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PTQ-TSXX	
Rating:	Buy
Target:	\$3.25
Price:	\$2.05
Return:	59%
Valuation:	20x EPS, 12.5x EV/EBITDA (F2022 estimates)

#### Market Data

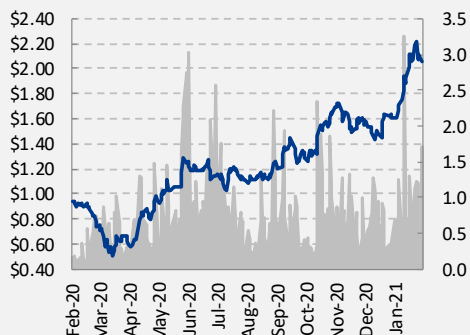
Basic Shares O/S (M)	115.3
FD Shares O/S (M)	140.8
Market capitalization (\$M)	236.5
Enterprise Value (\$M)	220.5
Cash & equiv (\$M, most rec Q)	33.2
LT debt (\$M, most rec Q)	17.2
52 Week Range	\$0.47-\$2.28
Avg. Weekly Volume (M)	3.56
Fiscal Year End	Sep-30

#### Financial Metrics

In C\$	F2020A	F2021E	F2022E
Total Revenue (\$000)	97,755	134,045	170,998
EBITDA (\$000)	20,701	31,211	41,526
Adj net inc (\$000)	(3,476)	9,689	22,140
EPS (basic)	(\$0.03)	\$0.08	\$0.19
EPS (FD)	(\$0.03)	\$0.07	\$0.16
P/E	NA	17.9x	7.8x
EV/EBITDA	10.7x	7.1x	5.3x

#### Company Description

Protech Home Medical is a durable medical equipment firm focused on delivering respiratory care devices into home healthcare markets. The firm operates in 11 US states, with over 120,000 unique patients served in those geo-graphies. Acquisitive growth expected to continue.



Source: Refinitiv, Leede Jones Gable

## New FL-Based Acquisition Fits Seamlessly into Existing Respiratory Equipment Foundation & on Attractive Terms

Kentucky-based durable medical equipment and home healthcare services firm Protech Home Medical provided details this morning on its previously-announced respiratory medical equipment distribution acquisition in the southeastern US. The relevant firm is now known to be private FL-based Mayhugh's Medical, based in Jacksonville and with a suite of oxygen delivery and CPAP equipment in its portfolio that fits squarely within network of similarly-configured acquisitions that Protech has separately consummated in recent quarters. This is the first operation that Protech has established in Florida, though it did have regional bandwidth through its acquisition of GA-based Sleepwell back in Sep/20.

**Solidly profitable respiratory equipment distributor expands Protech's geographic footprint with minimal transient EBITDA margin compression.** We now have details on Mayhugh's operating metrics and acquisition value, both of which are in line with our expectations for scale and scope of acquisition targets that Protech has described before. The arithmetic on how Mayhugh impacts our model is straightforward, based on our for-now-conservative assumption that T12M Mayhugh revenue/EBITDA can be reproduced in future periods in our model, and with Protech's cash outlay for the acquisition having minimal impact on its balance sheet risk (which was negligible anyway) or on our EV determination for the firm.

With the firm generating T12M revenue/EBITDA of \$7.0M/\$1.2M, its trailing EBITDA margin of 17% is a bit below Protech's recent average of 21.2% in F2020, but we expect Protech to realize a few cost synergies through integrating Mayhugh's inventory management and payer relationships into Protech's IT platform; indeed, Protech itself projects achievable EBITDA margin for Mayhugh of 20%-26% post-integration, the midpoint of which would be consistent with Protech's FQ420 EBITDA margin as we described in our most recent note.

**Valuation multiples ascribed to Mayhugh are well below threshold levels that we conventionally use to define actionable acquisitions in healthcare services.** Acquisition value of \$5.8M can be comfortably funded with available cash that at the end of FQ420 was \$39.0M (and thus on a pro forma basis is assumed by us to be \$33.2M, excluding any free cash generated in FQ121 that has not yet been reported), and value corresponds to 0.8x T12M revenue and 4.8x T12M EBITDA. The latter multiple is incrementally below the 5x threshold that we normally see as the dividing line between value and overvalue for healthcare services acquisitions of this type, and thus we see that acquisition as positive to our investment thesis and to our PTQ valuation.

