

Quipt Home Medical Corp.

Digital and Tech-Enabled Health

Rating BUY <i>unchanged</i>	Price Target US\$11.00 <i>unchanged</i>
QIPT-NASDAQ QIPT-TSX	Price US\$5.38

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Post 3QFY'23 call takeaways; raising estimates

Investment Recommendation

We reiterate our BUY rating and \$11 price target following a solid 3QFY'23 report and positive commentary on the outlook for continued strong organic growth above Quipt's historical levels. Further, we were encouraged with the company's increased guidance on free cash flow going forward, moving from 3-5% of revenue to 6-8%. This should continue to solidify Quipt's balance sheet and help drive its M&A strategy to expand geographically in new markets, add to density in existing markets, and drive organic growth. The addition of Great Elm earlier this year and the opportunity to drive organic growth of this asset provide optimism that the above-average trends can continue past the lapping of improved CPAP supply that began in late 2022 and early 2023. With the stock now trading at 4.6x our updated CY'24 adj-EBITDA estimate, we believe that the growth outlook and deeply discounted valuation makes Quipt a very attractive investment.

Market Data

52-Week Range (US\$) :	3.89 - 7.26
Avg Daily Vol (M) :	0.1
Market Cap (US\$M) :	218.3
Shares Out. (M) :	40.6
Enterprise Value (US\$M) :	295

Note: Unless noted all figures are in USD

FYE Sep	2022A	2023E	2024E	2025E
Sales (US\$M)	139.9	221.0↑	260.4↑	283.0↑
<i>Previous</i>	-	219.6	256.7	280.7
EBITDA Adj (US\$M)	29.2	50.3↑	61.8↑	67.5↑
<i>Previous</i>	-	49.1	59.5	65.0
EPS Dil (US\$)	0.13	(0.05)↓	0.05↓	0.17↓
<i>Previous</i>	-	0.03	0.20	0.31
EV/EBITDA (x) Adj	10.1	5.9	4.8	4.4

Quarterly Sales	Q1	Q2	Q3	Q4
2022A	29.5	33.6	36.7	40.1
2023E	40.8A	58.1A	60.3A	61.8
2024E	63.1	64.4	65.8	67.1
2025E	-	-	-	-

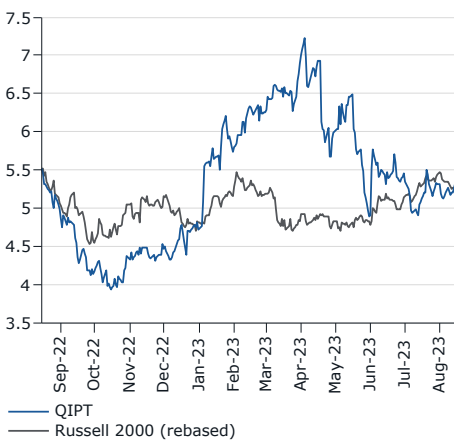
Quarterly EBITDA Adj	Q1	Q2	Q3	Q4
2022A	6.0	7.0	7.7	8.4
2023E	9.0A	13.1A	13.9A	14.4
2024E	14.8	15.3	15.7	16.1
2025E	-	-	-	-

Bullish takeaway: (1) Posting a sizable acceleration in organic growth is the primary positive takeaway. The company noted that ~4% organic growth sequentially was a record level and an acceleration from 2.5% achieved in 2QFY'23. Quipt expects strong organic growth to persist, highlighting the expanded sales force and opportunity lying in the Great Elm footprint that added seven new states. Moreover, we are encouraged that Quipt is not anticipating a similar normalization of Sleep growth that AdaptHealth (AHCO) called out for 3Q (Sept.) as it laps tougher comps when realized by strong set-ups occurred on improved CPAP supply. (2) Quipt raised its free cash flow guidance to 6-8% of revenue from 3-5% previously. With \$20.4M in cash and \$96.9M in debt (current/long-term), net leverage is only 1.4x annualized adj-EBITDA. The \$41M in remaining availability combined with an improved free cash flow profile is positive for the company to continue its M&A growth strategy.

Bearish takeaway: There was not much to call out on the negative side for 3Q; however, the lack of any additional M&A in 3Q does provide some risk in obtaining certain analysts' estimates for FY'24. We exclude M&A from our estimates as timing of transactions is challenging to handicap. Despite this, we view management's comments on a strong pipeline and attractive valuations as favorable and would not be surprised to see small tuck-in acquisitions completed prior to the end of the calendar year.

