily serve patients with chronic obstructive pulmonary disease (COPD) in a severe state or Stage III or Stage IV. Around 25mm people in the U.S. suffer from COPD with 10% in a severe state. COPD can include several symptoms but shortness of breath and fatigue are the most common, where difficulty breathing becomes more severe depending on the diagnosed stage. In Stage III, 50% of airflow is limited, increasing to 70% in stage IV, making it very difficult to breathe. Patients in these stages typically require ventilators to assist in breathing and being administered medicine deep within lungs. PTQ rents its ventilators to patients, where Medicare, Medicaid and private insurance provides reimbursement at an average of US$12,000k per year. Unfortunately, there has been increasing prevalence of COPD driven by an aging population and increased incidence of underlying conditions, such as diabetes.

Figure 3. Home ventilator system

Sources: Astral, ResMed

COVID-19, as a respiratory disease can cause similar symptoms to COPD with difficulty in breathing and requiring ventilator systems in a severe state. These patients are cared for in the ICU within hospitals and are not serviced by PTQ. However, PTQ's ventilator systems provides support to the hospitals by allowing patients to be discharged early for non COVID-19 related complications and in general keeping patients out of the hospital setting that has become increasingly important.

Figure 4. Prevalence of COPD by age group and sex



	35–39	40–44	45–49	50–54	55–59	60–64	65–69	70–74	75–79	80–84	85+
Females	0.9	2.5	4.9	7.3	9.1	11.3	14.3	17.2	19.8	21.9	23.2
Males	1.0	2.4	4.5	6.9	9.0	11.7	15.4	19.7	24.2	28.5	31.4
Total	0.9	2.5	4.7	7.1	9.1	11.5	14.9	18.4	21.8	24.7	26.0

AGE GROUP (YEARS)

Sources: Public Health Agency of Canada

Oxygen therapy (23% of sales): PTQ has around 15,000 patients on its Oxygen systems that are primarily used for patients with less severe forms of COPD or Stage I and Stage II. Oxygen therapy is a less invasive treatment than ventilator therapy, where patients generally use oxygen when needed to improve energy levels, sleep and in general quality of life. PTQ's oxygen systems can also be portable, improving mobility of patients that may otherwise be stuck at home. This also speaks to the cross-sales benefits of PTQ's mobility and related home equipment segment (20% of total sales) that includes customized power wheelchairs and other mobility solutions. A smaller part of PTQ's oxygen system includes Nebulizers that provides similar breathing assistance but with the added feature of administering medicine deep within the lungs for certain patients, where traditional inhalers may not be effective. PTQ's oxygen solutions are reimbursed through Medicare, Medicaid and private insurance, where the average is around US$2,200 per year. PTQ also provides the service of refilling oxygen tanks, leading to recurring sales.

Figure 5. Nebulizer

Sources: Philips healthcare

Similar to PTQ's ventilator segment, the oxygen therapy segment has experienced good organic growth rate with similar secular strength from an aging population. PTQ's oxygen segment also relieves strain for healthcare systems in keeping patients out of the hospital and acts as an infrastructure.

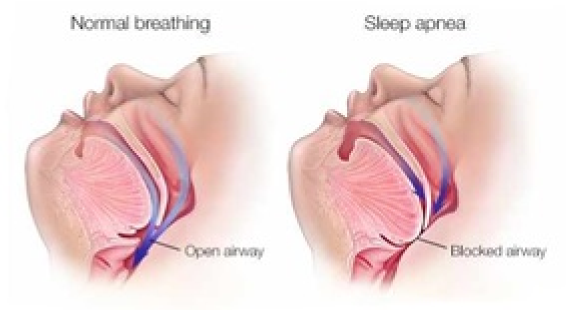
Sleep therapy (40% of sales): PTQ has over 40k patients on sleep therapy that includes leasing CPAP (continuous positive airway pressure) and APAP (automatic positive airway pressure) machines, while providing consumable supplies, including masks, filters and other components. About half of this segment's sales are attributed to consumable supplies that are reimbursed by insurance, in addition to the equipment, where the average is about US$900 per year combined.

