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QIPT-TSXV/QIPT-NASDAQ

Rating:	**Buy**
Target:	**C$16.25**
Price:	C$8.71
Return:	86.6%
Valuation:	10x EV/EBITDA (F2024 forecast)

Market Data

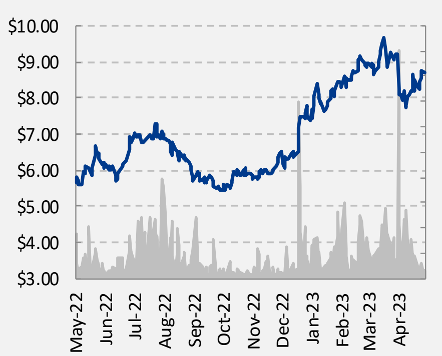
Basic Shares O/S (M)	42.0
FD Shares O/S (M)	47.1
Market capitalization (US$M)	271.8
Pro forma Ent Val (US$M)	319.0
Pro forma cash (US$M)	32.0
Pro forma LT debt (US$M)	79.1
52 Week Range	$5.33-$9.75
Avg. Weekly Volume (M)	0.62
Fiscal Year End	Sep-30

Financial Metrics

In US$	F2022A	F2023E	F2024E
Total Revenue (US$000)	139,862	216,048	237,760
EBITDA (US$000)	29,381	48,388	53,679
Net Income (US$000)	4,838	5,899	3,798
EPS (basic, US$)	$0.14	$0.17	$0.11
EPS (FD, US$)	$0.13	$0.15	$0.10
P/E	*NA*	*45.3x*	*37.2x*
EV/EBITDA	*14.9x*	*10.9x*	*6.6x*

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 FQ223 financial data for the March-end quarter that continued Quipt's upward trend on both revenue and EBITDA, driven substantially by recent acquisitions that are now fueling y/y growth on both metrics, but impressively without sacrificing EBITDA margin in the process. We are confident that capital markets will in time recognize the operating excellence that makes margin stability like this happen in an acquisition-laden background, and this prediction is a major element fueling our positive regard for Quipt and its market value potential.

Bottom line. The acquisition of MA-based Great Elm Healthcare LLC (GEHC) in Jan/23 had a major impact on sequential revenue/EBITDA growth in the quarter, with the firm generating FQ223 data of US$58.4M/US$13.0M that was sequentially up from FQ422 revenue/EBITDA of US$40.8M/US$9.0M. This thus shows us that Great Elm is already contributing at or above its trailing annual revenue/EBITDA performance prior to acquisition of US$60M/US$13.0M, for which quarterly contribution would of course be US$15.0M/US$3.25M.

Quipt's sequential growth was higher than that on both metrics. Our model assumed that Great Elm would positively contribute to Quipt's consolidated EBITDA margin if its trailing operating performance could be sustained, as it appears to have been, and so we are encouraged to see that Quipt's recorded sequentially stable EBITDA margin of 22.4% as compared to 22.2% in FQ422. With few exceptions, Quipt has sustained quarterly EBITDA margins at or above 20% since FQ120. Our model assumes that EBITDA and margin stability can be sustained throughout our forecast period and thus through F2023/24, though we are optimistic that the firm can continue to identify attractively-valued respiratory equipment distribution peers with available cash and its credit line, 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 86.6%.

No major surprises on Quipt's FQ223 financial performance – lather, rinse, repeat on strong EBITDA and cash flow generation. Shifting to cash flow, Quipt generated FQ223 pure operating cash flow of US$9.8M, or US$0.21/shr, which was up solidly from FQ123 operating cash flow of US$8.1M (US$0.20) though not quite as dramatically up sequentially as EBITDA was. Working capital was essentially in balance in the quarter at a slight surplus of US$0.15M after being in modest deficit of (US$3.3M) in FQ123, largely on a transient payables/accrued liabilities deficit in the prior period. Taken together, Quipt's FQ223 working capital-adjusted operating cash flow of US$10.0M (US$0.21/shr) was thus up sharply from US$4.8M (US$0.12/shr) in FQ123, a solid indicator of Great Elm's already-positive contribution to both EBITDA and cash flow.