**Our model assumes that Mayhugh's T12M revenue/EBITDA represents a floor and not a ceiling for its future contributions to Protech's consolidated operations.** For now, we will conservatively assume that Mayhugh can generate forward annual revenue at its T12M level, but with incremental EBITDA growth through lifting Mayhugh profitability up to Protech's average across its respiratory equipment distribution network.

## Exhibit 1 – Financial Summary for Protech Home Medical

*Year-end September 30*

<i>(US\$000, except EPS)</i>	F2017A	F2018A	F2019A	F2020A	F2021E	F2022E	F2023E	F2024E
Sale of medical equipment & supplies	25,858	34,569	35,227	42,241	60,320	78,729	84,634	90,981
Rental of medical equipment & supplies	50,511	42,294	45,740	55,514	73,725	92,269	99,189	106,628
<b>Total revenue</b>	<b>\$76,369</b>	<b>\$76,863</b>	<b>\$80,967</b>	<b>\$97,755</b>	<b>\$134,045</b>	<b>\$170,998</b>	<b>\$183,823</b>	<b>\$197,610</b>
<i>Revenue growth (%)</i>	NA	0.6%	5.3%	20.7%	37.1%	27.6%	7.5%	7.5%
Direct costs	22,256	23,349	23,527	26,826	36,340	46,345	51,470	55,331
SG&A/other expense	53,056	35,981	36,896	43,314	55,891	71,819	77,206	82,996
<b>EBITDA</b>	<b>\$1,057</b>	<b>\$12,307</b>	<b>\$14,858</b>	<b>\$20,701</b>	<b>\$31,211</b>	<b>\$41,526</b>	<b>\$42,991</b>	<b>\$46,215</b>
<i>EBITDA growth (%)</i>	NA	NA	NA	39.3%	50.8%	33.1%	3.5%	7.5%
<i>EBITDA margin (%)</i>	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)	\$9,689	\$22,140	\$23,615	\$25,589
Fully-taxed EPS (basic)	(\$0.36)	(\$0.09)	(\$0.12)	(\$0.03)	\$0.08	\$0.19	\$0.20	\$0.22
<b>Fully-taxed EPS (fd)</b>	<b>(\$0.34)</b>	<b>(\$0.08)</b>	<b>(\$0.10)</b>	<b>(\$0.03)</b>	<b>\$0.07</b>	<b>\$0.16</b>	<b>\$0.17</b>	<b>\$0.18</b>
<i>P/E (basic)</i>	NA	NA	NA	NA	17.9x	7.8x	7.3x	6.8x
<i>EV/EBITDA</i>	NA	17.4x	14.5x	10.4x	6.9x	5.2x	5.0x	4.6x

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

Accordingly, by infusing Mayhugh into our model, we now project F2021 revenue/EBITDA of \$134.0M/\$31.2M (which assumes about eight months of contribution to F2021 data; was \$129.9M/\$30.2M), increasing to \$171.0M/\$41.5M in F2022 (was \$163.8M/\$39.8M), with the latter year still designated as the reference year in our EBITDA/EPS-based valuation methods. For now, we will assume that Mayhugh's revenue is equally distributed between equipment sales and rentals (Protech itself has a modest bias toward rental revenue, which was 57% of annual revenue in both F2019 & F2020).

## Exhibit 2 – Valuation Summary for Protech Home Medical

<b>Price/earnings multiple, FY2022</b>	<b>10x</b>	<b>15x</b>	<b>20x</b>	<b>25x</b>	<b>30x</b>	<b>40x</b>
Implied share price <sup>1</sup>	\$1.57	\$2.36	<b>\$3.15</b>	\$3.93	\$4.72	\$6.29
<b>EV/EBITDA multiple, FY2022</b>	<b>5x</b>	<b>10x</b>	<b>12.5x</b>	<b>15x</b>	<b>17.5x</b>	<b>20x</b>
Implied share price <sup>1</sup>	\$1.36	\$2.84	<b>\$3.57</b>	\$4.31	\$5.05	\$5.79
<b>One-year PTQ target price (C\$) <sup>1</sup></b>	<b>\$3.36</b>					

