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PTQ-TSXV

Rating:	Buy
Target:	\$3.25
Price:	\$1.47
Return:	121%
Valuation:	20x EPS, 12.5x EV/EBITDA (F2022 ests)

Market Data

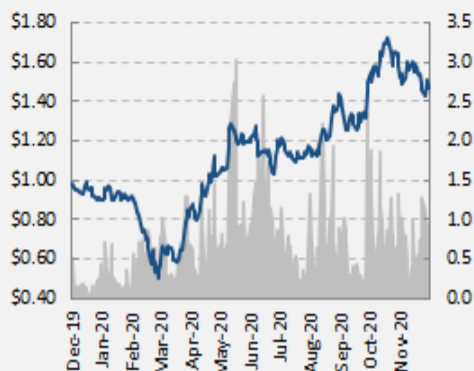
Basic Shares O/S (M)	115.3
FD Shares O/S (M)	140.8
Market capitalization (\$M)	169.6
Enterprise Value (\$M)	155.0
Cash & equiv (\$M, most rec Q)	30.0
LT debt (\$M, most rec Q)	15.5
52 Week Range	\$0.47-\$1.79
Avg. Weekly Volume (M)	3.37
Fiscal Year End	Sep-30

Financial Metrics

In C\$	F2019A	F2020E	F2021E
Total Revenue (\$000)	80,967	98,884	131,009
EBITDA (\$000)	14,858	20,707	30,522
Adj net inc (\$000)	(9,141)	(3,204)	11,996
EPS (basic)	(\$0.12)	(\$0.03)	\$0.10
EPS (FD)	(\$0.10)	(\$0.03)	\$0.09
P/E	NA	NA	14.4x
EV/EBITDA	10.4x	7.5x	5.1x

Company Description

Protech Home Medical is a durable medical equipment company focused on the delivery and servicing of home-based medical equipment. The firm operates in 12 US states with 33 locations, and with deliveries/ equipment setups to more than 80,000 patients.



Source: Refinitiv

Initiating Coverage on US-Based Medical Equipment Distributor/Home Healthcare Services Firm

We are initiating on Protech Home Medical with a BUY rating and price target of \$3.25. Protech is a Kentucky-based durable medical equipment and home healthcare services firm. The firm was created through the reconfiguration of legacy home healthcare firm Patient Home Monitoring (PHM), during which a separate publicly traded home healthcare/respiratory care operation, VieMed Healthcare (VMD-T, NR), was spun-out and operates a similar home healthcare/respiratory care operation in distinct geographies. Herein, our commentary and valuation will be specific to Protech.

DME reimbursement rates set to stabilize with changes to CMS' Competitive Bidding Program: Medicare constituted ~40% of total reimbursement from all payors in 2019. In past years, the firm has had to endure several changes to reimbursement policies set forth by the Centers for Medicare and Medicaid Services (CMS), mainly with cuts to existing DME items. This has seen the exit of smaller players with prices remaining unsustainable. Despite this, Protech has endured with +70% margins in the two most recent years. An incoming tailwind is now set to stabilize PTQ's margins further. Specifically, an Oct/20 announcement will now see the cancellation of competitive bidding contracts across 13 product categories. Accordingly, our read is that reimbursement rates have essentially reached the floor and with minimal if not absent risk of further cuts in the foreseeable future, thereby providing stabilization in margins going forward.

Strong track record of prudent acquisitions in focused geographies at attractive terms: Our analysis of the firm's acquisitions in the past few years has indicated that acquisitions tend to be conducted on accretive financial terms (terms that include revenue of \$5-20M and consistent annual EBITDA margins between 10-20%), while carefully considering target companies that have distribution channels within the firm's geographic focus (typically in the US Midwest or East Coast) and thus can be consolidated with Protech's existing regional distribution channels in order to grow profit and revenues.

Telehealth technology investments paying off in pandemic times: Protech has been looking to innovate in-house through the provision of tele-health training. This provides a leeway for Protech to provide more comprehensive service offerings over its peers. From a patient perspective, we expect that this could accelerate the patient onboarding process, while in turn significantly reduce cost and the risk of improper equipment use.

