

Quipt Home Medical (QIPT – V, US)

Growth Set to Accelerate. Raise Target to Reflect Transition to Next Level

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- QIPT reported its Q3/FY21 results (June 30) that were better than forecasts. Revenue was \$26.2 million, +41% y/y and +8% q/q. Reported EBITDA was \$5.34 million (20% margin). However, this reported figure included ~\$0.4 million of one-time costs related to its Nasdaq listing. As such, we believe EBITDA was ~\$5.7 million or 22% of revenue. Period ended cash was \$30.5 million, albeit subsequent to quarter-end, the company received an incremental \$7 million for warrant exercise. After paying cash for some acquisitions, also done subsequent to quarter-end, we believe QIPT's current cash position is ~\$33 million.
- This was a very significant quarter on many fronts and leaves the company in the best position in its history and ready to move to the upper echelon of service providers in the country:
 - Organic Growth Could Accelerate:** QIPT noted that its organic growth over the past 9 months has been 11% versus an industry average of 6%. **Our calculations, however, indicate that its organic growth in Q3 versus Q2 was closer to 4.5% or 18% annualized. Our experience has been that it is hard to grow to \$100 million in revenue but once that threshold is breached, growth to \$200 million is easier and quicker.** This is due to better people joining the company with better relationships, and a broader geographic reach, which results in market share gains. QIPT now operates in 15 states through 60 locations with ~20,000 referring physicians. Based on its Q3 results PLUS its recent acquisitions, QIPT is on a current revenue run-rate of ~\$120 million. Add 10-15% annual organic growth over the next 2 years and **QIPT should be ~\$150 million in revenue in FY23 PRIOR to any further acquisitions.** We note that the industry itself remains conducive to growth given the demographic tailwinds, the move to home service and the clarity provided by CMS (who cancelled competitive bidding).
 - M&A Program Heating Up:** Thus far in calendar 2021, QIPT has made several acquisitions. However, **we don't think we have seen anything yet. The company has ample liquidity (\$33 million in cash and \$20 million of untapped credit facilities) to accelerate its program.** We believe it is VERY significant that it has hired Mr. David Chester to lead its M&A strategy. Mr. Chester comes from AdaptHealth (AHCO – US, NR) where he was also in charge of M&A. We don't think one hires someone of Mr. Chester's pedigree to pursue \$5 million "tuck-under" deals. Over the coming months, we would expect more and larger transactions. M&A is focused on scale and expanding its footprint.
 - EBITDA Margins Show Consistency:** As noted above, QIPT reported an adjusted EBITDA margin of ~22%. This is the 6th consecutive quarter with margins at or above this level. Over this period, EBITDA margins have averaged 22.3%. **We believe such a level is not only sustainable but should move up over the coming quarters as it is experiencing the benefits of scale.** In particular, payroll, which is the single biggest overhead expense, has dropped from 33.7% of revenue in Q1/FY20 to 27.7% in this quarter. This could fall further with more scale.
- Putting all of this together, QIPT is set for very strong growth over our projection period through organic and non-organic growth. We are both raising our FY21 and FY22 forecasts as well as introducing our FY23 estimates. We now model rev/EBITDA of \$103.4m/\$22.5m for FY21 (from \$102m/\$22.2m), \$128m/\$28.2m for FY22 (from \$120.5m/\$26.5m) and \$141m/\$32.4m for FY23. **Note that Apria (APR – US, NR) is +50% since it reported its last quarter and trading at all-time high. QIPT is set for its breakout.** Buy, Raise TP to C\$15.50 (12x FY EBITDA) from C\$13.40.



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Q3/FY21 Results

BUY (Unch)

C\$15.50 (was C\$13.40)

Recent/Closing Price (C\$)	\$8.10
12-month Target Price (C\$)	\$13.40
Potential Return	65%
52 Week Price Range (C\$)	\$4.44 - \$10.16

Estimates

YE: Sept. 30	FY21e	FY22e	FY23e
Revenue (US\$MM)	\$103.4	\$128.1	\$140.9
EBITDA (US\$MM)	\$22.5	\$28.2	\$32.4
Adj EPS	\$0.18	\$0.37	\$0.49

Valuation

	FY21e	FY22e	FY23e
EV/Sales	1.7x	1.4x	1.2x
EV/EBITDA	7.7x	6.2x	5.4x
P/E	n/a	17.0x	12.7x

Stock Data (MM)

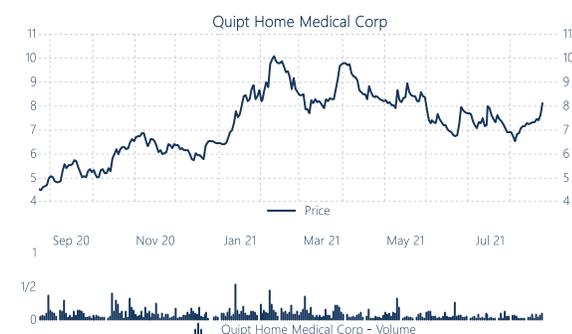
Shares Outstanding	
Basic	33
FD	40
Market Cap (C\$)	
Basic	\$269
FD	\$326
Net Cash	\$43
EV (C\$)	\$226

About the Company

QIPT is focused on a highly fragmented and developing market of small privately-held US companies servicing chronically ill patients with multiple disease states. QIPT is actively working to identify and evaluate profitable, annuity-based companies to acquire their patient databases and technical expertise at favorable prices. QIPT's post acquisition organic growth strategy is to increase annual revenue per patient by offering multiple services to the same patient, consolidating the patient's services and making life easier for the patient.

All prices in US\$ unless otherwise stated

Stock Performance



Source: FactSet

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As at July 31, 2021	#Stocks	Distribution
BUY	70	74.5%
Speculative Buy	20	21.3%
Hold	2	2.1%
Sell	0	0.0%
Under Review	1	1.1%
Tender	1	1.1%
Total	94	100%

BUY Total 12-month return expected to be > 15%
 Speculative Buy Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
 Hold Total 12-month return is expected to be between 0% and 15%
 Sell Total 12-month return is expected to be negative
 Under Review
 Tender Clients are advised to tender their shares to a takeover bid or similar offer

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