

BUY

Price C\$6.02 (intraday 9/19/22)

FLASH NOTE**\$110mm senior credit facility supports expansion of home hospital network****Summary**

QIPT announced the closing of \$110mm in senior secured credit facilities, above the original amount of \$80mm. The credit facility with CIT Bank, consists of a \$5mm term loan facility, a \$85mm delayed draw term loan, and a \$20mm revolving credit facility, at an estimated rate of LIBOR +2.0% to 2.5%. We see the credit facility as helping fund an active M&A program with a track record of success consisting of 19 transactions made since 2018, and highlighting potential catalysts ahead. We also see QIPT as continuing to exercise discipline in operating at reasonable debt ratios, given the rising interest rate environment and preference among investors to avoid higher leveraged stocks. More broadly, we continue to see home healthcare as an important part of the healthcare ecosystem and a recent take-out of Signify Health by CVS for US\$8b helps validate this view. QIPT continues to trade at only 5x EBITDA.

Key Points

About Signify Health Transaction: The announced acquisition of Signify Health by CVS for ~US\$8b highlights M&A interest in healthcare assets and the movement towards treating patients in the home setting. CVS, the largest pharmacy chain in the US at ~10k stores, employs ~40k physicians, pharmacists, nurses and nurse practitioners. It plans to close ~900 stores over the next three years, and shift its focus to home care delivery through Signify's platform of doctors who make house calls. We view this transaction positively for QIPT, which operates a home healthcare network for respiratory services, as it validates the value of home healthcare and demonstrates take-out interest in this space. Signify Health operates a network of doctors who deliver care to ~2.5 million patients across the US. The business will generate an estimated US\$925mm in 2022E revenue and US\$220mm in adj. EBITDA, which translates to ~9x 2022E sales and ~36x EBITDA, and provides valuation support for QIPT at ~5x 2022E EBITDA. This transaction also follows a series of others, including 1LifeHealthcare by Amazon (\$3.9b), LifeWorks by Telus (\$2.9b) and Apria by Owens & Minor (\$1.6b), illustrating overall interest in acquiring healthcare assets at this time.

Figure 1 - Major healthcare transactions announced/closed in 2022

Target	Acquirer	Consideration	Revenue	EV/Sales	EV/EBITDA
Signify Health	CVS Health	US\$8b	US\$0.9b (2022E)	8.7x	36.3x
1LifeHealthcare	Amazon	US\$3.9b	US\$1.1b (2022E)	3.7x	NA
LifeWorks	Telus	C\$2.9b	C\$1.0b (2021A)	2.8x	17.0x
Apria	Owens & Minor	US\$1.6b	US\$1.1b (2021A)	1.4x	6.9x

Source: Company filings, Stifel GMP

Rating: QIPT trades at a discount of 5x EBITDA vs. peers at 11x. The disconnect in valuation could be, in part, from the TSX-only listing until May 2021, despite 100% of the sale being generated in the U.S. and the stock still remaining under the radar. We expect this valuation gap to narrow as QIPT continues to buy and build scale and hits its C2022 exit guidance of \$180mm-190mm with +20% EBITDA margins.

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 7.5x 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.

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Quipt Home Medical Corp. (QIPT CN) as of September 16, 2022 (in CAD)



*Represents the value(s) that changed.

Buy=Buy; Speculative Buy=Spec. Buy; Hold=Hold; Sell=Sell; Discontinued=Discontinued; Suspended=Suspended; 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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¹ This rating is only utilised by Stifel Canada.

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