As stated, we are initiating coverage on PTQ with a BUY rating and PT of C\$3.25, with our valuation is based on multiples of our F2022 EBITDA/EPS forecasts. Our EV incorporates proforma cash of \$30.0M (FQ320 cash of \$44.7M, less cash outlay post-quarter-end on two recent acquisitions; see below) and total debt of \$15.5M. At current levels, our PT corresponds to a one-year return of 121%.

Exhibit 1 – Financial Summary for Protech Home Medical

<i>Year-end September 30</i> <i>(US\$000, except EPS)</i>	F2017A	F2018A	F2019A	F2020E	F2021E	F2022E	F2023E	F2024E
Sale of medical equipment & supplies	25,858	34,569	35,227	46,618	62,595	79,545	85,511	91,924
Sales from rental of medical equipment	50,511	42,294	45,740	52,266	68,414	85,422	91,829	98,716
Total revenue	\$76,369	\$76,863	\$80,967	\$98,884	\$131,009	\$164,967	\$177,340	\$190,640
Revenue growth (%)	NA	0.6%	5.3%	22.1%	32.5%	25.9%	7.5%	7.5%
Direct costs	22,256	23,349	23,527	26,920	35,503	44,697	49,655	53,379
SG&A/other expense	53,056	35,981	36,896	42,375	54,622	69,286	74,483	80,069
EBITDA	\$1,057	\$12,307	\$14,858	\$20,707	\$30,522	\$40,074	\$41,474	\$44,584
EBITDA growth (%)	NA	NA	NA	39.4%	47.4%	31.3%	3.5%	7.5%
EBITDA margin (%)	1.4%	16.0%	18.4%	20.9%	23.3%	24.3%	23.4%	23.4%
Non-operating expenses	\$26,302	\$17,403	\$19,485	\$19,008	\$11,719	\$6,135	\$6,505	\$6,975
Interest expense (income)	\$1,400	\$1,908	\$2,510	\$1,473	\$1,078	\$1,078	\$1,008	\$938
Net income, fully-taxed	(\$27,094)	(\$6,967)	(\$9,141)	(\$3,204)	\$11,996	\$23,121	\$23,929	\$25,921
Fully-taxed EPS (basic)	(\$0.36)	(\$0.09)	(\$0.12)	(\$0.03)	\$0.10	\$0.20	\$0.21	\$0.22
Fully-taxed EPS (fd)	(\$0.34)	(\$0.08)	(\$0.10)	(\$0.03)	\$0.09	\$0.16	\$0.17	\$0.18
P/E (basic)	NA	NA	NA	NA	14.4x	7.5x	7.2x	6.7x
EV/EBITDA	NA	12.6x	10.4x	7.5x	5.1x	3.9x	3.7x	3.5x

Source: Historical data – Company Information (Protech Home Medical), Forecasts/Estimates – Leede Jones Gable

FQ320 financial review: EBITDA margin is now stably above 20% as our model assumed would be achievable at steady-state.

The firm last reported its FQ320 financial data for the June-end quarter. Beginning with headline data, Protech generated FQ320 revenue/EBITDA/margin of \$25.9M/\$5.5M/21.4%, and thus generating solid sequential growth from FQ220 data of \$24.1M/\$4.9M/20.2% and even more substantial y/y lift on all metrics from \$21.1M/\$3.9M/ 18.3% back in FQ319. Protech generates revenue both from respiratory equipment sales and rental. Equipment sales were \$10.6M (as compared to \$10.1M in FQ220 and \$7.5M in FQ319) and rentals were \$15.3M (as compared to \$14.0M in FQ220 and \$13.6M in FQ319). The relative revenue proportion of sales/rentals usually inverts in FQ4, although this seasonal revenue dynamic is not overly impactful on our valuation.

