

September 19, 2022

QUIPT HOME MEDICAL CORP. (QUIPT-TSXV, \$5.69)

Rating: BUY
Target Price: \$13.00

UPSIZING CREDIT FACILITY FOR ACCELERATED M&A

Quipt Home Medical Corp.		QUIPT	
<i>(Currency is C\$ unless noted otherwise)</i>			
Last Price (\$)		\$5.69	
Target Price (\$)		\$13.00	
Return to Target		128%	
52-Week Trading Range (\$)		\$5.14 / \$8.87	
Average Daily Volume (90-Day)		53.7K	
MARKET INFO			
Shares Outstanding (M)		33.7	
Market Capitalization (\$M)		\$191.9	
Enterprise Value (\$M)		\$216.0	
FYE: SEP 30	F2021A	F2022E	F2023E
Revenue (US\$M)	\$102.4	\$140.3	\$172.5
Gross Margin (%)	72%	75%	74%
Adj. EBITDA (US\$M)	\$21.4	\$28.9	\$38.3
Net Income (US\$M)	(\$6.2)	\$12.4	\$11.4
MOST RECENT QUARTER Jun-22			
Revenue (US\$M)	\$36.7		
Gross Margin (%)	76%		
Adj. EBITDA (US\$M)	\$7.7		
Net Income (US\$M)	\$0.2		
Cash (US\$M)	\$18.5		
Debt (US\$M)	\$36.7		
VALUATION	F2021A	F2022E	F2023E
EV/Revenue	1.6x	1.2x	0.9x
EV/EBITDA	7.6x	5.6x	4.2x
DISCLOSURE CODE:	None		
<i>(Please refer to applicable disclosures on the back page)</i>			
Source: M Partners, Capital IQ, Bloomberg, Company Documents			



Quipt Home Medical Corp. is a distributor of durable medical equipment (DME) across 15 states, with 170,000 active patients and 19,000 referring physicians in the U.S. Recently, QUIPT's focus has been on leveraging its financial strength and unique positioning to acquire smaller businesses in a rapidly consolidating industry.

This morning, Quipt Home Medical announced that it has upsized its senior credit facilities to US\$110M. The facilities are structured as US\$5M in aggregate principal with an US\$85M delayed draw term loan facility and a US\$20M revolving credit facility. The US\$110M comes as an upsize to the US\$80M figure that QUIPT announced on August 15th due to increased demand from its lenders.

We remind readers that QUIPT had access to this financing for almost a year now, but only planned to close on it if there were opportunities for larger scale acquisitions. QUIPT's acquisitions over the past year have been completed at 0.8x sales and 4.3x EBITDA on average. This implies that the credit facility will be able to add \$25M in EBITDA via acquisitions, which would increase our target by \$6.00/share (to \$19.00/share) assuming 9x EBITDA. QUIPT also had a strong cash balance of US\$18.5M at the end of Q3, adding to the available dry powder.

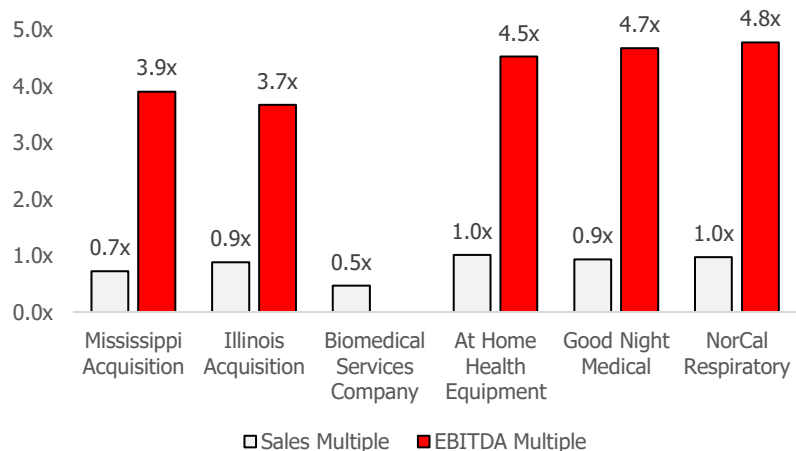


Figure 1: Disclosed Acquisition Multiples (LTM)

We believe the next catalyst for QUIPT beyond the M&A program is the unlock of its sleep backlog which has been impacted by supply chain issues over the last few quarters. The sleep devices backlog stood at 6,000 patients at the end of Q3 (vs. 6,500 in Q2 and 8,000 in Q1); this remains much higher than the typical 1,000 patient backlog, providing an opportunity for outsized revenue growth in the coming quarters as supply comes online. However, despite supply chain issues, Quipt has posted stellar financial results, with gross margins and EBITDA margins coming in at 76% and 21% last quarter respectively.

Our Thoughts: We continue to expect QUIPT to execute on its roll-up strategy (at <1.0x sales) and take advantage of the favourable reimbursement environment to post 8%+ annual organic growth. **We are maintaining our BUY rating and target price of \$13.00/share based on 9.0x 2023E adjusted EBITDA.**

(\$USD Millions)											
Income Statement	1Q21A	2Q21A	3Q21A	4Q21A	FY21	1Q22A	2Q22A	3Q22A	4Q22E	FY22	FY23
Revenue	22.8	24.2	26.2	29.1	102.4	29.5	33.6	36.7	40.5	140.3	172.5
<i>YoY Growth</i>						<i>30%</i>	<i>38%</i>	<i>40%</i>	<i>39%</i>	<i>37%</i>	<i>23%</i>
Gross Margin	16.7	18.1	18.5	20.9	74.2	21.9	26.2	27.8	30.0	105.8	127.7
<i>Margin %</i>	<i>73%</i>	<i>75%</i>	<i>70%</i>	<i>72%</i>	<i>72%</i>	<i>74%</i>	<i>78%</i>	<i>76%</i>	<i>74%</i>	<i>75%</i>	<i>74%</i>
Adjusted EBTIDA	5.1	5.4	5.3	5.6	21.4	6.0	7.0	7.7	8.1	28.9	38.3
<i>Margin %</i>	<i>23%</i>	<i>22%</i>	<i>20%</i>	<i>19%</i>	<i>21%</i>	<i>20%</i>	<i>21%</i>	<i>21%</i>	<i>20%</i>	<i>21%</i>	<i>22%</i>

Figure 2: Financial Projections

Disclosure Code: None

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Rating System	
Buy:	Price expected to rise
Speculative Buy:	Buy rating with increased risk
Hold:	Properly priced
Sell:	Price is inflated and expected to decrease
Under Review (U/R):	Under review
Not Rated (N/R):	Not currently rated

Summary of Recommendations	
Buy	17
Speculative Buy	1
Hold	0
Sell	0
U/R	1
Total	19