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QIPT-TSXV/QIPT-NASDAQ

Rating:	**Buy**
Target:	**C$16.25**
Price:	C$7.00
Return:	132%
Valuation:	10x EV/EBITDA (F2024 forecast)

Market Data

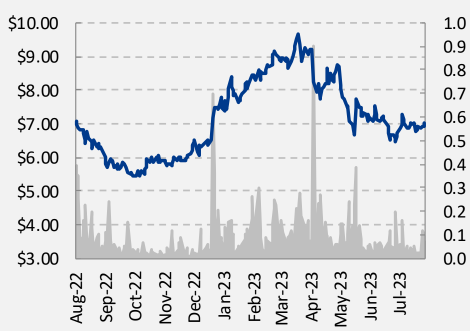
Basic Shares O/S (M)	42.1
FD Shares O/S (M)	47.1
Market capitalization (US$M)	219.2
Pro forma Ent Val (US$M)	264.0
Pro forma cash (US$M)	20.4
Pro forma LT debt (US$M)	65.3
52 Week Range	$5.33-$9.75
Avg. Weekly Volume (M)	0.35
Fiscal Year End	Sep-30

Financial Metrics

In US$	F2022A	F2023E	F2024E
Total Revenue (US$000)	139,862	219,804	245,386
EBITDA (US$000)	29,381	49,514	54,425
Net Income (US$000)	4,838	5,659	4,731
EPS (basic, US$)	$0.14	$0.17	$0.14
EPS (FD, US$)	$0.13	$0.15	$0.12
P/E	*NA*	*36.3x*	*31.0x*
EV/EBITDA	*12.3x*	*9.0x*	*5.3x*

Company Description

Quipt Home Medical is a durable medical equipment firm focused on delivering respiratory care devices into home healthcare markets. The firm operates in 26 US states, with over 270,000 unique patients served in those geographies. Acquisitive growth expected to continue.



Source: Refinitiv, Leede Jones Gable

Positive EBITDA/Cash Flow Momentum Continues in FQ323, Without Sacrificing Margin in The Process - Buy

Kentucky-based respiratory medical equipment distributor Quipt Home Medical reported FQ323 financial data for the June-end quarter. Like most preceding quarters, the firm's upward quarterly ascent continued on both revenue and EBITDA, without sacrificing EBITDA margin in the process. This was even after integrating a substantial acquisition, the MA-based Great Elm Healthcare LLC (GEHC), back in Jan/23.

Bottom line. Quipt continues to perform to our expectations in the US respiratory medical equipment distribution industry, while in the process generating industry-leading EBITDA margins that we believe reflect favorably on the firm's operational excellence and on its business development acumen. A substantial proportion of its growth during F2018-to-F2023 has indeed been derived from acquisitions. While we understand that capital markets ascribe more conservative multiples to acquisitive growth vs organic growth, we are nonetheless impressed by Quipt's ability to hold EBITDA margins firmly at historic averages even during financial periods when acquisition integration was ongoing.

Summary and valuation. Accordingly, we are maintaining our Buy rating and one-year PT of C$16.25 on QIPT, with our valuation still based on 10x EV/EBITDA using our F2024 EBITDA forecast of US$54.4M in the calculation. Our EV determination now incorporates FQ323 balance sheet data (cash of US$20.4M, total debt of US$65.3M) and fd S/O) of 47.1M. Though we do expect Quipt to grow its national respiratory equipment distribution franchise through a combination of new client wins and acquisitions, our model does not overtly incorporate any assumptions on pace of acquisitions and will assess impact of new acquisitions on revenue/EBITDA as transactions materialize. We stand by our view that QIPT's recent share price strength is incongruent with its operating performance and we encourage investors seeking some weighting in cash flow-positive healthcare equities to consider QIPT as a core holding. At current levels, our PT corresponds to a one-year return of 132%.