<sup>1</sup> Based on adjusted F2022 EBITDA of \$41.5M, F2022 EPS of \$0.16; EV incorporates FQ420 total debt of \$17.2M and pro forma cash of \$33.2M includes FQ420 cash/equivalents adjusted to account for the Mayhugh acquisition; & adj. S/O of 140.8M

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

We were interested to see Protech indicate that Mayhugh's payer base is diversified, but in so doing, stating that no specific payer source contributes more than 50% of Mayhugh's top-line, implying to us that at least one payer source is close to that value. We would assume however that the relevant source is either the US Centers for Medicare & Medicaid Services (CMS) which is a clear giant in medical equipment funding anyway, or perhaps one of the larger national health insurance organizations like Blue Cross/Blue Shield, both of which we assume already have comprehensive relationships with Protech's existing

respiratory equipment distribution network. We separately assume that both are stably-funded revenue sources for Protech's consolidated operations that now include Mayhugh. Separately, we will for now assume that Mayhugh's constitutive levels of bad debt expense are comparable to Protech's average quarterly level that in recent periods was at or near 8.5%-8.7%.

**Summary & valuation.** As we show in Exhibit 2, we continue to value PTQ based on ascribing 20x EPS and 12.5x EV/EBITDA to our revised F2022 EBITDA/EPS forecasts of \$41.5M/\$0.16, both of which now incorporate Mayhugh economics into our consolidated projections. For our EV determination, we now use pro forma cash of \$33.2M (FQ420 cash of \$39.0M, less \$5.8M to acquire Mayhugh) while continuing to use FQ420 convertible debt of \$17.2M in the calculation. As we described in our last note, we will continue to exclude long-term leases and equipment loans from our total debt calculation, just to facilitate valuation comparisons to peers from which we believe such long-term obligations are conventionally excluded from EV determinations.

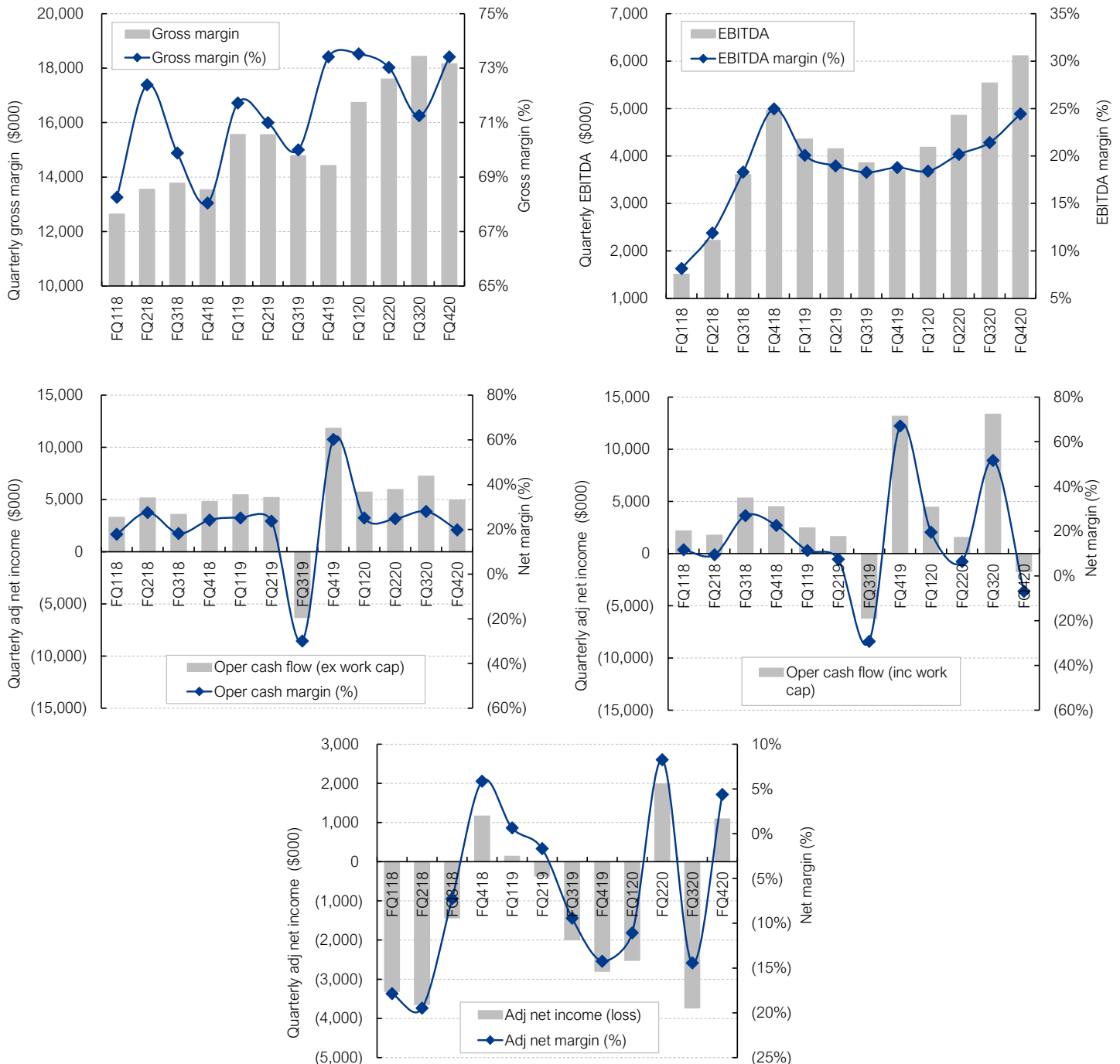
### Exhibit 3 – Competitive Landscape for Protech Home Medical