Quipt's debt-based financial ratios were well within safe limits even after taking on historically high LT debt to fund the Great Elm acquisition. On the balance sheet, the firm's investment activities were dominated by a US$72.7M outlay to fund the Great Elm acquisition in the quarter, offset by augmenting LT debt by US$69.1M (this value includes incremental debt repayment in the period) and thus giving Quipt a new and substantial debt level of US$79.1M, a level that the firm can sustain and support associated quarterly financial costs with foundational operations. Accordingly, Quipt's debt-based ratios, which has been trivial-to-nonexistent in prior quarters, were still attractive in absolute terms even with new debt levels on the balance sheet.

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	123,710	137,473
Rental of medical equipment & supplies	50,511	42,294	45,740	41,618	55,338	70,954	92,338	100,287
Total revenue	$76,369	$76,863	$80,967	$73,285	$102,351	$139,862	$216,048	$237,760
Revenue growth (%)	*NA*	*0.6%*	*5.3%*	*(9.5%)*	*39.7%*	*36.6%*	*54.5%*	*10.0%*
Direct costs	22,256	23,349	23,527	20,111	28,172	33,213	55,433	61,635
SG&A/other expense	53,056	35,981	36,896	32,472	44,805	59,859	93,492	99,429
EBITDA	$1,057	$12,307	$14,858	$15,519	$21,417	$29,381	$48,388	$53,679
EBITDA growth (%)	*NA*	*NA*	*NA*	*4.4%*	*38.0%*	*37.2%*	*64.7%*	*10.9%*
EBITDA margin (%)	*1.4%*	*16.0%*	*18.4%*	*21.2%*	*20.9%*	*21.0%*	*22.4%*	*22.6%*
Non-operating expenses	$26,302	$17,403	$19,485	$15,069	$22,877	$24,795	$44,050	$51,511
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	$5,899	$3,798
Fully-taxed EPS (basic)	($0.36)	($0.09)	($0.12)	($0.10)	($0.20)	$0.14	$0.17	$0.11
Fully-taxed EPS (fd)	($0.34)	($0.08)	($0.38)	($0.09)	($0.17)	$0.13	$0.15	$0.10
P/E (basic)	*NA*	*NA*	*NA*	*NA*	*NA*	*45.3x*	*37.2x*	*57.7x*
EV/EBITDA	*NA*	*25.9x*	*21.5x*	*20.6x*	*14.9x*	*10.9x*	*6.6x*	*5.9x*

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

With FQ223 EBITDA of US$13.0M and interest expense in the quarter of US$2.0M, EBITDA-to-interest coverage ratio was well within safe territory at 6.5x. Debt-to-FQ223 EBITDA run-rate ratio was 1.5x, obviously higher than trailing ratios that were 0.2x-to-0.3x in FQ422-to-FQ123 but still well below the 3x level that we usually consider to be cautionary for healthcare services firms to which sizable tangible asset/real estate ownership does not apply.

Exhibit 2. Valuation Summary for Quipt Home Medical

EV/EBITDA multiple	5x	7.5x	10x	12.5x	15x	17.5x
Implied share price [1]	$6.70	$9.55	$12.39	$15.24	$18.09	$20.94
One-year QIPT target price (US$) [1,2]			$12.39			
One-year QIPT target price (C$) [3]			$16.69			

[1] *Based on adjusted F2024 EBITDA of US$53.7M; EV incorporates FQ223 total debt of US$79.1M, giving effect to new debt to fund the Great Elm Healthcare acquisition in the quarter*

[2] *Pro forma cash of US$32.0M gives effect to net proceeds from April/23 equity offering; pro forma fully-diluted S/O of 47.1M*