Headline data were strong, showing that Great Elm is contributing to revenue & EBITDA to historic levels. FQ323 revenue/EBITDA/margin of US$60.3M/US$13.8M/23.0% were strong both in absolute terms and in comparison to FQ123 (the first quarter that GEHC economics were infused into Quipt's consolidated operations) during which data of US$58.1M/US$13.0M/22.4% were themselves strong if incrementally lower.

The relative proportion of respiratory medical equipment sales vs rentals was stable sequentially, with FQ323 sales/rentals of US$34.6M/US$25.7M essentially at similar proportion to FQ223 sales/rentals of US$33.6M/US$24.5M. The proportionate increase in equipment sales vs rentals is a GEHC-driven phenomenon, since in most quarters in F2018-to-F2022, rental revenue was usually higher, though to an incremental degree.

The shift in revenue mix is entirely consistent with guidance that Quipt provided upon acquiring GEHC, since 88% of GEHC's annual revenue is derived from recurring sources. We separately reflect favorably on Quipt's earlier indications that it expected its proportion of higher-reimbursing private pay and Medicare clients to increase post-GEHC integration, and that could be an independent driver of profitability in the quarter. During its Jan/23 conference call describing the GEHC acquisition, Quipt separately indicated that it expected its Medicare vs Medicaid revenue mix ratio to shift relatively toward Medicare funding post-integration, from 34%/9% to 38%/7%. We know from our coverage history of the US healthcare services sector that US government-funded Medicare services tend to engender more favorable economics than state-funded Medicaid services.

Exhibit 1. Income Statement & Financial Forecast Data for Quipt Home Medical

Year-end September 30 (US$000, except EPS)	F2017A	F2018A	F2019A	F2020A	F2021A	F2022A	F2023E	F2024E
Sale of medical equipment & supplies	25,858	34,569	35,227	31,667	47,013	68,908	125,322	140,746
Rental of medical equipment & supplies	50,511	42,294	45,740	41,618	55,338	70,954	94,483	104,640
Total revenue	$76,369	$76,863	$80,967	$73,285	$102,351	$139,862	$219,804	$245,386
Revenue growth (%)	*NA*	*0.6%*	*5.3%*	*(9.5%)*	*39.7%*	*36.6%*	*57.2%*	*11.6%*
Direct costs	22,256	23,349	23,527	20,111	28,172	33,213	57,366	64,587
SG&A/other expense	53,056	35,981	36,896	32,472	44,805	59,859	98,102	104,881
EBITDA	$1,057	$12,307	$14,858	$15,519	$21,417	$29,381	$49,514	$54,425
EBITDA growth (%)	*NA*	*NA*	*NA*	*4.4%*	*38.0%*	*37.2%*	*68.5%*	*9.9%*
EBITDA margin (%)	*1.4%*	*16.0%*	*18.4%*	*21.2%*	*20.9%*	*21.0%*	*22.5%*	*22.2%*
Non-operating expenses	$26,302	$17,403	$19,485	$15,069	$22,877	$24,795	$45,415	$51,324
Interest expense (income)	$1,400	$1,908	$2,510	$1,859	$2,166	$2,000	$692	$622
Net income, fully-taxed	($27,094)	($6,967)	($9,141)	($2,606)	($6,174)	$4,838	$5,659	$4,731
Fully-taxed EPS (basic)	($0.36)	($0.09)	($0.12)	($0.10)	($0.20)	$0.14	$0.17	$0.14
Fully-taxed EPS (fd)	($0.34)	($0.08)	($0.38)	($0.09)	($0.17)	$0.13	$0.15	$0.12
P/E (basic)	*NA*	*NA*	*NA*	*NA*	*NA*	*36.3x*	*31.0x*	*37.1x*
EV/EBITDA	*NA*	*21.5x*	*17.8x*	*17.0x*	*12.3x*	*9.0x*	*5.3x*	*4.9x*

Source: Historical data – Company Information (Quipt Home Medical), Forecasts/Estimates – Leede Jones Gable

Gross margin experiences modest sequential decline but still holding firm at average gross margin levels exhibited during our coverage history of the firm. Gross margin of US$43.6M/72.4% did dip sequentially on a relative basis from US$43.2M/74.3% in FQ123, though not to any substantial degree that compels us to revise our gross margin assumptions in our F2023-to-F2025 forecasts. Quipt has throughout its public history been able to hold gross margin well above 70% and interestingly, its average gross margin during the twelve quarters in F2020-to-F2022 period preceding the GEHC acquisition was coincidentally also 74.2%, as it was in FQ323 specifically.

