Douglas W. Loe, PhD MBA | Managing Director & Analyst | dloe@leedejonesgable.com | 416.365.9924

PTQ-TSXV

Rating:	Buy
Target:	$3.25
Price:	$2.11
Return:	54%
Valuation:	20x EPS, 12.5x EV/EBITDA (F2022 estimates)

Market Data

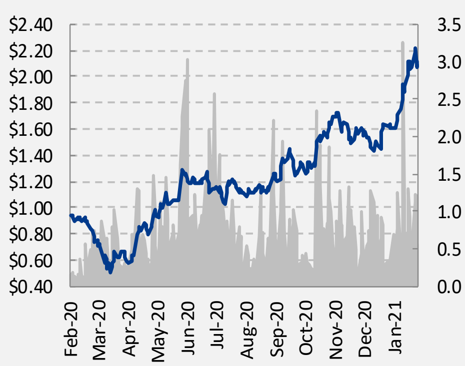
Basic Shares O/S (M)	115.3
FD Shares O/S (M)	140.8
Market capitalization ($M)	243.4
Enterprise Value ($M)	221.6
Cash & equiv ($M, most rec Q)	39.0
LT debt ($M, most rec Q)	17.2
52 Week Range	$0.47-$2.28
Avg. Weekly Volume (M)	3.48
Fiscal Year End	Sep-30

Financial Metrics

In C$	F2020A	F2021E	F2022E
Total Revenue ($000)	97,755	129,857	163,804
EBITDA ($000)	20,701	30,235	39,778
Adj net inc ($000)	(3,476)	8,957	20,856
EPS (basic)	($0.03)	$0.08	$0.18
EPS (FD)	($0.03)	$0.06	$0.15
P/E	*NA*	*19.3x*	*8.3x*
EV/EBITDA	*10.7x*	*7.3x*	*5.6x*

Company Description

Protech Home Medical is a durable medical equipment firm focused on delivering respiratory care devicesinto home healthcare markets. The firm operates in 11 US states, with over 110,000 unique patients served in those geo-graphies. Acquisitive growth expected to continue.



Source: Refinitiv, Leede Jones Gable

No Major Surprises in FQ420 Data for Top-Performing Home Respiratory Equipment Distributor - BUY

Kentucky-based durable medical equipment and home healthcare services firm Protech Home Medical reported FQ420 financial data for the Sep/20-end financial period this morning. The relevant quarter is quite clearly starting to fade in our rear-view mirror with FQ121 already concluded, but we were encouraged to see EBITDA and margin ($5.9M/23.7%) fall within the parameters set forth by the firm in its FQ420 pre-announced guidance back in Nov/20.

Modest revenue softness on alternative allocation of pandemic funding, a decision we endorse as a way to more clearly quantify actual equipment distribution activities. FQ420 revenue of $25.0M was down sequentially from $25.9M last quarter though up from $19.5M in FQ419. FQ420 revenue was below pre-announced quarterly revenue range of $26.1M-to-$26.5M, but this seems to be driven less by operational weakness (which if relevant would have been known to Protech when it provided its FQ420 revenue guidance) than on an auditor-mandated allocation of $1.75M of pandemic-driven relief funding. If this funding were to be recognized as revenue in the period, FQ420 revenue would indeed have been at the top end of the range pre-announced in Nov/20. Gross margin was $18.2M/73.4%, and thus on a relative basis was at or above the 70% threshold that the firm has met or exceeded since FQ119.

Acquisitions already enveloped into Protech's national respiratory equipment distribution platform should generate sequential revenue/EBITDA growth as soon as FQ121. Importantly, FQ420 is no longer a reasonable representation of our quarterly expectations for Protech, since it acquired a GA-based respiratory equipment distributor Sleepwell in late FQ420. Our model assumes that Sleepwell will contribute quarterly revenue/EBITDA of $3.3M/$0.8M throughout our forecast period beginning in FQ121. A supplemental acquisition in an overlapping southern US geography as announced in early Jan/21 is projected to add another $1.8M in quarterly revenue to our model (and probably with EBITDA margin of >20% once post-acquisition cost synergies are achieved). Sleepwell has been formally incorporated into our model, and we will review impact of the Jan/21 acquisition once it has been formally identified and once supplemental financial details are available for review.

