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QIPT-TSXV/QIPT-NASDAQ

Rating:	**Buy**
Target:	**C$16.25**
Price:	C$8.45
Return:	92.3%
Valuation:	8x EV/EBITDA (F2024 ests)

Market Data

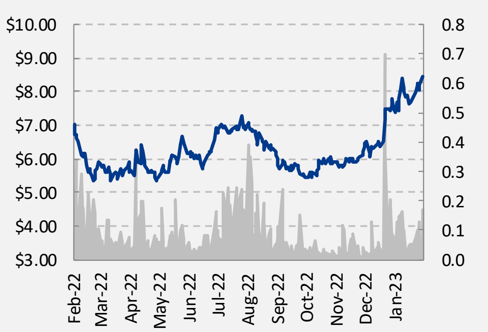
Basic Shares O/S (M)	35.6
FD Shares O/S (M)	40.2
Market capitalization (US$M)	225.7
Pro forma Ent Val (US$M)	306.4
Pro forma cash (US$M)	3.7
Pro forma LT debt (US$M)	84.3
52 Week Range	$5.14-$8.50
Avg. Weekly Volume (M)	0.37
Fiscal Year End	Sep-30

Financial Metrics

In US$	F2022A	F2023E	F2024E
Total Revenue (US$000)	139,862	208,129	227,016
EBITDA (US$000)	29,381	44,968	50,113
Net Income (US$000)	4,838	14,356	16,410
EPS (basic, US$)	$0.14	$0.43	$0.49
EPS (FD, US$)	$0.13	$0.37	$0.43
P/E	*NA*	*41.9x*	*14.1x*
EV/EBITDA	*14.3x*	*10.4x*	*6.8x*

Company Description

Quipt Home Medical is a durable medical equipment firm focused on delivering respiratory care devices into home healthcare markets. The firm operates in 26 US states, with over 270,000 unique patients served in those geographies. Acquisitive growth expected to continue.



Source: Refinitiv, Leede Jones Gable

Sequentially Stable & Positive EBITDA/Cash Flow in Q123 Reinforces Foundation for Acquisitive Growth - Buy

Kentucky-based respiratory medical equipment distributor Quipt Home Medical reported positive financial data for the Dec/22-end FQ123 quarter, showing us again that the firm can sustainably generate positive EBITDA/margin and cash flow while continuing to grow operations by acquisition, as it did earlier this quarter with its acquisition of MA-based Great Elm Healthcare LLC (GEHC). The acquisition did not directly impact FQ123 but we expect it to substantially augment scale of operations in F2023/24 while preserving strong EBITDA margins in the process. We are maintaining our Buy rating and PT of C$16.25 on QIPT, with our PT corresponding to a one-year return of 92.3%.

Historically strong FQ123 revenue/EBITDA edges above previous record data achieved last quarter, continuing the firm's track record for sustaining pace of acquisition without sacrificing margin in the process. With the Great Elm acquisition already poised to transform quarterly revenue/EBITDA data for the firm, FQ123 was clearly a transitional period into F2023/24 for which our model has already incorporated Great Elm Economics. As we described in our Jan/23 report, our model assumes that Great Elm will augment annual revenue/EBITDA by US$60M/US$13M, but with clear potential to grow top-line organically and EBITDA through administrative cost synergies.

Returning to FQ123 itself, revenue/EBITDA/margin of US$40.8M/US$9.0M/22.0% were indeed record-setting for the firm, if only incrementally as compared to FQ422 financial data just reported for the Sept-end quarter that generated similar-if-lower revenue/EBITDA/margin of US$40.1M/US$8.8M/22.2%. Quipt is impressively holding its quarterly EBITDA margin firmly above 20% in most financial periods during F2020-to-F2022, other than in FQ120 & FQ421 when EBITDA margin was still close to 20% at 18.4%/19.1%, respectively.

Gross margin was independently strong at 75.3%, comparable to if slightly below F2022 average of 76.3%. Our model is more conservative on gross margin at 73.5%-73.6% and so there is upside to our current F2023/24 EBITDA forecasts if recent margin performance is sustainable once Great Elm is fully integrated into operations and cost synergies are achieved thereafter.