Additional key takeaways from the 3QFY'23 earnings call:

- 3QFY'23 results:** Revenue came in at \$60.3M, up 64.3% y/y, beating CGe/consensus estimates of \$59.6M/\$60.0M on strong sequential organic growth of ~4%. Adjusted EBITDA came in at \$13.9M, up 80.3% y/y, also ahead of CGe/consensus estimates of \$13.2M/\$13.6M. Adjusted EBITDA margin increased 200 basis points y/y and 50 basis points sequentially as the company enjoys the benefits of increased scale and improved efficiencies and collections from their investments in technology and automated resupply. Notably, bad debt expense as a percentage of revenue decreased 530 basis points y/y and 30 basis points sequentially. Further, payroll and benefits as a percentage of revenue decreased 180 basis point sequentially from elevated level following the Great Elm acquisition, a trend which the company hopes will continue with increased revenue and productivity from a bolstered sales force. In key performance metrics, number of patients services in the quarter increased 57.7% y/y and 2.0% sequentially to 140.5K. Number of equipment set-ups or delivered increased 51.5% y/y and 2.3% sequentially to 202.6K. Respiratory resupply set-ups or deliveries increase to 108.4K, up 72.6% y/y and 1.8% sequentially.



Source: FactSet

Priced intraday 15 August 2023

- **DMEScripts investment provides technology to drive growth:** Quipt announced a \$1.5M investment in DMEScripts that provides the company with a 10% ownership stake. E-prescribing in DME is known to be well behind other areas such as medications and lab/diagnostics as insurance guidelines and documentation requirements including medical necessity requirements add complexity to the prescribing process. Adoption by providers is increasing for DME e-prescribing as it reduces administrative workflow significantly and improves order conversion, patient adherence and satisfaction. For suppliers, it can streamline the patient setup and resupply processes. Quipt's ability to drive e-prescribing within its referral base should benefit organic growth going forward.
- **M&A pipeline robust:** Quipt growth strategy is to expand its geographic footprint through M&A and then drive organic growth at acquired operations, implementing resupply efforts, improving workflow, and increasing sales force to drive expanded referral networks. With Great Elm it added 7 new states to Quipt's footprint, now totaling 26 states. Management highlighted that its M&A platform remains robust, with targets ranging from \$3 million to \$15 million in annualized revenue. Valuations of potential deals were characterized as "slightly depressed" versus what has been seen in the past, which is encouraging. At our conference last week, CEO Crawford again noted that the company often sources the transactions, thus not always leading to a competitive situation. We fully expect Quipt to be active to close out calendar 2023; however, given our estimates do not include acquisitions, completed transactions provide upside to our estimates.

Price target and valuation. We are maintaining our price target of \$11, which is based on a target multiple of 8.3x our calendar year 2024 adjusted EBITDA estimate of \$63.4M. Our 8.3x target multiple is a 25% discount to a peer group that includes U.S.- and Canada-based tech-enabled and alternate site healthcare services companies that trade at an average multiple of 11.0x CY'24E adjusted EBITDA. Currently, shares of QIPT are trading at 4.6x our CY'24 adj-EBITDA estimate.