Figure 6. Sleep Apnea machine

Sources: Philips healthcare

Sleep disorders or sleep apnea is a potentially serious condition that repeatedly causes people to stop breathing during sleep. There are different types and levels of sleep apnea from mild, moderate and severe that is typically determined by the amount of times that a person stops breathing within an hour or set period of time. The disorder has become an increasing focus in healthcare as technology has advanced with more economical, quieter and comfortable CPAP/APAP machines and as more studies highlight the benefits of therapy and risk factors for sleep disorders. Some of these risk factors include diabetes, high blood pressure and excess weight, among other complicating factors, including narrowed airways. COVID-19 has also brought a greater focus in managing underlying conditions, including diabetes. Sleep therapy has been associated with a general improvement in quality of life as well.

Figure 7. Sleep apnea blocks airway



Sources: Mayo Clinic

PTQ is also incorporating more technology within its sleep therapy segment by using its Telehealth platform for on-boarding and servicing patients. There is an increasing preference for the initial sleep disorder diagnostics to occur at home vs. in a sleep clinic setting, where PTQ intends to offer such services. Similar to ventilators and oxygen, we see PTQ's sleep therapy segment as providing preventative healthcare services, in keeping people out of the hospital and relieving strain on the healthcare system, leading to an important service.

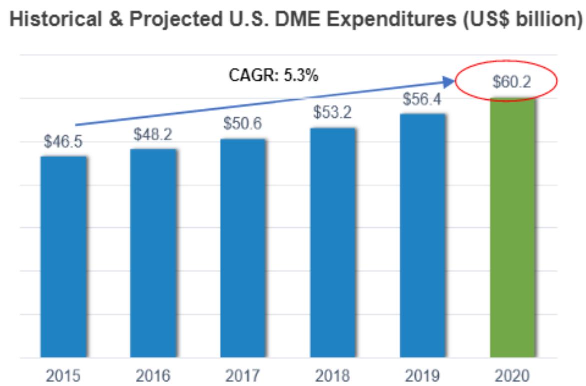
Mobility solutions and related home medical equipment (20% of sales): PTQ's mobility solutions segment includes high end custom power wheelchairs and non-powered wheelchairs, in addition to a wide range of mobility products. PTQ also sells hospital beds within this segment for home settings. We see this part of PTQ's business is less strategic but there are some cross-sales opportunities with primarily an elderly customer base being served. The segment also helps in referral arrangements from certain healthcare institutions, where a broad breadth of product offering helps secure more valuable business for respiratory services with PTQ positioning itself as a one-stop shop.

Market size and growth rates

PTQ operates within the Durable Medical Equipment (DME) market that is around US$60b in size with good organic growth of about 5%. DME is defined as consisting of items that have repeated use, are appropriate for the home and serves a medical purpose. The market is competitive with over 6,000 companies but many are small mom and pop type operations with 70% market share held by only ~10 providers. Hill-Rom Holdings (NYSE:HRC), Invacare (NYSE:IVC), Medline Industries, Viemed (TSX:VMD), Addus HomeCare (NASDAQGS:ADUS) and AdaptHealth

(NASDAQGS:AHCO) are some of the larger relevant peers to PTQ. We see this competitive dynamic as unique for PTQ as a solid operator under the radar of larger peers but still meaningful scale approaching $100mm in sales. PTQ benefits from the secular underlying organic growth trends but is also targeting much smaller competitors than its larger peers for M&A, leading to good transactions with fair multiples paid. This has resulted in PTQ acquiring 11 businesses as it continues to evaluate several other opportunities in expanding scale.

Figure 8. DME market size



Sources: Protech Home Medical Corp.

Acquisition strategy

PTQ has acquired 11 companies but the CEO has been involved with integrating another six companies prior or 17 in total. There are many small mom and pop type operations in the industry that fly under the radar of PTQ's larger peers, leading to good opportunities. PTQ has set out criteria for the companies it looks to acquire:

- Revenue in the range of $4mm to $12mm
- Consistent EBITDA margins between 5-10%
- States with good reimbursement and generally in the Midwest and East Coast
- Good service platform but opportunity to incorporate more technology

The company has typically paid between 4x to 8x EBITDA for acquisitions, prior to synergies. PTQ moves quickly to integrate acquisitions by consolidating distribution with existing locations, eliminate back office and duplicate functions, decrease COGS through its larger purchase volume program, optimize billing procedure and typically increase sales resources. As a result of this integration, PTQ's acquisition multiple paid post-synergies is between 1x to 4x EBITDA, illustrating a value creating strategy. PTQ has $14mm in pro-forma cash to support its M&A pursuits.