Exhibit 2. Valuation Summary for Quipt Home Medical

EV/EBITDA multiple	5x	7.5x	10x	12.5x	15x	17.5x
Implied share price [1]	$6.73	$9.62	$12.51	$15.39	$18.28	$21.17
One-year QIPT target price (US$) [1,2]			$12.51			
One-year QIPT target price (C$) [3]			$16.80			

[1] Based on adjusted F2024 EBITDA of US$54.4M; EV incorporates FQ323 total debt of US$65.3M, giving effect to new debt to fund the Great Elm Healthcare acquisition in the quarter

[2] Pro forma cash of FQ323 cash of US$20.4M, giving effect to net proceeds from April/23 equity offering; fully-diluted S/O of 47.1M

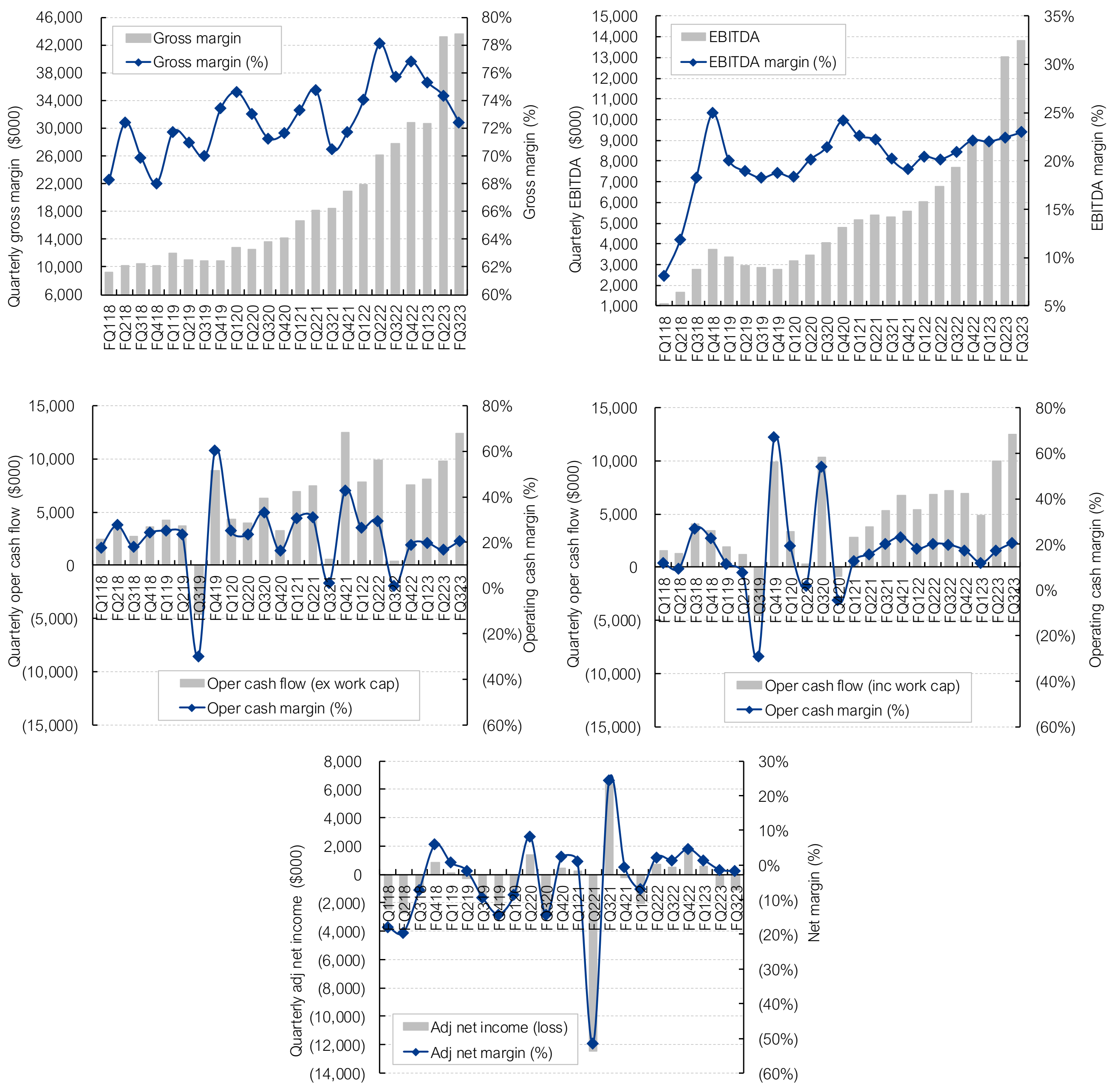
[3] Assumes a USD:CAD exchange rate of 1.34x