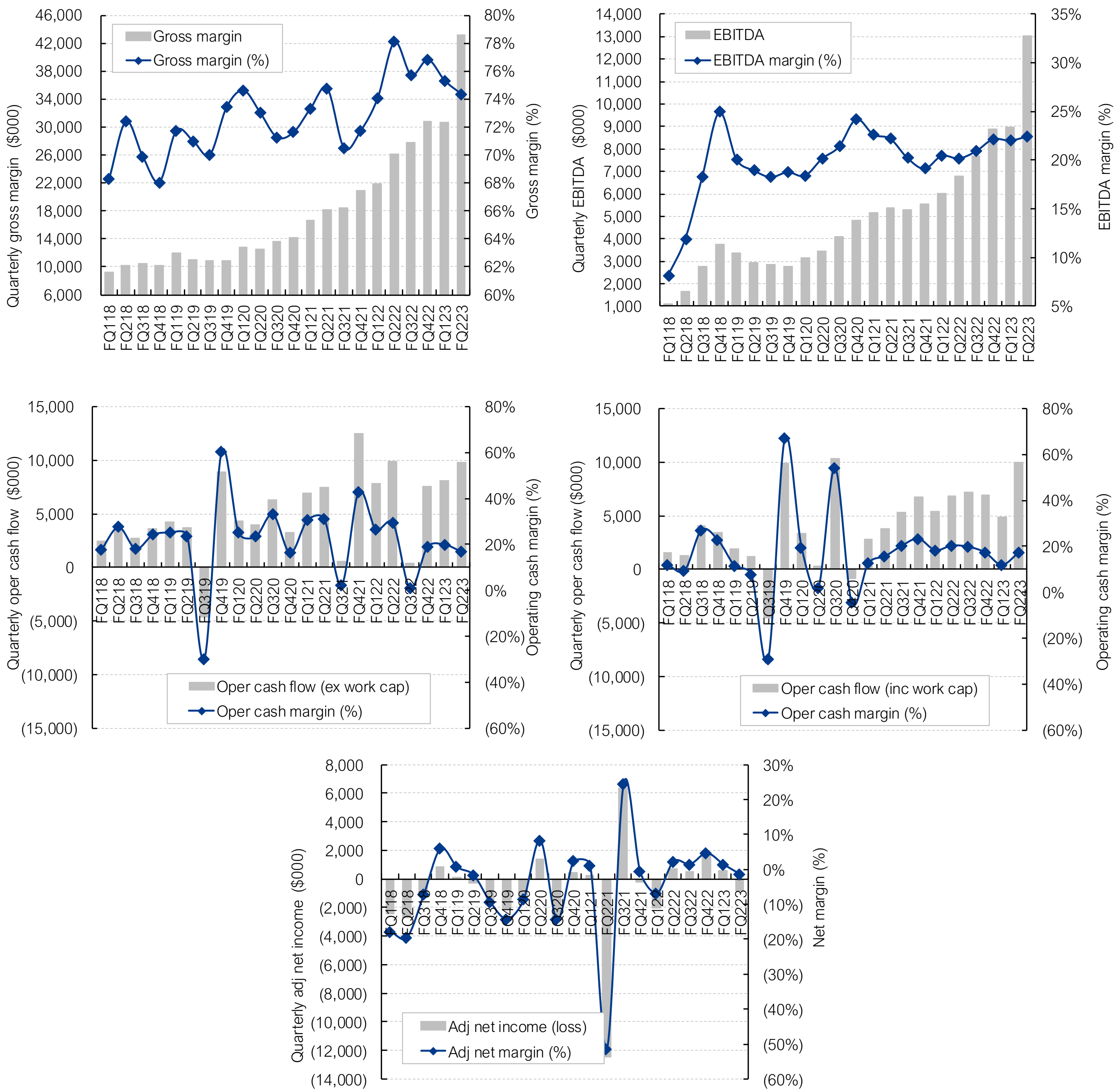
[3] *Assumes a USD:CAD exchange rate of 1.35x*

Source: Leede Jones Gable

FQ223 gross margin experiences a trivial sequential decline while still holding firm at near its own historic highs and industry standards. Quipt's FQ223 gross margin of 74.3% was only slightly down from FQ123 gross margin of 75.3% and FQ422 gross margin of 76.8%, but still strong in absolute terms and sustainably at levels that we would consider positive even for a specialty pharmaceutical firm in our coverage universe, for which gross margins of 75% or higher are the norm. We stand by our view that gross margin at or near FQ223 level is positive to our investment thesis and especially so when a new sizable acquisition was infused into consolidated operations in the relevant quarter.

