

May 17, 2023

Quipt Home Medical Corp. (QIPT)

Reports F2Q Upside from Top to Bottom

Change in Earnings Forecast

- ▶ Following an upside F2Q23 print, we reiterate our Buy rating and \$10 PT. The quarter reflected the Jan 2 acquisition of Great Elm Healthcare, LLC, adding more than \$60M of TTM revenue and \$15M of AEBITDA (post \$2M of cost synergies). Additional cost and revenue synergies are likely. We also expect FY23 organic growth to be at or above the top end of management's target range of 8%-10%. The key factors are: 1) positive blended 8% Medicare CPI rate update for CY23 (~35% of revenue); 2) a sharp increase in ResMed CPAP supply, and 3) salesforce, product line and location expansions. Our PT of \$10 implies a CY23 EV/EBITDA multiple of 8.6x, a discount to the peer group median valuation.
- ▶ **F2Q23 Highlights.** In F1Q (ended Dec), revenue grew 73% y/y to \$58.1M with 2.5% sequential organic growth. Recurring revenue exceeded 78% of total. Customer base grew 76% y/y to 137,748 unique patients. Unique set-ups/deliveries increased 66%. Bad debt expense declined to 4.2% from 9.4% a year ago, bucking normal seasonality. Adj EBITDA was \$13.1M, a 22.5% margin, up 150 bps y/y. OCF totaled \$14.8M, up 25% y/y. Variance Analysis on pg 2.
- ▶ **Great Elm Growth and Margin Impacts.** Great Elm adds more than \$60M of TTM revenue and \$15M of AEBITDA (with \$2M of cost synergies realized in F2Q, ahead of schedule). We anticipate additional cost synergies to be realized over the next 12 months as Quipt implements its automated ordering and streamlined billing functions that should lower Great Elm's SWB/revenue by several hundred bps to be more in line with Quipt's. Key potential revenue synergies include cross-selling respiratory (Great Elm is more focused on sleep products) and building out a resupply business that could add \$1-\$2M to annl revenue.
- ▶ **FY23-24 Model Updates.** Our FY23-FY24 model now reflects the F2Q upside and is otherwise largely unchanged. For FY23, we have revenue of \$220M, up 57%, reflecting three quarters of Great Elm and organic growth of 10.5%. We estimate an AEBITDA margin of 22.3% reflecting \$2M of cost synergies realized by the end of F2Q. For FY24, we model revenue of \$260M, up 18%, reflecting one quarter of Great Elm and organic growth of 9%, and AEBITDA margin of 22.4%, up 10 bps. We think this is a conservative outlook with modest additional cost synergies and little revenue synergies with Great Elm.
- ▶ **Balance Sheet Highlights.** At 3/31, cash totaled \$2.1M, and \$28M available on its credit facility, with \$7M available on its \$20M LOC and \$21M available on its delayed draw-term loan. Leverage was ~1.5x. Adjusted for the 4/25 offering of 6.1M shares with gross proceeds of \$42.46M, PF cash is \$18M and credit facility availability is \$40M. With the earnings release, QIPT also announced a \$40M ATM.
- ▶ **Quipt will be attending Benchmark's Virtual Healthcare Conference on May 23rd.**

Rating:	Buy
Current Price	\$6.03
Price Target	\$10.00
52-Wk Range	\$3.89 - \$7.26
Shares Outstanding (M)	36.0
Market Cap (M)	\$217
Enterprise Value (M)	\$268
Avg Vol (000s)	174
Net Debt (M)	\$51.0
Sector Weight	Overweight



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FY Sep		Q1	Q2	Q3	Q4	Prior	Total	EV/EBITDA	EV/Rev
EBITDA	2022A	\$6.0A	\$7.0A	\$7.7A	\$8.4A	--	\$29.2A	9.2x	
	2023E	\$9.0A	\$13.1A	\$13.2E	\$13.6E	\$47.1E	\$49.0E	5.5x	
	2024E	\$14.0E	\$14.4E	\$14.8E	\$15.1E	\$56.6E	\$58.3E	4.6x	
Revenue (m)	2022A	\$29.5A	\$33.6A	\$36.7A	\$40.1A	--	\$139.9A		1.9x
	2023E	\$40.8A	\$58.1A	\$59.6E	\$61.2E	\$213.9E	\$219.8E		1.2x
	2024E	\$63.0E	\$64.4E	\$65.7E	\$67.0E	\$252.6E	\$260.1E		1.0x

Company Profile

Quipt Home Medical Corp is a provider of home medical equipment (HME) focused on the faster growing category of home respiratory products. With the acquisition of Great Elm Healthcare, the company now has 115 locations across 26 states serving 32,500 referring physicians and ~270,000 active patients. Quipt provides initial equipment delivery and implementation and manages periodical resupply orders as well. With Great Elm, recurring revenue is now 78% of total revenue mix (up from 77%) reflecting the combined company's focus in respiratory therapy that includes Oxygen Therapy, PAP (Positive Airway Pressure) Therapy, Sleep Therapy and Ventilation Therapy. About 15% of revenue is generated from mobility and durable medical equipment.

