

February 2, 2022

Quipt Home Medical Corp. (QIPT)

Solid Finish to F21; Lifting our F22 Outlook, PT \$8

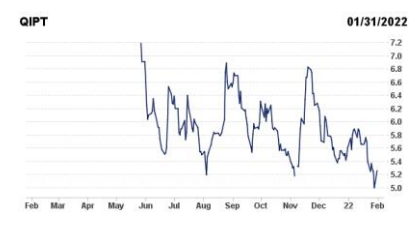
Raising Target Price

► We reiterate our Buy rating and lift our PT to \$8 (from \$7.50) following QIPT's solid F21 earnings release and reiteration of C2022 year-end targeted revenue and Adj EBITDA run rates. We are lifting our outlook for F2022 and initiating a F2023 forecast, though we remain modestly below management's outlook pending additional acquisition(s) with ~\$12M of annual revenue. We also model organic revenue growth of nearly 10% in F22, in line with the level achieved the last three years despite COVID-related headwinds impacting business development efforts. Quipt now has reached 170,000 active patients, 19,000 referring physicians and 76 locations throughout 15 states. In a nearly \$60B market that is growing more than 5% and highly fragmented, QIPT has established a 3-year revenue CAGR of nearly 30% comprised of a disciplined M&A strategy and nearly 10% organic growth, which management believes can accelerate with increasing focus on faster growing respiratory products and services (now 80% of Quipt's book), reimbursement tailwinds and plans to double the sales team by the end of this year. The company's 3-5-year objective calls for a similar trend line to reach \$250+M in revenue and a 25%+ EBITDA margin. At our PT of \$8, C2022 EV/EBITDA would be 7.2x, a discount to the median peer group valuation that we apply to offset QIPT's lower liquidity.

► **Reports solid finish to F21.** For the fiscal year ended 9/30, revenue rose 41% (10% organic) to \$102.4M, 77% of which was recurring. For F4Q, revenue rose 61% to \$29.1M vs our \$27.4M estimate. FY21 Adj EBITDA was \$21.4M, a 21.1% margin; F4Q Adj EBITDA was \$5.5M, a 19.2% margin, and vs our \$5.9M estimate. The F4Q margin was impacted by higher operating expenses reflecting the high level of M&A activity and lower pre-integration expenses. FY21 CF from operations was \$18.7M, up 33%, helped by a one point drop in bad debt expense to 8%.

► **Lifting our F22 outlook and initiating F23 estimates.** We are lifting our outlook for F2022, though we remain modestly below management's outlook pending additional acquisition(s) with ~\$12M of annual revenue. (We have assumed that an LOI for a respiratory care company with \$14M of revenue signed 11/22 will close by the end of February.) We also model organic revenue growth of nearly 10% in F22, in line with the level achieved the last three years despite COVID-related headwinds impacting business development efforts. We look for Adj EBITDA margins to improve during F22 and into F23 with full integration of recent deals. In all we forecast F22 revenue of \$156.7M, up 53%, and Adj EBITDA of \$32.1M, a 20.5% margin vs 20.9% in F21 reflecting high level of acquisition integration. For F23, we model revenue of \$179.5M, up 14.5% y/y, which reflects only incremental revenue from deals currently announced and 10% organic growth. We model Adj EBITDA of \$38.1M, a 21.2% margin.

| Rating: | Buy |
|-------------------------|-----------------|
| Current Price | \$5.42 |
| Price Target | \$8.00 |
| 52-Wk Range | \$4.96 - \$8.40 |
| Shares Outstanding (M) | 33.3 |
| Market Cap (M) | \$180 |
| Enterprise Value (M) | \$156 |
| Avg Vol (30 day) (000s) | 49 |
| Net Debt (M) | \$-22.80 |
| Sector Weight | Overweight |


