

Research Report

Quipt Home Medical Corp. (QIPT-V / QIPT-Q)

Healthcare: Healthcare Services

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QIPT Readies its Balance Sheet for Growth Following Positive Results in Q3/F22

Event

Yesterday after market close, Quipt Home Medical Corp. ("QIPT" or "the Company") reported its Q3/F22 operating results.

Highlights

- Financials.** Quipt reported Q3/F22 revenues of \$36.7M, up 40% YoY and 9% QoQ, and in line with consensus of \$36.5M (iA: \$36.4M), driven by 2% organic growth, a slight reduction in sleep device set-up backlog to 6.0K (previously 6.5K in Q2/F22), and incremental tuck-ins. Q3/F22 Adj. EBITDA was up by 44% YoY and 9% QoQ to \$7.7M, meeting consensus estimates of \$7.8M (iA: \$8.0M). Adj. EBITDA margin held steady at 21% compared with Q2/F22 and only decreased 1% YoY, reflecting product stickiness and cost discipline despite the inflationary environment, as well as synergies from previous M&A. Quipt is now comfortably on track for the previously guided average margin above 20% across C2022. A cash position of \$18.5M and a revamped \$80M credit facility ensures Quipt will be able to execute on M&A opportunities in the near-term without stretching the balance sheet.
- Strong Balance Sheet with Financial Leverage Potential.** Under the new credit facilities with CIT Bank and following forced conversion of convertible debentures, Quipt can lever its debt-to-assets ratio from 0.27x up to 0.50x with the credit facility. Net debt-to-EBITDA ratio could increase from 0.36x up to 2.50x. These metrics are within generally accepted standards of <0.6x for debt-to-assets and <3.0x for net debt-to-EBITDA ratios. Due to Quipt's non-cyclical business and recurring revenues, the Company has the capability to increase financial leverage to accelerate its growth strategy and increase profitability metrics under a relatively controlled risk environment.
- Operations growing.** Quipt's customer base grew 38% YoY to 89K unique patients served in Q3/F22. As the Company continues to scale up, management recently accelerated hiring of sales personnel to capture consistently robust demand. Quipt's supply chain continues to improve as more ventilator supply gradually comes on line. Following the national insurance contract announced in April, management expects to secure more national insurance contracts in H2/F22.
- Model updates.** We incorporated Q3/F22 financial results.

Bottom Line

Q3/F22 was another solid quarter for Quipt as the Company was able to steadily grow its revenues and maintain profitability margins despite the highly inflationary environment. Due to QIPT's balance sheet strength and largely non-cyclical operations, the Company can fund its growth strategy with an updated credit facility while keeping debt ratios modest. We expect Quipt to meet its guidance of \$180-190M annual run rate revenue by the end of C2022 and maintain our Buy recommendation and C\$14.00/share target price based on an EV/EBITDA valuation.

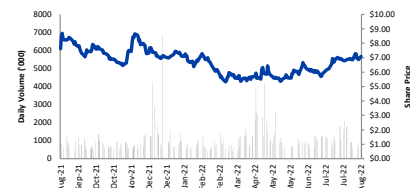
Tuesday, August 16, 2022

Rating:	BUY	(unchanged)
Target Price:	C\$14.00	(unchanged)
Last Price:	C\$7.09	
Ticker:	QIPT-V	

Market Data	
Target return (incl. dist.):	97.5%
Dividend/yield:	C\$0.00 / 0.0%
Shares outstanding (M):	33.7
Market capitalization (C\$M):	239
Enterprise value (C\$M):	195
52-week range (C\$):	5.14 - 8.87
Last Fiscal year end:	Sep. 30, 2021
Average weekly volume:	93,456
Currency (unless otherwise indicated):	USD

