

May 17, 2023

QUIPT HOME MEDICAL CORP. (QUIPT-TSXV, \$8.13)

Rating: BUY

New Target Price: \$15.00

Q2/23 IN LINE WITH EXPECTATIONS, \$40M ATM FACILITY ANNOUNCED

Old Target Price: \$15.25

Quipt Home Medical Corp.		QUIPT	
<i>(Currency is US\$ unless noted otherwise)</i>			
Last Price (C\$)			\$8.13
Target Price (C\$)			\$15.00
Return to Target			85%
52-Week Trading Range (C\$)		\$5.21 /	\$9.75
Average Daily Volume (90-Day)			71.8K
MARKET INFO			
Shares Outstanding (M)			42.5
Market Capitalization (C\$M)			\$345.2
Enterprise Value (C\$M)			\$464.3
FYE: SEP 30	F2022A	F2023E	F2024E
Revenue (\$M)	\$139.9	\$224.1	\$299.9
Gross Margin (%)	76%	75%	75%
Adj. EBITDA (\$M)	\$28.8	\$50.6	\$69.0
Net Income (\$M)	\$4.8	\$1.3	\$37.5
MOST RECENT QUARTER			
Mar-23			
Revenue (\$M)			\$58.1
Gross Margin (%)			75%
Adj. EBITDA (\$M)			\$13.1
Net Income (\$M)			(\$0.7)
Cash (US\$M)			\$2.1
Debt (US\$M)			\$90.5
VALUATION	F2022A	F2023E	F2024E
EV/Revenue	2.5x	1.5x	1.1x
EV/EBITDA	12.0x	6.8x	5.0x
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 270,000 active patients and 32,500 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.

Quipt Home Medical Corp. reported Q2/23 results on the morning of May 16th, 2023, with revenue coming in at \$58.1M vs. our expectation of \$56.8M and Adj. EBITDA coming in at \$13.1M vs. our expectation of \$12.8M. Gross margin came in at 74%, in line with our expectations. Adj. EBITDA margins came in at 22.5%, in line with our expectations. QUIPT finished Q2/23 with \$2.1M in cash, \$25.2M in accounts receivable, and \$63M in long term debt. Subsequent to the quarter, QUIPT announced and completed a bought deal public offering of 5,129,000 Common shares at an issue price of \$7.85 per Common share. In addition to the previously announced bought deal, QUIPT announced that it has filed a prospectus supplement establishing a new At-the-Market equity program (as of May 15th, 2023). The ATM will allow QUIPT to offer for sale and issue up to \$40M of common shares. **We are maintaining our Buy rating and lowering our target price to \$15.00 based on 8x 2024E EV/EBITDA.**

Q2/23 Financial Results

QUIPT reported Q2/23 revenue of \$58.1M vs. our expectation of \$56.8M, and up from \$33.6M YoY (Q2/23 is the first quarter with the inclusion of Great Elm). Q2/23 Adj. EBITDA came in at \$13.1M vs. our expectation of \$12.8M, and up from \$7.0M YoY. Gross margins came in as expected at 74% vs. our expectation of 75% and Adj. EBITDA margin came in at 22.5% vs. our expectation of 23%.

QUIPT finished Q2/23 with \$2.1M in cash (down from \$3.7M Q1/23), \$25.2M of accounts receivable (up from \$17.2M Q1/23), \$20.4M in inventory (up from \$16.9M Q1/23) and \$90.5M in debts. As a result of the Great Elm acquisition QUIPT now holds \$52M in PPE (up from \$36.4M Q1/23). Bad debt expense was 4.2% of revenues for Q2/23 (down from 9.4% Q2/22). As of March 31st, 2023, QUIPT had \$28M available on its senior credit facility; with \$7M available on the revolving line and \$21M available on the delayed-draw term loan. In addition to the available credit, QUIPT complete a bought deal public offering on April 25th, 2023, for net proceeds of \$28.9M. On a proforma basis QUIPT currently holds \$18M in cash and \$41M available on its senior credit facility.

Operating Metrics

QUIPT reported strong operating metrics for Q2/23 with 137.7K unique customers served (up +76% YoY), 198.1K unique set-ups/deliveries (up +67% YoY), 106.5K respiratory resupply set-ups/deliveries (up +110% YoY). QUIPT's product mix is now 79% respiratory as of March 31st, 2023. QUIPT's sales reach now spans across 26 U.S states.

Subsequent Events

On April 4, 2023, the QUIPT announced the execution of an additional national insurance contract with a top five health insurer based on membership in the United States. This represents the second national insurance contract the Company has signed since April 2022.

