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Quipt Home Medical Corp (QIPT – T)

Q3 Results Show That Revenue Growth is Accelerating

- QIPT announced record quarterly results with the release of its Q3/FY23 (June 30) results that were better than expected. Headline revenue was $60.3m, +64%, y/y and +4% sequentially with EBITDA of $13.9m (23% margin), +81% y/y and +6% q/q.

Revenue – Organic Growth Better than Expected and Sustainable:

a) QIPT noted that is organic growth rate was 4% in the quarter on a sequential basis (16% annualized). Revenue is accelerating as organic growth was 2.5% in Q2.

b) We believe that such growth can continue, or even accelerate as the demographics continue to offer a strong macro tailwind. We note that industry heavyweights Apria (Owens & Minor, OMI – US, NR) and AdaptHealth (AHCO – US, NR) reported organic growth rates of 10.5% and 9% respectively in their most recent quarters, corroborating the strong growth of the industry.

c) QIPT surpassed their growth rates which is driven by both deeper penetration within existing states as well as new states. In the last 18 months, QIPT has added ~12 new states and now operates in 26 states through 115 locations. Many of those new states have a high preponderance of respiratory illnesses. Furthermore, QIPT has grown its sales force by ~40% over the past 6 months, which is helping to drive revenue. **Such factors have led management to increase its organic outlook as it is now forecasting that growth will exceed its historic average of 10%.**

d) We believe it is also important to understand the nature of a patient/client. Once he is set-up on a sleep device, he gets enrolled in QIPTS's re-supply business (mask, hose, etc) to which the patient is entitled to through insurance contracts. Its re-supply set-ups grew by 73% y/y. As its patient count continues to grow, this high margin recurring revenue should have an upward pull to EBITDA margins. We note that "sales" (as opposed to "rentals") represented 57.4% of total sales in Q3 versus 46.8% 5 quarters ago.

EBITDA and Free Cash Flow – Margin Expansion Driven by Scale:

a) EBITDA margin increased to 23%, +60 basis points sequentially and +200 basis points y/y. On a sequential basis, better productivity/leverage from its employees contributed materially as payroll costs as a percentage of revenue dropped to 30.1% from 32% in Q2. Furthermore, bad debt dropped to 4% from 4.3% last quarter.

b) We believe there is more leverage in payroll costs as that ratio was ~28-29% in the past. As those aforementioned new sales people start to become more productive, we expect that ratio to decline as sales grow. **That alone could push EBITDA margin to 24%+ in FY24**.

c) From a FCF perspective, our analysis indicates that QIPT generated a ~7% FCF margin (~$4.5 million). Management has raised its FCF expectations to ~8%.

Balance Sheet: Significant De-Leveraging Leaves Room to Drive M&A:

a) Thanks to its FCF and Q2 equity issue, QIPT has dramatically de-levered. Its total debt/LQA EBITDA has dropped to 1.38x from 2.02x (-35%) in Q2 (includes equipment loans and capital leases) while its senior debt/LQA EBITDA has fallen to 0.8x from 1.5x (-47%). With $20 million in cash and $40 million of available credit, QIPT can continue to drive M&A.

b) In our opinion, competition for acquisitions may even be less given that OMI and AHCO are far too levered to partake. While we believe additional acquisitions are likely, we have not included them in our model.

Raise Forecast, Maintain Buy and Target Price:

- Valuations across the respiratory sector continue to be depressed, far below their own historic levels as well as far below other healthcare service participants, despite the respiratory sector seeing better organic growth and higher EBITDA margins.
- Based on this quarter, QIPT now trades at 4.8x EV/LQA EBITDA versus 6x for AHCO and 7.3x for Viemed (VMD – T, Buy C$19.75 TP). As a point of reference, other healthcare participants such as Savaria (SIS – T, NR) trades at 12.2x EV/LQA EBITDA and dentalcorp Holdings (DNTL – T, NR) at 8.7x.
- Based on FY24 forecasts, the respiratory peer group trades at an average of 5.7x (historically 8-12x) while the two non-respiratory companies noted above trade at 8x and 9.5x respectively, lower than their own historic averages but still within the historic range.
- Given the Q3 results as well as management's better than expected organic growth guidance, **we are raising our FY23 and FY24 forecasts**. We now model $221.6m/$50m for FY23 (was $218m/$49m) and $263m/$61.1m for FY24 (was $251m/$56.5m). Based on that revised forecast, **QIPT trades at 4.5x EV/FY24 EBITDA or 1.2 turns lower than AHCO/VMD and 4-5 turns lower than its non-respiratory peer group**. Similar multiples would imply a C$10 stock price and C$16 stock price for QIPT respectively. Through any analysis, QIPT is incredibly inexpensive and offers excellent risk-return parameters.
- Maintain Buy and C$18.50 target price based on 10x our FY24 EBITDA forecast.

Q3/FY23 Results

Buy (unch) **C$18.50 (unch)**

Recent/Closing Price	C$7.23
12-month Target Price	C$18.50
Potential Return	156%
52 Week Price Range	C$5.33 - C$9.75

Estimates

YE: Dec 31	FY22	FY23E	FY24E
Revenue ($M)	$139.9	$221.7	$263.3
EBITDA ($M)	$29.2	$50.1	$61.1
Adj EPS	$0.14	$0.20	$0.44

Valuation

YE: Dec 31	FY22	FY23E	FY24E
EV/Revenue	2.0x	1.2x	1.0x
EV/EBITDA	9.4x	5.5x	4.5x
P/E	n/a	26.9x	12.1x

Stock Data

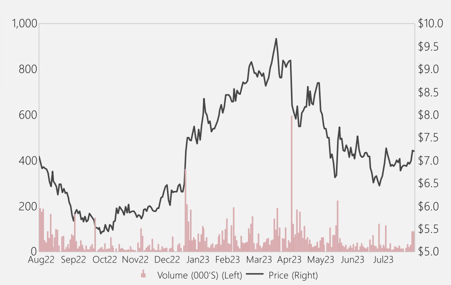
Shares Outstanding (M)	
Basic	42.1
Fully Diluted	47.2
Market Cap (C$M)	
Basic	$304
Fully Diluted	$341
Net Debt (C$M)	$67.0
Fully Diluted EV ($M)	$371

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



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As of July 31, 2023	#Stocks	Distribution
BUY	74	77.9%
Speculative Buy	16	16.8%
Hold	1	1.1%
Sell	0	0.0%
Under Review	4	4.2%
Tender	0	0.0%
Total	95	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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