Bad debt continued to trend favorably in FQ223. Bad debt provision as a proportion of total revenue declined fairly dramatically in the quarter to 4.3% from 5.6% in FQ123, which itself was down from 8.1% in FQ422 and from 9.3% in FQ322. Accordingly, we are encouraged by Quipt's ability to limit its bad debt/uncollectible receivables to ever-declining thresholds that themselves are positive to EBITDA and margin.

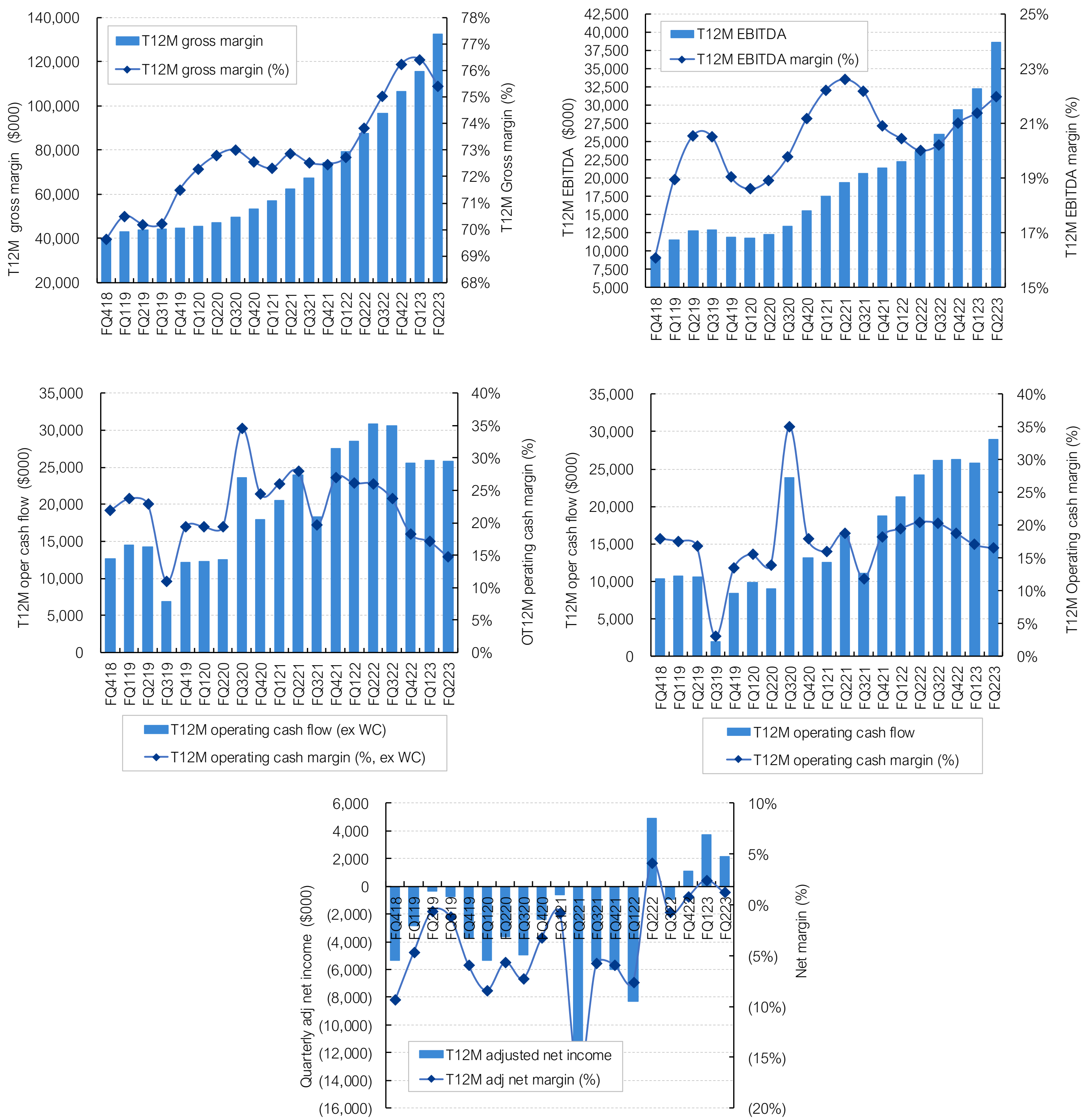
Exhibit 3. Summary of Quarterly EBITDA, Margin and Cash Flow Data for Quipt Home Medical – Great Elm Acquisition Drives EBITDA Growth with No Margin Compression, Strong Evidence of Management Acumen on Asset Integration



