

August 22, 2023

Quipt Home Medical Corp. (QIPT)

Lifting Outlook on Organic Growth Acceleration

- ▶ We reiterate our Buy rating and \$10 PT following a F3Q beat driven by stronger organic growth and cost synergies from the January 2nd acquisition of Great Elm Healthcare. While the annualized organic growth pace of 16% was eye-opening, we were not surprised to see Quipt outperform its targeted 8%-10% range due to three key factors: 1) positive blended 8% Medicare CPI rate update for CY23 (~35% of revenue); 2) a sharp increase in ResMed CPAP supply, and 3) salesforce, product line and location expansions. Our PT of \$10 implies a CY24 EV/EBITDA multiple of 7.5x, in-line with the median valuation for a slower growing peer group.
- ▶ **F3Q23 Highlights.** In F3Q (ended June 30), revenue grew 64% y/y to \$60.3M with 4% sequential organic growth, ahead of our 3% estimate. Recurring revenue exceeded 80% of total, and respiratory products were 81% of the mix. Customer base grew 58% y/y to 140,515 unique patients. Unique set-ups/deliveries increased 52%. Bad debt expense declined to 4.0% from 9.3% a year ago. Adj EBITDA was \$13.9M, a 23% margin, up 200 bps y/y.
- ▶ **Great Elm Impacts.** Acquired at the beginning of this calendar year, Great Elm adds more than \$60M of TTM revenue and \$15M of AEBITDA (including \$2M of cost synergies realized in F2Q, ahead of schedule). Integration, including implementation of Quipt's automated ordering and streamlined billing functions, was essentially completed in F3Q. Going forward, anticipated revenue synergies include cross-selling respiratory (Great Elm was more focused on sleep products) and building out a resupply business that could add \$1-\$2M to annual revenue.
- ▶ **DMEScripts Investment.** On July 31, Quipt invested \$1.5M for 10% of DMEScripts, an independent e-prescribe company. Management indicated that DMEScripts will help Quipt participate in the expansion of e-prescription usage, which is aimed to boost productivity and compliance, reduce errors and improve patient outcomes.
- ▶ **FY23-24 Model Update.** Our FY23-FY24 model is adjusted for the F3Q beat and higher organic sequential growth into FY24. For F4Q23, we lift our q/q revenue growth assumption 50 bps to 3%, bringing FY23 revenue to \$221.3M (\$220M prior). We model F23 AEBITDA margin of 22.7% (22.4% prior). For FY24, we model revenue of \$260M, up 18%, reflecting one quarter of Great Elm and organic growth of 9.4%, and AEBITDA margin of 22.7%, up 10 bps.
- ▶ **Balance Sheet and Cash Flow Highlights.** At 6/30, the company had total liquidity of \$61M, comprised of \$20M in cash, \$20M available on its revolver and \$21M available on a delayed-draw term loan. Financial leverage was 1.4x. In addition to OCF of \$12.2M, up 71% y/y, in the quarter, liquidity benefited from the 4/25 offering of 6.1M shares providing gross proceeds of \$42.5M.

Change in Earnings Forecast

Rating:	Buy
Current Price	\$5.36
Price Target	\$10.00
52-Wk Range	\$3.89 - \$7.26
Shares Outstanding (M)	42.1
Market Cap (M)	\$225
Enterprise Value (M)	\$269
Avg Vol (000s)	149
Net Debt (M)	\$44.5
Sector Weight	Overweight



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FY Sep		Q1	Q2	Q3	Q4	Prior	Total	EV/EBITDA	EV/Rev
EBITDA	2022A	\$6.0A	\$7.0A	\$7.7A	\$8.4A	--	\$29.2A	9.2x	
	2023E	\$9.0A	\$13.1A	\$13.9A	\$14.2E	\$49.0E	\$50.2E	5.4x	
	2024E	\$14.0E	\$15.0E	\$15.4E	\$15.6E	\$58.3E	\$60.0E	4.5x	
Revenue (m)	2022A	\$29.5A	\$33.6A	\$36.7A	\$40.1A	--	\$139.9A		1.9x
	2023E	\$40.8A	\$58.1A	\$60.3A	\$62.1E	\$219.8E	\$221.3E		1.2x
	2024E	\$63.8E	\$65.4E	\$66.8E	\$68.1E	\$260.1E	\$264.1E		1.0x