Exhibit 2 – Valuation Summary for Protech Home Medical

Price/earnings multiple, FY2022	10x	15x	20x	25x	30x	40x
Implied share price ¹	\$1.64	\$2.46	\$3.28	\$4.11	\$4.93	\$6.57
EV/EBITDA multiple, FY2022	5x	10x	12.5x	15x	17.5x	20x
Implied share price ¹	\$1.32	\$2.74	\$3.46	\$4.17	\$4.88	\$5.59
One-year PTQ target price (C\$) ¹	\$3.37					

¹ Based on adjusted F2022 EBITDA of \$40.1M, F2022 EPS of \$0.16; EV incorporates FQ320 total debt of \$15.5M and pro forma cash of \$30.0M includes FQ320 cash/equivalents adjusted to account for Health Tech and Sleepwell acquisitions; & adj. S/O of 140.8M

Source: Historical data – Company Information (Protech Home Medical), Forecasts/Estimates – Leede Jones Gable

Gross margin of \$18.4M/71.3% was strong in absolute terms, though it was slightly down from 73% or higher in the preceding three quarters back to FQ419. That said, our model assumes that gross margin can be sustained at or above 70% throughout our forecast period, and Protech now has a seven-quarter trailing history of meeting that threshold. Bad debt expense of \$2.4M was up sequentially from \$2.1M in FQ220, but not dramatically as a proportion of revenue and not when considering transient pandemic impact on funding economics.

On liquidity, the firm exited FQ320 with cash of \$44.7M and total debt of \$15.5M. Proforma cash after incorporating the cash consideration for both the Health Technology Resources (\$9.3M cash, \$5.1M in PTQ shares) and SleepWell (\$5.4M) acquisitions were \$30M. On core debt ratios, Protech's FQ320 interest expense of \$0.3M corresponds to an EBITDA/interest coverage ratio of 18.5x that is so far above our cautionary 2.5x-to-3.0x threshold that it hardly merits commentary, while total debt/EBITDA run-rate ratio of 0.6x is correspondingly low and thus confers little-to-no financial risk to our investment thesis. Although total debt is currently at \$15.5M, we also observed that the firm secured a US\$20M senior revolving credit facility with a four-year maturity term post quarter. We anticipate this to be additional firepower for Protech's M&A strategy but for now do not incorporate it in our total debt count, at least until it is tapped on for a future acquisition.