Source: Leede Jones Gable

Our model assumes that EBITDA margin can be sustained at/near historic highs in FQ323, especially when considering that trailing quarterly margins were already close to that peak level. We continue to be impressed by Quipt's ability to hold EBITDA margins firmly above 20% even during quarters in which sizable acquisitions have been consummated, as they were in the most recent two quarters with GEHC. Though FQ323 is not a record EBITDA margin quarter for the firm, at 23.0% it is certainly close to FQ420 margin level of 24.2%. Since FQ122, Quipt's EBITDA margin has indeed been trending upward (see Exhibits 3 & 4, top right panels in each exhibit), though operating cash flow trends have fluctuated more substantially during the same period even while still trending upward (Exhibits 3 & 4, middle right/left panels). Our model assumes that Quipt can sustain gross margin in the 72%-to-75% range and EBITDA margin in the 21%-to-23% range throughout our forecast period; accordingly, our model assumes minimal if any growth beyond FH123 levels on both metrics.

No major surprises in numbers of equipment set-ups or in patients served, with growth trajectory essentially in proportion to EBITDA/cash flow growth. Improvements in operational statistics were in line with EBITDA/cash flow growth trends, with number of patients served increasing to 140,505 from 137,748 in FQ223, respiratory resupply set-ups increasing to 108,391 from 106,486 in FQ223, and number of equipment set-ups increasing to 202,587 from 198,101 in FQ223. Comparisons to earlier quarters exclude GEHC impact and thus are not overly meaningful to future trends.

