

# Quipt Home Medical Corp.

(QIPT-TSXV/NASDAQ: C\$7.62)

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BUY

Target: C\$13.50

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## M&A Bolsters Ongoing Growth, Evident in Q3/21 Results

Quipt announced a timely acquisition in a high-value jurisdiction (Missouri), alongside its Q3/21 results for the period ending on June 30th. This tuck-in adds \$5.5M revenue to its current ~\$105-110M revenue run-rate, at 0.4x revenue, which is considerably less than its historical average purchase multiple of 0.7x revenue. On an EV/EBITDA basis, pre-synergies, we estimate the deal is 4x. Quipt trades at 8x 2022 EBITDA, whereas peers are at 14x. We value the Company using an EV/EBITDA multiple relative to our 2022 estimate and after updating our model to account for the Q3/21 results and its acquisition we now see the Company generating \$29.5M in adj. EBITDA in 2022 (was \$28.5M), representing a 23.2% EBITDA margin. **We continue to use a 14x multiple to arrive at our target, which remains unchanged at \$13.50, representing a 77% upside from the prior close.**

A conference call will take place today at 10:00 AM ET and can be accessed by dialing 1 (800) 309-4610 or (604) 638-5340 or via [webcast](#).

### The Acquisition

- Acquired Missouri-based provider of durable medical equipment with an over 40-year operating track record.
- Paid \$2.25M in cash. Adds \$5.5M in revenue, and \$1.1M adjusted EBITDA post-integration.
- Adds three locations (now at 60, in 15 states), 15,000 active patients (now totaling 145,000), 1,500 unique referring physicians (now totaling 18,500), along with important insurance contracts and decades of operating experience, in a jurisdiction that has a high concentration of target patient groups relevant to the Company's respiratory care offerings.

**Expanding Reach in Missouri is Notable, Given COPD Prevalence in the State, and Adjacent Regions:** As noted in our [initiation](#) last month, approximately 80% of Quipt's revenue relates to the treatment of respiratory diseases, and key products include oxygen concentrators and non-invasive ventilators (NIV), which are used to treat conditions such as asthma and chronic obstructive pulmonary disease (COPD).

The Company's expanded reach in Missouri is particularly notable as this is a region that has one of the highest levels of COPD prevalence in the US (Figure 2B). On a per-physician basis, the Company should have access to more potential patients.

Furthermore, the Company's positioning in Missouri significantly strengthens its overall interconnected healthcare network and the newly expanded footprint in the state will serve as a foundation for other adjacent states (e.g. Oklahoma, another state where COPD prevalence is high).

### Q3/21 Results Reflect Robust Growth, at 41% Y/Y, 7% Organic

Quipt announced its Q3/21 results which came largely in line with our estimate for EBITDA, considering one-time listing expense, while posting a slight miss on the top-line. Revenue was up 41% y/y (7% organic), coming in at \$26.2M (Est. \$27.3M), and adj. EBITDA was \$5.3M (Est. \$5.6M) compared to \$4.4M in Q3/20, representing a 21% increase year-over-year. Gross margin was impacted by revenue mix; relative to the prior quarter, rental revenue (typically higher margin), made up a lower percentage of revenue, coming in at 52% of total revenue, vs 57% in Q2/21. Additionally, this quarter's EBITDA was impacted by one-time costs related to the Company's NASDAQ listing, however Quipt's operations continue to maintain above-20% adj. EBITDA margin, as its 20.4% margin came closely in-line with our estimate of 20.5%. As another sign of its prudent operational execution, we note that for the nine months ending June 2021, bad debt expense was 8% compared to 10% for the corresponding period in 2020, an improvement of 2% that we believe reflects the Company's ability to scale and add more revenue through add-on acquisitions without compromising its billing capabilities. The Company ended the quarter with \$30.6M in cash, and it spent ~\$6.5M on its acquisitions subsequent to the quarter. It also continues to have an undrawn \$20M credit facility, which coupled with its cash on hand gives Quipt ample firepower to execute on additional acquisitions in the remainder of this calendar year.