Exhibit 3 – Competitive Landscape for Protech Home Medical

Company	Curr Sym	Shares out (M)	Share price 19-Dec	Mkt cap (\$M)		Ent val (\$M)		EV/EBITDA			Price/Earnings			Company description
				(curr)	(C\$)	(curr)	(C\$)	(T12M)	FY20	FY21	(T12M)	FY20	FY21	
<i>Canadian Healthcare Services Firms</i>														
Akumin Inc	CAD AKU	70.2	\$4.05	\$284	\$284	\$700	\$700	8.4x	10.2x	8.6x	NA	NA	18.8x	US-based medical imaging clinic consolidator, focused on Florida & neighboring geographies
Assure Holdings Corp	CAD IOM	35.0	\$1.39	\$49	\$49	\$50	\$50	NA	NA	NA	22.9x	NA	NA	US-based neuromonitoring services firm, operations in CO, TX, LA, UT; planned expansion
CareRx Corp	CAD CRRX	52.4	\$4.05	\$212	\$212	\$280	\$280	32.0x	21.7x	12.9x	NA	NA	NA	ON-based long-term care pharmacy operator
CRH Medical Corp	CAD CRH	71.4	\$3.67	\$262	\$262	\$328	\$328	11.0x	12.6x	8.6x	NA	NA	50.6x	US-based GI anesthesiology/ endoscopy services
Extencare Inc	CAD EXE	89.5	\$6.73	\$603	\$603	\$1,004	\$1,004	8.7x	9.4x	10.3x	19.0x	NA	21.0x	ON-based long-term care & home health-care services provider
K-Bro Linen Inc	CAD KBL	10.7	\$36.80	\$393	\$393	\$497	\$497	15.2x	12.5x	11.4x	NA	NA	36.3x	AB-based linen/laundry processing firm, focused on healthcare/ hospitality sectors
Medical Facilities Corp	CAD DR	31.1	\$7.10	\$221	\$221	\$359	\$359	4.4x	3.7x	4.0x	8.7x	17.3x	20.6x	US-based physician-owned surgical hospital operator
Savaria Corp	CAD SIS	51.0	\$14.62	\$746	\$746	\$774	\$774	13.5x	13.2x	12.1x	26.4x	27.1x	23.9x	QC-based patient mobility device manufacturer (elevators, wheel-chairs, stair & ceiling lifts)
Viemed Healthcare Inc	CAD VMD	38.9	\$10.58	\$411	\$411	\$304	\$304	10.2x	8.2x	10.4x	15.3x	16.6x	29.6x	LA-based post-acute respiratory services & disease management
Average							\$477	11.4x	9.8x	20.3x	28.7x			
<i>US-based & RoW home medical equipment distribution peers</i>														
Adapthealth	USD AHCO	89.8	\$37.27	\$3,345	\$4,276	\$3,815	\$4,877	30.6x	20.1x	8.4x	NA	NA	26.1x	PA-based medical equip provider; 66% equip sales vs 34% rental; 16% of business is respiratory
Owens & Minor	USD OMI	73.5	\$28.64	\$2,105	\$2,691	\$3,128	\$3,998	12.2x	10.0x	8.2x	53.2x	14.8x	11.7x	VA-based med supplies/services in diabetes, wound care, urology, ostomy
Envista Holdings	USD NVST	159.6	\$32.69	\$5,219	\$6,671	\$6,279	\$8,027	23.8x	22.2x	14.0x	NA	39.0x	21.5x	CA-based dental products devel-oper
Fisher & Paykel Healthcare	NZD FPH	576.3	NZD 34.2	NZD 19,715	\$17,957	NZD 19,667	\$17,913	33.2x	NA	29.1x	50.6x	NA	44.3x	NZ-based med device devel; respiratory, acute care, obstructive sleep apnea
Hill-Rom Holdings	USD HRC	66.8	\$100.45	\$6,711	\$8,579	\$8,293	\$10,601	13.8x	13.8x	14.2x	30.3x	18.5x	18.7x	IL-based med equip developer, focused on respiratory care, medical diagnostics surg supplies
Inogen Inc	USD INGN	22.1	\$40.78	\$902	\$1,153	\$681	\$871	NA	38.9x	NA	NA	NA	NA	CA-based portable O2 concentrator marketer (One G4-G3-G2-At Home systems)
Inspiration Healthcare Group PLC	Gbp IHC	68.0	£76.50	£5,200	\$8,991	\$46	\$80	12.9x	22.4x	10.5x	NA	NA	NA	UK-based respiratory care, thermoregulation, neonatal resusc device developer
Linde PLC	USD LIN	524.2	\$257.67	\$135,078	\$172,670	\$150,099	\$191,871	17.4x	17.5x	16.0x	NA	31.9x	28.2x	UK-based distributor of industrial gases, acquired FL-based Lincare in Q312, TN-based American Home Patient in Q415
Resmed	USD RMD	144.9	\$218.45	\$31,657	\$40,467	\$32,292	\$41,279	31.5x	34.5x	30.2x	46.9x	48.6x	42.6x	CA-based medical equipment developer, focused on respiratory, sleep & SaaS software for out-of-hospital services
Vapotherm	USD VAPO	25.7	\$28.44	\$730	\$933	\$637	\$815	NA	NA	NA	NA	NA	NA	NH-based ventilator support & nasal cannula developer
Average							\$28,033	22.4x	16.3x	30.6x	27.6x			
Protech Home Medical	PTQ	112.4	\$1.47	\$165	\$211	\$151	\$194	8.3x	7.4x	5.5x	NA	NA	30.4x	US-based home medical equipment rental/sales, respiratory care

Source: Refinitiv, Leede Jones Gable

Early FQ420 revenue/EBITDA continue to exhibit robust trends, with EBITDA margin potentially exceeding the 20% threshold as with FQ320. Ahead of FQ420, the firm announced preliminary financial data for the September-end quarter, indicating that plausible ranges for FQ420 revenue & EBITDA are expected to be \$26.1M-\$26.5M & \$5.6M-\$6.1M, respectively. This in turn implies EBITDA margins of ~21-23% while also implying sequential growth in absolute EBITDA of about 2-3% despite pandemic headwinds that undoubtedly have impacted other industries, but less so for home respiratory care that directly addresses a primary symptom of coronavirus pathophysiology. While the firm denoted this as a recovery in the firm's sleep business, we also see continued tailwinds from a demand in home care respiratory services from individuals recovering from COVID-19 and perhaps, incremental revenue contribution from the two aforementioned acquisitions.

