Colliers Securities

Special Situations

June 2, 2021

Quipt Home Medical Corp.

QIPT - NASDAQ

Rating: Buy
Price Target: $9.50
Reason for Report: Quarter Preview

Strong Fiscal 1H21 Results Expected To Continue. Affirm Buy Rating and $9.50 PT.

Investment Conclusion:
With strong execution through 1HFY21, a robust second half is expected. Organic growth through the six months is ~13%. QIPT's scalable model – 75% recurring revenue and approaching $100M revenue run rate – is a beneficiary of the growing need for in-home respiratory healthcare. Management has invested in back-office and patient facing infrastructure and combined with a focused service offering, management appears confident in making more transformational acquisitions on its path to becoming a national (vs. regional) leader in in-home respiratory care.

Management has remained confident in growth, with expectations to double the low single-digit growth for the industry and layering on accretive acquisitions. The targeted model suggests ~$135M in run rate revenue within a year with Adj. EBITDA margins greater than 22%. Within 3 -5 years, revenue run rate is anticipated in the $250M range, with Adj. EBITDA margins of 25%+.

We affirm our Buy rating and $9.50 (post split) Price Target. Our PT is based on averaging a 10.0x multiple of FY22 Adj. EBITDA and 1.75x P/S. These multiples continue to represent discounts to peers.

Key Points:

- **2Q21 Revenue:** Revenue was $24.2M versus our estimate of $24.0M (consensus of $25.0M), which was up from $17.9M a year ago and $22.8M in 1Q21. Y/Y organic growth was 11%, with 13% YTD. Recurring revenue continues strong at >75% of total revenue.
- **2Q21 Margin Performance:** Gross margin was $18.2M, or 74.7%, an increase of 170 bps from the year ago. Gross margin also improved sequentially by 140 bps.
- **Net Income (loss) And Adjusted EBITDA:** The net loss from continuing operations was $12.5M, or $0.43 per share with Adjusted EBITDA of $5.4M. QIPT had operating income from continuing operations of $1.4M or $0.06 per share. Within the net loss of $12.5M was a $13.3M charge for the change in fair value of warrant liability and debentures. Adjusted EBITDA for 2Q20 was $4.1M, or 22.9% of revenue, with operating income of $696K.
- **Guidance:** Management's tone remains very confident in growth, doubling the low single-digit growth for the industry and layering on accretive acquisitions. It's new targeted growth model suggests reaching $135M in run rate revenues by the end of CY21 (will require further acquisitions) with Adj. EBITDA margins greater than 22%. Within 3 - 5 years, revenue run rate is anticipated in the $250M range, with Adj. EBITDA margins of 25%+.
- **Financial Position:** Cash was $27.2M versus $23.6M at December 2020 (1Q21), with debt of $17.3M (related to a 3-year convertible debenture). QIPT's undrawn credit facility remains at $20M. Cash flow from operations was $6.6M for the quarter, up 27% from $5.2M in the prior year.

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Changes	Previous	Current
Price Target	C$2.95	$9.50
Jun '21 Revenues (MM)	$26.7	$27.0
Annual '20 Revenues (MM)	$72.6	$76.7
Annual '21 Revenues (MM)	$102.9	$103.7
Annual '22 Revenues (MM)	$123.9	$126.1
Jun '21 Adj EBITDA (MM)	$5.9	$6.0
Annual '20 Adj EBITDA (MM)	$16.6	$16.8
Annual '22 Adj EBITDA (MM)	$26.9	$27.4
Jun '21 EPS	$0.01	$0.04
Annual '20 EPS	$(0.05)	$(0.17)
Annual '21 EPS	$0.04	$(0.33)
Annual '22 EPS	$0.07	$0.26

Price	$6.60
52 Week Range	$3.04 - $8.40
Mkt Cap (MM)	$201
EV (MM)	$195
Shares Out (MM)	30.6
Avg Daily Vol (000)	46
Short Interest %	1%
Long-term Growth	10%
Tangible BVPS	$0.25

Revenues (MM)	FY 20A	FY 21E	FY 22E
Dec	$17.3	$22.8A	$30.4
Mar	$17.9	$24.2A	$31.1
Jun	$18.7	$27.0	$31.9
Sep	$22.9	$29.8	$32.7
FY	$76.7	$103.7	$126.1
EV/Sales	2.5x	1.9x	1.6x

Adj EBITDA (MM)	FY 20A	FY 21E	FY 22E
Dec	$3.3	$5.1A	$6.7
Mar	$4.1	$5.4A	$6.8
Jun	$4.0	$6.0	$6.7
Sep	$5.3	$6.5	$6.9
FY	$16.8	$23.0	$27.4
EV/Adj. EBITDA	11.7x	8.5x	7.1x