Source: Leede Jones Gable

Measurable revenue shift to respiratory equipment sales vs rentals, a trend that we expect to continue into FH223. Quipt's respiratory equipment sales were disproportionately up in the quarter as compared to equipment rentals, with FQ223 equipment sales of US$33.6M up sequentially by US$11.2M while equipment rental revenue of US$24.5M was up US$6.1M from FQ123 level. We infer that Great Elm's legacy respiratory equipment distribution operations were heavily weighted to equipment sales vs rentals, and thus we expect a similar proportion of sales vs rental revenue from Quipt going forward.

Exhibit 4. Summary of T12M EBITDA, Margin and Cash Flow Data for Quipt Home Medical – Sustainable Upward Trend, with Specific Impact from Great Elm Acquisition in FQ223



Source: Leede Jones Gable

Quipt did state in its Jan/23 conference call describing the Great Elm acquisition that Great Elm derived a sizable proportion of its revenue from recurring sources, 88% on a T12M basis, and the firm operated in several distinct US states where Quipt did not previously have respiratory equipment distribution hubs (AK, WA, OR, AZ, AR, KS, NE, & IA, to be specific, with AR being the only state in which Quipt operated before). Quipt's revenue mix was expected to undergo an upward shift in the proportion of private pay clients, which we assume transpired in the quarter, with a slight shift in relative proportion of Medicare vs Medicaid-funded clients from 34%/9% to 38%/7% that we believe would have had an independently positive impact on revenue/EBITDA and margin.