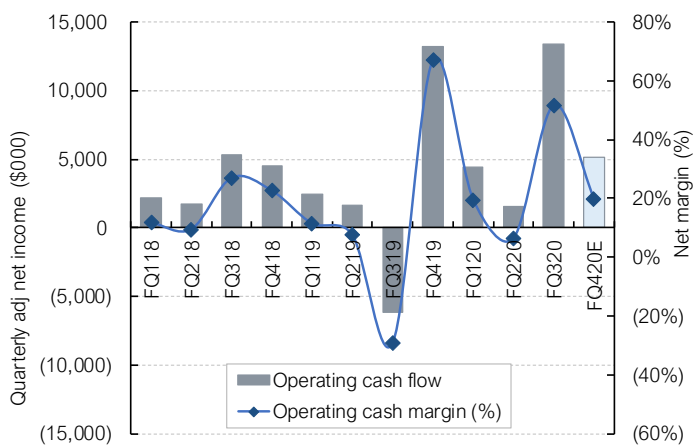
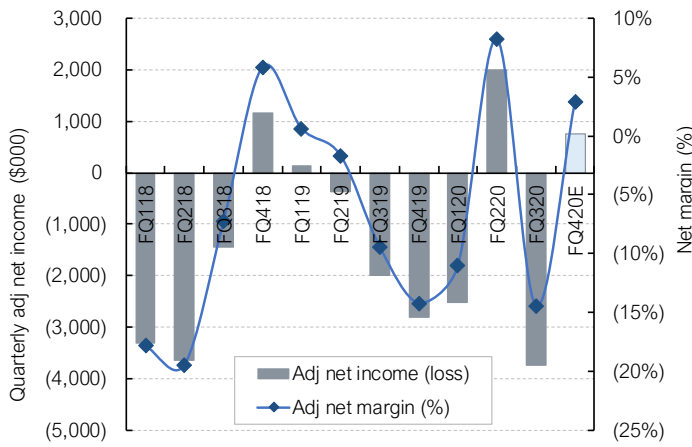
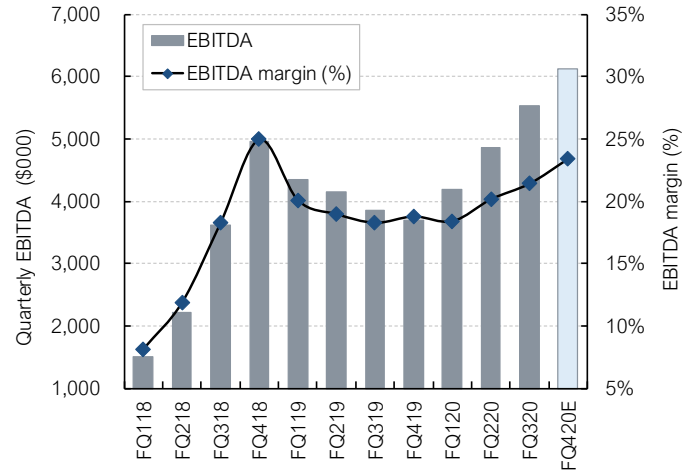
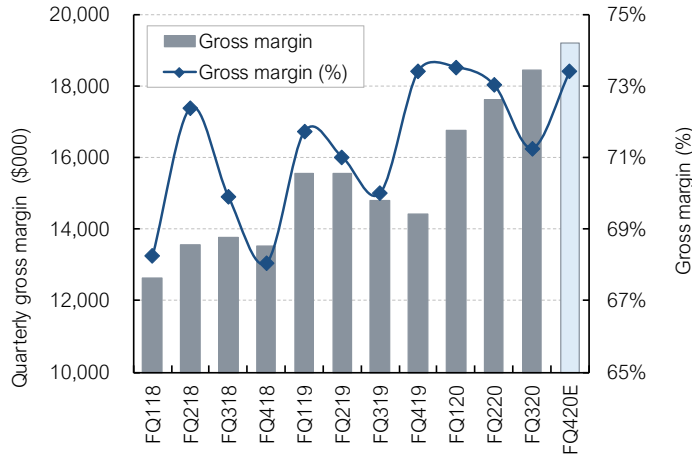
Exhibit 4 – Acquisition History & Relevant Deal Terms for Protech Home Medical