Company	Curr Sym	Shares out (M)	Share price 2-Feb	Mkt cap (\$M)		Ent val (\$M)		EV/EBITDA			Price/Earnings			Company description
				(curr)	(C\$)	(curr)	(C\$)	(T12M)	FY20	FY21	(T12M)	FY20	FY21	
<b>Canadian Healthcare Services Firms</b>														
Akumin Inc	CAD AKU	70.2	\$4.07	\$286	\$286	\$700	\$700	8.4x	10.2x	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	\$67	\$67	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	\$4.13	\$217	\$217	\$284	\$284	32.5x	22.0x	13.0x	NA	NA	NA	ON-based long-term care pharmacy operator
CRH Medical Corp	CAD CRH	71.4	\$2.81	\$201	\$201	\$279	\$279	9.1x	10.5x	7.5x	NA	NA	NA	US-based GI anesthesiology/ endoscopy services
Extencicare Inc	CAD EXE	89.5	\$6.23	\$558	\$558	\$959	\$959	8.3x	7.9x	10.1x	17.5x	36.6x	21.9x	ON-based long-term care & home health-care services provider
K-Bro Linen Inc	CAD KBL	10.7	\$36.35	\$388	\$388	\$490	\$490	15.0x	12.5x	11.5x	NA	NA	35.8x	AB-based linen/laundry processing firm, focused on healthcare/ hospitality sectors
Medical Facilities Corp	CAD DR	31.1	\$6.87	\$214	\$214	\$352	\$352	4.4x	3.7x	4.0x	8.4x	16.8x	19.9x	US-based physician-owned surgical hospital operator
Savaria Corp	CAD SIS	51.0	\$17.20	\$878	\$878	\$906	\$906	15.7x	15.4x	14.3x	31.1x	31.9x	28.5x	QC-based patient mobility device manufacturer (elevators, wheel-chairs, stair & ceiling lifts)
Viemed Healthcare Inc	CAD VMD	39.1	\$11.55	\$451	\$451	\$332	\$332	11.2x	8.9x	11.4x	16.7x	18.1x	32.3x	LA-based post-acute respiratory services & disease management
<b>Average</b>								<b>\$486</b>	<b>11.4x</b>	<b>10.1x</b>	<b>25.8x</b>	<b>26.2x</b>		
<b>US-based &amp; RoW home medical equipment distribution peers</b>														
Adapthealth	USD AHCO	95.7	\$40.15	\$3,842	\$4,926	\$4,311	\$5,528	34.5x	22.7x	9.8x	NA	NA	31.8x	PA-based medical equip provider; 66% equip sales vs 34% rental; 16% of business is respiratory
Owens & Minor	USD OMI	73.5	\$29.61	\$2,177	\$2,791	\$3,199	\$4,102	12.5x	10.2x	8.5x	55.0x	15.3x	12.0x	VA-based med supplies/services in diabetes, wound care, urology, ostomy
Envista Holdings	USD NVST	159.6	\$36.02	\$5,750	\$7,374	\$6,811	\$8,734	25.8x	24.2x	15.2x	NA	43.3x	23.7x	CA-based dental products devel-oper
Fisher & Paykel Healthcare	NZD FPH	576.3	NZD 33.1	NZD 19,099	\$17,505	NZD 19,051	\$17,460	32.2x	NA	22.9x	49.0x	NA	34.1x	NZ-based med device devel; respiratory, acute care, obstructive sleep apnea
Hill-Rom Holdings	USD HRC	66.4	\$95.56	\$6,341	\$8,131	\$7,922	\$10,159	13.2x	13.2x	13.6x	28.8x	17.6x	17.8x	IL-based med equip developer, focused on respiratory care, medical diagnostics surg supplies