In a nearly \$60B market that is growing more than 5% annually and highly fragmented, QIPT has established a 3-year revenue CAGR of 34% comprised of a disciplined M&A strategy and nearly 10% organic growth, which management believes can accelerate with current reimbursement tailwinds, salesforce expansion and de novo market expansion. With scale, management believes AEBITDA margins can reach 25%.

Figure 1: F2Q23 Variance Analysis

<i>\$ in 000's (a)</i>	F2Q23 Actuals	F2Q23 Ests	% Variance	F2Q22 Actuals	`Yr/Yr Change
Equipment & Supplies Sales	21.0	21.0	0.0%	15.7	33.9%
Equipment Rental	37.1	35.0	6.1%	17.9	107.8%
Total Revenues	58.1	56.0	3.8%	33.6	73.2%
Gross Income	43.2	42.2	2.3%	26.2	64.9%
<i>Gross Margin</i>	<i>74.3%</i>	<i>75.4%</i>	<i>-1.4%</i>	<i>78.1%</i>	
Operating Expenses	30.2	30.1	0.3%	19.4	55.3%
Depreciation	8.1	8.1	0.4%	5.0	62.9%
Amortization of Intangibles	1.5	1.5	-3.1%	0.5	211.3%
SBC	1.3	2.0	-34.7%	1.2	12.6%
Other	0.8	-	NM	(4.3)	NM
EBIT	1.3	0.6	137.3%	4.4	-70.5%
Interest Expense	2.0	1.5	34.7%	0.6	253.1%
EBT	(0.8)	(0.9)	NM	5.2	NM
Tax Provision	-	0.1		0.2	-100.0%
Net Income	(0.8)	(1.1)	NM	5.0	NM
EPS	\$ (0.02)	\$ (0.03)	NM	\$ 0.14	NM
Common shares out (diluted)	36.7	38.5	-4.8%	35.6	3.0%
Adj EBITDA	13.1	12.2	7.8%	7.0	85.8%
<i>AEBITDA Margin</i>	<i>22.5%</i>	<i>21.7%</i>		<i>21.0%</i>	