Acquisition	Acquisition Price (\$M)	Revenue (T12M)	Price/Rev (T12M)	EBITDA (T12M)	Price/EBITDA (T12M)
Coastal Med Tech	0.9	4.0	0.2x	1	0.9x
Riverside Medical/Central Oxygen	0.9	1.4	0.6x	NA	NA
Cooley Medical	4.0	9.0	0.4x	1.6	2.5x
Acadia Medical Supply	2.3	4.0	0.6x	0.8	2.9x
Health Technology Resources	5.4	5.5	1.0x	1.65	3.3x
SleepWell	14.4	13.0	1.1x	3.25	4.4x
Average	4.7		0.7x		2.8x

Source: Company Information (Protech Home Medical), modified for presentation by Leede Jones Gable

Protech continues to trade at a steep discount to its peers based on recent EBITDA/margin performance, and we believe capital markets will notice in coming quarters: At present, PTQ shares are valued at 5.5x EV/F2021 EBITDA as compared to Canadian healthcare services peers at 9.8x and the firm's direct peer group at 16.3x respectively. We see no reason for Protech to be valued at a discount to its peers when considering its strong EBITDA/operating cash flow track record, and we expect capital markets to notice, eventually. We believe that Protech's acquisition acumen and financial discipline (both recent transactions were valued at 1.0x-1.1x T12M sales) are well-documented in those two transactions alone.

Exhibit 5 – Trailing Income Statement & Margin Data for Protech Home Medical



Source: Company Information (Protech Home Medical), modified for presentation by Leede Jones Gable

Firm poised to continue strategy of identifying and integrating attractive acquisition targets in order to access new

geographies: The firm has long articulated a growth-by-acquisition strategy that dates back to its initial pronouncement as an independent publicly traded firm back in early FQ218, stating at the time that it has already identified up to 6,000 independent home healthcare services/equipment providers in US midwestern and eastern geographies that it thought could be willing to become part of Protech's services network. Though our model does not make overly aggressive projections on acquisitive revenue/EBITDA contribution in future years, we are optimistic that Protech can sustain its current pace of acquisitive growth throughout our forecast period, which would provide upside to our forecasts if EBITDA margin can be simultaneously sustained at a current steady-state level of 18-20%, or perhaps exceeded.

Indeed, Protech's core operations were substantively created through historic acquisitions, many of which were consummated during F2014/15 under the Patient Home Monitoring banner. These transactions included GA-based Care Medical Partners LLC (\$5.5M in cash & shares; Jun/14), followed by LA-based Sleep Management & Legacy Oxygen (\$36M cash plus 42.8M shares; Jun/15), ME-based Black Bear Medical (US\$6.8M; Jan/15), and VA-based West Home Health (\$11.0M in cash, plus \$3.2M in shares; Mar/15) during F2015, just to name a few (see below). These operations collectively contributed \$47.2M in top-line performance and \$32.4M in gross margin in F2015 alone.

More recently, the firm has executed on two acquisitions valued at \$20M, and collectively transacted at ~3-4x EBITDA and 1-1.1x revenue. Both multiples represent reasonable value in our view both in absolute terms and relative to Protech's current public market valuation. We would consider any transaction valuing acquirable respiratory equipment distribution operations at <5x EBITDA, providing Protech-like EBITDA margin of >20% to be achievable within 2-3 quarters post-acquisition as reasonable value for the firm. These include the \$5.4M acquisition of the Chicago-based Health respiratory home care services Health Technology Resources and the \$14.4M acquisition of sleep services firm Sleepwell. It is anticipated that both acquisitions could increase PTQ's annual revenues by \$18.5M and EBITDA by \$5.2M-\$6M.

Disclosures none

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Speculative Buy	The security is considered a BUY but carries an above-average level of risk.
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Speculative Buy	4	40.0%
Hold	1	10.0%
Sell	-	-
Tender	-	-
Under Review	-	-

Historical Target Price

