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QIPT-TSXV/QIPT-NASDAQ

Rating:	Buy
Target:	C$16.25↑ (was C$15.00)
Price:	C$6.51
Return:	149.6%
Valuation:	8x EV/EBITDA (F2024 estimate)

Market Data

Basic Shares O/S (M)	35.0
FD Shares O/S (M)	39.7
Market capitalization (US$M	166.7
Pro forma Ent Val (US$M)	247.1
Pro forma cash (US$M, most rec Q)	8.5
LT debt (US$M, most rec Q)	88.9
52 Week Range	$5.14-$7.65
Avg. Weekly Volume (M)	0.16
Fiscal Year End	Sep-30

Financial Metrics

In US$	F2022A	F2023E	F2024E
Total Revenue (US$000)	139,862	207,608	227,018
EBITDA (US$000)	29,381	45,264	49,405
Net Income (US$000)	4,838	16,067	17,752
EPS (basic, US$)	$0.14	$0.48	$0.53
EPS (FD, US$)	$0.13	$0.42	$0.46
P/E	*NA*	*12.6x*	*11.4x*
EV/EBITDA	*11.5x*	*5.5x*	*5.0x*

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

Sizable Expansion of Already-Sizable Respiratory Medical Equipment Operations with Great Elm Transaction - Buy

Kentucky-based respiratory medical equipment distributor Quipt Home Medical announced its largest transaction during our coverage history of the firm by acquiring MA-based Great Elm Healthcare LLC (GEHC). The respiratory medical equipment distribution operations was acquired from the publicly-traded investment management holding firm Great Elm Group (GEG-Q, NR) in a deal valuing GEHC at US$80M, corresponding to 1.3x/6.2x T12M revenue/EBITDA of US$60M/US$13M. Transaction value is thus comparable, though at a slight premium, to recent tuck-in acquisitions that Quipt consummated in recent quarters.

Bottom line. We consider the transaction to be positive to our QIPT investment thesis, with GEHC expected to increase Quipt's annual revenue by >27% and without sacrificing EBITDA margin. Indeed, even without achieving US$2M in administrative cost synergies that Quipt projects post-consolidation, GEHC's legacy EBITDA margin of 21.7% was already at levels that Quipt routinely achieved in F2021/22 (FQ422 EBITDA margin, for example, was slightly higher but not substantially higher at 22.2% by our calculation).

The transaction will be financed predominantly by drawing down on the US$110M credit line that Quipt put in place last year. With the firm's debt-based financial ratios so far into safe territory (debt-to-EBITDA run-rate and EBITDA-to-interest coverage ratios were exceedingly attractive at end-of-FQ422 at 0.3x/15.5x, respectively), new debt has no material bearing on the firm's financial risk in our view. Quipt's pro forma debt-to-adjusted EBITDA ratio of about 2x is still well within safe territory in our view, but we will watch for any trends on acquisition financing details that shift this ratio any closer to 3x, which we consider to be a cautionary threshold in our healthcare services coverage universe.

GEHC acquisition allows for key operating metrics to scale upward without sacrificing EBITDA margin or strategic flexibility down the road. The arithmetic on assimilating GEHC into our model is straightforward and we will describe the details below, but there are a series of operating details for the acquired firm that we believe bear significantly on Quipt's future growth prospects. These include:

- GEHC substantially expands Quipt's US geographic footprint by operating in eight US states – AK, WA, OR, AZ, AR, KS, NE, & IA – only one of which (AR) were geographies in which Quipt already operated respiratory equipment distribution hubs. Accordingly, we believe that Quipt now has even more flagship operations onto which it can bolt on future smaller acquisitions, as it has many times during our coverage history.
- GEHC already derives a sizable proportion of its revenue base from recurring revenue sources (88% at present), so the transaction should lift Quipt's own proportion of recurring revenue from 77% at present to 82% post-consolidation; in so doing, this in our view reduces operating risk for the firm.
- Just on the basic statistics of GEHC's operations, the acquired firm has 70,000 patients currently served (consolidated total will be >270,000) and 8,500 referring physicians in its network (consolidated total will be >32,500).

