

August 30, 2022

# Quipt Home Medical Corp. (QIPT)

## Model Update; Tailwinds Emerging

- ▶ We reiterate our Buy rating and \$8 PT following Quipt's solid report for the F3Q22 ended 6/30. Revenue grew 40% y/y to \$36.7M comprised of 2% q/q organic growth and acquisitions. As of July, the qtrly run-rate revenue was ~\$40M with more than 80% in respiratory. With a 5% rate bump expected from CMS in 2023, improving allocations of ResMed sleep devices, and the build out of its sales force, we see tailwinds for organic growth and margin expansion building. Management reiterated its outlook for annual run-rate revenue by the end of calendar 2022 (Fiscal Q1 2023) to be \$180-\$190 million with \$38-\$43 million in Adjusted EBITDA.
- ▶ **F3Q22 highlights.** In F3Q, revenue grew 40% y/y to \$36.7M, and recurring revenue was 77% of total. Sequential organic revenue growth was 2%, in line with F2Q. As of 6/30, the backlog of patients awaiting sleep devices was ~6,000, down from ~8,000 at 12/31 and vs a typical level of 1,000. Adj EBITDA was \$7.7M, a 21% margin, up 60 bps y/y. See variance analysis on pg 2.
- ▶ **Operational and M&A updates.** Since April 19, QIPT has completed four acquisitions adding 30,000+ active patients, \$25M of annualized revenue and \$4.5 of estimated AEBITDA. During F3Q, QIPT signed a national contract with the largest U.S. health insurer. On July 26, QIPT signed a supply contract with Cardinal Health that is expected to enhance buying power and drive cross sell opportunities.
- ▶ **Twaking our model.** For F4Q22E, we model revenue of \$40.8M reflecting 3-month contribution from the June-July acquisitions and 2% q/q organic growth. We conservatively assume a steady 21% EBITDA margin. For F2023, we assume \$12M of acquired revenue by CYE22 positioning QIPT to hit the low end of its long-held revenue run-rate target of \$180-\$190M this year. We are comfortable with this assumption based on a M&A pipeline of 12-15 candidates with several under LOI. We estimate q/q organic growth improving to 2.5% based on an expected 5% (or better) CPI rate increase from CMS in 2023, expanding sales force and improving sleep device allocations. In sum, we model FY23 revenue of \$181.4M and Adj EBITDA of \$38.7M, a margin of 21.3%, up 50 bps y/y.
- ▶ **Financial condition.** At 6/30, QIPT had cash of \$18.5M vs \$17.4M at 3/31 and \$12M drawn on its revolver primarily to fund acquisitions. Operating cash flow for the first nine months was \$19.4M, up 73% y/y. On Aug 9, QIPT converted the remaining 8% convertible debentures into common. On Aug. 15, QIPT established a credit facility with CIT Bank for \$80M comprised of a \$5M term loan, \$55M delayed draw term loan and \$20M revolver.
- ▶ **Valuation.** At our PT of \$8, CY2023 EV/EBITDA would be 6.7x, a slight premium to the median valuation for a peer group of slower growing HME/services companies.

### Change in Earnings Forecast

Rating:	Buy
Current Price	\$5.05
Price Target	\$8.00
52-Wk Range	\$4.00 - \$6.99
Shares Outstanding (M)	33.5
Market Cap (M)	\$169
Enterprise Value (M)	\$162
Average Volume (000s)	85
Net Cash/Share	\$0.52
Sector Weight	Overweight



### Bill Sutherland

215-380-0276  
 bsutherland@benchmarkcompany.com

FY Sep		Q1	Q2	Q3	Q4	Prior	Total	EV/EBITDA	EV/Rev
EBITDA	2021A	\$5.1A	\$5.4A	\$5.3A	\$5.5A	--	\$21.4A	7.6x	
	2022E	\$6.0A	\$7.0A	\$7.7A	\$8.5E	\$29.4E	\$29.3E	5.5x	
	2023E	\$8.8E	\$9.7E	\$10.0E	\$10.3E	\$40.3E	\$38.7E	4.2x	
Revenue (m)	2021A	\$22.8A	\$24.2A	\$26.2A	\$29.1A	--	\$102.4A		1.6x
	2022E	\$29.5A	\$33.6A	\$36.7A	\$40.8E	\$140.2E	\$140.6E		1.1x
	2023E	\$41.7E	\$45.7E	\$46.8E	\$47.9E	--	\$182.1E		0.9x