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| FY Sep | | Q1 | Q2 | Q3 | Q4 | Total EV/EBITDA | EV/Rev |
|-------------|-------|---------|---------|---------|---------|-----------------|--------|
| EBITDA | 2021A | \$5.1A | \$5.4A | \$5.3A | \$5.5A | \$21.4A | 7.3x |
| | 2022E | \$7.1E | \$7.7E | \$8.4E | \$8.8E | \$32.1E | 4.9x |
| | 2023E | \$9.0E | \$9.4E | \$9.7E | \$10.0E | \$38.1E | 4.1x |
| Revenue (m) | 2021A | \$22.8A | \$24.2A | \$26.2A | \$29.1A | \$102.4A | 1.5x |
| | 2022E | \$35.6E | \$38.0E | \$40.9E | \$42.2E | \$156.7E | 1.0x |
| | 2023E | \$43.2E | \$44.3E | \$45.4E | \$46.5E | \$179.5E | 0.9x |

Valuation

At our PT of \$8.00, C2022 EV/EBITDA would be 7.2x, a discount to the median and mean valuations of a peer group of slower growing HME and services companies that we apply to offset QIPT's lower liquidity.

Figure 1: Comparable Valuation

| | Ticker | FY | Price 2/1/2022 | MV (\$ Mils) | EV (\$ Mils) | --- Revenue --- 2021 2022 | | EV/ 21 Rev | EV/ 22 Rev | EV/21 EBITDA | EV/22 EBITDA |
|-------------------------------|-------------|------------|-------------------|-----------------|-----------------|------------------------------|------------|---------------|---------------|-----------------|-----------------|
| Quipt Home Medical (b) | QIPT | Sep | \$5.45 | 183 | 160 | 115 | 164 | 1.4x | 1.0x | 6.9x | 4.7x |
| AdaptHealth Corp | AHCO | Dec | \$17.51 | 2,315 | 4,010 | 2,439 | 2,848 | 1.6x | 1.4x | 7.0x | 5.9x |
| Apria, Inc. | APR | Dec | \$37.36 | 1,329 | 1,557 | 1,142 | 1,200 | 1.4x | 1.3x | 7.5x | 7.6x |
| Option Care Health | OPCH | Dec | \$23.54 | 4,204 | 5,223 | 3,429 | 3,689 | 1.5x | 1.4x | 18.2x | 16.4x |
| Savaria Corp. (a) | SIS-CA | Dec | \$18.29 | 1,190 | 1,102 | 655 | 771 | 1.7x | 1.4x | 11.1x | 8.6x |
| Viemed Healthcare (a) | VMD-CA | Sep | \$5.91 | 235 | 210 | 146 | 159 | 1.4x | 1.3x | 6.2x | 5.5x |
| Peer Group Median | | | | | | | | 1.5x | 1.4x | 7.5x | 7.6x |
| Peer Group Mean | | | | | | | | 1.5x | 1.4x | 10.0x | 8.8x |

(a) In CAD (b) calendarized

Source: Factset, The Benchmark Company, LLC

Select Risk Factors

Competition. Quipt competes with larger companies with greater financial resources and/or a longer operating history. The attractive growth and margin profile of the HME sector could lead to increased competition.

Reimbursement. Medicare reimbursement is currently benign, but that could change if HME inflation were to again trigger a program like competitive bidding. Also, 38% of revenue is from third party payers who may attempt to negotiate lower rates.

Suppliers. Supplier concentration is fairly high for certain types of HME, leaving Quipt vulnerable to shortages and recalls. In June 2021, Philips Respironics announced a voluntary recall of certain respiratory devices. Fortunately, Philips is a small percentage of this category for Quipt, which was able to work with alternative suppliers to avoid a material impact on their business.

Personnel. Given the currently tight labor market, Quipt could encounter difficulties retaining and hiring staff.

COVID-19. COVID-19 could have a material adverse impact on Quipt's operations and financial results, including through employee attrition, disruptions to supply chains and sales channels, and changes in the number of Americans with health insurance resulting in a change in demand for Quipt's products.