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	103,990	113,699
Rental of medical equipment & supplies	50,511	42,294	45,740	41,618	55,338	70,954	103,618	113,319
Total revenue	$76,369	$76,863	$80,967	$73,285	$102,351	$139,862	$207,608	$227,018
Revenue growth (%)	*NA*	*0.6%*	*5.3%*	*(9.5%)*	*39.7%*	*36.6%*	*48.4%*	*9.3%*
Direct costs	22,256	23,349	23,527	20,111	28,172	33,213	55,627	60,698
SG&A/other expense	53,056	35,981	36,896	32,472	44,805	59,859	84,894	93,636
EBITDA	$1,057	$12,307	$14,858	$15,519	$21,417	$29,381	$45,264	$49,405
EBITDA growth (%)	*NA*	*NA*	*NA*	*4.4%*	*38.0%*	*37.2%*	*54.1%*	*9.1%*
EBITDA margin (%)	*1.4%*	*16.0%*	*18.4%*	*21.2%*	*20.9%*	*21.0%*	*21.8%*	*21.8%*
Non-operating expenses	$26,302	$17,403	$19,485	$15,069	$22,877	$24,795	$30,757	$33,284
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	$16,067	$17,752
Fully-taxed EPS (basic)	($0.36)	($0.09)	($0.12)	($0.10)	($0.20)	$0.14	$0.48	$0.53
Fully-taxed EPS (fd)	($0.34)	($0.08)	($0.38)	($0.09)	($0.17)	$0.13	$0.42	$0.46
P/E (basic)	*NA*	*NA*	*NA*	*NA*	*NA*	*41.9x*	*12.6x*	*11.4x*
EV/EBITDA	*NA*	*20.1x*	*16.6x*	*15.9x*	*11.5x*	*8.4x*	*5.5x*	*5.0x*

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

- GEHC recorded about 190,000 annual equipment deliveries and once consolidated, Quipt's annual total deliveries are expected to exceed 690,000. Post-consolidation, Quipt believes that it will be the fifth largest distributor of home-targeted respiratory assist equipment in the US, probably still below AdaptHealth (AHCO-Q, NR) and Linde plc/Lincare (LIN-NY, NR) but certainly achieving sufficient scale and scope nationwide that its ability to scale revenue through acquisition could accelerate in coming quarters.

- On payer mix, Quipt expects its proportion of private patient pay to increase to 18% from 10% previously, while private insurance is expected to still be high but probably decline modestly to 39% of total revenue from 45% previously. Medicare/Medicaid-derived funding are now expected to be 34%/9% of total revenue, slightly modified from 38%/7% previously.

Exhibit 2. Valuation Summary for Quipt Home Medical

EV/EBITDA multiple	4x	6x	8x	10x	12x	14x
Implied share price [1]	$6.99	$9.48	$11.97	$14.45	$16.94	$19.42
One-year QIPT target price (US$) [1,2]			$11.97			
One-year QIPT target price (C$) [2]			$16.24			

[1] *Based on adjusted F2024 EBITDA of US$49.4M; EV incorporates pro forma debt of US$88.9M & FQ422 cash of US$8.5M, giving effect to new debt from Great Elm Healthcare acquisition; fully-diluted S/O of 39.7M*

