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Quipt Home Medical Corp (QIPT – V)

Better than Expected Q2 Results Bode Well for Balance of FY23 and FY24

- QIPT announced record quarterly results with the release of its Q2/FY23 (March 31) results that were better than expected. Headline revenue was $58.1m, +73%, y/y and +42% sequentially with EBITDA of $13.1m (22.5% margin), +86% y/y and +44% q/q. Revenue was driven by the first quarter of contribution from Great Elm as well as a 10% annualized organic growth rate. We believe that investors should be cognizant of the following drivers of revenue and EBITDA margins going forward:

Revenue:

a) QIPT noted that is organic growth rate was 2.5% in the quarter on a sequential basis (10% annualized), which was positively impacted by the positive CPI price adjustment from Medicare that started January 1, 2023. Excluding that price adjustment, we believe pure organic growth (ie. unit volume) was still a robust 8%. We believe Great Elm contributed over $16 million in quarterly revenue, which implies its growth rate was also ~10% y/y.

b) As Great Elm's cost structure has been integrated (ie. already realized the initial $2m of cost savings), we believe the focus could move to finding revenue synergies.

c) We believe that such growth can continue, or even accelerate as the demographics continue to offer a strong macro tailwind. Such robust growth, especially in the sleep market, was recent corroborated by Owens & Minor's (OMI – US, NR) Patient Direct results (ie. the old Apria) as well as by AdaptHeath's (AHCO – US, NR) sleep results.

d) The growing recurring nature of its sleep re-supply business (respiratory re-supply set-ups +110% y/y) is becoming an especially meaningful source of high margin growth.

e) The addition of a 2nd national insurance contract (Aetna in addition to United Health) should aid patient growth.

EBITDA and Operating Margins:

a) Q2 gross margin was 74.3%, down slightly from 75.3% in Q1/FY23 and 78.1% in Q2/FY22. This is directly a result of "sales of medical equipment" has risen to ~58% of total sales versus 55% in Q1 and 47% last year. Such sales carry lower gross margins than "rentals" but also carry less costs, in particular bad debts which dropped to 4.3% of sales versus 9.4% last year. Consequently, EBITDA increased to 22.5%, +50 basis points sequentially and +160 basis points y/y. Management believes given the sales mix, as well as better billing practices, such a level of bad debts is sustainable.

b) In terms of areas of further improvement to driven additional margin expansion, we believe the company can wring-out ~200-300 basis points from its payroll costs as a percentage of revenue. In Q2/FY23, such costs represented 32% of sales versus the 29% average over the past 9 quarters.

c) As such, if bad debt as a percentage of revenue can remain in the 4.5-5% range AND payroll costs can return to ~29% of sales (likely through higher revenue from the same cost base), then we believe EBITDA has room to move to 24-25%.

d) Operating margin (EBIT) was 6% in the quarter but 8.5% if one adds back the amortization of intangibles related to its acquisitions, but which increased materially due to Great Elm. We believe it is right to add-back such costs as they are totally non-cash. As such, starting from 8.5% today, if EBITDA margins can increase to the 24-25% noted above, adjusted operating margins could increase to 11%+.

Balance Sheet: Room to Drive M&A:

a) Inclusive of the $30 million equity financing (@ C$7.85) subsequent to the quarter, QIPT's senior debt/EBITDA ratio is ~0.9x and ~1.5x if one includes all of its equipment loans and capital leases (~$30 million combined). The company has ~$60 million available in cash and on its credit facility to make additional acquisitions. Furthermore, we believe an increase in its facility is probable given its increased size.

b) In our opinion, competition for acquisitions may even be less competitive given that OMI and AHCO are far too levered to partake. While we believe additional acquisitions are likely, we have not included them in our model.

Raise Forecast, Maintain Buy and Target Price:

- Given the better-than--expected results, we are raising our forecasts. For FY23, we now model $218.5m/$49m (was $216.8m/$47.7m) and $251m/$56.5m (was $240.5m/$52.9m). Maintain Buy and C$18.50 target price.

Q2/FY23 Results

Buy (unch) — **C$18.50 (unch)**

Recent/Closing Price	C$8.17		
12-month Target Price	C$18.50		
Potential Return	126%		
52 Week Price Range	C$5.33 - C$9.75		
Estimates			
YE: Dec 31	**FY22**	**FY23E**	**FY24E**
Revenue ($M)	$139.9	$218.4	$250.9
EBITDA ($M)	$29.2	$49.2	$56.5
Adj EPS	$0.14	$0.18	$0.36
Valuation			
YE: Dec 31	**FY22**	**FY23E**	**FY24E**
EV/Revenue	2.2x	1.4x	1.2x
EV/EBITDA	10.4x	6.2x	5.4x
P/E	n/a	33.1x	16.8x
Stock Data			
Shares Outstanding (M)			
Basic	42.0		
Fully Diluted	47.1		
Market Cap (C$M)			
Basic	$343		
Fully Diluted	$385		
Net Debt (C$M)	$65.0		
Fully Diluted EV ($M)	$408		

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

Stock Performance

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As of April 30, 2023	#Stocks	Distribution
BUY	73	79.3%
Speculative Buy	15	16.3%
Hold	1	1.1%
Sell	0	0.0%
Under Review	2	2.2%
Tender	1	1.1%
Total	92	100%

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

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