Figure 1: QIPT 3QFY'23 Variance

	3Q2022 Act.	3Q2023 Act.	CG		Cons.	
			Est.	% Δ	Est.	% Δ
Total revenue	\$ 36,692	\$ 60,284	\$ 59,573	1.2%	\$ 60,000	0.5%
% growth (y/y)	39.8%	64.3%	62.4%		63.5%	
Cost of inventory sold	\$ 8,906	\$ 16,630	\$ 15,072	10.3%	\$ 15,000	11%
Gross Income	\$ 27,786	\$ 43,654	\$ 44,501	-1.9%	\$ 45,200	-3.4%
% growth (y/y)	50.3%	57.1%	60.2%		62.7%	
Operating expenses	\$ 16,926	\$ 27,385	\$ 27,912	-1.9%		
Bad debt expense	\$ 3,404	\$ 2,425	\$ 2,681	-9.5%		
Depreciation	\$ 4,602	\$ 10,208	\$ 8,119	25.7%		
Amortization of intangible assets	\$ 761	\$ 1,490	\$ 1,461	2.0%		
Stock-based compensation	\$ 1,325	\$ 2,034	\$ 1,191	70.7%		
Acquisition-related costs	\$ 156	\$ (25)	\$ 900	-102.8%		
Gain on disposal of property and equipment	\$ (7)	\$ (33)	\$ -			
Other expense	\$ -	\$ -	\$ -			
Total operating expenses	\$ 27,167	\$ 43,484	\$ 42,264	2.9%		
Operating income	\$ 619	\$ 170	\$ 2,237	-92.4%	\$ 2,400	-92.9%
% growth (y/y)	-155.6%	-72.5%	261.4%		287.7%	
Total finance expense (income)	\$ 301	\$ 1,527	\$ 1,761	-13.3%		
Income taxes	\$ 155	\$ (323)	\$ 95	-439.2%		
Net income	\$ 163	\$ (1,034)	\$ 381	-371.5%	\$ (400)	158.5%
Diluted EPS	\$ 0.00	\$ (0.03)	\$ 0.01	-376.6%	\$ (0.05)	-49.0%
% growth (y/y)						
EBITDA	\$ 6,203	\$ 12,310	\$ 11,722	5.0%		
Adjusted EBITDA	\$ 7,698	\$ 13,877	\$ 13,213	5.0%	\$ 13,600	2.0%
% growth (y/y)	44.0%	80.3%	71.6%		76.7%	
FCF	\$ 2,234	\$ 5,199	\$ 421	1135.1%		
% growth (y/y)	48.5%	132.7%	-81.2%			
Margins						
Cost of inventory sold margin	24.3%	27.6%	25.3%		25.0%	
Gross income margin	75.7%	72.4%	74.7%		75.3%	
Operating expenses margin	46.1%	45.4%	46.9%		0.0%	
Bad debt expense margin	9.3%	4.0%	4.5%			
Depreciation margin	12.5%	16.9%	13.6%			
Amortization of intangible assets margin	2.1%	2.5%	2.5%			
Stock-based compensation margin	3.6%	3.4%	2.0%		0.0%	
Operating income margin	1.7%	0.3%	3.8%		22.7%	
EBITDA margin	16.9%	20.4%	19.7%			
Adjusted EBITDA margin	21.0%	23.0%	22.2%			
FCF Margin	6.1%	8.6%	0.7%			