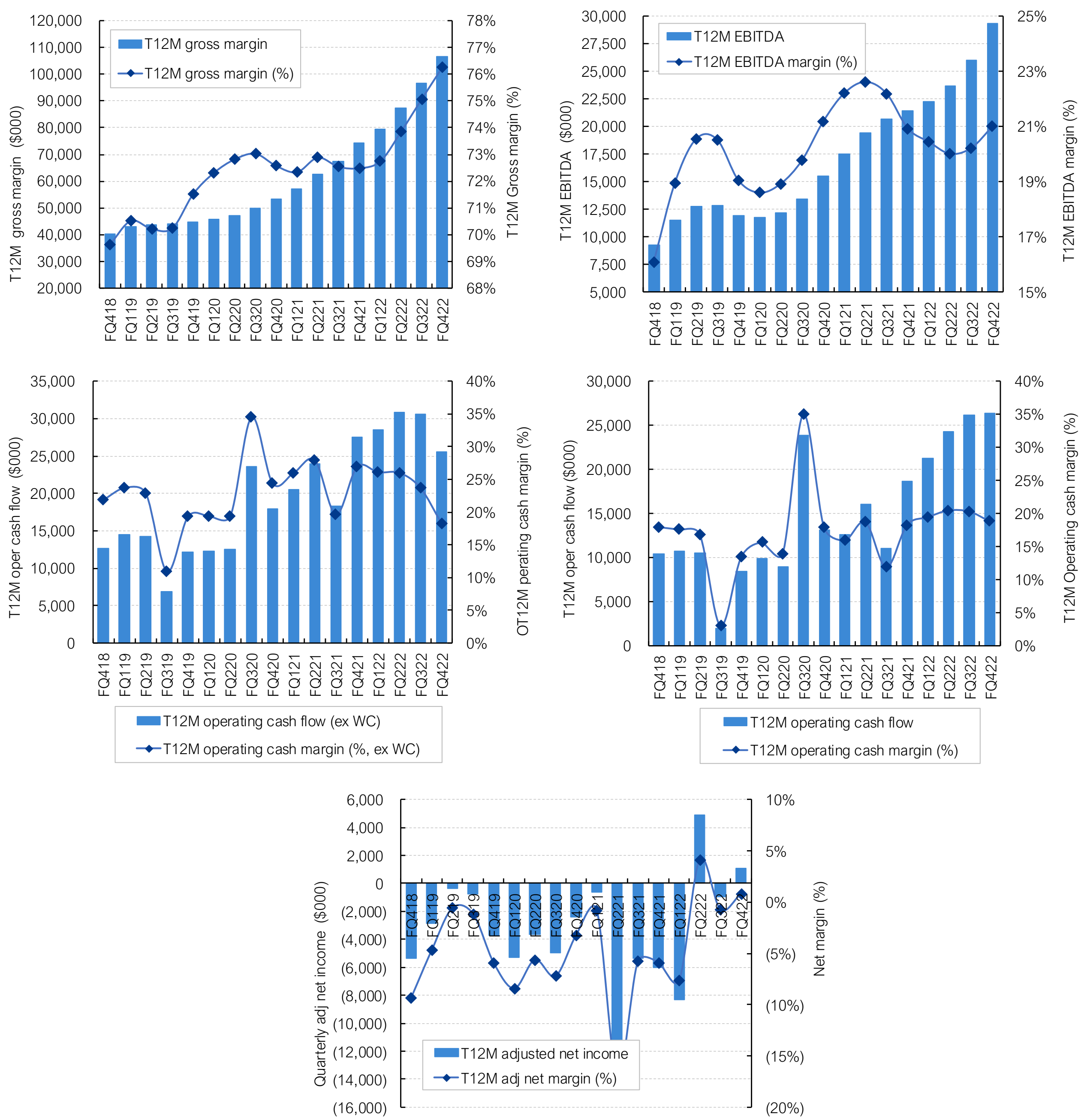
[2] *Assumes a USD:CAD exchange rate of 1.36x*

Source: Leede Jones Gable

- On service mix, most categories are expected to undergo modest refinement. Sleep Supplies are expected to scale up to 36% of total revenue from 28% before, while ventilation therapy (was 13%, now expected to be 11% of total revenue), oxygen therapy (was 20%, now expected to be 17% of total revenue), and home medical equipment (was 20%, now expected to be 17% of total revenue) are expected to experience a collective contraction of comparable magnitude. Sleep therapy (15%) and mobility products (4%) are expected to be stable revenue generators at historic levels.