Regulation. Certain future revenue will depend on Quipt receiving approval of an independent diagnostic testing facility and entering into an agreement with Medicare. There could also be legislative action that could adversely affect Quipt, including changes in federal or state laws, rules, and regulations, such as corporate practice of medicine, and fee splitting; and changes in the United States Anti-Kickback Statute and Stark Law.

Figure 2: Balance Sheet: F19-F21

| <i>In mil's USD FYE 9/30</i> | 10/1/19 | 9/30/20 | 9/30/21 |
|---------------------------------------|----------------|----------------|----------------|
| Cash and cash equivalents | 9.7 | 29.2 | 34.6 |
| Receivables | 9.4 | 9.1 | 11.9 |
| Inventory | 3.6 | 6.4 | 9.3 |
| Prepaid and other | 0.6 | 0.6 | 1.4 |
| Current assets | 23.3 | 45.3 | 57.2 |
| Property, plant and equipment | 14.7 | 16.7 | 23.5 |
| Goodwill | 1.4 | 3.9 | 12.5 |
| Intangible assets | 2.2 | 5.6 | 14.9 |
| Other | 0.1 | 0.6 | 0.5 |
| Total assets | 41.7 | 72.0 | 108.5 |
| Payables | 6.1 | 7.4 | 9.8 |
| Accrued liabilities | 1.8 | 3.5 | 3.2 |
| Current portion of leases, loans, etc | 6.6 | 6.3 | 10.0 |
| Government grant | | 2.6 | 4.9 |
| Deferred revenue, other | 1.4 | 4.5 | 4.9 |
| Current liabilities | 15.9 | 24.4 | 32.7 |
| Government grant | | 2.3 | |
| LT Debt | 11.7 | 13.4 | 11.8 |
| Leases and other | 1.0 | 3.8 | 5.5 |
| Total liabilities | 28.6 | 43.8 | 50.0 |
| Total equity | 13.0 | 28.2 | 58.5 |
| Total liabilities and equity | 41.7 | 72.0 | 108.5 |