EBITDA benefits from pandemic-based funding relief, but EBITDA foundation beneath that funding was still strong by pandemic standards. Unadjusted EBITDA did reflect some pandemic softness without relief funding adjustments, but underlying operating metrics look strong to us. Shifting to EBITDA, we actually calculate FQ420 EBITDA by the methodologies that we conventionally use to derive this profitability measure of $6.1M, and this calculation includes the aforementioned $1.75M in relief funding that is categorized in the income statement as other income (EBITDA would otherwise have been $4.4M in the period).

Exhibit 1 – Financial Summary for Protech Home Medical

Year-end September 30 (US$000, except EPS)	F2017A	F2018A	F2019A	F2020A	F2021E	F2022E	F2023E	F2024E
Sale of medical equipment & supplies	25,858	34,569	35,227	42,241	58,130	75,036	80,664	86,713
Rental of medical equipment & supplies	50,511	42,294	45,740	55,514	71,727	88,768	95,426	102,583
Total revenue	$76,369	$76,863	$80,967	$97,755	$129,857	$163,804	$176,090	$189,296
Revenue growth (%)	*NA*	*0.6%*	*5.3%*	*20.7%*	*32.8%*	*26.1%*	*7.5%*	*7.5%*
Direct costs	22,256	23,349	23,527	26,826	35,202	44,394	49,305	53,003
SG&A/other expense	53,056	35,981	36,896	43,314	54,144	68,798	73,958	79,504
EBITDA	$1,057	$12,307	$14,858	$20,701	$30,235	$39,778	$41,180	$44,269
EBITDA growth (%)	*NA*	*NA*	*NA*	*39.3%*	*46.1%*	*31.6%*	*3.5%*	*7.5%*
EBITDA margin (%)	*1.4%*	*16.0%*	*18.4%*	*21.2%*	*23.3%*	*24.3%*	*23.4%*	*23.4%*
Non-operating expenses	$26,302	$17,403	$19,485	$20,100	$15,690	$8,801	$8,329	$8,937
Interest expense (income)	$1,400	$1,908	$2,510	$2,480	$1,202	$1,202	$1,132	$1,063
Net income, fully-taxed	($27,094)	($6,967)	($9,141)	($3,476)	$8,957	$20,856	$22,285	$24,158
Fully-taxed EPS (basic)	($0.36)	($0.09)	($0.12)	($0.03)	$0.08	$0.18	$0.19	$0.21
Fully-taxed EPS (fd)	($0.34)	($0.08)	($0.10)	($0.03)	$0.06	$0.15	$0.16	$0.17
P/E (basic)	*NA*	*NA*	*NA*	*NA*	*19.3x*	*8.3x*	*7.8x*	*7.2x*
EV/EBITDA	*NA*	*18.0x*	*14.9x*	*10.7x*	*7.3x*	*5.6x*	*5.4x*	*5.0x*

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

We continue to reflect with some ambiguity on how to value government funding relief in valuations for all of our coverage stocks and not just for Protech, since strictly speaking, such funding is not operational by definition, but on the flip side, it would not be necessary without pandemic limitations that are compromising profitability across multiple business silos, not just the medical equipment distribution niche in which Protech competes.

We expect recent acquisitions to drive sequential revenue/EBITDA growth beyond FQ420 data just reported. On the assumption that relief funding is germane to EBITDA, the quarter was strong on that basis, with $6.1M up solidly from $5.5M in FQ320 and from $3.7M in FQ419. As stated above, our model assumes that recent acquisitions (specifically but not exclusively Sleepwell) will sequentially lift quarterly revenue/EBITDA well above recent highs, and we thus continue to project FQ121 revenue/EBITDA of $29.0M/$6.8M, increasing to $32.7M/$7.5M in FQ221 and to $34.6M/$7.5M in FQ321.

FQ420 operating cash flow was strong in absolute terms, but with transient working capital deficit absorbing more cash than in prior quarter when surpluses were generated. Shifting to cash flow, we calculate that Protech's pure operating cash flow in the quarter was $4.9M, or $0.04/shr, and thus down from $7.2M in FQ320 and from $6.0M in FQ220 while still being quite positive in absolute terms in our view. If we excluded a government grant provision of ($1.6M) from the calculation, quarterly operating cash flow would have been closer to $6.5M. Protech's working capital deficit in the period was ($6.7M) and thus substantially different from the equally sizable surplus of $6.1M that the firm generated last quarter.