Interestingly, GEHC was itself quite acquisitive in recent quarters, announcing in Mar/21 for example that its respiratory equipment subsidiary Focus Respiratory LLC acquired two mid-western US private peers in Advanced Medical DME and PM Sleep Lab, with the two firms collectively adding US$5M in annualized equipment sales/rentals to GEHC's (and now Quipt's) consolidated operations. In addition to Focus Respiratory, GEHC operated three other subsidiary firms – AZ-based Valley Respiratory Services Alliance Homecare, AK-WA-OR-based Northwest Medical, and AZ-based Valley Seating & Mobility – all of which we assume will be incorporated into the acquisition and thus into Quipt's national respiratory equipment distribution ecosystem going forward.

Exhibit 3. Summary of T12M EBITDA, Margin and Cash Flow for Quipt Home Medical Shows an Upward Trend on Core Financial Metrics Even Before Assimilating Great Elm Healthcare into Consolidated Operations



Source: Leede Jones Gable

Recent acquisitions that Quipt was able to consummate at or near 1x/5x annual revenue/EBITDA multiples include MS-based Hometown Medical in Jul/22 (T12M revenue/EBITDA of US$7.0M/US$1.4M), LA-based Access Respiratory Homecare in Jun/22 (T12M revenue/EBITDA of US$6.5M/US$1.3M), CA-based NorCal Respiratory also in Jun/22 (T12M revenue/EBITDA of

US$3.2M/US$0.65M), OH-based Good Night Medical in Apr/22 (T12M revenue/EBITDA of US$7.5M/US$1.5M), GA-based Sleepwell LLC in FQ121 (T12M revenue/ EBITDA of US$13.0M/US$3.25M) and FL-based Mayhugh Medical Equipment in FQ122 (T12M revenue/EBITDA of US$7.0M/US$1.6M). These firms exhibited comparable EBITDA margin at/near 20% and were thus qualitatively similar to GEHC even while scale of operations were smaller.

Summary and valuation. For now, our model will assume that GEHC's T12M revenue/EBITDA data will be achievable annually under Quipt's stewardship, though with some EBITDA upside on administrative cost synergies probably achievable by end-of-H223. Accordingly, our model will add annualized revenue of US$60M to our F2023/24 revenue forecasts. Assuming that the transaction closes imminently, we add US$45M to our F2023 revenue forecast, now US$207.6M, and US$60M to our F2024 revenue forecast that we are thus revising upward to US$227.0M. We will assume for now that GEHC's proportion of respiratory equipment rentals vs sales is comparable to the proportion that Quipt has itself recorded in recent quarters (close to half in each category).