PTQ exit strategy

PTQ is approaching $100mm in sales soon with 18% EBITDA margins, increasing to 20%. PTQ's acquisition targets have been relatively small and under the radar of larger peers, leading to fair multiples paid and compounding value. We believe that PTQ will become an acquisition target as scale continues to build higher with about 10 larger peers as potential acquirers. We also see the CEO's prior exit of Patient Aids for $32mm in 2016 as indication of another possible exit with PTQ ahead. PTQ's CEO grew sales from US$4mm to US$18mm at Patient Aids before it was acquired and is in the process of growing sales from $70mm in 2018 to $111mm in 2021 and higher beyond with margin expansion.

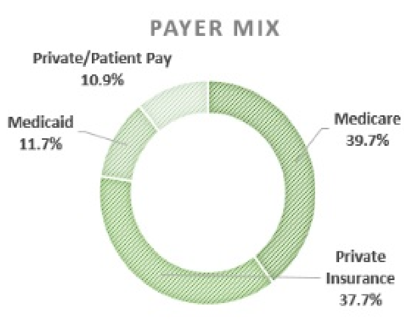
Telehealth and technology

As a result of COVID-19, the Centers for Medicare and Medicaid Services (CMS) has broadened access to Telehealth, providing greater access to healthcare services without the need to leave home. Canada followed the U.S. by instituting new billing codes, reimbursing doctors for virtual visits at essentially the same rates in most provinces. Prior to COVID-19, Telehealth visits had limited or no reimbursement coverage in most states and provinces. These changes have essentially created a new industry of virtual care, where people can receive doctor's diagnosis and obtain prescriptions, among other functions. We believe that Telehealth is here to stay as a much more efficient form of healthcare services. The innovation around Telehealth is still in its infant stage but virtual visits cannot replace doctor clinics completely. However, we see PTQ as being in a valuable position with a patient base of 80k already in place, where it is providing medical equipment with already a focus on technology. We expect PTQ to incorporate additional services and products in its offering that could include vital sign monitoring, among many other innovations that are coming to market. PTQ can further serve as that bridge between Telehealth and patients, leading to greater value and higher trading multiples.

Reimbursement

PTQ's business model is based on reimbursement from Medicare, Medicaid and private insurers. The industry has had reimbursement reductions in the past, which led to the exit of several companies. As an indication of the impact for these cuts, the number of competitors has declined by (25%) from 2015 to 2017, with DME providers reducing to around 6,000 from over 8,500 prior. The Centers for Medicare and Medicaid Services (CMS) runs competitive bid processes every three to five years that has led to lower pricing. The mechanics around these bid processes can be complicated and typically involves industry consultants for DME providers in bidding appropriately to secure market share at the best possible price.

Figure 9. PTQ payer mix



Sources: Protech Home Medical Corp.

As a result of COIVD-19, CMS recently removed non-invasive ventilators from the current competitive bid program for 2021 to help ensure companies remain in business in providing these critical services and speaks to the infrastructure nature of the industry. The next bid program for ventilators has now been deferred until 2024. However, oxygen and sleep therapy remains part of the 2021 competitive bid process for now. These categories could similarly be deemed important with the process being deferred. Even if the bidding process were to proceed, we anticipate leniency in supporting this infrastructure for home care and in keeping people out of the hospital, increasingly important. We are also further comforted by the ability of PTQ's CEO to navigate the reimbursement process with success over the past 25 years, where the business has emerged stronger after every competitive bid round. Combined, we do not see a material risk to PTQ for near-term reimbursement.

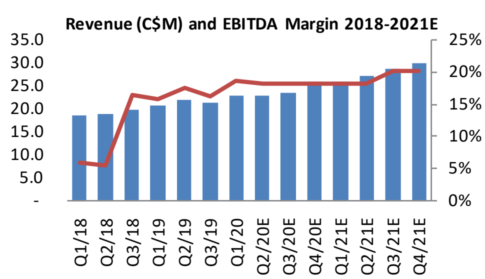
Putting it all together and forecasts

We see PTQ's business as resilient in providing important infrastructure-like services, evident in the stability of results, essential service status and recent support by Medicare and Medicaid. The industry has been growing by 5% over the past five years, in part from an aging population and we expect that growth rate to trend higher, spurred by the Telehealth industry and PTQ providing additional point of care services. Home care has become of greater focus with COVID-19, where innovation around medical equipment is expected to increase at a more rapid rate. PTQ is in a valuable position to capitalize on these trends with already serving 80k patients in the home. Combined, we expect high growth to continue for PTQ with moderate margin expansion and break down our forecasts below.