Source: Company reports, FactSet consensus, Canaccord Genuity estimates

Figure 2: QIPT Income Statement

Income statement	2020 Year	2021 Year	2022 Year	2023 1Q Dec'22	2023 2Q Mar'23	2023 3Q Jun'23	2023 4Q E Sep'23	2023 Year E	2024 1Q E Dec'23	2024 2Q E Mar'24	2024 3Q E Jun'24	2024 4Q E Sep'24	2024 Year E	2025 Year E
Fiscal year - September														
Total revenue	72,639	102,351	139,862	40,815	58,120	60,284	61,791	221,010	63,089	64,414	65,766	67,147	260,416	282,990
% growth (y/y)	19.1%	40.9%	36.6%	38.2%	73.2%	64.3%	54.1%	58.0%	54.6%	10.8%	9.1%	8.7%	17.8%	8.7%
Cost of inventory sold	19,934	28,172	33,213	10,075	14,909	16,630	16,931	58,545	17,286	17,520	17,757	17,995	70,559	75,199
Gross Income	52,705	74,180	106,649	30,740	43,211	43,654	44,860	162,465	45,802	46,893	48,009	49,152	189,857	207,790
% growth (y/y)	-	40.7%	43.8%	40.6%	64.9%	57.1%	45.7%	52.3%	49.0%	8.5%	10.0%	9.6%	16.9%	9.4%
Operating expenses	32,185	44,805	65,203	19,462	27,686	27,385	28,297	102,830	28,828	29,369	29,986	30,615	118,798	129,027
Bad debt expense	6,441	7,957	12,225	2,283	2,482	2,425	2,533	9,723	2,524	2,577	2,631	2,686	10,417	11,320
Depreciation	13,860	16,212	20,453	5,992	8,127	10,208	10,280	34,607	10,226	10,327	10,336	10,425	41,315	42,153
Amortization of intangible assets	678	1,574	2,587	801	1,454	1,490	1,459	5,204	1,430	1,401	1,373	1,346	5,551	5,120
Stock-based compensation	171	4,952	5,493	571	1,306	2,034	1,359	5,270	1,262	1,288	1,315	1,343	5,208	5,660
Acquisition-related costs	89	233	797	257	900	(25)	(25)	1,107	(25)	(25)	(25)	(25)	(100)	(100)
Gain on disposal of property and equipment	(74)	(94)	45	-	(55)	(33)	-	(88)	-	-	-	-	-	-
Other expense	(1,303)	-	(4,885)	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	52,047	75,638	101,918	29,366	41,900	43,484	43,904	158,654	44,245	44,937	45,616	46,390	181,188	193,180
Operating income	658	(1,460)	4,731	1,374	1,311	170	956	3,811	1,558	1,956	2,393	2,762	8,668	14,610
% growth (y/y)	-	-321.9%	-424.0%	-216.4%	-70.5%	-72.5%	12.8%	-19.4%	13.4%	49.2%	1307.8%	188.8%	127.4%	68.5%
Interest expense, net	1,837	1,993	2,079	712	2,022	1,969	1,624	6,327	1,607	1,595	1,578	1,561	6,340	6,042
Loss on foreign currency transaction	(454)	173	144	4	8	(442)	-	(430)	-	-	-	-	-	-
Loss on extinguishment of debt	-	-	281	-	30	-	-	30	-	-	-	-	-	-
Other finance expense	215	-	442	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of warrants/debentures	2,635	5,703	(1,150)	-	-	-	-	-	-	-	-	-	-	-
Total finance expense (income)	4,233	7,869	1,796	716	2,060	1,527	1,624	5,927	1,607	1,595	1,578	1,561	6,340	6,042
Income/Loss from operations before taxes	(3,575)	(9,329)	2,933	658	(749)	(1,357)	(668)	(2,116)	(49)	361	815	1,201	2,328	8,568
Income taxes	128	(3,155)	(1,904)	333	-	(323)	-	10	-	18	41	60	119	1,285
Net income from continuing operations	(3,703)	(6,174)	4,839	325	(749)	(1,034)	(668)	(2,126)	(49)	343	774	1,141	2,209	7,283
Income (loss) from discontinued operations	(869)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income	(4,572)	(6,174)	4,839	325	(749)	(1,034)	(668)	(2,126)	(49)	343	774	1,141	2,209	7,283
Diluted EPS	\$ (0.20)	\$ (0.20)	\$ 0.13	\$ 0.01	\$ (0.02)	\$ (0.03)	\$ (0.02)	\$ (0.05)	\$ (0.00)	\$ 0.01	\$ 0.02	\$ 0.03	\$ 0.05	\$ 0.17
% growth (y/y)	-47.6%	0.8%	-165.7%	-113.3%	-114.8%	-691.8%	-134.5%	-141.1%	-113.9%	-139.9%	-173.4%	-267.6%	-197.8%	223.4%
Reconciliation to adjusted EBITDA														
EBITDA	12,800	10,310	28,054	8,163	10,854	12,310	12,696	44,023	13,214	13,666	14,062	14,473	55,415	60,598
Adjusted EBITDA	15,451	21,371	29,176	8,995	13,098	13,877	14,355	50,325	14,776	15,255	15,677	16,116	61,823	67,458
% growth (y/y)	40.4%	38.3%	36.5%	49.8%	85.9%	80.3%	70.4%	72.5%	64.3%	16.5%	13.0%	12.3%	22.8%	9.1%
Diluted shares outstanding	22,721	30,438	36,302	38,148	35,858	40,584	40,784	38,844	40,984	41,184	41,384	41,584	41,284	42,084
Margins														
Cost of inventory sold margin	27.4%	27.5%	23.7%	24.7%	25.7%	27.6%	27.4%	26.5%	27.4%	27.2%	27.0%	26.8%	27.1%	26.6%
Gross income margin	72.6%	72.5%	76.3%	75.3%	74.3%	72.4%	72.6%	73.5%	72.6%	72.8%	73.0%	73.2%	72.9%	73.4%
Operating expenses margin	44.3%	43.8%	46.6%	47.7%	47.6%	45.4%	45.8%	46.5%	45.7%	45.6%	45.6%	45.6%	45.6%	45.6%
Bad debt expense margin	-1.8%	0.0%	8.7%	5.6%	4.3%	4.0%	4.1%	4.4%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Depreciation margin	19.1%	15.8%	14.6%	14.7%	14.0%	16.9%	16.6%	15.7%	16.2%	16.0%	15.7%	15.5%	15.9%	14.9%
Amortization of intangible assets margin	0.9%	1.5%	1.8%	2.0%	2.5%	2.5%	2.4%	2.4%	2.3%	2.2%	2.1%	2.0%	2.1%	1.8%
Stock-based compensation margin	0.2%	4.8%	3.9%	1.4%	2.2%	3.4%	2.2%	2.4%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Operating income margin	0.9%	-1.4%	3.4%	3.4%	2.3%	0.3%	1.5%	1.7%	2.5%	3.0%	3.6%	4.1%	3.3%	5.2%
EBITDA margin	17.6%	10.1%	20.1%	20.0%	18.7%	20.4%	20.5%	19.9%	20.9%	21.2%	21.4%	21.6%	21.3%	21.4%
Adjusted EBITDA margin	21.3%	20.9%	20.9%	22.0%	22.5%	23.0%	23.2%	22.8%	23.4%	23.7%	23.8%	24.0%	23.7%	23.8%
Taxes	-3.6%	33.8%	-64.9%	50.6%	0.0%	23.8%	0.0%	-0.5%	5.0%	5.0%	5.0%	5.0%	5.1%	15.0%

Source: Company reports, Canaccord Genuity estimates. A more detailed financial model, including balance sheet, income statement, and cash flow projections, if available, may be obtained by contacting your Canaccord Genuity Sales Person or the Authoring Analyst, whose contact information appears on the front page of this report.

