

Quipt Home Medical Corp.

(QIPT-TSX: C\$7.23) (QIPT-NASDAQ: US\$5.36) *intraday*

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BUY

Target: C\$13.50

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Durable Momentum in Growth and Profitability

Impact: Slight Positive. QIPT's FQ3 results were in line with expectations and showed continued momentum in organic growth and profitability. Management expressed confidence that both measures can be sustained for the foreseeable future, and raised its go-forward guidance for cash flow conversion based on strong business conditions. We view QIPT stock as cheap after shares de-rated from ~7x NTM EBITDA in April to ~5x today (Figure 3), and believe that this latest strong quarter of results will add buoyancy to the valuation with M&A representing an additional catalyst. Our \$13.50 target price is based on 9x 2024E EV/EBITDA, in line with Healthcare Supplies and Services peers.

Key Metrics (all in USD):

- **Sales** of \$60.3 MM were in line with our estimate and consensus, and grew by 64% y/y, driven by acquisitions and organic growth. Organic growth was 4% q/q, driven by regulatory tailwinds, cross-sell in new markets supported by an expanded sales team, positive demographic trends, and a normalized supply chain. Organic growth accelerated from 2.5% in the prior quarter and remains above historical levels of 2 - 2.5%. Recurring revenue ticked up slightly to 80% of sales (Q2/F23 - 78%), and higher-margin Respiratory revenues grew to 81% of the sales mix (Q2/F23 - 79%).
- **Adj. EBITDA** of \$13.9 MM (23.0% margin) was also in line with our estimate and consensus, growing by 80% y/y. Margin rate again improved by ~50 bps sequentially, and by ~200 bps y/y, as the business continues to realize scale benefits. Operating expenses (excl. D&A, stock compensation, bad debts) as a % of sales fell to 45.4% from 47.6% last quarter and 46.1% last year. Bad debt expense improved to 4.0% of sales from 4.3% in the prior quarter and 9.3% in the prior year period, reflecting improved collections practices and the quality nature of QIPT's growth.
- **Balance Sheet and Cash Flow:** QIPT ended the quarter with \$20 MM of cash plus \$41 MM available on its senior credit facilities. QIPT ended the quarter with \$79 MM of debt (\$97 MM including leases), representing net leverage of 1.4x. Operating cash flow in FQ3 was \$12.5 MM and net capex was nil. Management raised its go-forward guidance for free cash flow margin (after lease payments and capex) to 6% - 8% from 3% - 5% previously, given strong top-line growth and a normalization of inflation and supply chain issues. During the quarter, the Company cancelled the at-the-market (ATM) equity program it initiated in May without having used it, reasoning that the business has sufficient liquidity to execute on its growth plans.

Outlook: Management expressed confidence that recent organic growth momentum can be sustained for the foreseeable future given positive demographic trends, a highly favourable regulatory environment, and efforts to grow its sales team and add new national/state payor contracts. Though QIPT continues to invest in its sales force, the Company expects further operating leverage driven by sales growth and a continued focus on operating efficiency and cost discipline. M&A remains a key growth lever, with a strong pipeline of respiratory targets in the \$3 - \$15 MM revenue range, and ample opportunity to add depth to existing markets through tuck-in transactions. Management sees valuations moderating compared to historical levels, and emphasized that QIPT's low leverage and \$61 MM of liquidity are sufficient to fund future transactions.

Figure 1: Summary Results

QIPT-CA	Q3/F23 (June '23)					Prior Quarter	Q/Q Change	Prior Year	Y/Y Change
	Actual	Eight Capital	Variance	Consensus Estimate	Variance				
Sales	\$60.3	\$59.6	1%	\$60.0	0%	\$58.1	4%	\$36.7	64%
Gross Profit	\$43.7	\$44.5	(2%)	\$45.2	(3%)	\$43.2	1%	\$27.8	57%
<i>Gross Profit %</i>	72%	75%	-229 bps	75%	-292 bps	74%	-193 bps	76%	-331 bps
Adj. EBITDA	\$13.9	\$13.7	1%	\$13.6	2%	\$13.1	6%	\$7.7	80%
<i>Adj. EBITDA %</i>	23.0%	23.0%	0 bps	22.7%	35 bps	22.5%	48 bps	21.0%	204 bps