Revenue: PTQ grew sales from $71mm in F2018 to $81mm in F2019 and we expect $95mm in F2020, increasing to $111mm in F2021. More broadly, PTQ has a goal of doubling sales to $150mm in F2022. Our growth rate for 2020 represents 17% YoY with most already attributed for by M&A. We bake in conservatism for 2020 with potential impacts from COVID-19 on the mobility segment and unforeseen risks, but to be clear, PTQ has not seen a material impact yet for the essential services business. In F2021, we assume about $10mm in acquired revenue with the rest attributed from higher organic growth. Overall, we see a growth rate of 15-20%+ over the next several years as warranting much higher valuation than the current 6x EBITDA.

EBITDA: PTQ had 18% EBITDA margins in F2019 and we assume flat margins for F2020, increasing to 19% in F2021 and more beyond. PTQ targets an EBITDA margin range of 20-25% at $125mm in sales and 25% for $200mm+ in revenue.

Figure 10. Revenue and EBITDA to trend higher



Sources: Stifel GMP

Cash flow: Conversion of EBITDA into cash from ops is expected to be high at around 75% with minimal cash taxes paid with credits available to cover most taxes in the next several years. There is CAPEX in the business that we estimate to be about 9-10% of sales with the growth trajectory in the next two years. FCF conversion of CFO is around 50% and we forecast FCF per share of $0.04 in 2020 and $0.09 in 2021 and higher beyond, showing good average yield of about 10%. As scale benefits contribute more to the business, FCF is expected to expand at a faster rate than margins.

Balance sheet: We estimate that PTQ will have a pro-forma cash position of around $14mm at the end of April, 2020 with debt of $31mm or a net debt position of $17mm (around 1x net debt/EBITDA ratio). PTQ ended its last quarter with $8.4mm in cash but has since received almost $8mm in cash related to COVID-19 small business support programs from the U.S. federal government. About $6mm of the increased cash is related to a loan with a 1% interest rate that is eligible for forgiveness if PTQ essentially maintains its payroll through COVID-19. The recent increased cash position reduces balance sheet risk and provides support for M&A pursuits.

Capital structure: PTQ has 83.7mm in basic shares outstanding and around 12mm in options with an average exercise price of $0.50. PTQ has $15mm of convertible debentures maturing in 2024 with a conversion price of $1.30, exercisable by the holder that is currently above the current price. PTQ may force conversion at a VWAP greater than $1.62 for any 20 consecutive trading days. Insider ownership is 12% with the CEO holding 4%.

Valuation

PTQ trades at 6x 2020 EBITDA, below a broad set of peers at 10x-12x EBITDA. We note that larger but close peers to PTQ of AdaptHealth, Addus HomeCare and Viemed also trade higher at an average of 10x for these three companies. In our view, PTQ is an undervalued stock.