A substantial reduction in lease payables was the main contributor to working capital deficit, but regardless, we expect Protech to experience sequential swings in working capital balance throughout our forecast period and we expect surpluses to be generated in the next quarter or two. Protech's operating cash flow including working capital does tend to fluctuate on a q/q basis just because working capital itself tends to be equally variable over short-term periods. FQ320-FQ420 are a clear representation of that trend – FQ420 consolidated operating cash flow of ($1.7M) is dramatically below $13.3M generated in FQ320, but predominantly from the sequential working capital swing described above. This dynamic in Protech's cash flow statements does not impact our positive investment thesis on the firm.

Bad debt expense was similar to prior periods and thus does not alter the extent to which this parameter is embedded into business risk for the firm. Shifting to Protech's bad debt expense, which is an EBITDA-compressing reality in the firm's financial risk profile, we were encouraged to see modest sequential decline to $2.1M from $2.4M in FQ320, and in so doing was comparable to FQ220 bad debt expense that was also $2.1M. Excluding FQ320, bad debt expense was at or near 8.6%-to-8.8% of quarterly respiratory equipment distribution revenue during all other financial periods during F2020, and our model assumes that this level can be maintained throughout our forecast period.

Exhibit 2 – Valuation Summary for Protech Home Medical

Price/earnings multiple, FY2022	10x	15x	20x	25x	30x	40x
Implied share price [1]	$1.48	$2.22	**$2.96**	$3.70	$4.44	$5.93
EV/EBITDA multiple, FY2022	**5x**	**10x**	**12.5x**	**15x**	**17.5x**	**20x**
Implied share price [1]	$1.26	$2.67	**$3.38**	$4.08	$4.79	$5.50
One-year PTQ target price (C$) [1]			$3.17			

[1] *Based on adjusted F2022 EBITDA of $39.8M, F2022 EPS of $0.15; EV incorporates FQ420 total debt of $17.2M and pro forma cash of $39.0M includes FQ420 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

Debt-based financial ratios remain well within safe territory and away from caution-inducing threshold levels. Protech's cumulative interest expense in the period of $1.3M. This consisted not just of interest expense on the firm's outstanding convertible debt ($17.2M at end of FQ420) but also from interest on leases and equipment loans that cumulatively incurred an average interest rate by our calculation of 5.0%, in line with our expectations. The firm exited FQ420 with cash & equivalents of $39.0M (including net proceeds from a capital raise consummated during FQ320) and total debt of $17.2M as indicated above (we conventionally exclude lease liability from debt calculations). Accordingly, the firm's convertible debt/EBITDA run-rate ratio of 0.7x (or a bit higher at 1.25x if we include lease liabilities and equipment loans in our 'debt' calculation) and its EBITDA/interest expense ratio of 4.8x is well above threshold levels that would elevate business risk for the firm.

Pending quarters will reveal impact from newly-acquired Sleepwell on revenue/EBITDA trajectory. We remain encouraged by the pace at which Protech has been able to profitably grow both organically and by acquisition, without overpaying for nascent assets. Recent transactions include the Sleepwell transaction in FQ420, and the Health Technology Resources-Cooley Medical-Acadia Medical acquisitions back in FQ120, both of which are positively impacting Protech's revenue/EBITDA as we expect from Sleepwell in coming quarters as well. We continue to reflect favorably on financial terms on which Protech has been able to acquisitively grow, usually by acquiring new respiratory equipment distribution firms for <5x EBITDA (4.4x T12M EBITDA for GA-based Sleepwell, 3.3x T12M EBITDA for IL-based Health Technology Resources, 2.9x T12M EBITDA for ME-based Acadia Medical, and about 2.3x T12M EBITDA for KY-based Cooley Medical). And clear evidence in recent quarterly EBITDA/margin data (>20% in the most recent three quarters) that the strategy is unfolding with minimal delays in value creation post-acquisition.