Equipment sales outperform, while equipment rentals still achieve near-record levels if not quite up to FQ422 level – incorporating Great Elm into consolidated operations should lift both revenue metrics well above historic levels anyway. Respiratory equipment sales were notably strong at US$22.4M as compared to US$20.1M, while respiratory equipment rental revenue was still high by historic standards at US$18.4M though a bit below record levels of US$20.0M achieved last quarter in FQ422. But our model assumes that Great Elm will lift quarterly sales/rental equipment revenue up to and above US$27.5M as early as FQ223, with minimal impact on gross margin or EBITDA margin.

On other operating metrics, we were encouraged to see that bad debt provision of US$2.3M (5.6% of revenue) was down substantially from recent quarters during which bad debt was above US$3.0M, notably in FQ322 (US$3.4M; 9.3% of revenue) and in FQ422 (US$3.2M; 8.1% of revenue), respectively. For now, our model assumes that bad debt provision can equilibrate at about 7.5% of quarterly consolidated revenue, but there is clear upside in achievable EBITDA margin in our model if indeed bad debt equilibrates at levels closer to FQ123 data on this measure.

Exhibit 1. Income Statement & Financial Forecast Data for Quipt Home Medical

Year-end September 30 (US$000, except EPS)	F2017A	F2018A	F2019A	F2020A	F2021A	F2022A	F2023E	F2024E
Sale of medical equipment & supplies	25,858	34,569	35,227	31,667	47,013	68,908	106,186	113,697
Rental of medical equipment & supplies	50,511	42,294	45,740	41,618	55,338	70,954	101,943	113,319
Total revenue	$76,369	$76,863	$80,967	$73,285	$102,351	$139,862	$208,129	$227,016
Revenue growth (%)	*NA*	*0.6%*	*5.3%*	*(9.5%)*	*39.7%*	*36.6%*	*48.8%*	*9.1%*
Direct costs	22,256	23,349	23,527	20,111	28,172	33,213	55,250	59,990
SG&A/other expense	53,056	35,981	36,896	32,472	44,805	59,859	86,494	93,301
EBITDA	$1,057	$12,307	$14,858	$15,519	$21,417	$29,381	$44,968	$50,113
EBITDA growth (%)	*NA*	*NA*	*NA*	*4.4%*	*38.0%*	*37.2%*	*53.0%*	*11.4%*
EBITDA margin (%)	*1.4%*	*16.0%*	*18.4%*	*21.2%*	*20.9%*	*21.0%*	*21.6%*	*22.1%*
Non-operating expenses	$26,302	$17,403	$19,485	$15,069	$22,877	$24,795	$32,171	$35,332
Interest expense (income)	$1,400	$1,908	$2,510	$1,859	$2,166	$2,000	$692	$622
Net income, fully-taxed	($27,094)	($6,967)	($9,141)	($2,606)	($6,174)	$4,838	$14,356	$16,410
Fully-taxed EPS (basic)	($0.36)	($0.09)	($0.12)	($0.10)	($0.20)	$0.14	$0.43	$0.49
Fully-taxed EPS (fd)	($0.34)	($0.08)	($0.38)	($0.09)	($0.17)	$0.13	$0.37	$0.43
P/E (basic)	*NA*	*NA*	*NA*	*NA*	*NA*	*41.9x*	*14.1x*	*12.3x*
EV/EBITDA	*NA*	*24.9x*	*20.6x*	*19.7x*	*14.3x*	*10.4x*	*6.8x*	*6.1x*

Source: Historical data – Company Information (Quipt Home Medical), Forecasts/Estimates – Leede Jones Gable

Even after incurring new debt to fund Great Elm acquisiton, Quipt's debt-based financial ratios are well within safe limits and thus confer minimal financial risk. Debt-based financial ratios were both strong while imposing virtually no financial risk on the firm. Shifting to debt-based financial ratios, Quipt continues to generate EBITDA at levels that correspond to exceedingly safe EBITDA-to-interest coverage ratio (was 12.6x in FQ123) and equally safe LT debt-to-EBITDA ratio of 0.3x, with both ratios greatly facilitated by Quipt's reduction in legacy debt levels by US$6.7M (total debt at quarter-end was US$6.3M).