EPS	FY 20A	FY 21E	FY 22E
Dec	$(0.08)	$0.00A	$0.05
Mar	$0.14	$(0.43)A	$0.06
Jun	$(0.13)	$0.04	$0.06
Sep	$(0.11)	$0.06	$0.09
FY	$(0.17)	$(0.33)	$0.26

Quipt Home Medical Corp., provides in-home monitoring and disease management services including end-to-end respiratory solutions for patients in the United States healthcare market. The primary business objective of the Company is to offer a broader range of services to patients in need of in-home monitoring and chronic disease management. The Company's 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.

Analyst certification and disclosures begin on page 4

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- **Regulatory Environment:** In April 2021, CMS published a new oxygen fee schedule that resulted in an increase in reimbursement for oxygen rates nationwide. According to the American Association for Home Care as a result of the new fee schedule an increase of approximately 5% to 11% will be felt across the industry for oxygen products. QIPT's current oxygen business, which represents nearly 23% of its overall product mix, should benefit from this added tailwind. Additionally, in October 2020, CMS canceled the 2021 competitive bidding program for 13 product categories. The cancellation of this program provides a clearer outlook for margins across its product mix.
- **M&A Pipeline:** Acquisitions will continue to be a key pillar to QIPT's growth plans. Management is positioning to become more of a national provider (vs. regional) and will focus on more meaningful transactions. Staying with a respiratory focus, potential targets are likely to range between $5M - $20M in revenues with annual EBITDA margins in the 10% - 20% range. Thus, allowing QIPT to integrate the target onto its scalable platform to yield higher margins. Management characterized its pipeline of targets as active (over 15 potential candidates), with potential revenues in the $75M - $150M range.
- **Valuation:** We affirm our Buy rating, and our Price Target of $9.50. This Price Target is based on using a 10.0x multiple of FY22 Adj. EBITDA and 1.75x P/S. These multiples still represent sizable discounts to where peers are trading at – 14.4x EV/EBITDA and 1.9x EV/Sales. Quipt has recently up listed onto NASDAQ Capital Market, which we believe can be a catalyst to broaden its investment appeal.

