

February 15, 2023

Quipt Home Medical Corp. (QIPT)

Platform Acquisition and Tailwinds Provide Upside Bias

Company Update

▶ Following an in-line F1Q23 print, we reiterate our Buy rating and \$10 PT. On Jan. 2, Quipt acquired home medical company Great Elm Healthcare, LLC, adding more than \$60M of TTM revenue and \$15M of AEBITDA (post \$2M of cost synergies). We see significant potential upside to our model from additional cost and revenue synergies. 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 (impacting ~35% of revenue); 2) a sharp increase in ResMed CPAP supply by the June quarter that should be sufficient for current demand, and 3) salesforce, product line and location expansions. Our PT of \$10 implies a CY23 EV/EBITDA multiple of 8.5x, one turn above the peer group median.

▶ **F1Q23 Highlights.** In F1Q (ended Dec), revenue grew 38% y/y to \$40.1M with 2% organic growth. Recurring revenue exceeded 77% of total. Customer base grew 32% y/y to 99,420 unique patients. Unique set-ups/deliveries increased 24%. Gross margin improved 120 bps y/y reflecting positive mix. Bad debt expense declined to 5.6% from 8.2% a year ago. Adj EBITDA was \$9.0M, a 22% margin, up 170 bps y/y. See variance analysis on pg 2.

▶ **Great Elm Growth and Margin Impacts.** Great Elm adds more than \$60M of revenue and \$15M of AEBITDA (with \$2M of cost synergies expected to be realized by F3Q). We anticipate additional cost synergies 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 annual revenue.

▶ **FY23-FY24 Model Highlights.** Our FY23-FY24 model, which we updated in January for the acquisition, is largely unchanged. For FY23, we have revenue of \$214M, up 53%, reflecting three quarters of Great Elm and organic growth of 11%. We estimate an AEBITDA margin of 22% reflecting \$2M of cost synergies realized by F3Q. For FY24, we model revenue of \$251M, up 18%, reflecting one quarter of Great Elm and organic growth of 9%, and AEBITDA margin of 22.4%, up 40 bps. We think this is a conservative outlook that reflects modest additional cost synergies and little impact from cross-selling and other revenue synergies with Great Elm. De novo expansion and additional M&A would provide additional upside.

▶ **Balance Sheet Highlights.** At 12/31, cash totaled \$3.7M, and credit availability of \$101.9M (\$16.9M on LOC and \$85.0M on a delayed draw term loan). In January, Quipt utilized \$73M of its credit facility to acquire Great Elm. (Total price of \$80M included \$5M in assumed debt and 431,995 QIPT shares at \$4.63/share.) At a valuation of 5.2x (post \$2M cost synergies), leverage is ~2x.

Rating:	Buy
Current Price	\$6.32
Price Target	\$10.00
52-Wk Range	\$3.89 - \$6.59
Shares Outstanding (M)	35.6
Market Cap (M)	\$225
Enterprise Value (M)	\$295
Average Volume (30 day) (000s)	87
Net Debt (M)	\$70.0
Sector Weight	Overweight



Bill Sutherland

215-380-0276
bsutherland@benchmarkcompany.com

FY Sep		Q1	Q2	Q3	Q4	Prior	Total	EV/EBITDA	EV/Rev
EBITDA	2022A	\$6.0A	\$7.0A	\$7.7A	\$8.4A	--	\$29.2A	10.1x	
	2023E	\$9.0A	\$12.2E	\$12.7E	\$13.3E	\$47.2E	\$47.1E	6.3x	
	2024E	\$13.6E	\$14.0E	\$14.3E	\$14.7E	\$57.0E	\$56.6E	5.2x	
Revenue (m)	2022A	\$29.5A	\$33.6A	\$36.7A	\$40.1A	--	\$139.9A		2.1x
	2023E	\$40.8A	\$56.0E	\$57.7E	\$59.4E	\$215.9E	\$213.9E		1.4x
	2024E	\$61.2E	\$62.5E	\$63.8E	\$65.1E	\$251.1E	\$252.6E		1.2x

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 82% 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: F1Q23 Variance Analysis