That said, the firm's pro forma debt levels after drawing down funds from its credit line to fund the Great Elm acquisition are assumed in our model to be about US$84.3M, bringing our projected EBITDA-to-interest ratio in FQ223 to 5.7x and LT debt-to-EBITDA ratio in FQ223 to 1.8x, both well within safe territory by conventional standards of financial risk. Quipt exited the quarter with cash and equivalents of US$3.7M but with substantial debt repayment of US$6.7M contributing to sequential cash reduction from US$8.5M last quarter, and with strong quarterly operating cash flow throughout our forecast period expected to provide funds for future acquisitions.

Exhibit 2. Valuation Summary for Quipt Home Medical

EV/EBITDA multiple	4x	6x	8x	10x	12x	14x
Implied share price [1]	$6.98	$9.48	$11.97	$14.46	$16.95	$19.44
One-year QIPT target price (US$)[1,2]			$11.97			
One-year QIPT target price (C$)[2]			$15.95			

[1] *Based on adjusted F2024 EBITDA of US$50.1M; EV incorporates pro forma debt of US$84.3M & FQ123 cash of US$3.7M, giving effect to new debt from Great Elm Healthcare acquisition; fully-diluted S/O of 40.2M*

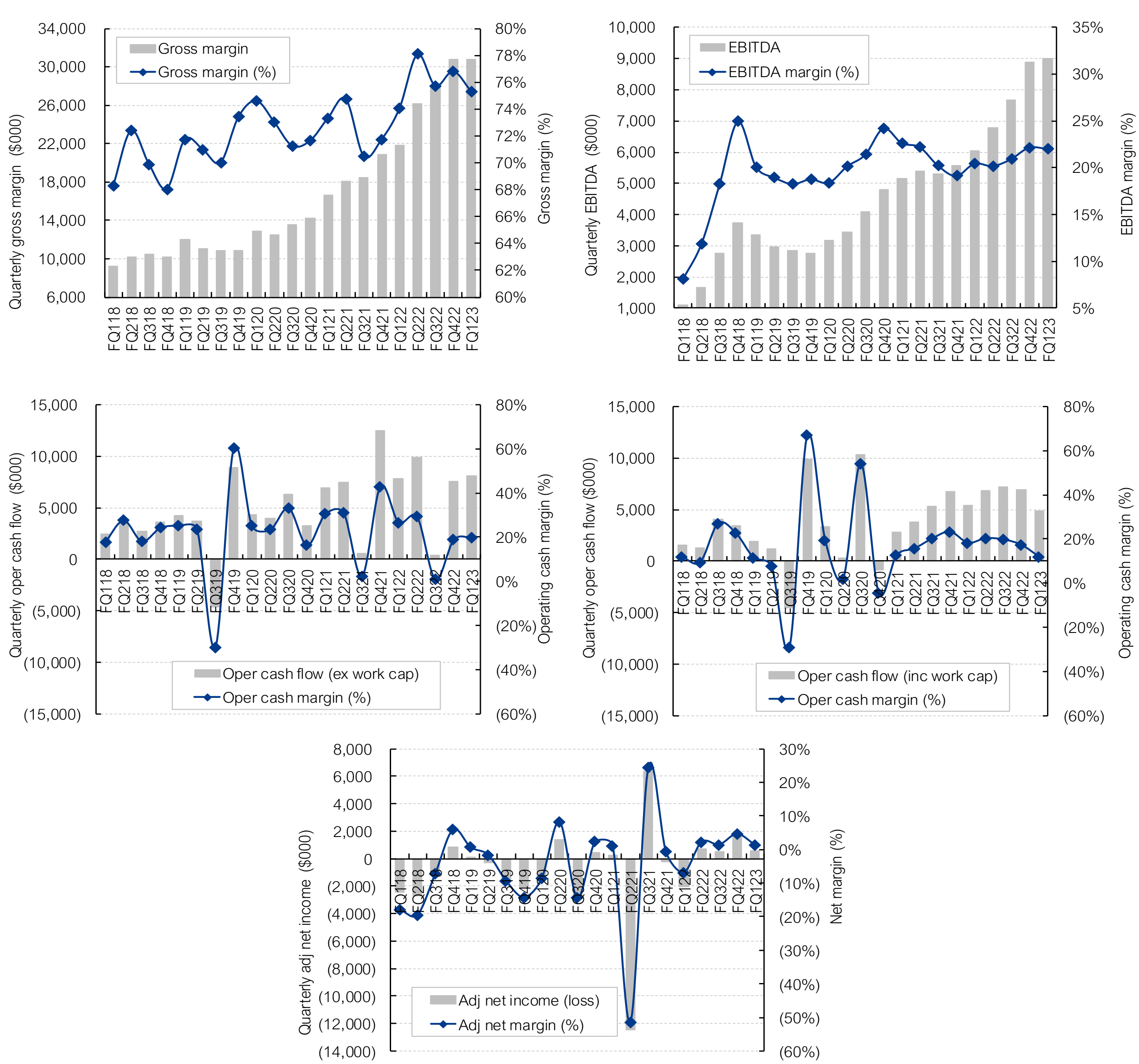
[2] *Assumes a USD:CAD exchange rate of 1.33x*