## Company Profile

Quipt Home Medical Corp (PKA Protech Home Medical) is a provider of home medical equipment (HME) focused on the faster growing category of home respiratory products. The company currently has locations across 19 states serving a network of more than 21,600 referring physicians and ~200,000 active patients. Quipt provides initial equipment delivery and implementation and manages periodical resupply orders as well. In 2Q22, 77% of PTQ's revenue mix was recurring due to its focus in respiratory therapy that includes Oxygen Therapy, PAP (Positive Airway Pressure) Therapy, Sleep Therapy and Ventilation Therapy. About 20% of revenue is generated from mobility and durable medical equipment.

In a nearly \$60B market that is growing more than 5% and highly fragmented, QIPT has established a 3-year revenue CAGR of nearly 30% comprised of a disciplined M&A strategy and nearly 10% organic growth, which management believes can accelerate with increasing focus on faster growing respiratory products and services (now 80% of Quipt's book), reimbursement tailwinds and plans to double the sales team by the end of this year. The company's 3-5-year objective calls for a similar trend line to reach \$250+M in revenue and a 25%+ EBITDA margin

**Figure 1: F3Q22 Variance Analysis**

<i>\$ in 000's (a)</i>	<b>F3Q22 Actuals</b>	<b>F3Q22 Ests</b>	<b>% Variance</b>	<b>F3Q21 Actuals</b>	<b>Yr/Yr Change</b>
Equipment & Supplies Sales	18.6	17.0	9.4%	12.5	48.8%
Equipment Rental	18.1	18.9	-4.3%	13.8	31.7%
<b>Total Revenues</b>	<b>36.7</b>	<b>35.9</b>	<b>2.2%</b>	<b>26.2</b>	<b>39.9%</b>
Gross Income	27.8	26.9	3.2%	18.5	50.3%
<i>Gross Margin</i>	<i>75.7%</i>	<i>75.0%</i>	<i>1.0%</i>	<i>70.5%</i>	
Operating Expenses	20.3	19.4	4.6%	13.2	54.2%
Depreciation	4.6	5.5	-16.4%	4.3	7.0%
Amortization of Intangibles	0.8	0.8	-5.0%	0.5	67.0%
SBC	1.3	1.0	NM	1.6	NM
Other	0.2	-	NM	0.1	NM
EBIT	0.6	0.2	202.2%	(1.1)	-157.3%
Interest Expense	0.5	0.5	-4.2%	0.5	-7.0%
Loss (gain) of FV of liabilities, converts	(0.2)	-		(7.4)	
EBT	0.3	(0.3)	NM	5.8	-94.3%
Tax Provision	0.2	0.1		(0.5)	
Net Income	0.2	(0.4)	NM	6.3	-97.4%
EPS	\$ 0.00	\$ (0.01)	NM	\$ 0.19	-97.7%
Common shares out (diluted)	37.9	34.0	11.4%	33.8	12.2%
Adj EBITDA	7.7	7.4	4.2%	5.3	44.2%
<i>AEBITDA Margin</i>	<i>21.0%</i>	<i>20.6%</i>		<i>20.4%</i>	