Amounts in USD millions

Source: Company reports, Factset, Eight Capital

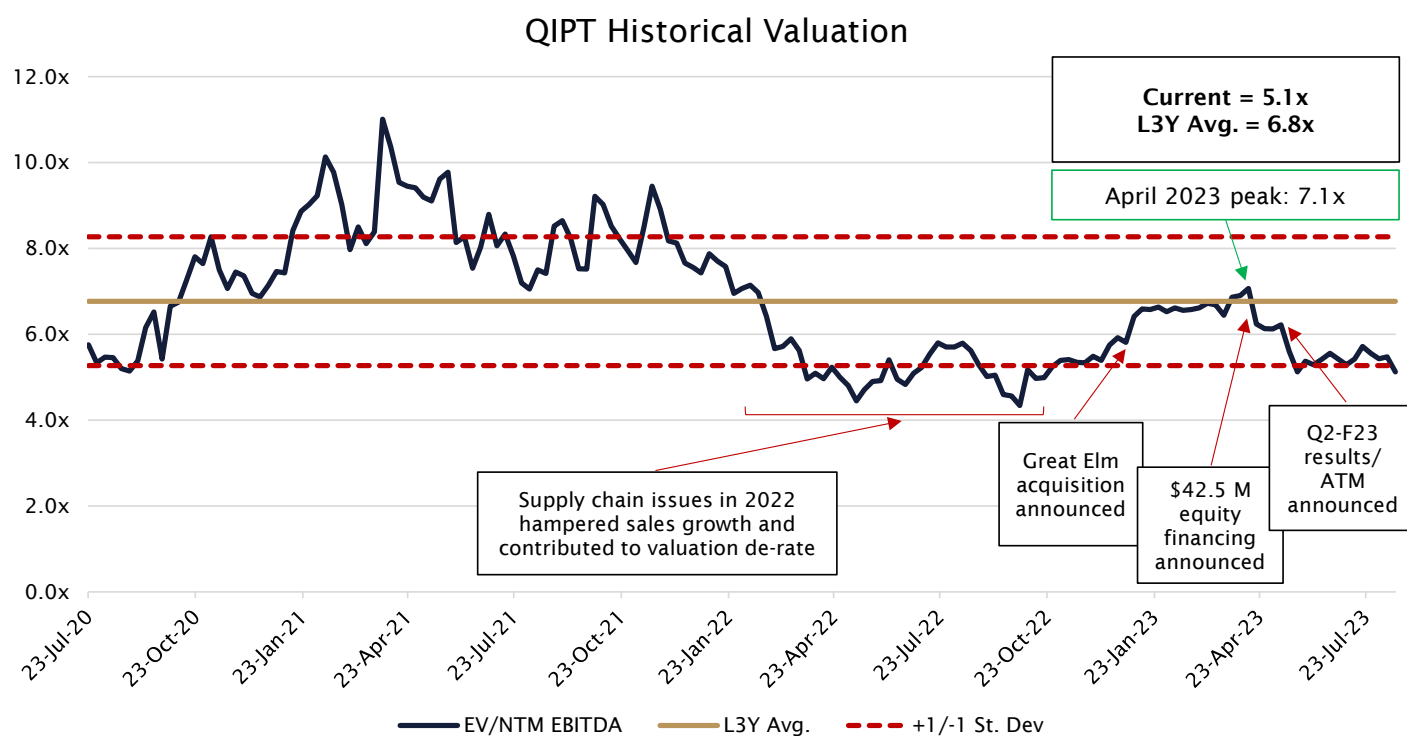
Figure 2: Estimate Revisions

QIPT-CA	Sept-23 Q4/F23E		Sept-23 F2023E		Sept-24 F2024E	
	Old	New	Old	New	Old	New
Revenue	\$62.3	\$62.6	\$220.8	\$221.9	\$262.1	\$265.2
Adj. EBITDA	\$15.1	\$14.4	\$50.9	\$50.4	\$61.2	\$64.0
Adj. EBITDA Margin	24.2%	23.1%	23.1%	22.7%	23.3%	24.1%
Diluted EPS	\$0.03	(\$0.03)	\$0.09	(\$0.09)	\$0.19	\$0.13

(US \$MM, unless otherwise noted)

Source: Eight Capital

Figure 3: Historical Valuation - EV/NTM EBITDA Basis



Source: Factset, Eight Capital

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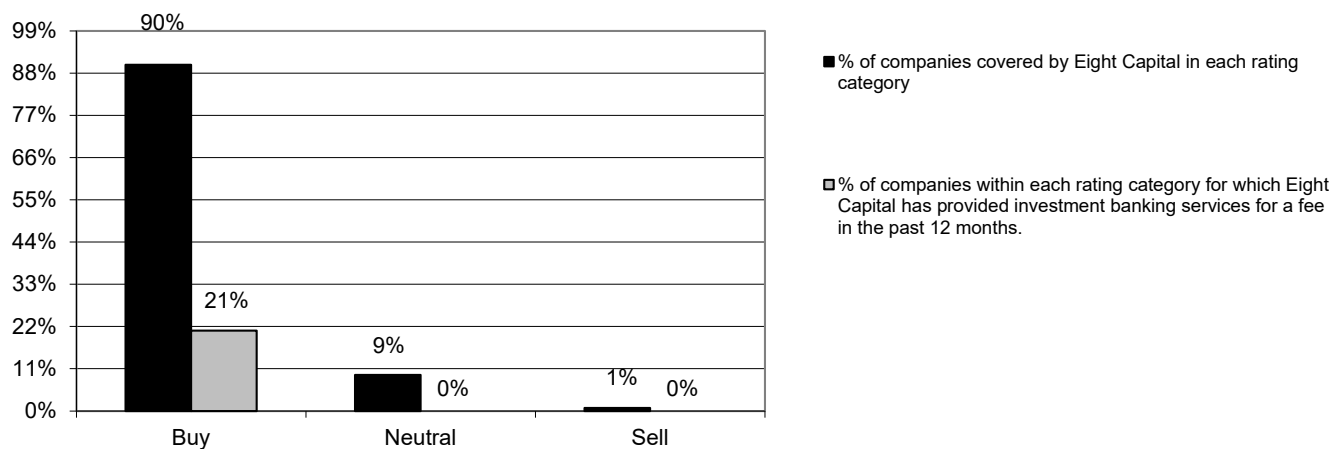
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