Source: Leede Jones Gable

Operating cash flow was strong and at record levels for the firm, offset by measurable working capital deficit that we do not expect to impose constitutive pressure on cash flow in future periods. Unsurprisingly based on EBITDA performance, Quipt's operating cash flow was correspondingly strong at US$8.1M (US$0.20/shr), slightly lower than EBITDA of US$9.0M due mostly to interest expense and strong both in absolute terms and in comparison to FQ422 operating cash flow of US$7.5M. We expect Great Elm to positively contribute to quarterly cash flow as soon as the current quarter and thus expect record operating cash flow from subsequent quarters this year.

Working capital deficit of (US$3.3M) brought down consolidated FQ123 operating cash flow to US$4.8M (US$0.12/shr) and this was impacted by deficits across most working capital items (receivables, inventory, payables, purchase price payable) that all should reverse in future quarters and possibly as early as next quarter, though the impact of Great Elm on working capital balance is indeterminate in our model. Cumulative working capital deficit since FQ118 is now (US$24.4M), including FQ123 working capital deficit just reported, and so working capital continues to be a drawdown on quarterly cash flow that we will continue to monitor for its impact on Quipt's operating risk going forward.

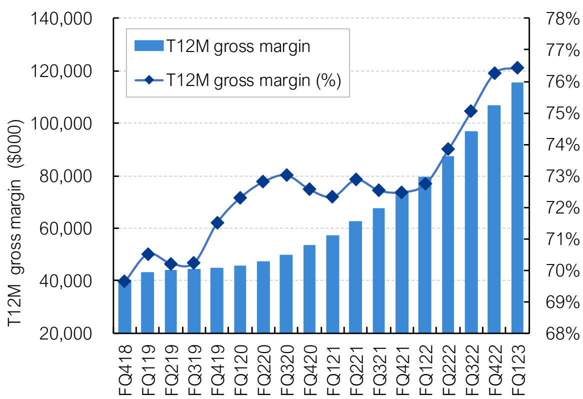
Exhibit 3. Summary of Quarterly EBITDA, Margin and Cash Flow Data for Quipt Home Medical – Lather, Rinse, Repeat on Sustainability of Margin Excellence While Still Aggressively Growing by Acquisition

