January 6, 2022

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Quipt Home Medical Corp (QIPT – V)

Starting 2022 Off With a Bang. And Lots More to Come

- QIPT announced on January 4th that it has closed its acquisition of At Home Health based in Indiana (LOI originally announced November 16, 2021). This company adds $13 million in revenue at a ~22% EBITDA margin (post integration) as well as a new geographic region. At the same time, QIPT re-iterated its calendar 2022 (Q1/FY23) exit rate target of $180-$190 million in revenue and $38-$43 million in EBITDA.
- With this one LOI now closed, QIPT has one additional LOI outstanding (announced Nov 22) that would add $14 million in revenue. We expect this to close within the next 30 days.
- We believe now is a good time for investors to take stock of where the company stands today, from both a financial and strategic perspective as well as understand how undervalued the company is relative to its peers in the healthcare service sector.

A) High Visibility of Very Strong Financial Growth

- While we await the release of its FY21 (Sept 30) results, which should be in the next couple of weeks, QIPT has provided guidance for its Q4/FY21 revenue of $28 million. This implies an annualized run-rate of $112 million. Subsequent to its year-end, QIPT has closed 4 acquisitions (including the one noted above) that will add $20 million in incremental revenue as well as the pending LOI for an additional $14 million. **This takes its run-rate revenue to $146 million**. **Assuming an 8% organic growth rate, its run-rate revenue one-year forward would be $158 million**. If it does nothing else, such a revenue figure would be 120% higher than the $73 million revenue it reported in FY20 and ~60% higher than the $101 million it is expected to report for FY21.
- To reach its target of $180-$190 million a year from now, the company only needs to acquire $20-$30 million in additional revenue. We believe its M&A pipeline remains robust with more than enough candidates to achieve its goal.

B) Balance Sheet in Great Shape to Support Growth

- As per its December 16 pre-announcement, QIPT had $34.6 million in cash. Given it paid $13 million in cash for At Home Health, we believe **its cash position is now ~$20 million. Furthermore, it has an untapped credit facility for $20 million but anticipates increasing that facility to $100 million**. We believe such an increase could be announced subsequent to the release of its audited FY21 results.
- Its cash and credit facility not only give it the ability to close on its pending LOI noted above, but also give it significant flexibility to continue its accretive M&A program.
- We have noted in prior updates that 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. In particular, while it took QIPT a better part of a decade to reach $100 million (which it did in FY21), our math noted above shows the companies current run-rate is closer to $160 million today and with its available liquidity, has the ability to reach $200+ million in the next 12 months.

Closing of Acquisition

Buy (unch) — **C$16.00** (was $15.50)

Recent/Closing Price	C$7.45
12-month Target Price	C$16.00
Potential Return	115%
52 Week Price Range	C$6.32 - C$10.16

Estimates

YE: Dec 31	FY21E	FY22E	FY23E
Revenue ($M)	$101.2	$146.7	$165.6
EBITDA ($M)	$21.5	$32.3	$36.4
Adj EPS	$0.15	$0.49	$0.60

Valuation

YE: Dec 31	FY21E	FY22E	FY23E
EV/Revenue	1.8x	1.2x	1.1x
EV/EBITDA	8.5x	5.7x	5.0x
P/E	nmf	11.7x	9.5x

Stock Data

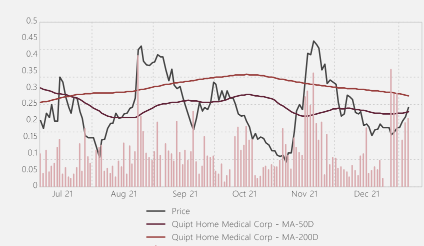
Shares Outstanding (M)	
Basic	33.2
Fully Diluted	40.3
Market Cap (C$M)	
Basic	$247
Fully Diluted	$300
Net Cash ($M)	$10.0
Fully Diluted EV ($M)	$237

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



C) Strategically Expanding to Gain National Footprint

- As of its last reported quarter, QIPT was operating in 15 states through 57 locations. With the closing of At Home Health, its state-level exposure has increased to 16.
- Not only has the company grown its revenue over the past year, it has dramatically expanded its geographic breath. Furthermore, it is moving into the right geographies. For example, it has recently entered into Arkansas, Mississippi and Missouri which rank #6, #7 and #8 in terms of states with the highest per capita lung conditions.
- This aggressive expansion has now not only given it a national footprint and better economies of scale but we believe **QIPT is now the 5th largest respiratory healthcare service company in the United States** behind only such companies as AdaptHealth (AHCO – US, NR), Apria (APR – US, NR) and Lincare (LIN - US).