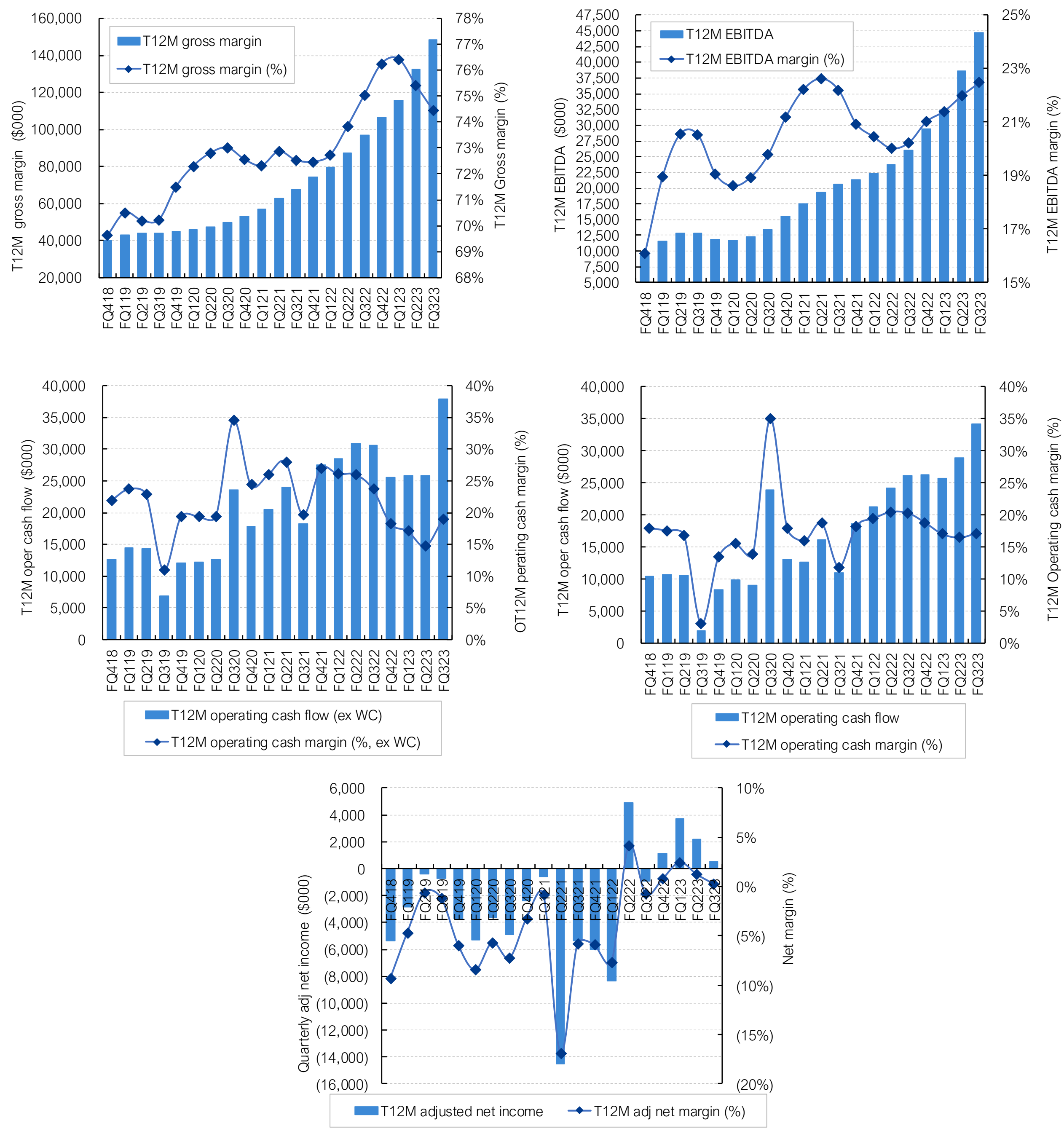
Exhibit 3. Summary of Quarterly EBITDA, Margin and Cash Flow Data for Quipt Home Medical



Source: Refinitiv, Leede Jones Gable

Debt-based financial ratios were already within safe territory, and made even safer through substantial debt repayment in the period. On balance sheet data, Quipt exited the quarter with US$20.4M in cash, a value that on initial inspection seems low when considering the US$35M equity raise that the firm consummated in the quarter and the fact that the firm is sustainably cash flow-positive and specifically generated US$12.4M (or US$0.26/shr) in pure cash flow just in FQ323 alone. Working capital balance was essentially neutral at US$0.1M.

Exhibit 4. Summary of T12M EBITDA, Margin and Cash Flow Data for Quipt Home Medical



Source: Refinitiv, Leede Jones Gable

An abundance of Quipt's cash was deployed toward debt reduction in the quarter, with cumulative reduction of debentures and its term loans/revolver of US$24.4M bringing total debt at quarter end down to US$65.3M, a debt level that Quipt can comfortably support based on FQ323 run-rate data. On that theme, the firm's debt-to-FQ323 EBITDA run-rate ratio was 1.2x and its FQ323 EBITDA-to-interest coverage ratio of 7.0x are both well within safe territory, with both metrics expected to improve as Quipt deploys proportions of its quarterly cash flow to scheduled debt repayment.