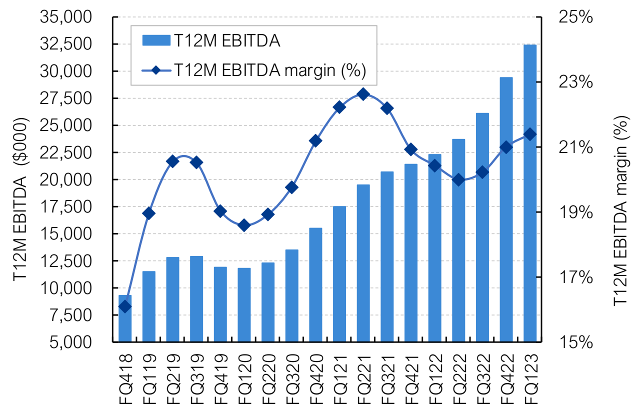


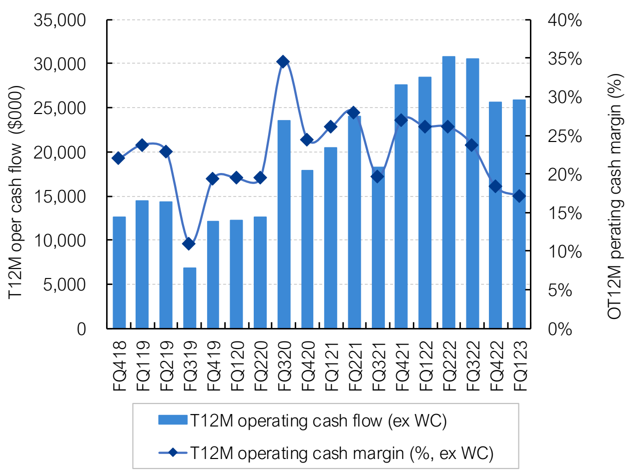
Source: Refinitiv, Leede Jones Gable

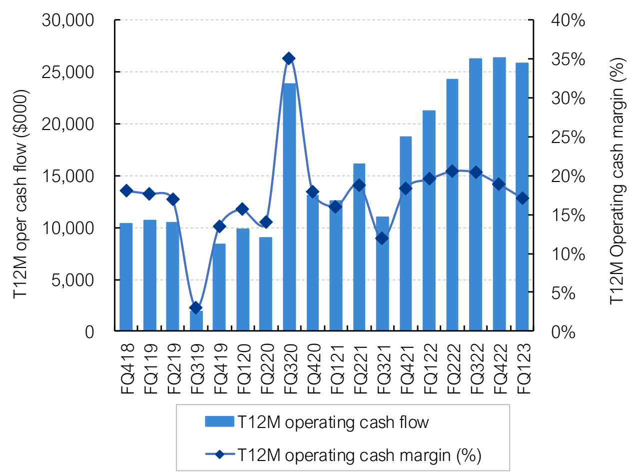
Quipt predictably lifted other operating metrics to new historic highs as well, with the number of equipment set-ups rising to 146,350 from 118,100 last yar, while the number of respiratory re-supply set-ups increased to 69,482 from 51,137 last year, both of which clearly contributed to EBITDA strength in the period. The firm continues to be unencumbered by any CPAP equipment supply constraints that Philips (PHG-NY, NR)/Respironics recall conferred since early F2021, an encouraging factor when considering that Philips/Respironics continues to experience challenges with its polyurethane foam-based design in ways that continue to attract regulatory scrutiny.

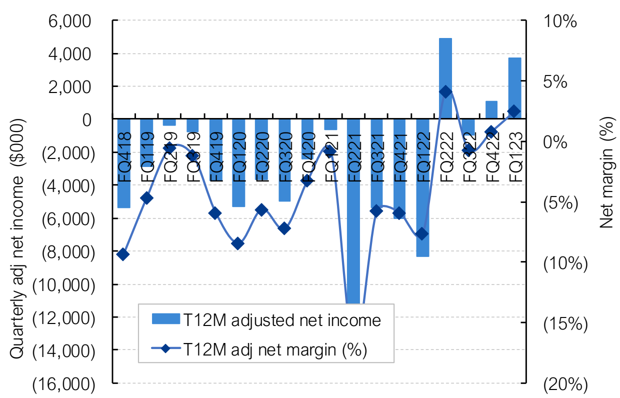
Exhibit 4. Summary of T12M EBITDA, Margin and Cash Flow Data for Quipt Home Medical – Sustainable Upward Trend Continues on All Core Fundamentals into FQ123











Source: Refinitiv, Leede Jones Gable

Summary and valuation. In conclusion, we consider FQ123 performance to be consistent with our expectations both on revenue/EBITDA sequential stability and on positive operating cash flow generation that have been hallmark characteristics of Quipt during our coverage history of the firm. We thus are maintaining our F2023 revenue/EBITDA/margin forecast of US$208.1M/US$45.0M/21.6% and our F2024 forecasts of US$227.0M/US$50.1M/22.1%, while still basing our valuation on 8x F2024 EV-to-EBITDA as shown in Exhibit 2. We still expect Great Elm at a minimum, to contribute to Quipt's revenue/EBITDA at its own T12M level, and with administrative cost synergies expected to drive Great Elm-specific EBITDA even higher in future periods. We believe that Quipt now has sufficient geographic diversity across multiple US states to allow for its existing operations to serve as hubs for bolting on new respiratory equipment distribution firms without disrupting EBITDA margin stability, as it has so many times during its public markets history. At current levels, our PT corresponds to a one-year return of 92.3%.