Source: The Benchmark Company, LLC

Figure 2: Income Statement Analysis

<i>In mil's USD (except per shr) YE 9/30</i>	2020	2021	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23E	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E
Total Revenue	72.64	102.34	29.52	33.55	36.70	40.09	139.86	40.82	58.12	59.63	61.18	219.75	63.02	64.40	65.69	67.01	260.12
Cost of Inventory sold	19.93	28.17	7.66	7.35	8.91	9.29	33.21	10.08	14.91	14.55	14.87	54.41	15.31	15.65	15.96	16.28	63.21
Operating expenses (including bad debt)	38.63	52.76	15.83	19.42	20.33	21.85	77.43	21.74	30.17	31.84	32.67	116.42	33.53	34.20	34.82	35.45	137.99
Depreciation	13.86	16.21	4.57	4.99	4.60	6.29	20.45	5.99	8.13	8.40	8.60	31.12	8.80	9.00	9.20	9.40	36.40
Amortization of intangibles	0.68	1.57	0.45	0.47	0.76	0.91	2.58	0.80	1.45	1.50	1.50	5.25	1.50	1.50	1.50	1.50	6.00
SBC	0.17	4.95	2.11	1.16	1.33	0.90	5.49	0.57	1.31	1.55	1.55	4.98	1.60	1.60	1.60	1.60	6.40
Other	-1.28	0.14	0.10	-4.29	0.15	0.00	-4.04	0.26	0.84	0.00	0.00	1.10	0.00	0.00	0.00	0.00	0.00
EBIT	0.65	-1.46	-1.19	4.45	0.63	0.86	4.74	1.38	1.31	1.79	1.99	6.47	2.28	2.46	2.61	2.78	10.12
Interest & Other Expense/(Income)	1.84	2.00	0.50	0.57	0.48	0.57	2.12	0.71	2.02	1.50	1.50	5.73	1.50	1.50	1.50	1.50	6.00
Loss (gain) of FV of liabilities, converts	2.39	5.88	0.30	-1.32	-0.18	0.87	-0.34	0.00	0.04			0.04					
Income Before Taxes	-3.58	-9.28	-1.99	5.20	0.33	-0.58	2.96	0.67	-0.75	0.29	0.49	0.70	0.78	0.96	1.11	1.28	4.12
Provision for Income Taxes	0.13	-3.16	0.15	0.16	0.16	-2.36	-1.89	0.33	0.00	0.12	0.12	0.57	0.15	0.15	0.15	0.15	0.60
Net income/(loss) continuing ops	-3.71	-6.12	-2.14	5.04	0.17	1.78	4.85	0.33	-0.75	0.17	0.37	0.12	0.63	0.81	0.96	1.13	3.52
Diluted Weighted Avg Shares	22.72	30.44	33.35	35.58	37.86	38.00	36.20	38.00	36.66	47.10	47.10	42.22	47.10	47.10	47.10	47.10	47.10
Diluted EPS continuing ops	\$ (0.16)	\$ (0.20)	\$ (0.06)	\$ 0.14	\$ 0.00	\$ 0.05	\$ 0.13	\$ 0.01	\$ (0.02)	\$ 0.00	\$ 0.01	\$ (0.00)	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.07
EBITDA	15.19	16.19	3.53	11.14	6.01	7.37	28.05	8.17	10.85	11.69	12.09	42.80	12.43	12.81	13.16	13.53	51.92
Stock-based comp	0.17	4.95	2.11	1.16	1.33	0.90	5.49	0.57	1.31	1.55	1.55	4.98	1.60	1.60	1.60	1.60	6.40
Acquisition-related, other	0.09	0.23	0.36	-5.25	0.37	0.15	-4.37	0.26	0.94			1.20					0.00
Adj EBITDA	15.45	21.37	6.00	7.05	7.70	8.42	29.17	9.00	13.10	13.24	13.64	48.98	14.03	14.41	14.76	15.13	58.32
<i>Margins</i>																	
Inventory sold/Revenue	27.4%	27.5%	25.9%	21.9%	24.3%	23.2%	23.7%	24.7%	25.7%	24.4%	24.3%	24.8%	24.3%	24.3%	24.3%	24.3%	24.3%
Opex/Revenue	53.2%	51.6%	53.6%	57.9%	55.4%	54.5%	55.4%	53.3%	51.9%	53.4%	53.4%	53.0%	53.2%	53.1%	53.0%	52.9%	53.0%
Depreciation/Revenue	19.1%	15.8%	15.5%	14.9%	12.5%	15.7%	14.6%	14.7%	14.0%	14.1%	14.1%	14.2%	14.0%	14.0%	14.0%	14.0%	14.0%
Operating Margin	0.9%	-1.4%	-4.0%	13.3%	1.7%	2.1%	3.4%	3.4%	2.3%	3.0%	3.3%	2.9%	3.6%	3.8%	4.0%	4.1%	3.9%
Effective Tax Rate	-3.6%	34.1%	-7.5%	3.0%	49.7%	406.9%	-64.0%	50.2%	0.0%	41.7%	24.3%	82.3%	19.3%	15.7%	13.5%	11.7%	14.6%
Adj EBITDA	21.3%	20.9%	20.3%	21.0%	21.0%	21.0%	20.9%	22.0%	22.5%	22.2%	22.3%	22.3%	22.3%	22.4%	22.5%	22.6%	22.4%
<i>Yr/Yr Change</i>																	
Total Revenue	24.6%	40.9%	29.5%	38.4%	39.9%	37.7%	36.7%	38.3%	73.2%	62.5%	52.6%	57.1%	54.4%	10.8%	10.2%	9.5%	18.4%
Adj EBITDA	45.0%	38.3%	17.1%	31.2%	44.2%	52.0%	36.5%	49.9%	85.8%	71.9%	62.1%	67.9%	55.9%	10.0%	11.5%	10.9%	19.1%

Source: The Benchmark Company, LLC

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Hold	70	18.6%	5	1.3%
Speculative Buy	23	6.1%	12	3.2%
Sell	5	1.3%	0	0%

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Company	Disclosure
Quipt Home Medical Corp.	3

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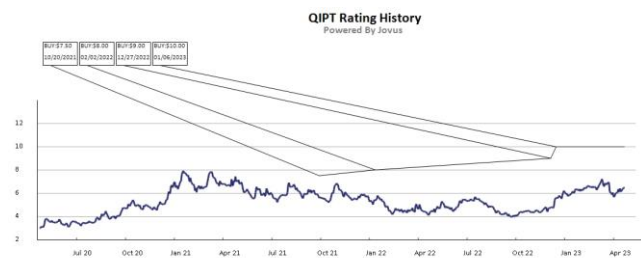
Risk factors include: competition, reimbursement rates, supplier concentration, tight labor markets, COVID-19, and regulation.

Valuation Methodology

Our PT of \$10 implies a CY23 EV/EBITDA multiple of 8.6x, a discount to the peer group median.

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