

**BUY**  
**COMPANY UPDATE**

**Financial Summary**

Changes	Previous	Current
Rating	—	Buy
Target Price	—	C\$12.75
FY22A EPS	—	\$0.13
FY23E EPS	\$0.31	\$0.18
FY22A Revenue	—	\$139.9
FY23E Revenue	\$240.0	\$236.9

Price ( 05/16/23 ):	C\$8.25
52-Week Range:	C\$10 - C\$5
Market Cap.(mm):	\$269.0
Shr.O/S-Diluted (mm):	43.9
Enterprise Val. (mm):	\$361.3
Avg Daily Vol (3 Mo):	130,034
Dividend / Yield:	C\$0.00 / 0.0%
Net Debt (mm):	C\$77
FYE	Sep

Price: intraday, 5/16/23

	2021A	2022A	2023E
<b>Revenue</b>	\$102.4A	\$139.9A	\$236.9
<b>EV/Rev</b>	3.5x	2.6x	1.5x
<b>EBITDA</b>	\$21.4A	\$29.2A	\$54.3
<b>EV/EBITDA</b>	16.9x	12.4x	6.7x
<b>EPS</b>	\$(0.20)A	\$0.13A	\$0.18

Figures are denominated in USD.

**Price Performance**



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**Q2: M&A fuels 73% YoY growth with good margins**

**Summary**

QIPT, the #5 market share leader in the durable medical equipment (DME) or home healthcare industry, reported solid Q2 results, demonstrating high sales growth via M&A (+70%) but also with organic strength (+10% annualized). Adj. EBITDA was also up substantially, to US\$13.1mm (22.5% margin) from US\$7mm (21% margin) YoY and highlighting operating leverage with greater scale. The company recently completed a financing to shore up its balance sheet for net proceeds of US\$28.9mm and implying a pro-forma net debt/EBITDA ratio of 1.5x, providing dry powder for further M&A. QIPT has an M&A playbook that works by acquiring generally under-the-radar mom + pop operations through proprietary deal processes, leading to good acquisitions at fair multiples. The company has completed 20 transactions since 2018 (table below) and we expect more M&A to fuel the share price with a very fragmented industry of 5k + DME operators.

**Key Points**

**FQ2 results (end March) summary:**

- **Q2 2023 revenue** was US\$58.1mm, up 42% sequentially and 73% YoY, coming in ahead of consensus at US\$56.9mm. Organic growth increased 2.5% sequentially or 10% annualized.
  - Respiratory resupply set-ups and/or deliveries increased 110% YoY from 50,713 to 106,486.
  - Customer base increased 76% YoY from 78,273 to 137,748 unique patients.
  - Unique set-ups/deliveries increased 67% YoY from 118,878 to 198,101.
- **Adjusted EBITDA** was US\$13.1mm (22.5% margin), up 46% sequentially and 86% YoY from US\$7.0mm (20.9% margin) YoY, in line with consensus at US\$12.4mm (21.9% margin).
- **Cash flow:** QIPT generated US\$10.0mm in cash from its operations for Q2, compared to US\$6.8mm YoY.
- **Balance sheet:** QIPT finished Q2 2023 with US\$2.1mm in cash & equivalents, US\$7.0mm available towards its line of credit and US\$21mm available on its delayed draw term loan. After quarter end, QIPT completed a bought deal public offering and private placement of common shares for US\$28.9mm in net proceeds. Following this deal, the company has a pro-forma net debt/EBITDA ratio of ~1.5x and ~US\$60mm of available liquidity.
- **2023 Guidance:** Management maintained guidance for organic growth to meet or surpass historical levels of 8-10% in 2023.

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**Figure 1 - M&A Summary; 2018-2022**

Target	Type	Date	Consid. TTM Sales			
			C\$M	C\$M	EV/Sales	EV/EBITDA
Great Elm Healthcare, LLC	Respiratory	Q1/2023	108.8	81.6	1.3x	5.2x
Hometown Medical, LLC	Respiratory	Q3/2022	n.d.	9.1	n.d.	n.d.
Access Respiratory Homecare, LLC	Respiratory	Q3/2022	n.d.	8.4	n.d.	n.d.
NorCal Respiratory, Inc.	Respiratory	Q3/2022	3.1	3.2	1x	4.8x
Good Night Medical, LLC	Respiratory	Q2/2022	8.9	9.5	1x	4.7x
At Home Health Equipment	Respiratory	Q1/2022	16.6	16.5	1x	4.5x
Unnamed target (7 states)	Respiratory	Q4/2021	6.9	17.5	0.4x	n.d.
Unnamed target (Southeastern U.S.)	Biomedical services	Q4/2021	0.9	1.9	0.5x	n.d.
Unnamed target (Midwestern U.S.)	Respiratory	Q4/2021	n.d.	16.3	n.d.	n.d.
Unnamed target (Illinois)	Respiratory	Q4/2021	2.8	3.1	0.9x	4x
Unnamed target (Mississippi)	Respiratory	Q4/2021	2.4	3.4	0.7x	4x
Unnamed target (Missouri)	Respiratory	Q3/2021	2.9	7.0	0.4x	2x
3 Strategic Acquisitions	Respiratory	Q3/2021	5.3	6.9	0.8x	7.5x
Mayhugh's Medical Equipment	Respiratory	Q1/2021	5.8	7.0	1x	5x
Sleepwell, LLC	Sleep	Q4/2020	14.4	13.0	1x	4x
Health Technology Resources, LLC	Respiratory	Q3/2020	5.4	5.5	1x	3x
Acadia Medical, Inc.	Respiratory	Q4/2019	2.3	4.0	0.5x	3x
Cooley Medical, Inc.	Respiratory	Q4/2019	4.0	9.0	0.5x	2x
Riverside Medical & Central Oxygen	Respiratory	Q4/2018	0.9	n.d.	n.d.	n.d.
Coastal Med Tech Inc.	Respiratory	Q3/2018	0.9	4.0	0.2x	1x

Source: Company filings, Stifel Research

**Rating:** In our view, QUIPT trades at a very reasonable valuation of ~6x C2023E EBITDA. QUIPT has historically traded at a low EBITDA multiple, given it has been mostly a regional operator, but the business is quickly transitioning into a national platform. National operators typically warrant better terms with payors, along with purchasing power and leading to improved margins. Our unchanged C\$12.75 target price is based on 8x F2023 EBITDA.