Exhibit 5. Competitive Landscape for Quipt Home Medical

Company	Curr	Sym	Shares out (M)	Share price 14-Feb	Mkt cap ($M) (curr)	(C$)	Ent val ($M) (curr)	(C$)	EV/EBITDA (T12M)	FY22	FY23	Price/Earnings (T12M)	FY22	FY23	Company description
Canadian Healthcare Services Firms															
Akumin Inc	CAD	AKU	89.8	$1.61	$145	$145	$1,535	$1,535	11.5x	8.1x	NA	NA	NA	NA	US-based medical imaging clinic consolidator, focused on Florida & neighboring geographies
Assure Holdings Corp	USD	IONM	19.0	$0.29	$6	$6	$17	$17	NA	27.8x	3.6x	NA	NA	2.3x	US-based neuromonitoring services firm, operations in CO, TX, LA, UT
CareRx Corp	CAD	CRRX	54.0	$2.61	$141	$141	$260	$260	8.9x	7.3x	5.9x	NA	NA	14.9x	ON-based long-term care pharmacy operator
Extendicare Inc	CAD	EXE	84.7	$6.66	$564	$564	$762	$762	10.0x	9.6x	8.6x	NA	27.2x	23.0x	ON-based long-term care & home health-care services provider
K-Bro Linen Inc	CAD	KBL	10.8	$30.36	$327	$327	$417	$417	11.4x	7.9x	6.9x	NA	17.3x	15.2x	AB-based linen/laundry processing firm, focused on healthcare/hospi-tality sectors
Medical Facilities Corp	CAD	DR	25.9	$8.30	$215	$215	$337	$337	4.2x	3.7x	3.4x	32.6x	12.3x	11.4x	US-based physician-owned surgical hospital operator
Savaria Corp	CAD	SIS	64.4	$16.57	$1,068	$1,068	$1,460	$1,460	NA	10.5x	9.5x	NA	20.1x	17.4x	QC-based mobility device manufact (elevators, wheel-chairs, stair, lifts)
Viemed Healthcare Inc	CAD	VMD	39.6	$11.10	$440	$440	$313	$313	13.0x	8.6x	7.1x	56.8x	41.1x	28.1x	LA-based post-acute respiratory services & disease management
Average								$638		10.4x	6.4x		23.6x	16.0x	
US-based & RoW home medical equipment distribution peers															
Adapthealth	USD	AHCO	134.7	$21.17	$2,852	$3,802	$4,942	$6,588	8.6x	6.8x	5.9x	33.3x	17.7x	12.4x	PA-based medical equip provider; 66% equip sales vs 34% rental; 16% is respiratory
Amedisys	USD	AMED	32.5	$93.95	$3,053	$4,069	$3,545	$4,725	14.6x	13.6x	12.8x	25.4x	19.3x	18.2x	LA-based home healthcare & hospice services provider
Owens & Minor	USD	OMI	76.2	$20.83	$1,588	$2,117	$4,061	$5,413	8.1x	7.0x	6.3x	12.9x	9.1x	7.3x	VA-based med supplies/services in diabetes, wound care, urology, ostomy; acquired Apria for US$1.6B in Q122
Envista Holdings	USD	NVST	163.2	$40.29	$6,575	$8,765	$7,349	$9,796	15.1x	13.6x	12.2x	30.1x	21.1x	18.5x	CA-based dental products developer
Fisher & Paykel Healthcare	NZD	FPH	579.2	NZD 25.6	NZD 14,828	$12,563	NZD 14,926	$12,646	35.9x	35.0x	28.7x	59.2x	59.1x	48.1x	NZ-based med device developer; respiratory, acute care, obstructive sleep apnea
Inogen Inc	USD	INGN	22.9	$23.84	$546	$728	$337	$449	NA	NA	NA	NA	NA	NA	CA-based portable O2 concentrator marketer (One G4-G3-G2-At Home systems)
Inspiration Health-care Group PLC	GBp	IHC	68.1	£51.50	£3,509	$5,677	$39	$64	8.0x	10.3x	6.2x	NA	NA	NA	UK-based respiratory care, thermo-regulation, neonatal resusc device developer
Linde PLC	USD	LIN	492.5	$334.00	$164,506	$219,287	$178,343	$237,731	16.8x	15.4x	14.4x	40.5x	25.2x	22.9x	UK-based distributor of industrial gases, acquired FL-based Lincare in Q312, TN-based American Home Patient in Q415
ResMed	USD	RMD	146.9	$213.92	$31,427	$41,892	$32,974	$43,955	27.2x	24.6x	21.8x	38.9x	33.2x	29.3x	CA-based medical equipment producer (respiratory, sleep & SaaS
Vapotherm	USD	VAPO	26.7	$0.93	$25	$33	$93	$124	NA	NA	NA	NA	NA	NA	NH-based ventilator support & nasal cannula developer
Average								$32,149		15.8x	13.6x		26.4x	22.4x	
Quipt Home Medical [1]	USD	QIPT	36.0	$6.34	$228	$228	$306	$306	9.3x	6.2x	5.3x	30.8x	NA	22.0x	US-based home medical equip rental/sales, respiratory care