Figure 11. PTQ's comps

Protech Home Medical Corp.						P/E			EV/SALES			EV/EBITDA			PRICE/FCF		
Companies			04/28/2020 Price	Market Cap (M)	Enterprise Value (M)	LTM	C2020	C2021	LTM	C2020	C2021	LTM	C2020	C2021	LTM	C2019	C2020
Protech Home Medical Corp.	PTQ-CA	CAD	0.86	82.2	99.6	NA	NA	15.9x	1.2x	1.1x	0.9x	6.7x	5.8x	4.7x	NA	20.6x	11.4x
Healthcare services & related companies																	
AdaptHealth Corp. Class A	AHCO-US	USD	16.31	533.8	873.7	NA	26.4x	19.7x	5.8x	1.1x	0.9x	NA	5.5x	4.6x	NA	NA	NA
Addus HomeCare Corporation	ADUS-US	USD	78.69	1,117.6	956.7	53.3x	32.3x	26.3x	1.6x	1.3x	1.2x	23.3x	14.3x	11.8x	96.6x	157.4x	32.0x
Calian Group Ltd.	CGY-CA	CAD	44.21	353.9	385.7	16.8x	18.9x	NA	1.1x	1.0x	NA	12.9x	10.8x	NA	NA	32.9x	29.5x
Hamilton Thorne Ltd.	HTL-CA	CAD	1.14	145.1	143.9	150.0x	55.3x	24.1x	3.1x	2.7x	2.3x	17.6x	15.2x	11.0x	17.9x	20.5x	44.6x
Hill-Rom Holdings, Inc.	HRC-US	USD	114.11	7,682.9	9,557.5	51.3x	20.4x	18.0x	3.3x	3.2x	3.1x	16.0x	14.3x	13.0x	34.4x	NA	NA
Invacare Corporation	IVC-US	USD	7.73	260.2	447.5	NA	NA	25.3x	0.5x	0.5x	0.5x	18.8x	11.2x	7.0x	NA	NA	NA
K-Bro Linen Inc.	KBL-CA	CAD	26.99	285.8	389.8	26.2x	NA	24.8x	1.5x	2.0x	1.6x	8.2x	16.4x	9.4x	15.6x	10.8x	23.6x
Savaria Corporation	SIS-CA	CAD	11.35	577.4	616.8	21.7x	27.5x	19.0x	1.6x	1.7x	1.5x	11.5x	11.9x	9.7x	NA	20.0x	16.8x
Stericycle, Inc.	SRCL-US	USD	49.84	4,545.4	7,629.7	NA	19.9x	16.8x	2.3x	2.4x	2.3x	13.2x	13.8x	12.2x	84.5x	84.5x	30.4x
STERIS Plc	STE-US	USD	146.21	12,519.7	13,594.0	31.8x	24.6x	22.3x	4.6x	4.4x	4.1x	18.8x	16.9x	15.6x	57.3x	NA	NA
TECSYS Inc.	TCS-CA	CAD	19.90	262.2	270.8	127.4x	62.4x	41.5x	2.7x	2.5x	2.3x	46.5x	23.1x	19.2x	79.5x	70.8x	38.8x
Viemed Healthcare Inc	VMD-CA	CAD	9.40	377.4	385.4	30.4x	18.6x	15.4x	3.3x	2.7x	2.3x	17.7x	9.9x	8.6x	50.8x	NA	NA
Well Health Technologies	WELL-TSX	CAD	0.91	254.3	243.7	NA	NA	NA	7.4x	5.7x	4.3x	NA	NA	54.0x	NA	NA	NA
Group Average						**25.4x**	**13.2x**	**21.8x**	**4.7x**	**3.9x**	**3.5x**	**17.1x**	**12.3x**	**10.3x**	**22.6x**	**24.5x**	**27.8x**

Notes: Averages exclude outliers. Estimates from FactSet.

Sources: Stifel GMP, FastSet

Management and board

Greg Crawford, CEO and chairman: PTQ's CEO, Greg Crawford joined Patient Home Monitoring when his company, Patient Aids was acquired for C$32mm in April, 2016. Mr. Crawford had some different roles with PHM before becoming the CEO and Chairman of Protech Home Medical in 2017. Mr. Crawford also has a long track record of value creation in the industry, where he began working at Patient Aids in 1994, became CEO in 2004 and grew sales from US$4mm to US$18mm until the exit in 2016. PTQ's business now generates over $80mm in sales with ~18% EBITDA margins. There have also been three major U.S. reimbursement challenges in the past 20 years that Mr. Crawford has been able to navigate successfully in ultimately creating more value.

Hardik Mehta, CFO: Mr. Mehta has held several investment banking and advisory roles, including at Silverstone Capital Advisors for 10 years. He has been an advisor on more than 30 M&A funding transactions and has held the role of CFO at PTQ since February, 2018.

Thomas Roehrig, EVP Finance: Mr. Roehrig is a CPA and has over 30 years of finance and accounting experience. His roles included experience in public and private companies, including financial reporting, equity and debt financing and M&A.

Mark Greenberg, Director: Mr. Greenberg has over 30 years of senior operating and M&A expertise, including being involved in over 150 transactions. His experience has included roles at both public and private companies in the U.S.