Figure 1: F3Q23 Variance Analysis

<i>\$ in 000's (a)</i>	F3Q23 Actuals	F3Q23 Ests	% Variance	F3Q22 Actuals	`Yr/Yr Change
Equipment & Supplies Sales	25.7	21.6	19.0%	18.6	38.3%
Equipment Rental	34.6	38.0	-9.1%	18.1	90.9%
Total Revenues	60.3	59.6	1.1%	36.7	64.3%
Gross Income	43.7	45.1	-3.2%	27.8	57.1%
<i>Gross Margin</i>	<i>72.4%</i>	<i>75.6%</i>	<i>-4.2%</i>	<i>75.7%</i>	
Operating Expenses	29.8	31.8	-6.4%	20.3	46.7%
Depreciation	10.2	8.4	21.5%	4.6	122.0%
Amortization of Intangibles	1.5	1.5	-0.7%	0.8	96.1%
SBC	2.0	1.6	31.0%	1.3	53.2%
Other	(0.1)	-	NM	0.2	NM
EBIT	0.2	1.8	-90.4%	0.6	-72.7%
Interest Expense	2.0	1.5	31.3%	0.5	311.1%
EBT	(1.4)	0.3	NM	0.3	NM
Tax Provision	(0.3)	0.1	NM	0.2	NM
Net Income	(1.0)	0.2	NM	0.2	NM
EPS	\$ (0.03)	\$ 0.00	NM	\$ 0.00	NM
Common shares out (diluted)	40.6	47.1	-13.8%	37.9	7.2%
Adj EBITDA	13.9	13.2	4.9%	7.7	80.3%
<i>AEBITDA Margin</i>	<i>23.0%</i>	<i>22.2%</i>		<i>21.0%</i>	