Exhibit 4. Competitive Landscape for Quipt Home Medical

Company	Curr	Sym	Shares out (M)	Share price 3-Jan	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	89.7	$0.96	$86	$86	$1,491	$1,491	11.2x	10.4x	7.9x	NA	NA	NA	US-based medical imaging clinic consolidator, focused on Florida & neighboring geographies
Assure Holdings Corp	USD	IONM	19.0	$0.26	$5	$5	$17	$17	NA	NA	26.8x	NA	NA	NA	US-based neuromonitoring services firm, operations in CO, TX, LA, UT
CareRx Corp	CAD	CRRX	51.0	$2.56	$131	$131	$250	$250	8.6x	7.9x	7.0x	NA	NA	NA	ON-based long-term care pharmacy operator
Extendicare Inc	CAD	EXE	85.5	$6.56	$561	$561	$759	$759	9.9x	12.3x	9.5x	NA	NA	26.8x	ON-based long-term care & home health-care services provider
K-Bro Linen Inc	CAD	KBL	10.8	$27.30	$294	$294	$384	$384	10.5x	10.0x	7.3x	57.2x	46.3x	15.5x	AB-based linen/laundry processing firm, focused on healthcare/hospi-tality sectors
Medical Facilities Corp	CAD	DR	26.2	$8.04	$211	$211	$331	$331	4.1x	4.1x	3.7x	31.5x	NA	11.9x	US-based physician-owned surgical hospital operator
Savaria Corp	CAD	SIS	64.4	$13.99	$901	$901	$1,295	$1,295	11.6x	10.7x	9.3x	NA	24.9x	17.5x	QC-based mobility device manufact (elevators, wheel-chairs, stair, lifts)
Viemed Healthcare Inc	CAD	VMD	39.6	$10.27	$407	$407	$284	$284	11.8x	10.0x	7.8x	52.6x	NA	38.0x	LA-based post-acute respiratory services & disease management
Average								$601		9.3x	9.9x		35.6x	22.0x	
US-based & RoW home medical equipment distribution peers															
Adapthealth	USD	AHCO	134.7	$19.22	$2,590	$3,515	$4,679	$6,351	8.1x	7.4x	6.4x	30.2x	23.8x	15.5x	PA-based medical equip provider; 66% equip sales vs 34% rental; 16%
Amedisys	USD	AMED	32.5	$83.54	$2,714	$3,684	$3,206	$4,352	13.2x	12.5x	11.7x	22.6x	17.1x	16.1x	LA-based home healthcare & hospice services provider
Owens & Minor	USD	OMI	76.2	$19.53	$1,489	$2,021	$3,962	$5,377	7.9x	7.5x	6.7x	12.1x	7.7x	8.1x	VA-based med supplies/services in diabetes, wound care, urology, ostomy; acquired Apria for US$1.6B in Q122
Envista Holdings	USD	NVST	163.0	$33.67	$5,490	$7,451	$6,352	$8,621	12.3x	12.3x	11.4x	29.0x	17.5x	16.7x	CA-based dental products developer
Fisher & Paykel Healthcare	NZD	FPH	579.2	NZD 22.6	NZD 13,090	$11,216	NZD 13,187	$11,300	31.7x	21.6x	35.4x	52.3x	34.2x	NA	NZ-based med device developer; respiratory, acute care, obstructive sleep apnea
Inogen Inc	USD	INGN	22.9	$19.71	$452	$613	$242	$329	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	£59.00	£4,020	$6,572	$44	$73	9.0x	7.2x	11.6x	NA	NA	NA	UK-based respiratory care, thermo-regulation, neonatal resusc device developer
Linde PLC	USD	LIN	492.6	$326.18	$160,663	$218,052	$173,556	$235,551	16.5x	16.0x	15.3x	43.2x	27.1x	25.3x	UK-based distributor of industrial gases, acquired FL-based Lincare in Q312, TN-based American Home Patient in Q415
ResMed	USD	RMD	146.5	$208.13	$30,488	$41,378	$31,076	$42,176	26.5x	26.3x	23.1x	38.9x	36.3x	32.1x	CA-based medical equipment producer (respiratory, sleep & SaaS
Vapotherm	USD	VAPO	26.7	$2.70	$72	$98	$140	$190	NA	NA	NA	NA	NA	NA	NH-based ventilator support & nasal cannula developer
Average								$31,432		###	###		23.4x	19.0x	
Quipt Home Medical [1]	USD	QIPT	35.6	$4.66	$166	$166	$161	$161	2.6x	5.4x	4.2x	34.8x	47.9x	44.3x	US-based home medical equip rental/sales, respiratory care

[1] *QIPT share price indicated in USD, was C$6.51 on TSX at Jan 3/23*

Source: Refinitiv, Leede Jones Gable

As per Quipt's description of acquisition costs, we now incorporate US$78M in new pro forma debt into our EV calculation (US$73M as drawdown on the line of credit, plus assumption of US$5M in debt that GEHC was carrying on its own balance sheet, both added to FQ422 debt of US$10.9M), and we now add 0.43M new QIPT shares to capital structure as a separate component of GEHC acquisition cost. We thus now calculate Quipt's pro forma debt in aggregate to be US$88.9M (we assume FQ422 cash is unchanged at US$8.5M, though FQ123 operating cash flow has likely lifted that value higher on a pro forma basis) and fd S/O of 39.7M.

