

# Quipt Home Medical Corp (QIPT – V)

## Major Acquisition Makes QIPT a True National Company. Raise Target Price

- Yesterday, QIPT announced the largest acquisition in its history. The company acquired Great Elm Healthcare, a division of Great Elm Group (GEG – US, NR). We believe this transaction is VERY favourable and fulfills QIPT's strategic initiative to be a true national healthcare service provider.

### Description of Great Elm Healthcare and Details of the Transaction:

- Great Elm is a respiratory company, primarily focused on sleep (CPAP, oxygen). The company operates in 8 states in the mid-west and north-west.
- It has 70,000 patients and 8,500 referring physicians, which is the primary channel for patient acquisitions (versus QIPT which also enjoys strong hospital referrals, a channel that QIPT can now bring to Great Elm).
- TTM revenue (to August 31) was \$60 million with \$13 million of EBITDA (21.7% margin). QIPT believes it can readily find \$2 million of synergies which would bring proforma EBITDA to \$15 million (25% margin).
- QIPT paid \$80 million including \$73 million in cash (drawn from its \$110 million credit facility), the assumption of \$5 million in debt and \$2 million of stock (432,000 shares at US\$4.63).
- QIPT therefore paid ~5.2x proforma TTM EBITDA. As a point of reference and based on QIPT's TTM EBITDA, it currently trades at 6.5x (based on price of C\$7.30).

### Post Acquisition: Macro Environment Conducive to Growth

- In its press release, QIPT indicated its current run-rate of \$220 million in revenue and \$49 million of EBITDA. We believe it is important to note that this is based on QIPT's Q4/FY22 annualized results (\$160m/\$33.6m) and Great Elm's TTM proforma results (\$60m/\$15m). While such a reference point is significant, what is more important is what the combined entity looks like on a go-forward basis.
- We noted in our Q4 update report (Dec 22, 2022) that there are a number of reasons to suggest that FY23 will be much stronger than FY22 from an organic basis. Of particular importance:
  - The CPI positive price adjustment of ~8% on Medicare and contracts tied to Medicare that took effect January 1, 2023. This will impact ~40% of QIPT's revenue but also ~35-40% of Great Elm's business. 8% of \$220 million equates to \$6-\$7 million of incremental revenue over-and-above that \$220 million level. Given the higher costs (ie. labour, equipment) have already been reflected in its FY22 results, such incremental revenue should have a very high flow through to EBITDA.
  - Recall that earlier in FY22, QIPT still saw some lingering effects of the pandemic with not all of its referring clinics being open. In FY23, all such operations are fully open and QIPT (and now Great Elm) will be growing its sales team to take advantage of the opportunities.
  - We believe Great Elm, in particular, was severely capital constrained under its previous structure. By joining QIPT and having access to growth capital, we believe Great Elm can re-start its own growth phase.
  - The supply chain issues that plagued FY22 are much ameliorated.
  - Post acquisition, QIPT now operates in 26 states, 7 of which are new thanks to Great Elm. This well established infrastructure offers a strong base from which to grow both organically or through further "tuck-under" acquisitions.
  - While Great Elm is strong in sleep, the relationship with QIPT now offers it material cross-selling opportunities in other product segments including non-invasive vents (NIV) and traditional DME.
  - With operations in 26 states, QIPT is now a true national player. As such, we expect further national insurance contracts, such as the one it penned with United Health (UNH – US, NR) in FY22. Such national contracts make patient acquisitions easier.

### Major Acquisition

Buy (unch)	C\$18.50 (was C\$16)		
Recent/Closing Price	C\$7.30		
12- month Target Price	C\$18.50		
Potential Return	153%		
52 Week Price Range	C\$5.14 - C\$7.63		
<b>Estimates</b>			
<b>YE: Sep 30</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>
Revenue (\$M)	\$139.9	\$216.8	\$240.5
EBITDA (\$M)	\$29.2	\$47.7	\$52.9
Adj EPS	\$0.14	\$0.18	\$0.35
<b>Valuation</b>			
<b>YE: Sep 30</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>
EV/Revenue	2.0x	1.3x	1.1x
EV/EBITDA	9.5x	5.8x	5.2x
P/E	n/a	29.5x	15.7x
<b>Stock Data</b>			
Shares Outstanding (M)			
Basic	36.0		
Fully Diluted	40.7		
Market Cap (C\$M)			
Basic	\$263		
Fully Diluted	\$297		
Net Debt (C\$M)			
	\$110.0		
Fully Diluted EV (\$M)			
	\$373		

### About the Company

QIPT is focused on a highly fragmented and developing market of small privately-held US companies servicing chronically ill patients with multiple disease states. QIPT is actively working to identify and evaluate profitable, annuity-based companies to acquire their patient databases and technical expertise at favorable prices. QIPT's post acquisition organic growth strategy is to increase annual revenue per patient by offering multiple services to the same patient, consolidating the patient's services and making life easier for the patient.