Summary and valuation. We believe that capital markets are responding cautiously to Protech's FQ420 revenue that was admittedly below its own guidance provided last quarter, even though the shortfall was based on an accounting allocation of pandemic relief funding in a way that did not impede our EBITDA calculation for the period. The firm did provide encouraging qualitative feedback on the period, stating that demand for ventilators, oxygen concentrators, and CPAP devices for sleep apnea was strong, which suggests sequential growth in respiratory equipment distribution activity in the period. On the milestone watch, Protech did not provide any preliminary guidance on FQ121 just concluded, but our model assumes that recent acquisition of Healthcare Technology Resources and Sleepwell can sustain sequential lift on revenue, EBITDA, and cash flow as early as FQ121.

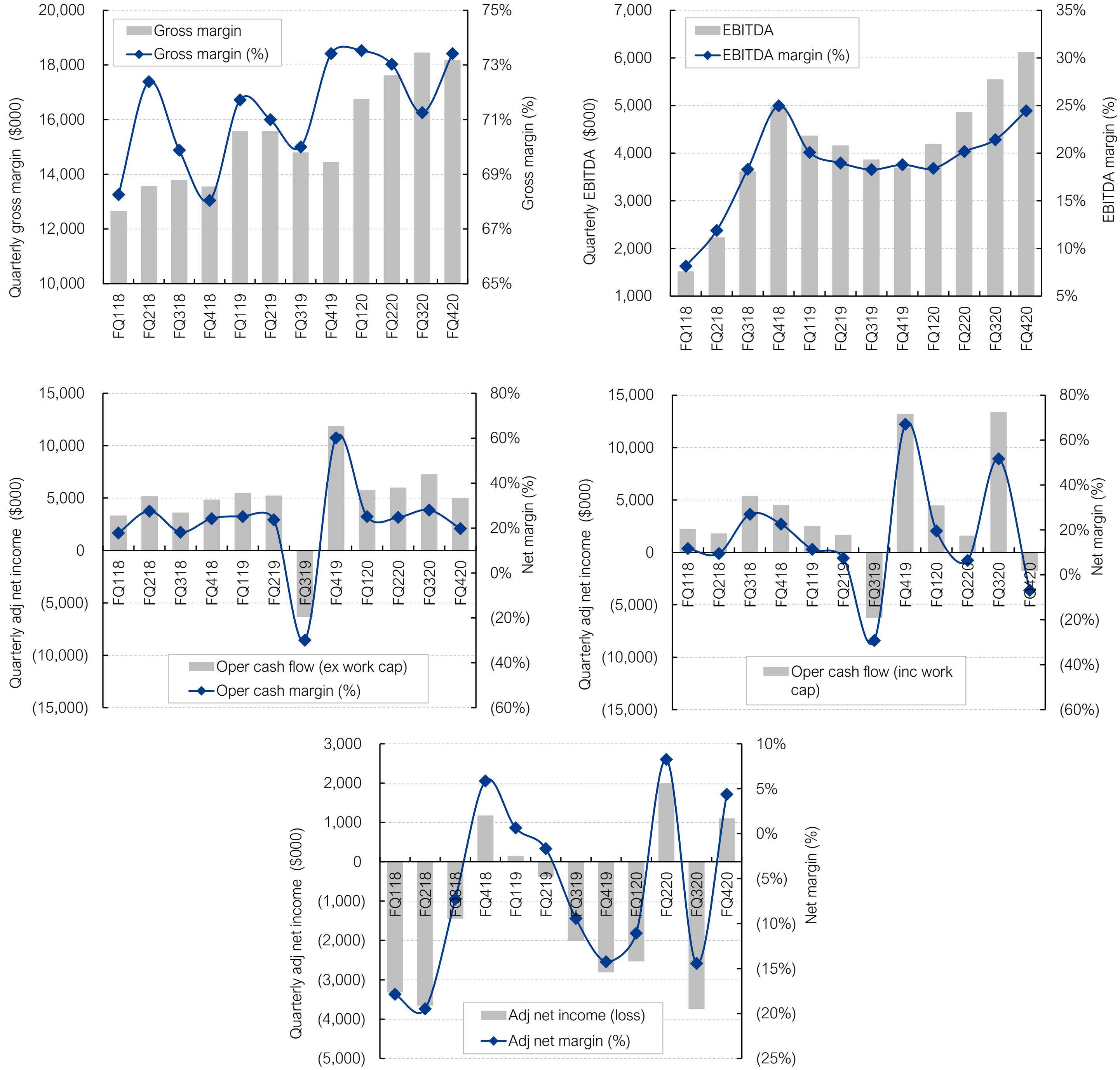
Accordingly, **we are maintaining our BUY rating and PT of $3.25 on PTQ**, with our valuation still based on multiples of our F2022 EBITDA/EPS forecasts ($39.8M/$0.15, as shown in Exhibit 2). Our EV incorporates FQ420 cash of $39.0M, convertible debt of $17.2M (thus excluding lease liability and equipment loans from the calculation) and fully-diluted S/O of 140.8M into valuation. We continue to recommend PTQ as a core holding for investors seeking modest weighting in healthcare services within a diversified portfolio. At current levels, our PT corresponds to a one-year return of 54%.