D) Very Compelling Valuation

- Despite its strong financial profile (ie growth, 22% EBITDA margin, debt free) and growing strategic strength (national footprint), QIPT trades at a significantly lower valuation than all of its peers. If we look only at its respiratory peers (some of whom are facing very company specific issues which has negatively impacted their share prices by 50% over the past year), they trade at an average of 1.6x sales and 7.5x EBITDA versus 1.2x and 5.5x for QIPT. From a larger DME and healthcare service perspective, companies such as Savaria (SIS- T, NR) and Park Lawn Corp (PLC – T, NR), the ultimate (and final) healthcare service company, trade at 1.9x and 4.1x sales and 11.4x and 15.5x EBITDA respectively.

								FY22e			FY23e	
Company	**Shares O/S**	**Recent Price**	**Mkt Cap**	**Debt**	**EV**		**Revenue**	**EBITDA**	**Margin**	**Revenue**	**EBITDA**	**Margin**
AdaptHealth	140.0	$23.11	3,235	2,200	5,435		2,800	680	24.3%	3,200	770	24.1%
Apria	35.5	$30.21	1,072	350	1,422		1,200	210	17.5%	1,250	240	19.2%
Viemed	40.0	$5.25	210	-30	180		126	31	24.4%	140	35	25.0%
Savaria	64.2	$18.00	1,156	300	1,456		771	128	16.6%	817	142	17.4%
Parklawn	34.0	$40.30	1,370	400	1,770		430	114	26.5%	456	123	27.0%
QIPT (US$)	35.5	$5.79	206	-5	201		147	32	22.0%	166	36	22.0%
								FY22e			**FY23e**	
							EV/Rev	**EV/EBITDA**		**EV/Rev**	**EV/EBITDA**	
AdaptHealth							1.9	8.0		1.7	7.1	
Apria							1.2	6.8		1.1	5.9	
Viemed							1.4	5.9		1.3	5.1	
Savaria							1.9	11.4		1.8	10.3	
Parklawn							4.1	15.5		3.9	14.4	
Avg							2.1	**9.5**		2.0	**8.6**	
Avg (AHCO/APR)							1.6	7.4		1.4	6.5	
QIPT (US$)							1.4	**6.2**		1.2	**5.5**	

Source: Beacon Securities Ltd and FactSet

- **Historically, the healthcare service sector has traded 8-15x EBITDA**. As one can see, most of its peers still trade in the upper level of that band and certainly AHCO and VMD (Buy, C$12.25 TP) did as well before they had their own specific issues. **QIPT is trading well-below the lower-band of such a range despite its strong attributes that we have noted above**.
- While some may argue about the appropriate valuation multiple for QIPT (or any other company for that matter), we know for sure what is trades at on a trailing basis. Based on its anticipated FY21 revenue/EBITDA of $101.1m/$21.5m, QIPT trades at 1.7x trailing sales and 8x trailing EBITDA. Therefore, assuming it does not undergo a valuation contraction, we believe it will at least maintain such multiples 12-months from now. As such, based on its "in-hand" revenue run-rate noted earlier in the report of $158 million at a 22% EBITDA (current level) margin, the stock should trade at C$10.00 (based on 1.7x sales) and C$10.50 (based on 8x EBITDA). We believe this should be the base case, which still implies ~40% upside from current levels.

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- However, we believe if it executes on its plan, the shares should experience a multiple expansion. In the table below, we outline the potential target prices (based in C$) at certain EBITDA levels at different valuation multiples (8x, 10x, 12x). Specifically, the 3 EBITDA levels represent our actual FY23 forecast ($36.4 million), which we believe is the base case given its current run-rate (assuming its current LOI closes) at an 8% organic growth rate. The other two EBITDA scenarios are QIPT's targets one year from now (ie. $38-$43 million). Further note that our valuation scenarios include a net cash position of $5 million in our base case while the $38 million EBITDA assumption is net cash neutral and $43 million EBITDA assumes net debt of $20 million.

Valuation Scenario Table

	EBITDA (US$MM)		
	36.4	38.0	43.0
8x EBITDA	$10.85	$11.13	$11.86
10x EBITDA	$13.51	$13.92	$15.01
12x EBITDA	**$16.18**	$16.70	$18.16

- As one can see from the table, even at the low-end of valuation and high visibility of EBITDA, the potential target price would be 40% higher than current prices.
- As noted earlier, we believe that QIPT merits a multiple expansion. We have not made any assumptions of further M&A beyond what it has announced to arrive at our FY23 revenue/EBITDA forecast of $165.6m/$36.4m (an increase from our prior forecast of $140.9m/$32.4m which did not include the acquisition of At Home Health nor the pending $14 million revenue LOI).
- We maintain our Buy rating and raise our target price to C$16.00 (from C$15.50) based on 12x our FY23 EBITDA forecast.

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As of December 31, 2021	#Stocks	Distribution
BUY	74	78.7%
Speculative Buy	17	18.1%
Hold	1	1.1%
Sell	0	0.0%
Under Review	2	2.1%
Tender	0	0.0%
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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