Source: Refinitiv, Leede Jones Gable

Disclosures none

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Speculative Buy	The security is considered a BUY but carries an above-average level of risk.
Hold	The security represents fair value and no material appreciation is expected over the next 12 month time horizon.
Sell	The security represents poor value and is expected to depreciate over the next 12 month time horizon.
Under Review	The rating is temporarily placed under review until further information is disclosed.
Tender	Leede Jones Gable Inc. recommends that investors tender to an existing public offer for the securities in the absence of a superior competing offer.
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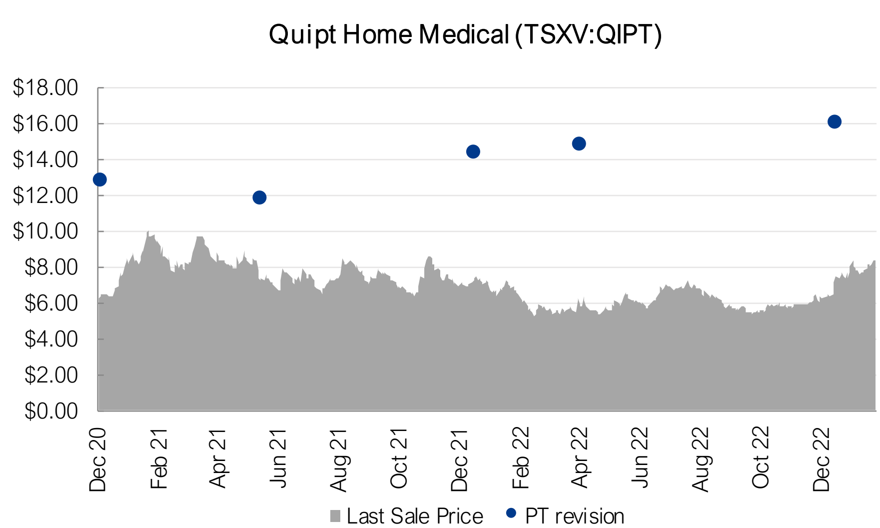
Rating Distribution

RECOMMENDATION	NO. OF COMPANIES	%
Buy	9	41%
Speculative Buy	8	36%
Hold	5	23%
Sell	-	-
Tender	-	-
Under Review	-	-

Historical Target Price



Date	Target ($)	Rating
21 Dec 2020	C$13.00	Buy
2 Jun 2021	C$12.00	Buy
4 Jan 2022	C$14.50	Buy
19 Apr 2022	C$15.00	Buy
4 Jan 2023	C$16.25	Buy

Coverage Initiated: Dec 21, 2020

Data sourced from: Refinitiv