Exhibit 3 – Competitive Landscape for Protech Home Medical

Company	Curr	Sym	Shares out (M)	Share price 1-Feb	Mkt cap ($M) (curr)	Mkt cap ($M) (C$)	Ent val ($M) (curr)	Ent val ($M) (C$)	EV/EBITDA (T12M)	EV/EBITDA FY20	EV/EBITDA FY21	Price/Earnings (T12M)	Price/Earnings FY20	Price/Earnings FY21	Company description
Canadian Healthcare Services Firms															
Akumin Inc	CAD	AKU	70.2	$4.07	$286	$286	$699	$699	8.4x	NA	8.6x	NA	NA	18.9x	US-based medical imaging clinic consolidator, focused on Florida & neighboring geographies
Assure Holdings Corp	CAD	IOM	51.4	$1.36	$70	$70	$66	$66	NA	NA	NA	22.4x	NA	NA	US-based neuromonitoring services firm, operations in CO, TX, LA, UT; planned expansion
CareRx Corp	CAD	CRRX	52.6	$4.27	$224	$224	$291	$291	33.3x	22.5x	13.3x	NA	NA	NA	ON-based long-term care pharmacy operator
CRH Medical Corp	CAD	CRH	71.4	$2.74	$196	$196	$275	$275	8.9x	10.4x	7.4x	NA	NA	58.7x	US-based GI anesthesiology/ endoscopy services
Extendicare Inc	CAD	EXE	89.5	$6.14	$550	$550	$951	$951	8.3x	7.9x	10.1x	17.3x	36.1x	21.5x	ON-based long-term care & home health-care services provider
K-Bro Linen Inc	CAD	KBL	10.7	$36.00	$384	$384	$487	$487	14.9x	12.4x	11.4x	NA	NA	35.4x	AB-based linen/laundry processing firm, focused on healthcare/ hospitality sectors
Medical Facilities Corp	CAD	DR	31.1	$6.76	$210	$210	$350	$350	4.3x	3.6x	3.9x	8.3x	16.5x	19.6x	US-based physician-owned surgical hospital operator
Savaria Corp	CAD	SIS	51.0	$16.76	$855	$855	$884	$884	15.4x	15.0x	13.9x	30.3x	31.0x	27.8x	QC-based patient mobility device manu-facturer (elevators, wheel-chairs, stair & ceiling lifts)
Viemed Healthcare Inc	CAD	VMD	39.1	$10.71	$419	$419	$307	$307	10.3x	8.3x	10.5x	15.5x	16.8x	30.0x	LA-based post-acute respiratory services & disease management
Average								$479		11.5x	9.9x		25.1x	30.3x	
US-based & RoW home medical equipment distribution peers															
Adapthealth	USD	AHCO	95.7	$38.27	$3,662	$4,704	$4,131	$5,307	33.1x	NA	9.4x	NA	NA	30.3x	PA-based medical equip provider; 66% equip sales vs 34% rental; 16% of business is respiratory
Owens & Minor	USD	OMI	73.5	$29.08	$2,138	$2,746	$3,160	$4,059	12.3x	10.1x	8.4x	54.0x	15.0x	11.8x	VA-based med supplies/services in diabetes, wound care, urology, ostomy
Envista Holdings	USD	NVST	159.6	$35.54	$5,674	$7,288	$6,734	$8,651	25.5x	23.9x	15.1x	NA	42.7x	23.3x	CA-based dental products devel-oper
Fisher & Paykel Healthcare	NZD	FPH	576.3	NZD 33.5	NZD 19,313	$17,764	NZD 19,264	$17,719	32.6x	NA	23.2x	49.6x	NA	34.5x	NZ-based med device devel; respiratory, acute care, obstructive sleep apnea
Hill-Rom Holdings	USD	HRC	66.4	$96.04	$6,373	$8,186	$7,954	$10,218	13.2x	13.2x	13.6x	28.9x	17.7x	17.9x	IL-based med equip developer, focused on respiratory care, medical diagnostics surg supplies
Inogen Inc	USD	INGN	22.1	$48.93	$1,082	$1,390	$862	$1,107	NA	NA	NA	NA	NA	NA	CA-based portable O2 concentrator mark-eter (One G4-G3-G2-At Home systems)
Inspiration Health-care Group PLC	GBp	IHC	68.1	£88.50	£6,029	$10,581	$55	$96	15.2x	26.5x	11.1x	NA	NA	NA	UK-based respiratory care, thermoregul-ation, neonatal resusc device developer
Linde PLC	USD	LIN	523.3	$245.40	$128,428	$164,978	$143,449	$184,274	16.6x	16.7x	15.2x	58.6x	30.4x	26.7x	UK-based distributor of industrial gases, acquired FL-based Lincare in Q312, TN-based American Home Patient in Q415
Resmed	USD	RMD	145.5	$201.57	$29,330	$37,678	$29,965	$38,493	28.4x	32.0x	27.8x	42.1x	44.9x	38.4x	CA-based medical equipment developer, focused on respiratory, sleep & SaaS software for out-of-hospital services
Vapotherm	USD	VAPO	25.7	$34.55	$887	$1,139	$794	$1,020	NA	NA	NA	NA	NA	NA	NH-based ventilator support & nasal cannula developer
Average								$27,095		20.4x	15.5x		30.1x	26.1x	
Protech Home Medical		PTQ	112.5	$2.11	$237	$305	$223	$286	NA	NA	7.8x	NA	NA	38.4x	US-based home medical equipment rental/sales, respiratory care