D. Eugene Ewing, Director: Mr. Ewing has significant experience in a wide range of executive positions, including holding the position of partner at one of the largest U.S. CPA firms. His experience also spans M&A and complex taxation and accounting.

Risks

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. PTQ has a history of successfully acquiring 11 assets that helps alleviate some of the risk.

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. PTQ's CEO has successfully managed the U.S. reimbursement landscape over the past 25 years, helping reduce the risk of a material negative change in the business. Recent reimbursement support by CMS for noninvasive ventilator services also speaks to the important nature of PTQ's healthcare infrastructure-like services but some risk remains.

Supply chain: There are a concentrated number of suppliers that PTQ sources its equipment from but has largely been domestically sourced. If there were disruptions in this supply chain, growth and the ability to serve customers well could be affected. PTQ has not seen a major disruption in its supply chain and has moved to shore up extra inventory recently.

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 serialization of equipment helps prevent theft but some bad debt expense exists.

COVID-19: PTQ's business has been deemed an essential service as providing healthcare infrastructure at home and in keeping patients healthy and out of the hospital or resulting in early discharges, 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 shut downs could impact the business, including unforeseen risks.

Conclusion

PTQ's business is an essential service and serves as an infrastructure within healthcare with ~80% of sales tied to respiratory services. The business has proved resilient with stability in sales and recent reimbursement support by CMS for ventilator services, speaking to the important service that PTQ provides. PTQ's CEO has a history of value creation, including a prior exit for $32mm in 2016, along with expertise in navigating U.S. reimbursement. We expect PTQ to continue an above average growth rate of 15-20% over the next few years by providing more point of care solutions, expected to be spurred by Telehealth billing changes but also continuing a growth by acquisition strategy as well. PTQ has successfully acquired 11 smaller operators that are generally under the radar of larger peers, leading to good acquisitions at fair prices with significant synergy implications. The balance sheet supports these growth pursuits with $14mm in pro-forma cash. Combined, we see PTQ approaching $100mm in sales and market cap with EBITDA margins near 20% but valuation remains at a discounted level of 6x EBITDA, showing an opportunity. We initiate on PTQ with a BUY rating and $2.00 target based on 10x F2021 EBITDA, implying a 133% return.

Figure 12. Financial statement summary

Income statement

Protech Home Medical (TSXV:PTQ)								
Year ended Sept 30	F2020E				Full Year			
Income statement (C$M)	**Q1/20**	**Q2/20E**	**Q3/20E**	**Q4/20E**	**F2019**	**F2020E**	**F2021E**	**F2022E**
Total Revenue	**22.769**	**24.020**	**23.358**	**24.525**	**80.967**	**94.672**	**111.387**	**143.703**
Cost Of Goods Sold	6.029	7.206	7.007	7.358	23.527	27.600	33.416	43.111
Gross Profit	**16.740**	**16.814**	**16.350**	**17.168**	**57.440**	**67.072**	**77.971**	**100.592**
Operating Expenses	17.384	16.092	15.655	16.426	58.614	65.557	71.032	88.615
Operating Income	**-0.644**	**0.722**	**0.695**	**0.742**	**-1.174**	**1.515**	**6.940**	**11.977**
Net Income	**-1.758**	**0.118**	**0.091**	**0.138**	**-7.386**	**-0.901**	**4.524**	**9.561**
Diluted EPS	$ (0.02)	$ 0.00	$ 0.00	$ 0.00	$ (0.09)	$ (0.02)	$ 0.05	$ 0.11
Weighted Avg. Basic Shares Out.	83.589	83.589	83.589	83.589	82.860	83.589	83.589	83.589
Adj. EBITDA	**4.188**	**4.324**	**4.204**	**4.415**	**14.858**	**17.131**	**21.262**	**28.741**
EBITDA margin %	*18.4%*	*18.0%*	*18.0%*	*18.0%*	**18.4%**	**18.1%**	**19.1%**	**20.0%**

