

BUY

ANALYSIS OF SALES/EARNINGS

Financial Summary		
Changes	Previous	Current
Rating	—	Buy
Target Price	—	C\$12.75
FY22A EPS	—	\$0.13
FY23E EPS	\$0.38	\$0.34
FY22A Revenue	—	\$139.9
FY23E Revenue	\$245.2	\$240.0
Price ( 02/14/23 ):		
		C\$8.45
52-Week Range:		
		C\$9 - C\$5
Market Cap.(mm):		
		\$244.4
Shr.O/S-Diluted (mm):		
		38.6
Enterprise Val. (mm):		
		\$345.3
Avg Daily Vol (3 Mo):		
		71,309
Dividend / Yield:		
		C\$0.00 / 0.0%
Net Debt (mm):		
		C\$101
FYE		
		Sep
Price: Intraday 2-14-23.		

	2021A	2022A	2023E
Revenue	\$102.4A	\$139.9A	\$240.0
EV/Rev	3.4x	2.5x	1.4x
EBITDA	\$21.4A	\$29.2A	\$54.6
EV/EBITDA	16.1x	11.8x	6.3x
EPS	\$(0.20)A	\$0.13A	\$0.34

Figures are denominated in USD.

Price Performance



FQ1: High growth phase

Summary

QIPT, a home healthcare network in the U.S., reported good and roughly in-line FQ1 (end Dec.) results, demonstrating continued substantial expansion with a well-documented growth by M&A model (table below). Q1 sales grew 38% YoY, (8% annualized organic growth) with EBITDA growing faster at 50%, including 200bps in margin expansion, demonstrating operating leverage. The company completed its largest acquisition to-date at year-end of Great Elm Healthcare for US\$80mm at 5x EBITDA (post synergies) and setting up for continued high growth, including from 2023 price increases. QIPT's annualized run-rate in sales/EBITDA is US\$220mm/US\$49mm vs. US\$140mm/US\$29mm in 2022, highlighting the high growth phase. QIPT trades at ~6x 2023 EBITDA, and we expect valuation to expand as high growth metrics contribute.

Key Points

FQ1 results summary

- **Q1 2023 revenue** was US\$40.8mm, up 2% sequentially and 38% YoY, vs. consensus at US \$42.5mm. Organic growth increased 2% sequentially and 8% annualized. QIPT has guided for 8-10% organic growth.
  - Respiratory resupply set-ups and/or deliveries increased 36% YoY from 51,137 to 69,482.
  - Customer base increased 32% annually from 75,309 to 99,420 unique patients.
  - Unique set-ups/deliveries increased 24% YoY from 118,100 to 146,350.
- **Gross Margin** was 75.3%, up ~126 bps YoY
- **Adjusted EBITDA** was US\$9.0mm (22.0% margin), up 7% sequentially and 50% YoY from US\$6.0mm (20.3% margin) YoY, in-line with consensus at US\$9.1mm (22.4% margin).
- **Profit:** QIPT reported a net income of US\$0.3mm (US\$0.01 per diluted share), compared to a net loss of US\$2.1mm (\$US0.06 loss per diluted share) YoY.
- **Cash flow:** QIPT generated US\$4.8mm in cash from its operations for Q1, compared to US \$5.1mm YoY
- **Balance sheet:** QIPT finished Q1 2023 with US\$3.7mm in cash & equivalents, US\$16.9mm available towards its line of credit and US\$85mm available on its delayed draw term loan. Post the Great Elm Healthcare acquisition, the company has a net debt/pro-forma EBITDA of ~2x.
- **2023 Guidance:** Management anticipates organic growth to meet or surpass historical levels of 8-10% in 2023.

Key Investment Highlights:

- **NASDAQ-listed Home healthcare company under the radar:** QIPT is a 100% U.S. business, providing respiratory services at 80% of sales. The company has grown at a 3-year, 30% CAGR in sales and 40% in EBITDA but still largely under the radar with only a recent NASDAQ up-listing.
- **Recession resilient business model with new price increases:** QIPT's business alleviates strain at hospitals by providing at-home care for mainly patients with COPD. Further, a 2023 Medicare price increase of 6.4 to 9.1% provides visibility into good recession resilient organic growth.
- **M&A playbook that works with +20 transactions:** The CEO, founder and Chairman, Greg Crawford has executed on 20+ transactions (table below) at ~3-5x EBITDA with an M&A

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playbook that works. QIPT generally acquires small companies that fly under the radar of larger peers.

- **Valuation is cheap as take-out potential increases with scale:** QIPT trades at ~6x C2023 EBITDA, a 40% discount to peers at 10x. The discount in valuation is in-part due to lower scale but QIPT just acquired Great Elm health for US\$80mm that adds 40% in sales and EBITDA. We also see greater take-out potential as new scale shows, including possible interest from private equity.

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:** QIPT trades at a discount valuation of ~6x C2023e EBITDA vs. peers at ~11x. QIPT 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 C \$12.75 maintained 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	Q2/23E	Q3/23E	Q4/23E	2023e
Revenue	\$mm	\$98	\$102	\$30	\$34	\$37	\$40	\$140	\$41	\$57	\$66	\$76	\$240
COGS	\$mm	\$27	\$28	\$8	\$7	\$9	\$9	\$33	\$10	\$14	\$15	\$17	\$57
Gross Profit	\$mm	\$71	\$74	\$22	\$26	\$28	\$31	\$107	\$31	\$44	\$50	\$59	\$183
Margin	%	73%	72%	74%	78%	76%	77%	76%	75%	76%	77%	77%	76%
OPEX	\$mm	\$70	\$76	\$23	\$26	\$27	\$25	\$101	\$29	\$40	\$45	\$52	\$167
Adj. EBITDA	\$mm	\$21	\$21	\$6	\$7	\$8	\$8	\$29	\$9	\$13	\$15	\$18	\$55
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	\$0.07	\$0.11	\$0.15	\$0.34
Cash flow Statement		2020	2021e	Q1/22	Q2/22	Q3/22	Q4/22	2022	Q1/23	Q2/23E	Q3/23E	Q4/23E	2023e
Cash from Ops	\$mm	\$18	\$19	\$5	\$7	\$7	\$7	\$26	\$5	\$2	\$1	\$7	\$15
Cash from Investing	\$mm	(\$11)	(\$18)	(\$5)	(\$15)	(\$14)	(\$8)	(\$42)	(\$1)	(\$73)	\$0	\$0	(\$74)
Cash from Financing	\$mm	\$19	\$4	(\$5)	(\$5)	\$9	(\$9)	(\$10)	(\$8)	\$73	\$0	\$0	\$65
Free Cash Flow	\$mm	\$13	\$14	\$4	\$4	\$5	\$4	\$17	\$4	\$2	\$1	\$7	\$13

Source: Stifel estimates, Company disclosures

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### Quipt Home Medical Corp. (QIPT CN) as of February 13, 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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