Source: Consensus data - Refinitiv, Commentary by Leede Jones Gable

Exhibit 4 – Trailing Income Statement & Margin Data for Protech Home Medical



Source: Historicals - Protech Home Medical, modified for presentation by Leede Jones Gable

Disclosures none

Important Information and Legal Disclaimers

Leede Jones Gable Inc. (LJG) is a member of the Investment Industry Regulatory Organization of Canada (IIROC) and the Canadian Investor Protection Fund (CIPF). This document is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular investing strategy. Data from various sources were used in the preparation of these documents; the information is believed but in no way warranted to be reliable, accurate and appropriate. All information is as of the date of publication and is subject to change without notice. Any opinions or recommendations expressed herein do not necessarily reflect those of LJG. LJG cannot accept any trading instructions via e-mail as the timely receipt of e-mail messages, or their integrity over the Internet, cannot be guaranteed. Dividend yields change as stock prices change, and companies may change or cancel dividend payments in the future. All securities involve varying amounts of risk, and their values will fluctuate, and the fluctuation of foreign currency exchange rates will also impact your investment returns if measured in Canadian Dollars. Past performance does not guarantee future returns, investments may increase or decrease in value and you may lose money. LJG employees may buy and sell shares of the companies that are recommended for their own accounts and for the accounts of other clients. LJG employees may buy and sell shares of the companies that are recommended for their own accounts and for the accounts of other clients. Disclosure codes are used in accordance with Policy 3400 of IIROC.

Description of Disclosure Codes

1. LJG and its affiliates collectively beneficially own 1% or more of any class of equity securities of the company.
2. The analyst or any associate of the analyst responsible for the report or public comment hold shares or is short any of the company's securities directly or through derivatives.
3. LJG or a director or officer of LJG or any analyst provided services to the company for remuneration other than normal investment advisory or trade execution services within the preceding 12 months.
4. LJG provided investment banking services for the company during the 12 months preceding the publication of the research report.
5. LJG expects to receive or intends to seek compensation for investment banking services in the next three months.
6. The analyst preparing the report received compensation based upon LJG investment banking revenues for this issuer.
7. The director, officer, employee, or research analyst is an officer, director or employee of the company, or serves in an advisory capacity to the company.
8. LJG acts as a market maker of the company.
9. The analyst has conducted a site visit and has viewed a major facility or operation of the issuer.
10. The company has paid for all, or a material portion, of the travel costs associated with the site visit by the analyst.