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Quipt Home Medical Corp. *thousands of USD, except per share*	Dec-19 1Q20	Mar-20 2Q20	Jun-20 3Q20	Sep-20 4Q20	Dec-20 1Q21	Mar-21 2Q21	Jun-21 3Q21E	Sep-21 4Q21E	Dec-21 1Q22E	Mar-22 2Q22E	Jun-22 3Q22E	Sep-22 4Q22E	FY20	FY21E	FY22E
Total revenue	**17,251**	**17,861**	**18,682**	**22,937**	**22,755**	**24,240**	**26,975**	**29,764**	**30,360**	**31,119**	**31,897**	**32,694**	**76,731**	**103,734**	**126,069**
Cost of revenue	4,379	4,763	5,371	6,391	6,071	6,122	7,283	8,036	8,501	8,713	9,250	9,481	20,904	27,513	35,945
Gross profit	**12,872**	**13,098**	**13,311**	**16,546**	**16,684**	**18,118**	**19,692**	**21,728**	**21,859**	**22,405**	**22,647**	**23,213**	**55,827**	**76,222**	**90,124**
SG&A	9,696	8,999	9,310	12,511	11,529	12,734	13,959	15,471	15,180	15,559	15,948	16,347	40,516	53,694	63,034
Depreciation	3,448	3,233	3,622	4,277	3,095	3,603	3,541	3,541	4,100	4,100	3,864	3,165	14,581	13,779	15,228
Amortization of intangible assets	181	151	124	294	209	337	198	185	181	178	175	171	751	929	705
Stock-based compensation	32	68	53	25	15	12	308	308	308	308	308	308	178	642	1,231
Goodwill and intangible asset impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expense	(107)	(41)	8	(1,114)	56	16			-	-	-	-	(1,254)	72	-
Loss (gain) from distribution on spin-off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fraud related expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Gain) loss on disposal of PPE	(60)	(8)	(15)	(13)	(27)	(2)			-	-	-	-	(96)	(29)	-
Continuing Operating Expenses	**13,190**	**12,402**	**13,103**	**15,980**	**14,877**	**16,700**	**18,006**	**19,504**	**19,768**	**20,145**	**20,295**	**19,991**	**54,675**	**69,088**	**80,198**
Operating income (loss) - EBIT	**(318)**	**696**	**209**	**566**	**1,807**	**1,418**	**1,685**	**2,224**	**2,091**	**2,261**	**2,352**	**3,222**	**1,152**	**7,134**	**9,925**
Financing Expenses:															
Interest on subordinated debentures	227	223	217	107	453	235	511	508	440	420	470	459	774	1,707	1,790
Other interest expense	230	238	253	457	-	224	-	-	-	-	-	-	1,179	224	-
Other expense	-	(981)	-	213	34	7,406	-	-	-	-	-	-	(768)	7,440	-
Loss (gain) on derivative financial liability	553	(1,895)	2,393	1,674	1,091	6,043	-	-	-	-	-	-	2,725	7,134	-
Net gain (loss) from cont. operations before taxes	**(1,328)**	**3,111**	**(2,655)**	**(1,886)**	**229**	**(12,490)**	**1,174**	**1,716**	**1,651**	**1,841**	**1,882**	**2,762**	**(2,758)**	**(9,371)**	**8,135**
Provision for income taxes	-	33	35	59	-	-	-	-	50	55	94	138	128	-	50
Net gain (loss) before disc. ops.	**(1,328)**	**3,078**	**(2,690)**	**(1,945)**	**229**	**(12,490)**	**1,174**	**1,716**	**1,601**	**1,785**	**1,788**	**2,624**	**(2,886)**	**(9,371)**	**8,086**
Discontinued Operations:															
Cumulate translation adjustment	(408)	-	-	(557)	(139)	-							(965)	(139)	-
Gain on settlement of distribution liability	-	-	-	-	-	-	-	-	-	-	-	-		-	-
Combined Operations:															
Net gain (loss) from continued operations	**(1,736)**	**3,078**	**(2,690)**	**(2,503)**	**90**	**(12,490)**	**1,174**	**1,716**	**1,601**	**1,785**	**1,788**	**2,624**	**(3,851)**	**(9,510)**	**8,086**
EBITDA	**3,311**	**4,080**	**3,955**	**5,138**	**5,111**	**5,358**	**5,424**	**5,949**	**6,371**	**6,538**	**6,391**	**6,558**	**16,484**	**21,842**	**26,146**
Adjusted EBITDA	**3,343**	**4,148**	**4,008**	**5,253**	**5,126**	**5,370**	**5,982**	**6,506**	**6,679**	**6,846**	**6,698**	**6,866**	**16,752**	**22,985**	**27,377**
Other Comprehensive Income (Loss):															
Cumulative translation adjustment	(309)	1,908	(939)	(385)	(1,300)		-	-	-	-	-	-	275	(1,300)	-
Comprehensive income (loss)	**(2,045)**	**4,986**	**(3,629)**	**(2,888)**	**(1,210)**	**(12,490)**	**1,174**	**1,716**	**1,601**	**1,785**	**1,788**	**2,624**	**(3,576)**	**(10,810)**	**8,086**
Net income (loss) per share:															
EPS - Basic	(0.08)	0.15	(0.13)	(0.11)	0.00	(0.43)	0.04	0.06	0.05	0.06	0.06	0.09	(0.17)	(0.33)	0.27
EPS - Diluted	**(0.08)**	**0.14**	**(0.13)**	**(0.11)**	**0.00**	**(0.43)**	**0.04**	**0.06**	**0.05**	**0.06**	**0.06**	**0.09**	**(0.17)**	**(0.33)**	**0.26**
Weighted average shares outstanding - basic	20,897	20,914	20,914	22,721	28,127	29,294	29,394	29,494	29,594	29,694	29,794	29,894	22,721	29,077	29,744
Weighted average shares outstanding - diluted	20,897	22,124	21,065	22,721	30,466	29,294	29,394	29,494	29,594	29,694	29,794	29,894	22,721	29,662	29,744

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IMPORTANT DISCLOSURES

RISKS (QIPT)

·**Limited Business History.** The Company has a limited operating history in its current form. Results will likely remain volatile with little assurances that consistent profitability can be generated.

·**Critical Relationships**: Protech is dependent on reimbursement from Medicare, Medicaid and private insurance entities. Stretch outs of payments could impact cash flow. Protech also relies on key suppliers for equipment and pricing and supply/demand issues can impact future performance. Adoption by patients and physicians can depend on education of products and services and, therefore, take time.

·**Competitive Bids:** The new round of competitive bidding is underway with results likely during the summer of 2020, for contracts taking place between January 2021 and December 31, 2023. The company may or may not be awarded its bids in some or all of the Competitive Bidding Areas (CBAs) and/or some or all of its product categories.