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Investment Recommendation

Date and time of first dissemination: August 15, 2023, 14:51 ET

Date and time of production: August 15, 2023, 14:51 ET

Target Price / Valuation Methodology:

Quipt Home Medical Corp. - QIPT

Our price target of \$11 is based on an 8.3x multiple applied to our CY'24 adj-EBITDA estimate.

Risks to achieving Target Price / Valuation:

Quipt Home Medical Corp. - QIPT

- **M&A timing and integration risk:** Quipt has established a successful track record of sourcing, completing, and integrating acquisitions. The company has completed 18 acquisitions, with the most recent Great Elm Health transaction being its largest to date. While we fully expect Quipt to remain active on the acquisition front, the timing of transactions is difficult to predict. As such, we have decided to remain conservative, and thus do to factor in new acquisitions into our estimates for fiscal 2023 through 2025. Additionally, although Quipt has successfully integrated past acquisitions, there is a risk that any future acquisitions may have unforeseen challenges.
- **Regulatory and reimbursement environment:** Although the regulatory and reimbursement environment has been favorable for Quipt and the DME industry as a whole over the last several years, it is hard to predict what future legislation, regulatory, or reimbursement changes will have on the company's business. There have previously been times when heightened regulation and unfavorable reimbursement updates have negatively impacted the DME industry. This poses a risk to Quipt in the future.
- **New technology and competition:** The development of new technologies could disrupt demand for Quipt's respiratory and sleep service offerings.

Distribution of Ratings:

Global Stock Ratings (as of 08/15/23)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	604	66.23%	22.68%
Hold	122	13.38%	8.20%
Sell	16	1.75%	6.25%
Speculative Buy	159	17.43%	49.69%
	912*	100.0%	

*Total includes stocks that are Under Review

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SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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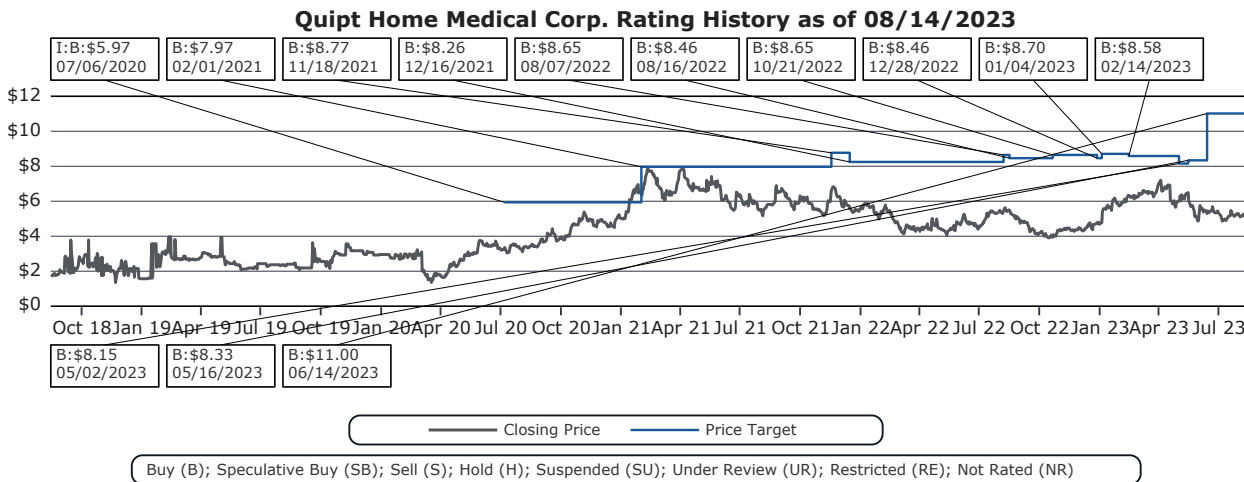
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In chart showing Quipt Home Medical Corp. rating history, price targets prior to 06/14/2023 are converted from C\$ to US\$.



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