Exhibit 5. Competitive Landscape for Quipt Home Medical

Company	Curr	Sym	Shares out (M)	Share price 16-May	Mkt cap ($M) (curr)	Mkt cap ($M) (C$)	Ent val ($M) (curr)	Ent val ($M) (C$)	EV/EBITDA (T12M)	EV/EBITDA FY23	EV/EBITDA FY24	Price/Earnings (T12M)	Price/Earnings FY23	Price/Earnings FY24	Company description
Canadian Healthcare Services Firms															
Akumin Inc	CAD	AKU	90.5	$0.53	$48	$48	$1,485	$1,485	10.1x	9.7x	8.2x	NA	NA	NA	US-based medical imaging clinic consolidator, focused on Florida & neighboring geographies
Assure Holdings Corp	USD	IONM	1.1	$1.09	$1	$1	$13	$13	NA	NA	9.9x	NA	NA	NA	US-based neuromonitoring services firm, operations in CO, TX, LA, UT
CareRx Corp	CAD	CRRX	57.4	$2.27	$130	$130	$225	$225	8.5x	7.4x	5.9x	NA	NA	28.4x	ON-based long-term care pharmacy operator
Extendicare Inc	CAD	EXE	84.5	$7.28	$615	$615	$903	$903	13.3x	10.2x	10.0x	NA	27.0x	23.1x	ON-based long-term care & home health-care services provider
K-Bro Linen Inc	CAD	KBL	10.8	$29.69	$320	$320	$414	$414	NA	8.3x	7.3x	NA	22.9x	16.1x	AB-based linen/laundry processing firm, focused on healthcare/hospi-tality sectors
Medical Facilities Corp	CAD	DR	25.4	$8.60	$218	$218	$335	$335	4.0x	4.7x	4.7x	31.8x	10.6x	16.1x	US-based physician-owned surgical hospital operator
Savaria Corp	CAD	SIS	64.5	$17.00	$1,097	$1,097	$1,445	$1,445	11.5x	10.7x	9.7x	30.5x	26.5x	19.5x	QC-based mobility device manufact (elevators, wheel-chairs, stair, lifts)
Viemed Healthcare Inc	CAD	VMD	39.7	$14.57	$579	$579	$404	$404	16.0x	10.3x	8.2x	NA	45.2x	28.9x	LA-based post-acute respiratory services & disease management
Average								$653		8.7x	8.0x		26.4x	22.0x	
US-based & RoW home medical equipment distribution peers															
Adapthealth	USD	AHCO	134.2	$11.11	$1,491	$2,007	$3,614	$4,866	6.4x	5.6x	5.0x	38.4x	14.5x	12.4x	PA-based medical equip provider; 66% equip sales vs 34% rental; 16% is respiratory
Amedisys	USD	AMED	32.6	$74.49	$2,427	$3,268	$2,832	$3,814	13.6x	11.9x	11.1x	21.7x	17.5x	15.8x	LA-based home healthcare & hospice services provider
Owens & Minor	USD	OMI	76.2	$19.30	$1,471	$1,980	$3,766	$5,071	8.8x	6.9x	6.1x	NA	13.6x	9.0x	VA-based med supplies/services in diabetes, wound care, urology, ostomy; acquired Apria for US$1.6B in Q122
Envista Holdings	USD	NVST	163.7	$34.19	$5,597	$7,536	$6,396	$8,613	13.2x	12.0x	10.8x	28.6x	18.4x	16.1x	CA-based dental products developer
Fisher & Paykel Healthcare	NZD	FPH	579.4	NZD 26.9	NZD 15,568	$13,080	NZD 15,666	$13,163	37.7x	36.2x	30.2x	NA	NA	50.5x	NZ-based med device developer; respiratory, acute care, obstructive sleep apnea
Inogen Inc	USD	INGN	23.1	$10.81	$250	$337	$75	$101	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	68.2	£42.00	£2,866	$4,834	$39	$67	14.5x	10.3x	6.3x	NA	NA	NA	UK-based respiratory care, thermo-regulation, neonatal resusc device developer
Linde PLC	USD	LIN	489.6	$365.90	$179,144	$241,217	$194,325	$261,658	17.8x	16.3x	15.4x	40.7x	26.6x	24.3x	UK-based distributor of industrial gases, acquired FL-based Lincare in Q312, TN-based American Home Patient in Q415
ResMed	USD	RMD	146.9	$228.73	$33,607	$45,252	$34,965	$47,081	27.2x	25.9x	23.0x	39.0x	35.1x	31.1x	CA-based medical equipment producer (respiratory, sleep & SaaS
Vapotherm	USD	VAPO	46.2	$0.62	$29	$39	$102	$138	NA	NA	NA	NA	NA	NA	NH-based ventilator support & nasal cannula developer
Average								$34,457		15.7x	13.5x		20.9x	22.7x	
Quipt Home Medical [1]	USD	QIPT	41.8	$6.47	$270	$270	$319	$319	9.6x	6.7x	5.6x	31.4x	NA	23.2x	US-based home medical equip rental/sales, respiratory care

Source: Refinitiv, Leede Jones Gable

Volumes of new equipment deliveries and set-ups climbed in the quarter, with expected impact from Great Elm acquisition early in the quarter. Shifting to operating metrics, Great Elm has a predictably positive impact on number of patients served (137,748, up sizable from 78,273 last year), number of equipment set-ups and deliveries (198,101 vs 118,878 last year), and respiratory resupply or delivery volumes that were up even higher than the preceding two metrics at 106,486 vs 50,713 last year. Recall that Quipt predicted that its annual equipment deliveries and set-ups would exceed 690,000 post-Great Elm acquisition and with 198,101 already reported in FQ223 alone, it seems clear to us that that annual estimate is if anything conservative. Quipt reiterated that it believes itself to be the fifth largest provider of respiratory-focused durable medical equipment in the US, probably exceeded by key diversified competitors like Linde plc/Lincare (LIN-NY, NR) and AdaptHealth (AHCO-Q, NR), to name two.