**Investment Thesis**

*We see QIPT as offering important respiratory infrastructure services within healthcare that help keep patients out of the hospital or lead to early discharges, something that has become increasingly important. We expect a good organic growth rate to trend higher with increasing preference for at-home care, spurred by Telehealth and related innovation. QIPT is also seeking scale by rolling up smaller competitors with an aggressive, but disciplined, approach that includes an M&A playbook that works. We expect the combination of organic growth and M&A in an increasingly valuable home healthcare space to result in a positive re-rating in valuation and a higher share price.*

**Target Price Methodology/Risks**

Our C\$12.75 target price is based on 8x F2023E EBITDA.

**Acquisition risk:** QIPT's strategy includes growth by acquisition. Expected synergies may not materialise for these acquisitions or integration costs may be more than expected.

**Reimbursement changes:** QIPT's business model is based on reimbursement from Medicare, Medicaid and private insurance in the U.S. The industry is subject to competitive bid processes that may result in lower pricing for certain services and/or products.

**Supply chain:** There are a concentrated number of suppliers from which QIPT sources its equipment, and they are largely domestic. If there were disruptions in this supply chain, growth and the ability to serve customers well could be affected.

**Bad debt expense:** QIPT's customers may not return medical equipment or equipment may otherwise be damaged under a rental/lease model. QIPT has the ability to turn off some products remotely, and serialisation of equipment helps prevent theft, but some bad debt expense exists.

**COVID-19:** QIPT's business has been deemed an essential service. Providing healthcare infrastructure at home, thereby keeping patients healthy and out of the hospital or resulting in early discharges, is increasingly important now. QIPT's business has not been materially affected by COVID-19, speaking to the resilience of the model, but prolonged periods of shutdowns could impact the business, including unforeseen risks.

**Company Description**

QIPT provides in-home monitoring and disease management services, with a specific focus on offering end-to-end respiratory solutions for patients in the U.S. 80% of QIPT's business is providing respiratory equipment rental/leases with associated consumable supplies and 20% related to mobility and related home equipment. QIPT's respiratory segment breaks down further to 40% related to Oxygen and Ventilator services and 40% for sleep therapy solutions.

Quipt Home Medical (TSXV:QIPT)		CAD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Income Statement		2020	2021	Q1/22	Q2/22	Q3/22	Q4/22	2022	Q1/23	Q2/23	Q3/23E	Q4/23E	2023e
Revenue	\$mm	\$98	\$102	\$30	\$34	\$37	\$40	\$140	\$41	\$58	\$64	\$74	\$237
COGS	\$mm	\$27	\$28	\$8	\$7	\$9	\$9	\$33	\$10	\$15	\$15	\$17	\$57
Gross Profit	\$mm	\$71	\$74	\$22	\$26	\$28	\$31	\$107	\$31	\$43	\$49	\$57	\$180
Margin	%	73%	72%	74%	78%	76%	77%	76%	75%	74%	77%	77%	76%
OPEX	\$mm	\$70	\$76	\$23	\$26	\$27	\$25	\$101	\$29	\$41	\$44	\$52	\$166
Adj. EBITDA	\$mm	\$21	\$21	\$6	\$7	\$8	\$8	\$29	\$9	\$13	\$15	\$17	\$54
Margin	%	21%	21%	20%	21%	21%	21%	21%	22%	22%	23%	24%	23%
EPS	\$/sh	(\$0.30)	(\$0.20)	(\$0.06)	\$0.14	\$0.00	\$0.05	\$0.13	\$0.01	(\$0.02)	\$0.08	\$0.11	\$0.18
Cash flow Statement		2020	2021	Q1/22	Q2/22	Q3/22	Q4/22	2022	Q1/23	Q2/23	Q3/23E	Q4/23E	2023e
Cash from Ops	\$mm	\$18	\$19	\$5	\$7	\$7	\$7	\$26	\$5	\$10	(\$6)	\$6	\$15
Cash from Investing	\$mm	(\$11)	(\$18)	(\$5)	(\$15)	(\$14)	(\$8)	(\$42)	(\$1)	(\$76)	\$0	\$0	(\$78)
Cash from Financing	\$mm	\$19	\$4	(\$5)	(\$5)	\$9	(\$9)	(\$10)	(\$8)	\$65	\$30	\$0	\$86
Free Cash Flow	\$mm	\$13	\$14	\$4	\$4	\$5	\$4	\$17	\$4	\$6	(\$6)	\$6	\$10

Source: Stifel estimates, Company disclosures

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### Quipt Home Medical Corp. (QIPT CN) as of May 15, 2023 (in CAD)



\*Represents the value(s) that changed.

Buy=B; Speculative Buy=SB; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Initiation=I

For a price chart with our ratings and target price changes for QIPT CN go to <http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=QIPT CN>

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