<i>\$ in 000's (a)</i>	F1Q23 Actuals	F1Q23 Ests	% Variance	F1Q22 Actuals	`Yr/Yr Change
Equipment & Supplies Sales	22.4	22.0	1.8%	15.0	49.5%
Equipment Rental	18.4	18.9	-2.6%	14.5	26.8%
Total Revenues	40.8	40.9	-0.2%	29.5	38.3%
Gross Income	30.7	30.5	0.8%	21.9	40.6%
<i>Gross Margin</i>	<i>75.3%</i>	<i>75.0%</i>	<i>0.4%</i>	<i>74.1%</i>	
Operating Expenses	21.7	21.8	-0.3%	15.8	37.3%
Depreciation	6.0	6.0	-0.2%	4.6	31.2%
Amortization of Intangibles	0.8	0.9	-11.1%	0.4	79.0%
SBC	0.6	1.6	-63.2%	2.1	-73.0%
Other	0.3	-	NM	0.1	NM
EBIT	1.4	0.2	590.0%	(1.2)	-216.0%
Interest Expense	0.7	0.6	18.3%	0.5	42.0%
EBT	0.7	(0.4)	NM	(2.0)	NM
Tax Provision	0.3	0.1		0.2	122.7%
Net Income	0.3	(0.5)	NM	(2.1)	NM
EPS	\$ 0.01	\$ (0.01)	NM	\$ 0.19	NM
Common shares out (diluted)	38.0	38.0	0.0%	33.8	12.6%
Adj EBITDA	9.0	8.7	3.2%	5.3	68.5%
<i>AEBITDA Margin</i>	<i>22.0%</i>	<i>20.6%</i>		<i>18.1%</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	2Q23E	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	56.00	57.68	59.41	213.91	61.19	62.54	63.79	65.07	252.59
Cost of Inventory sold	19.93	28.17	7.66	7.35	8.91	9.29	33.21	10.08	13.78	14.07	14.44	52.37	14.87	15.20	15.50	15.81	61.38
Operating expenses (including bad debt)	38.63	52.76	15.83	19.42	20.33	21.85	77.43	21.74	30.07	30.92	31.67	114.39	32.55	33.21	33.81	34.42	133.99
Depreciation	13.86	16.21	4.57	4.99	4.60	6.29	20.45	5.99	8.10	8.40	8.60	31.09	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	1.50	1.50	1.50	5.30	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	2.00	1.55	1.55	5.67	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	0.00	0.00	0.00	0.26	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	0.55	1.24	1.66	4.83	1.87	2.03	2.18	2.33	8.42
Interest & Other Expense/(Income)	1.84	2.00	0.50	0.57	0.48	0.57	2.12	0.71	1.50	1.50	1.50	5.21	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				0.00					
Income Before Taxes	-3.58	-9.28	-1.99	5.20	0.33	-0.58	2.96	0.67	-0.95	-0.26	0.16	-0.38	0.37	0.53	0.68	0.83	2.42
Provision for Income Taxes	0.13	-3.16	0.15	0.16	0.16	-2.36	-1.89	0.33	0.12	0.12	0.12	0.69	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	-1.07	-0.38	0.04	-1.08	0.22	0.38	0.53	0.68	1.82
Diluted Weighted Avg Shares	22.72	30.44	33.35	35.58	37.86	38.00	36.20	38.00	38.50	38.60	38.60	38.43	38.70	38.70	38.70	38.70	38.70
Diluted EPS continuing ops	\$ (0.16)	\$ (0.20)	\$ (0.06)	\$ 0.14	\$ 0.00	\$ 0.05	\$ 0.13	\$ 0.01	\$ (0.03)	\$ (0.01)	\$ 0.00	\$ (0.03)	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.05
EBITDA	15.19	16.19	3.53	11.14	6.01	7.37	28.05	8.17	10.15	11.14	11.76	41.22	12.02	12.38	12.73	13.08	50.22
Stock-based comp	0.17	4.95	2.11	1.16	1.33	0.90	5.49	0.57	2.00	1.55	1.55	5.67	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				0.26					0.00
Adj EBITDA	15.45	21.37	6.00	7.05	7.70	8.42	29.17	9.00	12.15	12.69	13.31	47.15	13.62	13.98	14.33	14.68	56.62
<i>Margins</i>																	
Inventory sold/Revenue	27.4%	27.5%	25.9%	21.9%	24.3%	23.2%	23.7%	24.7%	24.6%	24.4%	24.3%	24.5%	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%	53.7%	53.6%	53.3%	53.5%	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%	14.5%	14.6%	14.5%	14.5%	14.4%	14.4%	14.4%	14.4%	14.4%
Operating Margin	0.9%	-1.4%	-4.0%	13.3%	1.7%	2.1%	3.4%	3.4%	1.0%	2.1%	2.8%	2.3%	3.1%	3.3%	3.4%	3.6%	3.3%
Effective Tax Rate	-3.6%	34.1%	-7.5%	3.0%	49.7%	406.9%	-64.0%	50.2%	-12.7%	-46.1%	76.0%	-180.5%	40.7%	28.1%	22.1%	18.0%	24.8%
Adj EBITDA	21.3%	20.9%	20.3%	21.0%	21.0%	21.0%	20.9%	22.0%	21.7%	22.0%	22.4%	22.0%	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%	66.9%	57.2%	48.2%	52.9%	49.9%	11.7%	10.6%	9.5%	18.1%
Adj EBITDA	45.0%	38.3%	17.1%	31.2%	44.2%	52.0%	36.5%	49.9%	72.4%	64.8%	58.1%	61.7%	51.4%	15.1%	12.9%	10.3%	20.1%

Source: The Benchmark Company, LLC

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Company	Disclosure
Quipt Home Medical Corp.	3

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Valuation Methodology

Our PT of \$10 implies C2023 EV/EBITDA of 8.5x, a one turn premium to the median valuation for a peer group of slower growing HME/services companies.

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