Source: QUIPT

Figure 3: Income Statement Analysis

| <i>In mil's USD (except per shr) YE 9/30</i> | 2019(a) | 2020 | 1Q21 | 2Q21 | 3Q21 | 4Q21 | 2021 | 1Q22E | 2Q22E | 3Q22E | 4Q22E | 2022E | 1Q23E | 2Q23E | 3Q23E | 4Q23E | 2023E |
|--|---------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|
| Revenue | | | | | | | | | | | | | | | | | |
| Equipment & Supplies Sales | 25.34 | 31.39 | 10.40 | 10.40 | 12.49 | 13.71 | 47.00 | 15.00 | 16.00 | 17.00 | 18.00 | 66.00 | 18.30 | 18.60 | 19.00 | 19.30 | 75.20 |
| Equipment Rental | 32.93 | 41.25 | 12.40 | 13.84 | 13.75 | 15.36 | 55.35 | 20.60 | 21.99 | 23.94 | 22.00 | 88.52 | 24.92 | 25.70 | 26.41 | 27.24 | 104.27 |
| Total Revenue | 58.28 | 72.64 | 22.80 | 24.24 | 26.24 | 29.07 | 102.35 | 35.60 | 37.99 | 40.94 | 42.16 | 156.68 | 43.22 | 44.30 | 45.41 | 46.54 | 179.47 |
| Inventory sold | 22.60 | 19.93 | 6.10 | 6.10 | 7.75 | 8.22 | 28.17 | 9.90 | 10.56 | 11.38 | 11.72 | 43.56 | 12.01 | 12.32 | 12.62 | 12.94 | 49.89 |
| Operating expenses | 43.53 | 38.63 | 11.50 | 12.70 | 13.20 | 15.36 | 52.76 | 18.51 | 19.56 | 21.00 | 21.50 | 80.58 | 22.04 | 22.50 | 22.98 | 23.46 | 90.98 |
| Depreciation | 13.37 | 13.86 | 3.10 | 3.60 | 4.30 | 5.21 | 16.21 | 5.40 | 5.50 | 5.50 | 5.50 | 21.90 | 5.50 | 5.50 | 5.50 | 5.50 | 22.00 |
| Amortization of intangibles | 0.60 | 0.68 | 0.21 | 0.34 | 0.46 | 0.57 | 1.57 | 0.70 | 0.80 | 0.80 | 0.80 | 3.10 | 1.00 | 1.00 | 1.00 | 1.00 | 4.00 |
| SBC | 2.06 | 0.17 | 0.02 | 0.01 | 1.60 | 3.32 | 4.95 | 0.50 | 0.50 | 1.50 | 3.00 | 5.50 | 0.50 | 0.50 | 1.50 | 3.00 | 5.50 |
| Other | 3.42 | -1.28 | 0.03 | 0.01 | 0.06 | 0.04 | 0.14 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| EBIT | -27.3 | 0.65 | 1.8 | 1.5 | -1.1 | -3.7 | -1.5 | 0.6 | 1.1 | 0.8 | -0.4 | 2.0 | 2.2 | 2.5 | 1.8 | 0.6 | 7.1 |
| Interest & Other Expense/(Income) | 5.38 | 1.84 | 0.53 | 0.61 | 0.52 | 0.34 | 2.00 | 0.50 | 0.50 | 0.50 | 0.50 | 2.00 | 0.60 | 0.60 | 0.60 | 0.60 | 2.40 |
| Loss (gain) of FV of liabilities, converts | -1.13 | 2.39 | 1.09 | 13.29 | -7.43 | -1.08 | 5.88 | | | | | | | | | | |
| Income Before Taxes | -31.56 | -3.58 | 0.23 | -12.43 | 5.79 | -2.92 | -9.33 | 0.09 | 0.56 | 0.26 | -0.86 | 0.05 | 1.56 | 1.88 | 1.21 | 0.05 | 4.70 |
| Provision for Income Taxes | 0.27 | 0.13 | 0.00 | 0.12 | -0.54 | -2.75 | -3.16 | 0.12 | 0.12 | 0.12 | 0.12 | 0.48 | 0.12 | 0.12 | 0.12 | 0.12 | 0.48 |
| Net income/(loss) continuing ops | -31.82 | -3.71 | 0.23 | -12.55 | 6.33 | -0.17 | -6.17 | -0.03 | 0.44 | 0.14 | -0.98 | -0.43 | 1.44 | 1.76 | 1.09 | -0.07 | 4.22 |
| Net income Discontinued, gain on sale | 1.76 | -0.87 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Diluted Weighted Avg Shares | 82.86 | 22.72 | 28.31 | 29.24 | 33.75 | 34.00 | 30.44 | 34.00 | 34.00 | 34.00 | 34.00 | 34.00 | 34.50 | 34.50 | 34.50 | 34.50 | 34.50 |