Forecast summary	F21A	F22E	F23E	F24E
Revenue (\$M)	102.4	141.7	178.0	200.4
Previous		142.3	185.6	211.2
Adj. EBITDA (\$M)	21.5	29.3	38.1	42.8
Previous		30.1	40.3	45.1
EPS fd (\$)	(0.20)	0.09	0.17	0.34
Previous		0.15	0.45	0.76

Key trading multiples	F21A	F22E	F23E	F24E
EV/Revenue	1.0x	1.0x	1.1x	1.0x
EV/adj. EBITDA	9.0x	6.6x	5.1x	4.6x



	Q1	Q2	Q3	Q4	YE
Revenue (\$M)					
F2021	22.8	24.2	26.2	29.1	102.4
F2022	29.5	33.6	36.7	41.9	141.7
F2023	42.8	43.9	45.1	46.2	178.0
F2024	47.6	49.2	50.7	52.8	200.4
Adj. EBITDA (\$M)					
F2021	4.5	5.4	5.9	5.6	21.5
F2022	5.7	7.0	7.7	8.9	29.3
F2023	9.2	9.4	9.6	9.9	38.1
F2024	10.2	10.5	10.8	11.3	42.8
EPS fd (\$)					
F2021	0.04	-0.43	0.19	-0.05	-0.20
F2022	-0.06	0.14	0.00	0.01	0.09
F2023	0.02	0.04	0.05	0.06	0.17
F2024	0.07	0.08	0.09	0.10	0.34

shaded values above are iAS forecasts

Company Profile

Quipt Home Medical is a market-leading healthcare services company that aims to improve the home management of chronic illness by providing a diverse offering of home durable medical equipment (DME) and services to patients in the US.

Valuation & Recommendation

Valuation Summary

Our target price is determined by an EV/Adj. EBITDA valuation approach. We have updated the EV/Adj. EBITDA multiple to reflect comps and recent market sentiment and have rolled forward our model estimates.

EV/Adj. EBITDA Valuation. We continue to note that the Company is trading at a significant discount to peers on both an EV/Adj. EBITDA and EV/Revenue basis. We believe the discrepancy is unwarranted given management's strong track record of successfully increasing each acquired businesses' EBITDA margin, its strong recurring revenue model, and aggressive growth trajectory to achieve \$250M in revenue at 25% EBITDA margins in three to five years. As such, we conservatively estimate that Qipt should trade closer to its comparables on an EV/Adj. EBITDA multiple basis. Therefore, we maintain a 9.3x EV/EBITDA multiple for our valuation based on the peer set. This results in our unchanged C\$14.00/share target price and justifies our Buy recommendation.