### Valuation

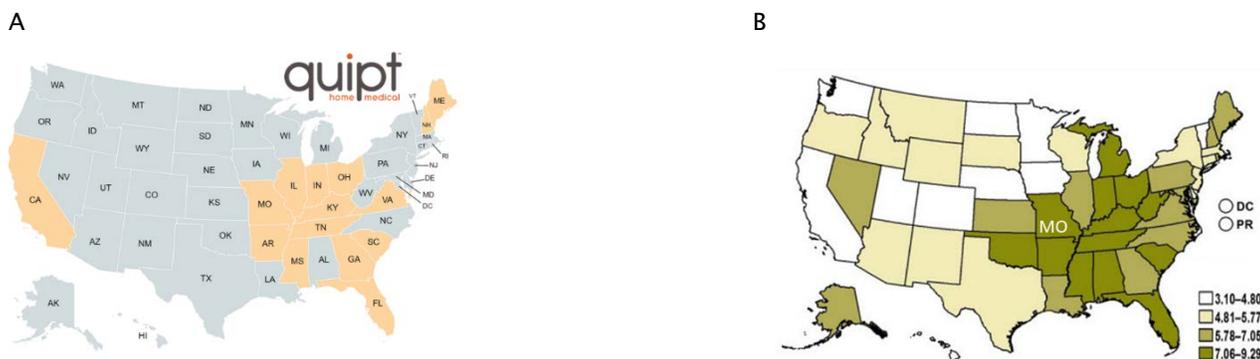
After accounting for the quarterly results and the tuck-in acquisition, we continue to maintain our Buy rating and \$13.50 target, which we derive using a 14x multiple, in-line with peers, while Quipt currently trades at 8x.

Figure 1 - Financial results summary

QIPT FYE Sept-30 Values US\$, Millions	Year ago		Est.	Cons.	Act.	Est. vs Act.
	Q320	Q221	Q321	Q321	Q321	
Revenue	18.6	24.2	27.3	26.9	26.2	-1.1
Gross Profit	13.4	18.1	20.1	19.6	18.5	-1.6
Gross Profit Margin	71.9%	74.7%	73.5%	72.8%	70.5%	-3%
Adj. EBITDA	4.4	5.4	5.6	6.1	5.3	-0.3
Adj. EBITDA Margin	23.7%	22.2%	20.5%	22.6%	20.4%	0%

Source: Company Reports, Eight Capital

Figure 2 - Overview of Quipt's footprint (A), and the prevalence of COPD compared at the state level (B)



Source: Company Reports, CDC

Figure 3 - M&A summary

Date	Target	Consideration (\$US)	Deal Multiples		Product/Service Offerings	Locations	Pre-Acquisition (\$US)	
			Rev.	EBITDA			Revenue	EBITDA
Aug 2021	Undisclosed entity	\$2.3M	0.4x	4.1x	Durable medical equipment	Missouri	\$5.5M	\$0.6M*
Jul 2021	Combo of 3 undisclosed entities	\$4.2M	0.8x	7.6x	Respiratory services and durable medical equipment	Missouri, Mississippi, Arkansas, California	\$5.5M	\$0.6M
Jan 2021	Mayhugh's Medical Equipment	\$4.5M	0.8x	5.0x	Respiratory services and equipment	Florida	\$5.5M	\$0.9M
Oct 2020	SleepWell	\$11.0M	1.1x	4.4x	Sleep services	Georgia, Ohio	\$9.9M	\$2.5M
Aug 2020	Health Technology	\$4.1M	1.0x	3.3x	Respiratory services	Illinois	\$4.2M	\$1.3M
Dec 2019	Acadia Medical	\$1.7M	0.6x	2.8x	Respiratory services	Maine	\$3.0M	\$0.6M
Oct 2019	Cooley Medical	\$3.0M	0.4x	2.5x	Respiratory services	Kentucky	\$6.8M	\$1.2M
Dec 2018	Riverside Medical	\$0.2M	0.3x	-	Respiratory services and durable medical equipment	Tennessee	\$0.6M	-
Sep 2018	Coastal Med-Tech	\$0.6M	0.2x	0.9x	Respiratory services and durable medical equipment	Maine	\$3.1M	\$0.7M
<b>Average</b>			<b>0.6x</b>	<b>3.8x</b>				
<b>Median</b>			<b>0.6x</b>	<b>3.3x</b>				