All prices in US\$ unless otherwise stated



**Capital Structure and Positive Impact to Our Model**

- QIPT executed this transaction entirely with debt, thus making it materially accretive, both financially and strategically as noted above. Post acquisition, QIPT has drawn ~\$80 million on its credit facility but its share count remains at ~36 million.
- While the company noted in its press release that its debt/EBITDA ratio is ~1.96x, we believe it is important to note that this is on a TTM for both companies (ie. combined EBITDA of ~\$40 million). Based on a LQA basis for QIPT and Great Elm's proforma TTM EBITDA, which is closer to \$49 million, we believe its debt/EBITDA ratio is closer to 1.6x, which in our opinion, is quite conservative.
- Given QIPT's YE of Sept 30, the results of Great Elm will be consolidated for 9 months of its FY23 results. Our current FY23 forecast for QIPT on a stand-alone basis are \$171m/\$37.8m. Adding \$45m/\$11m from Great Elm for the 9 months would move our FY23 forecast to \$216m/\$48.8m. Note that this implies that we are not forecasting any organic growth from Great Elm despite our belief that it will participate in the overall market growth, which in-and-of itself is being driven by an aging demographic and consequently should be immune from any recessionary pressures.
- We are also introducing our FY24 forecast of \$240m/\$53m, which includes a full year of contribution from Great Elm as well as 4% organic growth for the combined entity.

**Major Catch-Up Valuation Trade in the Works**

- Even with the stock approaching a 52-week high, the stock still trades at just over 5x our FY24 EBITDA forecast (which is not far off from our proforma FY23 forecast). This is 2 multiple turns lower than QIPT's immediate respiratory peers (VMD – T, Buy C\$15.75 TP) and AdaptHealth (AHCO – US, NR) who both trade at ~7x based on FY23 forecasts. Other more healthcare service companies, such as Savaria (SIS – T, NR) and dentalcorp (DNTL – T, NR) trade at ~9x FY23 consensus EBITDA estimates.
- With ~\$50 million (C\$68 million) of estimated EBITDA, **every multiple turn is worth ~C\$2.00 per share** (C\$68m/36m shares outstanding = C\$1.90). As such, just to catch-up to the current valuation of VMD and AHCO would add C\$4.00 to the QIPT share price or 50%+ upside from here. To reach the valuation of SIS and DNTL would add ~C\$8 to the current share price or over 100% increase from here.
- We remind investors that healthcare service companies have historically traded in the range of 8-12x EBITDA (as SIS and DNTL still do). With QIPT's size (~\$250 million in revenue next year), national scale and still under-levered balance sheet, we believe QIPT should trade at the high-end of that historic range.
- As such, we maintain our Buy recommendation and raise our target price to C\$18.50 (was C\$16.00).

**Disclosure Requirements**

Does Beacon, or its affiliates or analysts collectively, beneficially own 1% or more of any class of the issuer's equity securities?  Yes  No

Does the analyst who prepared this research report have a position, either long or short, in any of the issuer's securities?  Yes  No

Has any director, partner, or officer of Beacon Securities, or the analyst involved in the preparation of the research report, received remuneration for any services provided to the securities issuer during the preceding 12 months?  Yes  No

Has Beacon Securities performed investment banking services in the past 12 months and received compensation for investment banking services for this issuer in the past 12 months?  Yes  No

Was the analyst who prepared this research report compensated from revenues generated solely by the Beacon Securities Investment Banking Department?  Yes  No

Does any director, officer, or employee of Beacon Securities serve as a director, officer, or in any advisory capacity to the issuer?  Yes  No

Are there any material conflicts of interest with Beacon Securities or the analyst who prepared the report and the issuer?  Yes  No

Is Beacon Securities a market maker in the equity of the issuer?  Yes  No

Has the analyst visited the issuer's material operations?  Yes  No

Did the issuer pay for or reimburse the analyst for the travel expenses?  Yes  No

All information contained herein has been collected and compiled by Beacon Securities Limited, an independently owned and operated member of the Investment Industry Regulatory Organization of Canada (IIROC). All facts and statistical data have been obtained or ascertained from sources, which we believe to be reliable, but are not warranted as accurate or complete.

All projections and estimates are the expressed opinion of Beacon Securities Limited, and are subject to change without notice. Beacon Securities Limited takes no responsibility for any errors or omissions contained herein, and accepts no legal responsibility from any losses resulting from investment decisions based on the content of this report.

This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell securities discussed herein. Based on their volatility, income structure, or eligibility for sale, the securities mentioned herein may not be suitable or available for all investors in all countries.

As of December 31, 2022	#Stocks	Distribution
BUY	71	83.5%
Speculative Buy	11	12.9%
Hold	1	1.2%
Sell	0	0.0%
Under Review	1	1.2%
Tender	1	1.2%
<b>Total</b>	<b>85</b>	<b>100%</b>

BUY Total 12-month return expected to be > 15%  
 Speculative Buy Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss  
 Hold Total 12-month return is expected to be between 0% and 15%  
 Sell Total 12-month return is expected to be negative  
 Under Review  
 Tender Clients are advised to tender their shares to a takeover bid or similar offer

**Dissemination**

Beacon Securities distributes its research products simultaneously, via email, to its authorized client base. All research is then available on [www.beaconsecurities.ca](http://www.beaconsecurities.ca) via login and password.

**Analyst Certification**

The Beacon Securities Analyst named on the report hereby certifies that the recommendations and/or opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of the report; or any other companies mentioned in the report that are also covered by the named analyst. In addition, no part of the research analyst's compensation is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.