Source: The Benchmark Company, LLC

**Figure 2: Income Statement Analysis**

<i>In mil's USD (except per shr) YE 9/30</i>	2019(a)	2020	1Q21	2Q21	3Q21	4Q21	2021	1Q22	2Q22	3Q22	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q23E	2023E
<b>Revenue</b>																	
Equipment & Supplies Sales	25.34	31.39	10.40	10.40	12.49	13.71	47.00	14.98	15.69	18.59	20.00	69.26	20.50	22.00	22.50	23.00	88.00
Equipment Rental	32.93	41.25	12.40	13.84	13.75	15.36	55.35	14.54	17.87	18.11	20.80	71.32	21.20	23.74	24.29	24.91	94.13
<b>Total Revenue</b>	<b>58.28</b>	<b>72.64</b>	<b>22.80</b>	<b>24.24</b>	<b>26.24</b>	<b>29.07</b>	<b>102.35</b>	<b>29.52</b>	<b>33.55</b>	<b>36.70</b>	<b>40.80</b>	<b>140.57</b>	<b>41.70</b>	<b>45.74</b>	<b>46.79</b>	<b>47.91</b>	<b>182.13</b>
Cost of Inventory sold	22.60	19.93	6.10	6.10	7.75	8.22	28.17	7.66	7.35	8.91	10.40	34.32	10.63	11.66	11.93	12.22	46.44
Operating expenses	43.53	38.63	11.50	12.70	13.18	15.38	52.76	15.83	19.42	20.33	21.75	77.33	22.18	24.24	24.75	25.30	96.47
Depreciation	13.37	13.86	3.10	3.60	4.30	5.21	16.21	4.57	4.99	4.60	5.00	19.16	5.00	5.20	5.40	5.60	21.20
Amortization of intangibles	0.60	0.68	0.21	0.34	0.46	0.57	1.57	0.45	0.47	0.76	0.80	2.47	1.00	1.00	1.00	1.00	4.00
SBC	2.06	0.17	0.02	0.01	1.60	3.32	4.95	2.11	1.16	1.33	1.60	6.20	1.80	1.80	1.80	1.80	7.20
Other	3.42	-1.28	0.03	0.01	0.06	0.04	0.14	0.10	-4.29	0.15	0.00	-4.04	0.00	0.00	0.00	0.00	0.00
EBIT	-27.3	0.65	1.85	1.47	-1.10	-3.67	-1.45	-1.19	4.45	0.63	1.25	5.14	1.08	1.83	1.91	2.00	6.82
Interest & Other Expense/(Income)	5.38	1.84	0.53	0.61	0.52	0.34	2.00	0.50	0.57	0.48	0.50	2.05	0.60	0.60	0.60	0.60	2.40
Loss (gain) of FV of liabilities, converts	-1.13	2.39	1.09	13.29	-7.43	-1.08	5.88	0.30	-1.32	-0.18							
Income Before Taxes	-31.56	-3.58	0.23	-12.43	5.81	-2.94	-9.33	-1.99	5.20	0.33	0.75	4.28	0.48	1.23	1.31	1.40	4.42
Provision for Income Taxes	0.27	0.13	0.00	0.12	-0.54	-2.75	-3.16	0.15	0.16	0.16	0.12	0.59	0.12	0.12	0.12	0.12	0.48
Net income/(loss) continuing ops	-31.82	-3.71	0.23	-12.55	6.35	-0.19	-6.17	-2.14	5.04	0.17	0.63	3.70	0.36	1.11	1.19	1.28	3.94
Net income Discontinued, gain on sale	1.76	-0.87	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Diluted Weighted Avg Shares	82.86	22.72	28.31	29.24	33.75	34.00	30.44	33.35	35.58	37.86	38.00	36.20	38.00	38.00	38.00	38.00	38.00
Diluted EPS continuing ops	\$ (0.38)	\$ (0.16)	\$ 0.01	\$ (0.43)	\$ 0.19	\$ (0.01)	\$ (0.20)	\$ (0.06)	\$ 0.14	\$ 0.00	\$ 0.02	\$ 0.10	\$ 0.01	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.10
EBITDA	-13.60	15.19	5.11	5.36	3.65	2.07	16.19	3.53	11.14	6.01	6.93	27.60	6.96	7.91	8.19	8.48	31.54