Cash flow statement

Protech Home Medical (TSXV:PTQ)								
Year ended Sept 30	F2020E				Full Year			
Cash flow statement (C$M)	**Q1/20**	**Q2/20E**	**Q3/20E**	**Q4/20E**	**F2019**	**F2020E**	**F2021E**	**F2022E**
Net Income	**(1.758)**	**0.118**	**0.091**	**0.138**	**(7.386)**	**(1.411)**	**4.524**	**9.561**
Depreciation & Amort., Total	4.790	3.121	3.042	3.182	13.969	14.135	12.095	13.889
Cash from Ops.	**4.445**	**0.588**	**0.046**	**7.107**	**11.107**	**12.185**	**16.210**	**19.624**
Cash from Investing	**(4.111)**	**(1.000)**	**(1.000)**	**(2.000)**	**2.339**	**(8.111)**	**(9.000)**	**(10.000)**
Cash from Financing	**(4.979)**	**-**	**7.480**	**-**	**(5.060)**	**2.501**	**-**	**-**
Net Change in Cash	**(4.492)**	**(0.412)**	**6.526**	**5.107**	**8.524**	**6.575**	**7.210**	**9.624**
Cash at beginning of period	**-**	**8.363**	**7.951**	**14.477**	**-**	**13.008**	**19.583**	**26.794**
Cash at end of period	**8.363**	**7.951**	**14.477**	**19.583**	**13.008**	**19.583**	**26.794**	**36.418**
FCF	0.242	(0.412)	(0.954)	5.107	(1.135)	3.982	7.210	9.624
FCF PER SHARE	0.003	(0.005)	(0.011)	0.061	(0.016)	0.048	0.086	0.115
FCF yield %					-2%	6%	10%	13%

Balance sheet

Protech Home Medical (TSXV:PTQ)								
Year ended Sept 30	F2020E				Full Year			
Balance sheet (C$M)	Q1/20	Q2/20E	Q3/20E	Q4/20E	F2019	F2020E	F2021E	F2022E
Total Cash & ST Investments	8.363	7.951	14.477	19.583	12.855	19.583	26.794	36.418
Total Receivables	11.778	14.679	18.167	14.988	12.390	14.988	19.405	25.731
Inventory	6.312	7.606	7.397	7.766	4.738	7.766	8.997	12.222
Prepaid Exp.	0.854	0.854	0.854	0.854	0.800	0.854	0.854	0.854
Total Current Assets	**27.307**	**31.090**	**40.894**	**43.192**	**30.783**	**43.192**	**56.049**	**75.225**
Net Property, Plant & Equipment	25.180	23.298	21.495	20.552	19.496	20.552	18.413	15.480
Goodwill	5.377	5.377	5.377	5.377	1.881	5.377	5.377	5.377
Total Assets	**60.583**	**62.245**	**70.007**	**71.122**	**55.165**	**71.122**	**80.885**	**96.172**
LIABILITIES								
Accounts Payable	8.945	10.008	9.732	10.219	8.122	10.219	13.230	16.082
Accrued Exp.	3.936	3.936	3.936	3.936	2.319	3.936	3.936	3.936
Curr. Port. of Leases	10.659	10.659	16.639	16.639	8.528	16.639	16.639	16.639
Total Current Liabilities	**23.540**	**24.603**	**30.307**	**30.794**	**18.969**	**30.794**	**33.805**	**36.657**
Long-Term Debt	14.696	14.696	14.696	14.696	13.966	14.696	14.696	14.696
Long-Term Leases	5.211	5.211	5.211	5.211	3.081	5.211	5.211	5.211
Total Liabilities	**43.688**	**44.751**	**50.455**	**50.942**	**36.016**	**50.942**	**53.953**	**56.805**
Common Stock	198.196	198.676	200.644	201.134	198.133	201.134	203.362	206.236
Additional Paid In Capital	21.432	21.432	21.432	21.432	21.453	21.432	21.432	21.432
Retained Earnings	(215.198)	(215.080)	(214.989)	(214.851)	(213.440)	(214.851)	(210.327)	(200.766)
Total Common Equity	**16.895**	**17.493**	**19.552**	**20.180**	**19.149**	**20.180**	**26.932**	**39.367**
Total Liabilities And Equity	**60.583**	**62.245**	**70.007**	**71.122**	**60.583**	**71.122**	**80.885**	**96.172**
Net Debt	22.203	17.404	16.858	11.752	12.720	11.752	4.541	(5.083)
Net debt to EBITDA	1.6x	1.2x	1.1x	0.7x	0.9x	0.7x	0.2x	n.a.

Sources: Stifel GMP, Protech Home Medical Corp. S&P Capital IQ

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