Summary and valuation. As indicated above, we are **maintaining our Buy rating and PT of C$16.25 on QIPT**, with our investment thesis continuing to be well-supported by Quipt's ability to drive stable operating cash flow, EBITDA and margins while sustainably growing top-line through both organic and acquisitive growth and with core operating metrics showing sustained improvement in ways that are fueling revenue/EBITDA growth. We continue to value QIPT based on our F2024 EBITDA forecast of US$53.7M, a level that we believe is achievable next year (FQ223 EBITDA run-rate is US$52M) through organic growth of its existing trans-national footprint in the respiratory medical equipment distribution industry and without assuming any acquisitive growth, though we assume that the firm will continue to actively seek out attractively-valued tuck-in acquisitions and consummate transactions whenever suitable valuation metrics apply.

We now deploy revised pro forma fully-diluted S/O of 47.1M that include new shares issued in Apr/23, while basing our EV calculation on pro forma cash of US$32.0M and FQ223 total debt of US$79.1, as shown in Exhibit 2. As we show in the exhibit, we now incorporate a 10x EV/EBITDA multiple into our valuation (was 8x) to more closely match multiples ascribed to Quipt's US healthcare services and equipment distribution peers, as shown in Exhibit 5 (Canadian EBITDA-positive healthcare-focused peers are trading at 8.0x F2024 EBITDA while US peers are trading at an average of 13.5x). We are comfortable with that magnitude of multiple expansion embedded into our valuation, based on Quipt's sustained operating excellence, EBITDA growth and margin stability. Despite taking on a sizable debt burden to fund Great Elm, debt-based financial ratios are still well within safe territory and are comfortably fundable by existing operations, even if the firm were to trip over a soft quarter or two in coming years. At current levels, our PT corresponds to a one-year return of 86.6%; the stock is up 50.2% since we initiated coverage under the Leede Jones Gable banner in Dec/20.

Disclosures 4

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7. The director, officer, employee, or research analyst is an officer, director or employee of the company, or serves in an advisory capacity to the company.
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9. The analyst has conducted a site visit and has viewed a major facility or operation of the issuer.
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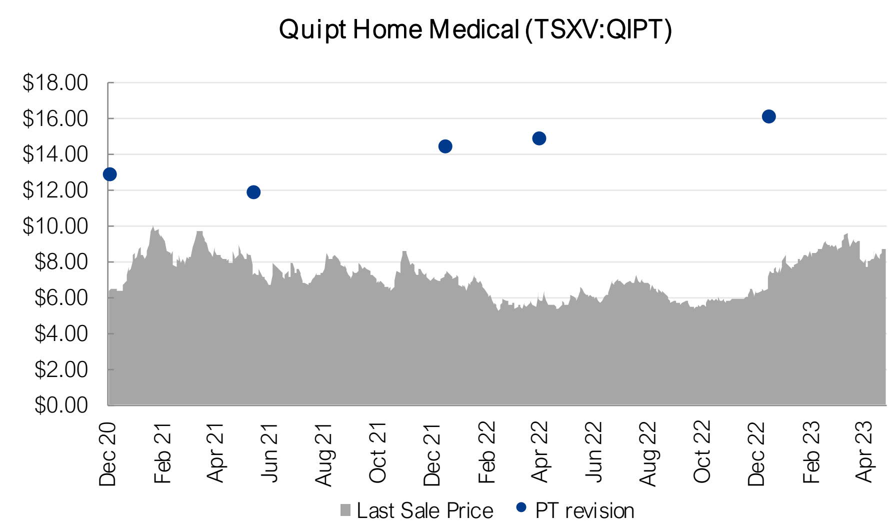
RECOMMENDATION	NO. OF COMPANIES	%
Buy	9	41%
Speculative Buy	8	36%
Hold	5	23%
Sell	-	-
Tender	-	-
Under Review	-	-

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