| Diluted EPS continuing ops | \$ (0.38) | \$ (0.16) | \$ 0.01 | \$ (0.43) | \$ 0.19 | 0.03 | \$ (0.20) | \$ (0.00) | \$ 0.01 | \$ 0.00 | \$ (0.03) | \$ (0.01) | \$ 0.04 | \$ 0.05 | \$ 0.03 | \$ (0.00) | \$ 0.12 |
| EBITDA | -13.60 | 15.19 | 5.11 | 5.36 | 3.65 | 2.07 | 16.19 | 6.57 | 7.24 | 6.94 | 5.82 | 26.57 | 8.54 | 8.86 | 8.19 | 7.03 | 32.62 |
| Stock-based comp | 2.06 | 0.17 | 0.02 | 0.01 | 1.60 | 3.32 | 4.95 | 0.50 | 0.50 | 1.50 | 3.00 | 5.50 | 0.50 | 0.50 | 1.50 | 3.00 | 5.50 |
| Acquisition-related | 0.00 | 0.09 | | | 0.09 | 0.14 | 0.23 | | | | | 0.00 | | | | | 0.00 |
| Adj EBITDA | 10.66 | 15.45 | 5.13 | 5.37 | 5.34 | 5.54 | 21.37 | 7.07 | 7.74 | 8.44 | 8.82 | 32.07 | 9.04 | 9.36 | 9.69 | 10.03 | 38.12 |
| Margins | | | | | | | | | | | | | | | | | |
| Inventory sold/Revenue | 38.8% | 27.4% | 26.8% | 25.2% | 29.5% | 28.3% | 27.5% | 27.8% | 27.8% | 27.8% | 27.8% | 27.8% | 27.8% | 27.8% | 27.8% | 27.8% | 27.8% |
| Opex/Revenue | 74.7% | 53.2% | 50.4% | 52.4% | 50.3% | 52.8% | 51.5% | 52.0% | 51.5% | 51.3% | 51.0% | 51.4% | 51.0% | 50.8% | 50.6% | 50.4% | 50.7% |
| Depreciation/Revenue | 22.9% | 19.1% | 13.6% | 14.9% | 16.4% | 17.9% | 15.8% | 15.2% | 14.5% | 13.4% | 13.0% | 14.0% | 12.7% | 12.4% | 12.1% | 11.8% | 12.3% |
| Adj EBITDA | 18.3% | 21.3% | 22.5% | 22.2% | 20.4% | 19.0% | 20.9% | 19.9% | 20.4% | 20.6% | 20.9% | 20.5% | 20.9% | 21.1% | 21.3% | 21.5% | 21.2% |
| Yr/Yr Change | | | | | | | | | | | | | | | | | |
| Revenue | | | | | | | | | | | | | | | | | |
| Equipment & Supplies Sales | -26.7% | 23.9% | 39.2% | 38.7% | 63.1% | 62.7% | 49.7% | 44.2% | 53.8% | 36.1% | 31.3% | 40.4% | 22.0% | 16.3% | 11.8% | 7.2% | 13.9% |
| Equipment Rental | -23.3% | 25.3% | 26.5% | 33.1% | 26.1% | 59.2% | 34.2% | 66.1% | 58.9% | 74.1% | 43.2% | 59.9% | 21.0% | 16.9% | 10.3% | 23.8% | 17.8% |
| Total Revenue | -24.8% | 24.6% | 32.0% | 35.4% | 41.4% | 60.9% | 40.9% | 56.1% | 56.7% | 56.0% | 45.0% | 53.1% | 21.4% | 16.6% | 10.9% | 10.4% | 14.5% |
| Adj EBITDA | | 45.0% | 297.3% | 29.4% | 21.4% | 32.5% | 38.3% | 38.0% | 44.1% | 58.0% | 59.3% | 50.0% | 27.9% | 20.9% | 14.8% | 13.7% | 18.9% |

(a) Estimated based on exchange rates for these periods.

Source: The Benchmark Company, LLC

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| Hold | 59 | 18% | 0 | 0% |
| Sell | 3 | 1% | 0 | 0% |

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| Company | Disclosure |
|--------------------------|------------|
| Quipt Home Medical Corp. | 3 |

Investment Risk

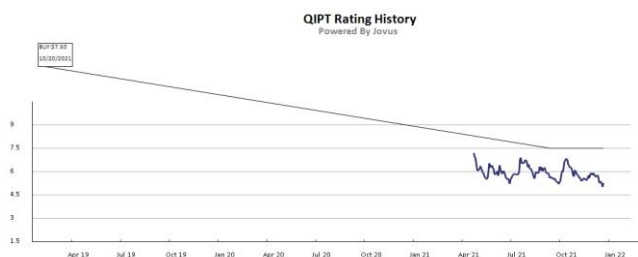
Risk factors include competition, reimbursement rates, supplier concentration, tight labor markets, COVID-19, and regulation.

Valuation Methodology

At our PT of \$8.00, C2022 EV/EBITDA would be 7.2x, a discount to the median and mean valuations of a peer group of slower growing HME and services companies that we apply to offset QIPT's lower liquidity.

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