Exhibit 1: Comps Table

Company	Ticker	Close	Mkt Cap (\$M)	Debt+Pref (\$M)	Ent. Value (\$M)	EBITDA (\$M)			Debt/ EBITDA 23	EV/EBITDA			Revenue			EV/Revenue		
						2022E	2023E	2024E		2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Fisher & Paykel Healthcare Corp Ltd	FPH-NZ	21.48	12,400	(184)	12,216	609.8	486.0	591.4	-0.4x	20.0x	25.1x	20.7x	1,710	1,569	1,760	7.1x	7.8x	6.9x
Envista Holdings Corp	NVST-K	41.41	6,930	846	7,776	520.6	579.6	650.6	1.5x	14.9x	13.4x	12.0x	2,600	2,796	3,037	3.0x	2.8x	2.6x
Amedisys Inc	AMED-O	123.16	4,000	477	4,477	279.7	307.3	351.5	1.6x	16.0x	14.6x	12.7x	2,299	2,522	2,788	1.9x	1.8x	1.6x
Adapthealth Corp	AHCO-O	23.20	3,120	2,086	5,206	635.1	725.0	832.3	2.9x	8.2x	7.2x	6.3x	2,951	3,251	3,614	1.8x	1.6x	1.4x
Owens & Minor Inc	OMI-N	35.28	2,690	2,511	5,201	584.9	694.9	753.6	3.6x	8.9x	7.5x	6.9x	9,950	10,532	11,019	0.5x	0.5x	0.5x
Inogen Inc	INGN-O	30.85	710	(228)	482	(4.0)	9.2	2.2	-24.7x	n/a	52.2x	224.1x	374	411	434	1.3x	1.2x	1.1x
Savaria Corp	SIS-T	14.93	970	367	1,337	124.4	140.4	165.6	2.6x	10.7x	9.5x	8.1x	777	827	902	1.7x	1.6x	1.5x
Viemed Healthcare Inc	VMD-T	8.40	340	(96)	244	28.2	36.6	n/a	-2.6x	8.7x	6.7x	n/a	138	159	n/a	1.8x	1.5x	n/a
Medical Facilities Corp*	DR-T	10.35	310	101	411	80.6	85.6	104.0	1.2x	5.1x	4.8x	4.0x	423	431	431	1.0x	1.0x	1.0x
Akumin Inc	AKU-T	0.96	90	1,410	1,500	157.3	187.2	n/a	7.5x	9.5x	8.0x	n/a	766	803	n/a	2.0x	1.9x	n/a
CareRx Corporation*	CRRX-T	3.80	180	126	306	35.0	40.8	35.1	3.1x	8.7x	7.5x	8.7x	378	397	307	0.8x	0.8x	1.0x
BIOLASE Inc	BIOL-Q	5.09	30	(3)	27	(13.6)	(5.9)	n/a	0.5x	n/a	n/a	n/a	45	51	n/a	0.6x	0.5x	n/a
Inspiration Healthcare Group PLC	IHC-L	97.24	70	(6)	64	6.2	6.9	9.0	-0.8x	10.4x	9.3x	7.2x	41	46	53	1.6x	1.4x	1.2x
Dynatronics Corp	DYNT-Q	0.64	10	10	20	n/a	(3.8)	n/a	-2.5x	n/a	n/a	n/a	44	47	51	0.4x	0.4x	0.4x
Totals / Average			31,900	530	39,300	3,040	3,290	3,500	-0.5x	11.0x	10.3x	9.6x	22,500	23,840	24,400	1.8x	1.8x	1.7x
Qipt Home Medical (iA)	QIPT-V	7.09	240	(34)	206	29.3	38.1	42.8	-0.8x	7.0x	5.4x	4.8x	141.7	178.0	200.4	1.5x	1.2x	1.0x

*Indicates our coverage universe

Source: Qipt Home Medical, Refinitiv, iA Capital Markets

Exhibit 2: Valuation and Target Price

EV/adj. EBITDA Valuation	
F2023 Adj. EBITDA (\$M)	41,390
Multiple	9.3x
Enterprise Value (\$M)	384,924
Net cash (debt) end of Q3/F23 (\$M)	4,870
Market Cap (\$M)	389,794
Shares (fully diluted)	35,947
Target Price	\$10.84
USD/CAD FX	0.78
Target Price (C\$)	\$14.00

Source: iA Capital Markets

Investment Recommendation Rating System

- Strong Buy:** Expected to provide a substantial return over the next 12 months, with a lower level of risk than comparable investments.
- Buy:** Expected to provide a reasonably positive return over the next 12 months.
- Speculative Buy:** Expected to provide a positive return over the next 12 months, but with a high level of risk, or based on a future uncertain event.
- Hold:** Expected to remain in a trading range near the current share price for the next 12 months.
- Sell:** Expected to deliver a negative return over the next 12 months.
- Under Review:** Currently available information is inadequate to provide an investment rating.
- Tender:** Investors should tender their shares to the current offer.

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Issuer Company	Ticker	Exch.	Disclosures
CareRx Corp.	CRRX	T	-
Medical Facilities Corp	DR	T	-
Quipt Home Medical Corp	QIPT	V / Q	-

See legend of Disclosures below.

Rating & Target Price History



Source: iA Capital Markets, Bluematrix, Refinitiv

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