Cash flow approximates EBITDA even after considering impact of cash interest expense and other cash items below the EBITDA line. Staying with cash flow, Quipt's pure operating cash flow excluding working capital fluctuations was US$12.4M in the quarter and thus like EBITDA continued its upward quarterly ascent from US$9.8M in FQ223 (US$0.21/shr), from US$8.1M in FQ123 (US$0.20/shr) and from US$7.5M in FQ422 (US$0.19/shr). At current levels and on a multiple of FQ323 cash flow run-rate basis, QIPT is trading at 6.7x cash flow, a multiple that we believe is unjustifiably low based on Quipt's documented operating excellence and business development acumen during our coverage history.

Bad debt levels continue sustained decline as proportion of revenue, reducing business risk in the process. We are separately encouraged by Quipt's ability to reduce its bad debt expense in recent quarters, holding that metric firm at $2.3M (in FQ123), $2.5M (in FQ223), and $2.4M (in FQ323). In so doing, this recorded lower relative bad debt levels as a proportion of growing revenue, driving 'bad debt margin' to 4.0% of consolidated revenue in FQ323 from 4.3% in FQ223 and 5.6% in FQ123. In prior quarters in F2021/F2022, bad debt expense was routinely in the 8%-to-9% of revenue range, so we are pleased to see the directionality on bad debt levels, with our model assuming that current levels are sustainable throughout our forecast period.

Exhibit 5. Competitive Landscape for Quipt Home Medical

Company	Curr	Sym	Shares out (M)	Share price 14-Aug	Mkt cap ($M) (curr)	Mkt cap ($M) (C$)	Ent val ($M) (curr)	Ent val ($M) (C$)	EV/EBITDA (T12M)	EV/EBITDA FY23	EV/EBITDA FY24	Price/Earnings (T12M)	Price/Earnings FY23	Price/Earnings FY24	Company description
Canadian Healthcare Services Firms															
Akumin Inc	CAD	AKU	91.0	$0.18	$16	$16	$1,470	$1,470	10.8x	10.3x	8.6x	NA	NA	NA	US-based medical imaging clinic consolidator, focused on Florida & neighboring geographies
Assure Holdings Corp	USD	IONM	1.1	$0.60	$1	$1	$13	$13	NA	NA	7.1x	NA	NA	NA	US-based neuromonitoring services firm, operations in CO, TX, LA, UT
CareRx Corp	CAD	CRRX	57.7	$2.20	$127	$127	$227	$227	8.9x	7.8x	6.5x	NA	NA	NA	ON-based long-term care pharmacy operator
Extendicare Inc	CAD	EXE	84.3	$7.09	$598	$598	$908	$908	13.9x	10.2x	10.0x	NA	22.2x	21.5x	ON-based long-term care & home health-care services provider
K-Bro Linen Inc	CAD	KBL	10.8	$34.00	$367	$367	$481	$481	10.8x	9.2x	8.4x	38.8x	23.2x	17.8x	AB-based linen/laundry processing firm, focused on healthcare/hospi-tality sectors
Medical Facilities Corp	CAD	DR	25.2	$8.94	$225	$225	$341	$341	NA	3.9x	4.7x	NA	11.2x	11.9x	US-based physician-owned surgical hospital operator
Savaria Corp	CAD	SIS	64.6	$16.44	$1,062	$1,062	$1,430	$1,430	11.7x	10.9x	9.6x	29.0x	26.2x	18.6x	QC-based mobility device manufact (elevators, wheel-chairs, stair, lifts)
Viemed Healthcare Inc	CAD	VMD	38.2	$11.01	$421	$421	$319	$319	11.0x	7.5x	6.3x	NA	38.6x	24.7x	LA-based post-acute respiratory services & disease management
Average								$649		8.5x	7.6x		24.3x	18.9x	
US-based & RoW home medical equipment distribution peers															
Adapthealth	USD	AHCO	134.2	$13.88	$1,862	$2,503	$4,014	$5,394	7.1x	6.1x	5.6x	48.0x	21.9x	15.5x	PA-based medical equip provider; 66% equip sales vs 34% rental; 16% is respiratory
Amedisys	USD	AMED	32.6	$92.35	$3,014	$4,050	$3,374	$4,533	17.2x	13.6x	13.2x	NA	20.5x	19.9x	LA-based home healthcare & hospice services provider
Owens & Minor	USD	OMI	76.5	$19.63	$1,502	$2,019	$3,526	$4,738	8.7x	6.5x	5.7x	NA	14.3x	9.5x	VA-based med supplies/services in diabetes, wound care, urology, ostomy; acquired Apria for US$1.6B in Q122
Envista Holdings	USD	NVST	163.8	$33.28	$5,452	$7,326	$6,187	$8,315	12.5x	11.7x	10.6x	26.8x	18.0x	15.9x	CA-based dental products developer
Fisher & Paykel Healthcare	NZD	FPH	581.7	NZD 23.6	NZD 13,704	$11,017	NZD 13,729	$11,037	31.8x	31.8x	29.1x	54.8x	53.6x	51.7x	NZ-based med device developer; respiratory, acute care, obstructive sleep apnea
Inogen Inc	USD	INGN	23.1	$6.17	$143	$192	($27)	($37)	1.4x	1.2x	1.9x	NA	NA	NA	CA-based portable O2 concentrator marketer (One G4-G3-G2-At Home systems)
Inspiration Health-care Group PLC	GBp	IHC	68.2	£49.00	£3,344	$5,704	$44	$75	16.9x	11.6x	7.0x	NA	NA	NA	UK-based respiratory care, thermo-regulation, neonatal resusc device developer
Linde PLC	USD	LIN	487.9	$382.17	$186,478	$250,590	$201,659	$270,990	18.4x	16.7x	15.8x	42.5x	27.3x	25.0x	UK-based distributor of industrial gases, acquired FL-based Lincare in Q312, TN-based American Home Patient in Q415
ResMed	USD	RMD	147.1	$180.85	$26,598	$35,742	$27,811	$37,373	21.0x	20.6x	19.0x	29.7x	NA	26.0x	CA-based medical equipment producer (respiratory, sleep & SaaS
Vapotherm	USD	VAPO	46.2	$0.40	$19	$25	$102	$138	NA	NA	NA	NA	NA	NA	NH-based ventilator support & nasal cannula developer
Average								$34,256		13.3x	12.0x		25.9x	23.4x	
Quipt Home Medical [1]	USD	QIPT	42.1	$5.21	$219	$219	$266	$266	7.6x	5.3x	4.4x	NA	NA	39.5x	US-based home medical equip rental/sales, respiratory care