Source: The Benchmark Company, LLC

Figure 2: Income Statement Analysis

<i>In mil's USD (except per shr) YE 9/30</i>	2020	2021	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E
Revenue																	
Equipment & Supplies Sales	31.39	47.00	14.98	15.69	18.59	19.93	69.19	22.39	21.00	25.71	22.00	91.10	22.60	23.10	23.50	24.00	93.20
Equipment Rental	41.25	55.34	14.54	17.87	18.11	20.15	70.67	18.43	37.12	34.58	40.09	130.22	41.17	42.26	43.30	44.14	170.87
Total Revenue	72.64	102.34	29.52	33.55	36.70	40.09	139.86	40.82	58.12	60.28	62.09	221.32	63.77	65.36	66.80	68.14	264.07
Cost of Inventory sold	19.93	28.17	7.66	7.35	8.91	9.29	33.21	10.08	14.91	16.63	17.01	58.63	17.47	17.91	18.57	18.67	72.62
Operating expenses (including bad debt)	38.63	52.76	15.83	19.42	20.33	21.85	77.43	21.74	30.17	29.81	30.86	112.58	31.69	32.49	33.20	33.86	131.24
Depreciation	13.86	16.21	4.57	4.99	4.60	6.29	20.45	5.99	8.13	10.21	10.30	34.63	10.30	10.30	10.30	10.30	41.20
Amortization of intangibles	0.68	1.57	0.45	0.47	0.76	0.91	2.58	0.80	1.45	1.49	1.50	5.24	1.50	1.50	1.50	1.50	6.00
SBC	0.17	4.95	2.11	1.16	1.33	0.90	5.49	0.57	1.31	2.03	1.55	5.46	1.60	1.60	1.60	1.60	6.40
Other	-1.28	0.14	0.10	-4.29	0.15	0.00	-4.04	0.26	0.84	-0.06	0.00	1.05	0.00	0.00	0.00	0.00	0.00
EBIT	0.65	-1.46	-1.19	4.45	0.63	0.86	4.74	1.38	1.31	0.17	0.87	3.73	1.20	1.57	1.63	2.20	6.60
Interest & Other Expense/(Income)	1.84	2.00	0.50	0.57	0.48	0.57	2.12	0.71	2.02	1.97	1.90	6.60	1.90	1.90	1.90	1.90	7.60
Loss (gain) of FV of liabilities, converts	2.39	5.88	0.30	-1.32	-0.18	0.87	-0.34	0.00	0.04	-0.44		-0.40					
Income Before Taxes	-3.58	-9.28	-1.99	5.20	0.33	-0.58	2.96	0.67	-0.75	-1.36	-1.03	-2.47	-0.70	-0.33	-0.27	0.30	-1.00
Provision for Income Taxes	0.13	-3.16	0.15	0.16	0.16	-2.36	-1.89	0.33	0.00	-0.32	0.12	0.13	0.00	0.00	0.00	0.00	0.00
Net income/(loss) continuing ops	-3.71	-6.12	-2.14	5.04	0.17	1.78	4.85	0.33	-0.75	-1.03	-1.15	-2.60	-0.70	-0.33	-0.27	0.30	-1.00
Diluted Weighted Avg Shares	22.72	30.44	33.35	35.58	37.86	38.00	36.20	38.00	36.66	40.58	42.10	39.34	42.30	42.40	42.50	42.60	42.45
Diluted EPS continuing ops	\$ (0.16)	\$ (0.20)	\$ (0.06)	\$ 0.14	\$ 0.00	\$ 0.05	\$ 0.13	\$ 0.01	\$ (0.02)	\$ (0.03)	\$ (0.03)	\$ (0.06)	\$ (0.02)	\$ (0.01)	\$ (0.01)	\$ 0.01	\$ (0.02)
EBITDA	15.19	16.19	3.53	11.14	6.01	7.37	28.05	8.17	10.85	12.31	12.67	44.00	13.00	13.37	13.43	14.00	53.80
Stock-based comp	0.17	4.95	2.11	1.16	1.33	0.90	5.49	0.57	1.31	2.03	1.55	5.46	1.00	1.60	2.00	1.60	6.20
Acquisition-related, other	0.09	0.23	0.36	-5.25	0.37	0.15	-4.37	0.26	0.94	-0.46		0.74					0.00
Adj EBITDA	15.45	21.37	6.00	7.05	7.70	8.42	29.17	9.00	13.10	13.88	14.22	50.20	14.00	14.97	15.43	15.60	60.00
Margins																	
Inventory sold/Revenue	27.4%	27.5%	25.9%	21.9%	24.3%	23.2%	23.7%	24.7%	25.7%	27.6%	27.4%	26.5%	27.4%	27.4%	27.8%	27.4%	27.5%
Opex/Revenue	53.2%	51.6%	53.6%	57.9%	55.4%	54.5%	55.4%	53.3%	51.9%	49.4%	49.7%	50.9%	49.7%	49.7%	49.7%	49.7%	49.7%
Depreciation/Revenue	19.1%	15.8%	15.5%	14.9%	12.5%	15.7%	14.6%	14.7%	14.0%	16.9%	16.6%	15.6%	16.2%	15.8%	15.4%	15.1%	15.6%
Operating Margin	0.9%	-1.4%	-4.0%	13.3%	1.7%	2.1%	3.4%	3.4%	2.3%	0.3%	1.4%	1.7%	1.9%	2.4%	2.4%	3.2%	2.5%
Effective Tax Rate	-3.6%	34.1%	-7.5%	3.0%	49.7%	406.9%	-64.0%	50.2%	0.0%	23.8%	-11.6%	-5.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Adj EBITDA	21.3%	20.9%	20.3%	21.0%	21.0%	21.0%	20.9%	22.0%	22.5%	23.0%	22.9%	22.7%	22.0%	22.9%	23.1%	22.9%	22.7%
Growth																	
Total Revenue (y/y)	24.6%	40.9%	29.5%	38.4%	39.9%	37.7%	36.7%	38.3%	73.2%	64.3%	54.9%	58.2%	56.2%	12.5%	10.8%	9.7%	19.3%
Total Revenue (q/q)			1.4%	13.7%	9.4%	9.2%		1.8%	42.4%	3.7%	3.0%		2.7%	2.5%	2.2%	2.0%	
Adj EBITDA (y/y)	45.0%	38.3%	17.1%	31.2%	44.2%	52.0%	36.5%	49.9%	85.8%	80.3%	68.9%	72.1%	55.7%	14.3%	11.2%	9.7%	19.5%

Source: The Benchmark Company, LLC

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As of June 30, 2023

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Speculative Buy	24	6.4%	13	3.5%
Sell	5	1.3%	0	0%

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Buy: Stock is expected to outperform the analyst’s defined Sector/Industry Index* over the following 6 to 12 months.

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Company	Disclosure
Quipt Home Medical Corp.	3

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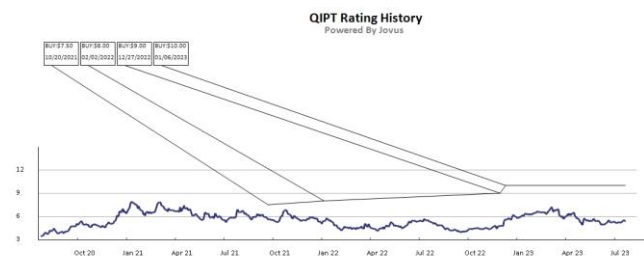
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Our PT of \$10 implies a CY24 EV/EBITDA multiple of 7.5x, in-line with the median valuation for a slower growing peer group.

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