Inogen Inc	USD INGN	22.1	\$49.97	\$1,105	\$1,417	\$885	\$1,134	NA	NA	NA	NA	NA	NA	CA-based portable O2 concentrator marketer (One G4-G3-G2-At Home systems)
Inspiration Health-care Group PLC	GBP IHC	68.1	£88.50	£6,029	\$10,540	\$55	\$95	15.2x	26.5x	11.1x	NA	NA	NA	UK-based respiratory care, thermoregulation, neonatal resusc device developer
Linde PLC	USD LIN	523.3	\$250.43	\$131,060	\$168,058	\$146,081	\$187,320	16.9x	17.0x	15.5x	59.8x	31.0x	27.3x	UK-based distributor of industrial gases, acquired FL-based Lincare in Q312, TN-based American Home Patient in Q415
Resmed	USD RMD	145.5	\$202.67	\$29,490	\$37,815	\$30,060	\$38,546	28.5x	32.1x	27.8x	42.4x	45.1x	38.7x	CA-based medical equipment developer, focused on respiratory, sleep & SaaS software for out-of-hospital services
Vapotherm	USD VAPO	25.7	\$34.50	\$885	\$1,135	\$793	\$1,017	NA	NA	NA	NA	NA	NA	NH-based ventilator support & nasal cannula developer
<b>Average</b>								<b>\$27,410</b>	<b>20.8x</b>	<b>15.6x</b>	<b>30.4x</b>	<b>26.5x</b>		
<b>Protech Home Medical</b>	<b>PTQ</b>	<b>112.5</b>	<b>\$2.05</b>	<b>\$231</b>	<b>\$296</b>	<b>\$218</b>	<b>\$280</b>	<b>NA</b>	<b>10.6x</b>	<b>7.6x</b>	<b>NA</b>	<b>NA</b>	<b>37.3x</b>	<b>US-based home medical equipment rental/sales, respiratory care</b>

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

Accordingly, our valuation now derives a PT for PTQ of \$3.36, which we believe is sufficiently close to our previously-published PT of \$3.25 to justify our decision to maintain our PT at that value for now. With PTQ trading at a measurable discount to our PT, **we continue to rate the stock as a BUY**, with our target corresponding to a one-year return of 59%. On the milestone watch, we will clearly be focused on EBITDA and margin in the immediate aftermath of three scalable acquisitions just consummated by the firm, including IL-based Health Technology Resources transaction (3.3x T12M EBITDA valuation) and GA-based Sleepwell (4.4x T12M EBITDA valuation) for which data from a full financial period post-acquisition is still pending. And of course, we are confident that supplemental acquisitions of similar scale & scope could be on the horizon, based on Protech’s sustained activity on this theme during our coverage history for the firm.

**Exhibit 4 – Trailing Income Statement and Margin Data for Protech Home Medical – Trendlines on Both Gross Margin and EBITDA Margin are Favorable, Even While a Sizable Proportion of Growth in Recent Quarters was Acquisitive**



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

Disclosures none

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

### Historical Target Price