[1] *QIPT share price indicated in USD, was C$7.00 on TSX at Aug 14/23*

Source: Refinitiv, Leede Jones Gable

Respiratory medical equipment distribution peers also perform well in the June-end period, giving us confidence in how industry macroenvironment is supportive of our QIPT investment thesis. On competitive landscape, we were interested to see that LA-based respiratory medical equipment distribution peer VieMed (VMD-T, NR) experienced its own sequential improvement in EBITDA/margin in the June-end quarter (VieMed's FQ223). The firm recorded data of US$4.8M/11.0% that was above US$3.5M/8.8% recorded in the March-end quarter (FQ123) but below data for the December-end FQ422 period of US$5.0M/13.3%. VieMed's FQ223 relative gross margin of 60.3% was comparable to most prior quarters during F2022-to-F2023, though not quite up to Quipt's equilibrium levels on this metric.

The other major US durable medical equipment peer we track is PA-based AdaptHealth (AHCO-Q, NR), a more diversified durable medical equipment distributor than Quipt in that it has other divisions focusing on non-respiratory markets, but still its respiratory-based operations are a sizable proportion of consolidated operations. For the June-end period (Adapt's FQ223), revenue/EBITDA/margin were US$793.3M/US$171.0M/21.6% and thus generating an EBITDA margin quite close to Quipt's recent quarterly standard.