On May 2, 2023, QUIPT announced that it has received conditional approval from the Toronto Stock Exchange to graduate its listing from the TSX Venture Exchange to the TSX. Final approval of the listing is subject to QUIPT meeting certain customary conditions required by the TSX. QUIPT is working diligently to satisfy such listing conditions.

Public Offering and Private Placement

On April 25th, 2023, QIPT announced that it had closed its previously announced bought deal public offering of common shares in the capital of the Company. In connection with the Public Offering and the U.S. Private Offering, the Company issued a total of 5,129,000 Common Shares at an issue price of \$7.85 per Common Share for aggregate gross proceeds of \$40,262,650, which includes 669,000 Common Shares issued pursuant to the exercise of the over-allotment option granted to the Underwriters.

ATM Offering

QIPT announced that it has filed a prospectus supplement establishing a new At-the-Market equity program. The ATM will allow the Company to offer for sale and issue up to \$40 million (or the equivalent in Canadian dollars) of common shares of the Company from time to time, at the Company's discretion. Any sales of Common Shares under the ATM will be made through "at-the-market distributions" as defined in Regulation 44-102 respecting Shelf Distributions, including sales made directly on the TSXV (or the TSX if, as previously announced, the Company successfully graduates to the TSX), the NASDAQ Capital Market or on any other trading market for the Common Shares in Canada or the United States. The Common Shares will be distributed at the market prices prevailing at the time of the sale, and, as a result, prices may vary between purchasers and during the period of the ATM. The Company is not obligated to make any sales of Common Shares under the ATM.

QIPT has adequate liquidity resources and does not currently intend to use the ATM, however QIPT believes it is prudent to have this program in place in order to access capital to ensure sufficient liquidity and capital resources in the future. QIPT intends to use net proceeds from the ATM, if any, for repayment of debt, potential future acquisitions, working capital and general corporate purposes.

Our Thoughts

QIPT performed in line with our expectations, and we remain optimistic that the company will be able to exceed market comparable growth. The company remains financially sound with a net debt to Adj. EBITDA of 1.5x on a pro forma basis, including the April offering. Gross margins remain best in class and Adj. EBITDA margins continue to come in as anticipated. Management is executing its roll-up strategy as anticipated, and as a result of the Great Elm acquisition, QIPT is now in a position to be considered for national level insurance contracts (as exemplified with the April 4th, 2023, announcement).

QIPT management appeared bullish on sales opportunities moving into H2/23 as new hires are coming up to speed. With the opportunity for additional insurance customers, we are looking forward to the potential for longer term agreements. QIPT management expects YoY growth to exceed its previously announced ~8%-10% rate. We see additional room for margin expansion as Phillips returns the respiratory device segment after its 2022 recall. As a result, we are now expecting Q3/23 revenue to come in at \$60.4M (up from \$59.8M) and Q3/23 Adj. EBITDA to come in at \$13.6M (up from \$13.4M). We are now expecting FY/23 revenue to come in at \$224.1M (up from \$221.1M) and FY/23 Adj. EBITDA to come in at \$50.6M (up from \$49.9M). **We are maintaining our BUY rating and are lowering our target price of \$15.00/share based on 8.0x 2024E EBITDA multiple. We are increasing our EBITDA multiple from our previous target as QIPT now has the size to compete nationally and are including the additional shares raised through the April 25th, 2023, offering.**

(\$US Millions)										
Income Statement	1Q23A	2Q23A	3Q23E	4Q23E	FY23	1Q24E	2Q24E	3Q24E	4Q24E	FY24
Revenue	40.8	58.1	60.4	64.7	224.1	68.3	72.2	77.1	82.3	299.9
<i>YoY Growth</i>	<i>38%</i>	<i>73%</i>	<i>65%</i>	<i>61%</i>	<i>60%</i>	<i>67%</i>	<i>24%</i>	<i>28%</i>	<i>27%</i>	<i>34%</i>
Gross Margin	30.7	43.2	45.3	48.5	167.9	51.2	54.1	57.8	61.7	224.9
<i>Margin %</i>	<i>75%</i>	<i>74%</i>	<i>75%</i>	<i>75%</i>	<i>75%</i>	<i>75%</i>	<i>75%</i>	<i>75%</i>	<i>75%</i>	<i>75%</i>
Adjusted EBITDA	9.0	13.1	13.6	14.9	50.6	15.7	16.6	17.7	18.9	69.0
<i>Margin %</i>	<i>22%</i>	<i>23%</i>	<i>23%</i>	<i>23%</i>	<i>23%</i>	<i>23%</i>	<i>23%</i>	<i>23%</i>	<i>23%</i>	<i>23%</i>

Figure 1: 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	18
Speculative Buy	1
Hold	0
Sell	0
U/R	2
Total	21