·**Government regulations:** Certain aspects of the Company's operations require licenses and certifications by U.S. government agencies. Adverse regulatory actions could impact operations of the Company.

·**Highly Competitive Markets:** The DME market is highly competitive and other companies may be better capitalized.

·**Common Share Liquidity:** The Company is currently pursuing listing shares on the OTCQX exchange in an attempt to increase liquidity. Up to this point, the shares were listed on the TSX-V and have experienced substantial volatility in the past.

·**Access to Capital**: The Company may require additional funds to further its growth plans and there can be no assurances that such funding may be available, on reasonable terms.

·**Reimbursement Rates:** Reimbursement for services provided by Protech will come primarily from Medicare and private health insurance companies. The reimbursement rates offered are outside the control of the Company. Reimbursement rates are subject to continual reductions as health insurers and governmental entities attempt to control health care costs. Reductions in reimbursement rates can have a material impact on the profitability of the Company's operations.

·**Related Party Transactions**: The Company has entered into six market rate leases for office, warehouse, and retail space with a rental Company affiliated with the Company's Chief Executive Officer. Lease payments under these leases are approximately C$68,000 per month, plus taxes, utilities and maintenance.

I, Richard Ryan, certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers.

We believe structural changes in the markets have created strong headwinds for active money managers. Along with a smaller audience for small/micro-cap issues, the current investment environment may offer inefficiencies in valuations for such companies. Our research frequently identifies undiscovered small and micro-cap stocks that may present an opportunity for attractive investment returns. As a result, it is our opinion that the value of the underlying businesses often may be understated due to lack of institutional audience, insufficient trading liquidity, listing on smaller exchanges, inconsistent fundamental results or a misunderstanding of the underlying business. Our Special Situation Coverage is being produced to help identify these stocks and give our clients an opportunity to capitalize on under-appreciated investment opportunities. As many of these companies may have volatile business models, investors need to be cognizant of the speculative nature of these companies.

Colliers Securities LLC has been engaged for investment banking business with QIPT during the past 12 months or anticipates such business in the next 3 months.

The ratings used in Colliers Securities LLC research reports are defined as:

*Buy: **Expected to outperform the broader market and/or its sector over the next six to twelve months.***

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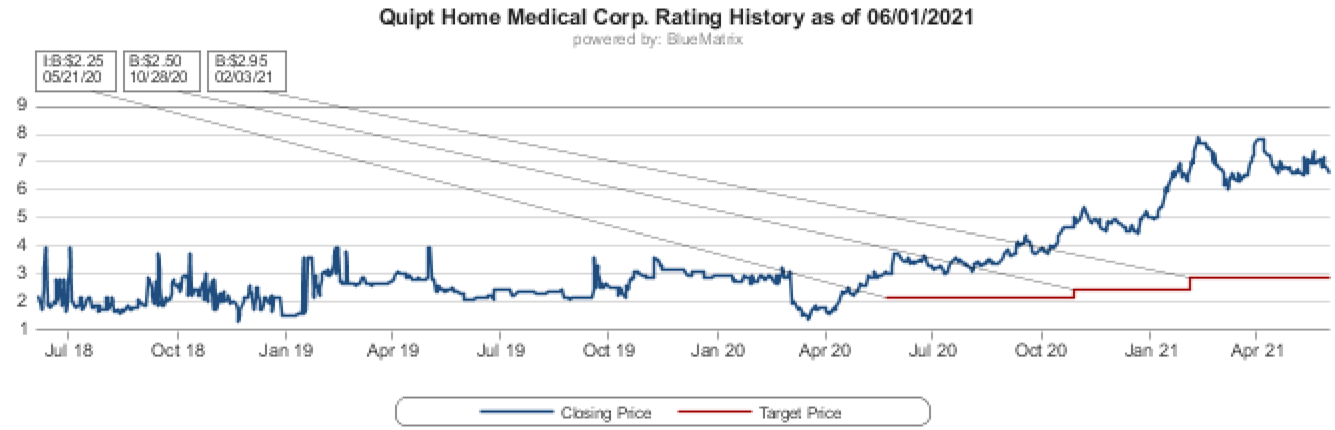
Neutral: ***Expected to perform generally in-line to moderately below the broader market and/or its sector over the next six to twelve months.***

Sell: ***Expected to materially underperform the broader market and/or its sector over the next six to twelve months.***

Rating	%	IB %
Buy	81.1	100.0
Neutral	18.9	100.0
Sell	0.0	0.0



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