Stock-based comp	2.06	0.17	0.02	0.01	1.60	3.32	4.95	2.11	1.16	1.33	1.60	6.20	1.80	1.80	1.80	1.80	7.20
Acquisition-related, other	0.00	0.09			0.09	0.14	0.23	0.36	-5.25	0.37		-4.52					0.00
<b>Adj EBITDA</b>	<b>10.66</b>	<b>15.45</b>	<b>5.13</b>	<b>5.37</b>	<b>5.34</b>	<b>5.54</b>	<b>21.37</b>	<b>6.00</b>	<b>7.05</b>	<b>7.70</b>	<b>8.53</b>	<b>29.28</b>	<b>8.76</b>	<b>9.71</b>	<b>9.99</b>	<b>10.28</b>	<b>38.74</b>
<b>Margins</b>																	
Inventory sold/Revenue	38.8%	27.4%	26.8%	25.2%	29.5%	28.3%	27.5%	25.9%	21.9%	24.3%	25.5%	24.4%	25.5%	25.5%	25.5%	25.5%	25.5%
Opex/Revenue	74.7%	53.2%	50.4%	52.4%	50.2%	52.9%	51.5%	53.6%	57.9%	55.4%	53.3%	55.0%	53.2%	53.0%	52.9%	52.8%	53.0%
Depreciation/Revenue	22.9%	19.1%	13.6%	14.9%	16.4%	17.9%	15.8%	15.5%	14.9%	12.5%	12.3%	13.6%	12.0%	11.4%	11.5%	11.7%	11.6%
Operating Margin	-46.9%	0.9%	8.1%	6.1%	-4.2%	-12.6%	-1.4%	-4.0%	13.3%	1.7%	3.1%	3.7%	2.6%	4.0%	4.1%	4.2%	3.7%
Effective Tax Rate	-0.8%	-3.6%	0.0%	-1.0%	-9.2%	93.5%	33.9%	-7.5%	3.0%	49.7%	16.0%	13.7%	24.9%	9.7%	9.2%	8.6%	10.9%
Adj EBITDA	18.3%	21.3%	22.5%	22.2%	20.4%	19.0%	20.9%	20.3%	21.0%	21.0%	20.9%	20.8%	21.0%	21.2%	21.3%	21.4%	21.3%
<b>Yr/Yr Change</b>																	
<b>Revenue</b>																	
Equipment & Supplies Sales	-26.7%	23.9%	39.2%	38.7%	63.1%	62.7%	49.7%	44.0%	50.8%	48.8%	45.9%	47.4%	36.8%	40.2%	21.0%	15.0%	27.1%
Equipment Rental	-23.3%	25.3%	26.5%	33.1%	26.1%	59.2%	34.2%	17.3%	29.1%	31.7%	35.4%	28.8%	45.8%	32.9%	34.1%	19.8%	32.0%
<b>Total Revenue</b>	<b>-24.8%</b>	<b>24.6%</b>	<b>32.0%</b>	<b>35.4%</b>	<b>41.4%</b>	<b>60.9%</b>	<b>40.9%</b>	<b>29.5%</b>	<b>38.4%</b>	<b>39.9%</b>	<b>40.4%</b>	<b>37.3%</b>	<b>41.3%</b>	<b>36.3%</b>	<b>27.5%</b>	<b>17.4%</b>	<b>29.6%</b>
Adj EBITDA		45.0%	297.3%	29.4%	21.4%	32.5%	38.3%	17.1%	31.2%	44.2%	54.1%	37.0%	46.0%	37.8%	29.7%	20.5%	32.3%

(a) Estimated based on exchange rates for these periods.

Source: The Benchmark Company, LLC

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As of June 30, 2022

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<b>Hold</b>	63	18.2%	4	1.2%
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<b>Sell</b>	3	0.9%	0	0%

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### Benchmark Disclosures as of August 30, 2022

Company	Disclosure
Quipt Home Medical Corp.	3

**Investment Risk**

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

**Valuation Methodology**

At our PT of \$8, C2023 EV/EBITDA would be 6.4x, about in line with the median valuation for a peer group of slower growing HME/services companies.

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