Dissemination

All final research reports are disseminated to existing and potential institutional clients of Leede Jones Gable Inc. (LJG) in electronic form to intended recipients thorough e-mail and third-party aggregators. Research reports are posted to the LJG website and are accessible to customers who are entitled the firm’s research. Reproduction of this report in whole or in part without permission is prohibited.

Research Analyst Certification

The Research Analyst(s) who prepare this report certify that their respective report accurately reflects his/her personal opinion and that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views as to the securities or companies. Leede Jones Gable Inc. (LJG) compensates its research analysts from a variety of sources and research analysts may or may not receive compensation based upon LJG investment banking revenue.

Canadian Disclosures

This research has been approved by Leede Jones Gable Inc. (LJG), which accepts sole responsibility for this research and its dissemination in Canada. LJG is registered and regulated by the Investment Industry Regulatory Organization of Canada (IIROC) and is a Member of the Canadian Investor Protection Fund (CIPF). Canadian clients wishing to effect transactions in any designated investment discussed should do so through a LJG Registered Representative.

U.S. Disclosures

This research report was prepared by Leede Jones Gable Inc. (LJG), a member of the Investment Industry Regulatory Organization of Canada (IIROC) and the Canadian Investor Protection Fund (CIPF). This report does not constitute an offer to sell or the solicitation of an offer to buy any of the securities discussed herein. LJG is not registered as a broker-dealer in the United States and is not be subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. Any resulting transactions should be effected through a U.S. broker-dealer.

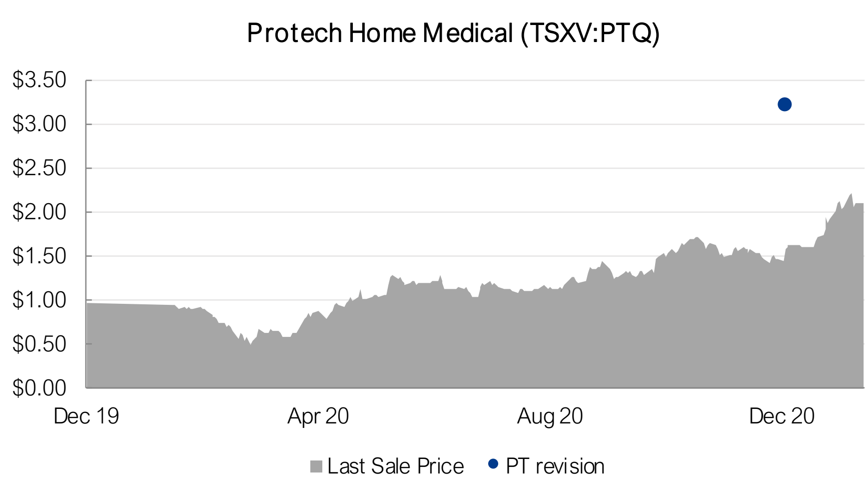
Rating Definitions

Buy	The security represents attractive relative value and is expected to appreciate significantly from the current price over the next 12 month time horizon.
Speculative Buy	The security is considered a BUY but carries an above-average level of risk.
Hold	The security represents fair value and no material appreciation is expected over the next 12 month time horizon.
Sell	The security represents poor value and is expected to depreciate over the next 12 month time horizon.
Under Review	The rating is temporarily placed under review until further information is disclosed.
Tender	Leede Jones Gable Inc. recommends that investors tender to an existing public offer for the securities in the absence of a superior competing offer.
Not Rated	Leede Jones Gable Inc. does not provide research coverage of the relevant issuer.

Rating Distribution

RECOMMENDATION	NO. OF COMPANIES	%
Buy	6	42.9%
Speculative Buy	7	50.0%
Hold	1	7.1%
Sell	-	-
Tender	-	-
Under Review	-	-

Historical Target Price



Date	Target ($)	Rating
21 Dec 2020	C$3.25	Buy

Coverage Initiated: Dec 21, 2020

Data sourced from: Refinitiv