In parallel, and with F2022 financial data fading in our rear-view mirror, we are shifting the reference year in our EV/EBITDA-based valuation methodology to F2024 (was F2023 previously), with our model projecting F2024 adjusted EBITDA of US$49.4M, quite close to Quipt's own expectations for annualized EBITDA post-consolidation. However, our EBITDA projection does not incorporate any overt assumptions on future EBITDA contribution from new acquisitions and our expectations that Quipt will layer on new acquisitions (probably in states where it already has flagship operations) during our forecast period are high.

Modest PT increase on acquisition-driven EBITDA growth into F2024. We are revising our quarterly interest expense forecast to about US$2.2M (10% interest rate) throughout F2023/24 and thus assume no scheduled debt repayment during that time. Though interest expense does not directly impact our EBITDA forecast and thus does not impact our valuation methodology as such, we believe that we are justified in reducing the multiple that we ascribe to our F2024 EBITDA forecast to 8x from 12x on that basis alone (Exhibit 2). Accordingly, by applying a 8x EV/EBITDA multiple to our F2024 EBITDA forecast of US$49.4M, while incorporating pro forma balance sheet and share structure data into our EV calculation (pro forma debt of US$88.9M, FQ422 cash of US$8.5M, fd S/O of 39.7M), we now derive a new one-year PT for QIPT of C$16.25 (was C$15.00) while maintaining our BUY rating on the stock.

As we described on our FQ422 quarterly update research comment published late last month, we continue to be impressed by Quipt's ability to scale operations without sacrificing EBITDA margin or operating cash flow generation, even with inflationary cost escalation and labor constraints producing operational headwinds across most healthcare services firms, and we expect that trend to continue. Key macro factors that should facilitate margin stability include the scheduled increase in CPI-based Medicare funding increases of 6.4%-to-9.1% next year, and the elimination of the requirement for respiratory patients to receive physician-endorsed certificates of medical necessity before actively seeking out home-based respiratory care, a long overdue initiative that should enhance Quipt's annual patients served. At current levels, our revised PT corresponds to a one-year return of 149.6%.

Disclosures none

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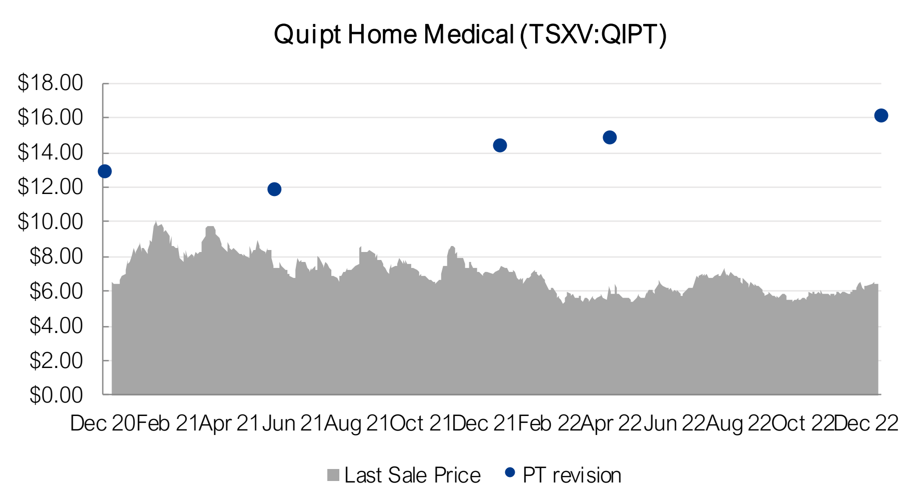
Rating Distribution

RECOMMENDATION	NO. OF COMPANIES	%
Buy	9	41%
Speculative Buy	7	32%
Hold	6	27%
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