\*Estimated

Source: Company Reports, Eight Capital

Figure 4 - Financial outlook overview

QIPT-TSXV / NASDAQ FYE Sept-30 US\$, Millions, unless otherwise stated	2019 Act.	Q120 Act.	Q220 Act.	Q320 Act.	Q420 Act.	2020 Act.	Q121 Act.	Q221 Act.	Q321 Act.	Q421 Est.	2021 Est.	2022 Est.
<b>Revenue</b>	<b>61.0</b>	16.6	17.9	18.6	18.8	<b>71.8</b>	22.8	24.2	26.2	28.3	<b>101.5</b>	<b>127.2</b>
Growth %	15%	7%	14%	23%	28%	18%	37%	36%	41%	50%	41%	25%
Revenue Consensus										29.4	103.3	128.6
Implied Cons. Revenue Growth %										56%	44%	25%
<b>Gross Profit</b>	<b>43.3</b>	12.0	13.1	13.4	13.7	<b>52.1</b>	16.7	18.1	18.5	20.6	<b>73.9</b>	<b>94.5</b>
Gross Profit Margin	70.9%	72.2%	73.3%	71.9%	72.8%	72.6%	73.3%	74.7%	70.5%	73.0%	72.8%	74.3%
Gross Profit Consensus										21.5	76.0	95.1
Implied Cons. Gross Profit Margin										73.1%	73.5%	73.9%
<b>Adj. EBITDA</b>	<b>11.1</b>	1.2	4.1	4.4	5.5	<b>15.3</b>	5.1	5.4	5.3	5.8	<b>21.6</b>	<b>29.5</b>
Growth %	38%	-56%	45%	57%	105%	37%	313%	29%	21%	6%	42%	36%
Adj. EBITDA Margin	18.3%	7.5%	23.2%	23.7%	29.1%	21.2%	22.5%	22.2%	20.4%	20.5%	21.3%	23.2%
Adj. EBITDA Consensus (\$M)										6.8	23.3	30.8
Implied Cons. EBITDA Margin %										23.3%	22.6%	23.9%
<b>EPS</b>	<b>-\$0.26</b>	-\$0.22	\$0.14	-\$0.12	-\$0.03	<b>-\$0.23</b>	\$0.04	-\$0.43	\$0.19	\$0.03	<b>-\$0.16</b>	<b>\$0.25</b>
EPS Consensus										\$0.05	-\$0.15	\$0.32

Source: Company Reports, Eight Capital

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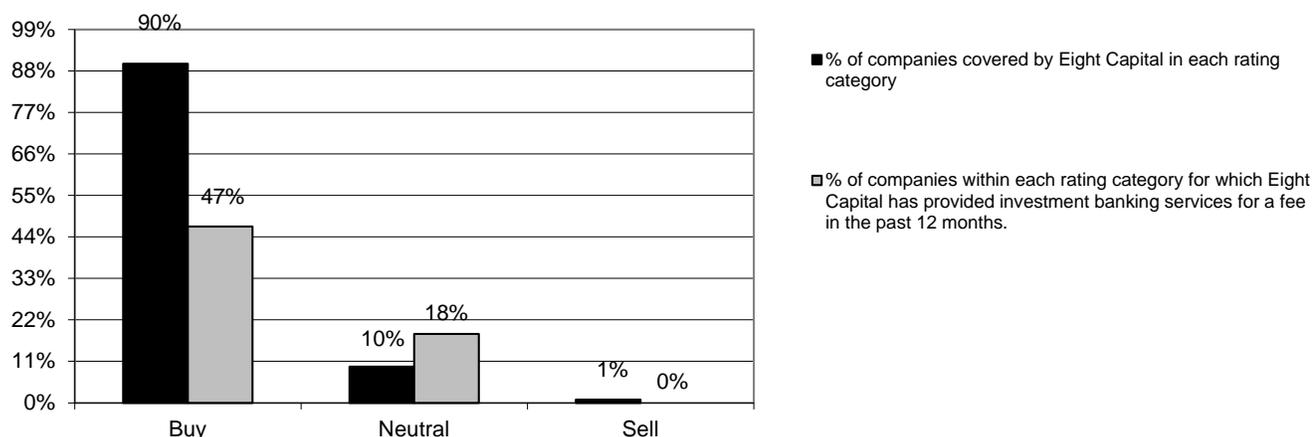
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