Peer firm AdaptHealth sends solid signal through increased revenue/EBITDA guidance that the macroenvironment for durable medical equipment is strong. As importantly, Adapt increased the top end of its previous revenue/EBITDA guidance (to US$3.24B/US$710M from US$3.20B/US$680M, respectively) and thus giving us confidence that Adapt sees upside on industry macroenvironment on the horizon. The firm specifically mentioned recovery of market share in its Diabetes business as being a key driver but we were encouraged to see Adapt specifically mention that its sleep & respiratory product lines have been sustainably strong in recent quarters. Quipt itself commented again in its MD&A on how the elimination of the need for patients to receive certificates of medical necessity before receiving funding for respiratory medical equipment has positively impacted administrative costs for the firm. Though this is not apparent in SG&A expense recorded in FQ323 (was 45.4% of revenue, excluding bad debt expense, as compared to 47.6% of revenue in FQ223 and 43.4% in FQ123) that this is having a demonstrable impact on EBITDA/margin, it is possible that economic impact of this variable is improving revenue through facilitating access of a broader patient population to funded respiratory care.

Interestingly, Adapt's proportion of sales vs rentals is qualitatively similar to Quipt's revenue mix, though with even greater skewing toward sales (65.8% sales vs 34.2% rentals in FQ223). Adapt's proportion of total revenue in the quarter that was derived from sleep & respiratory equipment distribution is high at 57.5%, 19.4% of which is in respiratory care. We do not have sleep/respiratory-specific EBITDA data but based on Quipt's achievable EBITDA margins in this business, we believe that Adapt's profitability data for sleep/respiratory operations are similar to its consolidated data.

Disclosures 4

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Speculative Buy	The security is considered a BUY but carries an above-average level of risk.
Hold	The security represents fair value and no material appreciation is expected over the next 12 month time horizon.
Sell	The security represents poor value and is expected to depreciate over the next 12 month time horizon.
Under Review	The rating is temporarily placed under review until further information is disclosed.
Tender	Leede Jones Gable Inc. recommends that investors tender to an existing public offer for the securities in the absence of a superior competing offer.
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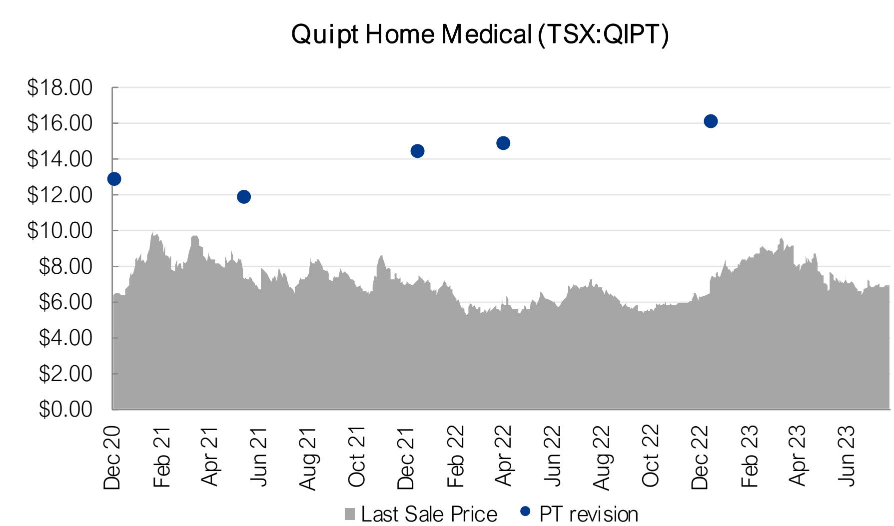
RECOMMENDATION	NO. OF COMPANIES	%
Buy	11	46%
Speculative Buy	8	33%
Hold	5	21%
Sell	-	-
Tender	-	-
Under Review	-	-

Historical Target Price



Date	Target ($)	Rating
21 Dec 2020	C$13.00	Buy
2 Jun 2021	C$12.00	Buy
4 Jan 2022	C$14.50	Buy
19 Apr 2022	C$15.00	Buy
4 Jan 2023	C$16.25	Buy

Coverage Initiated: Dec 21, 2020

Data sourced from: Refinitiv