

September 11, 2023

Canada - Healthcare

BUY

Price C\$7.52 (9/8/23)

FLASH NOTE

Growth by M&A resumes with US\$9mm in sales/\$2mm of EBITDA added

Summary

QIPT, a U.S. home medical equipment provider, focused in respiratory, announced an acquisition for an unnamed provider, operating in Mississippi, Texas and Louisiana with 10 locations. The acquisition will add US\$9mm in sales (+3% consolidated) and US\$2mm of EBITDA (+4%), post synergies. There was no purchase price disclosed, but we estimate a ~1x sales and ~4x EBITDA purchase multiple, equating to US\$8-US\$9mm, based on historical acquisitions (table below). We see the acquisition as a small catalyst for the stock, given the well documented track record of good M&A and subsequent solid results, where QIPT has now completed 21 deals since 2018. QIPT's balance sheet is in good shape, following a C\$42.5mm financing in April, where the company last reported US\$20.4mm in cash/US\$61mm of liquidity and a net debt adj. EBITDA ratio of 1.4x. QIPT trades at 5.4x Fwd EBITDA vs. close peers VMD at 7.2x and AHCO at 6.4x.

Key Points**QIPT M&A 2019-2023**

Target	Type	Date	Consid. TTM Sales			
			C\$M	C\$M	EV/Sales	EV/EBITDA
Great Elm Healthcare, LLC	Respiratory	Q1/2023	108.8	81.6	1.3x	5.2x
Hometown Medical, LLC	Respiratory	Q3/2022	n.d.	9.1	n.d.	n.d.
Access Respiratory Homecare, LLC	Respiratory	Q3/2022	n.d.	8.4	n.d.	n.d.
NorCal Respiratory, Inc.	Respiratory	Q3/2022	3.1	3.2	0.9x	4.8x
Good Night Medical, LLC	Respiratory	Q2/2022	8.9	9.5	0.9x	4.7x
At Home Health Equipment	Respiratory	Q1/2022	16.6	16.5	1.0x	4.5x
Unnamed target (7 states)	Respiratory	Q4/2021	6.9	17.5	0.4x	n.d.
Unnamed target (Southeastern U.S.)	Biomedical services	Q4/2021	0.9	1.9	0.5x	n.d.
Unnamed target (Midwestern U.S.)	Respiratory	Q4/2021	n.d.	16.3	n.d.	n.d.
Unnamed target (Illinois)	Respiratory	Q4/2021	2.8	3.1	0.9x	4x
Unnamed target (Mississippi)	Respiratory	Q4/2021	2.4	3.4	0.7x	4x
Unnamed target (Missouri)	Respiratory	Q3/2021	2.9	7.0	0.4x	2x
3 Strategic Acquisitions	Respiratory	Q3/2021	5.3	6.9	0.8x	7.5x
Mayhugh's Medical Equipment	Respiratory	Q1/2021	5.8	7.0	1x	5x
Sleepwell, LLC	Sleep	Q4/2020	14.4	13.0	1x	4x
Health Technology Resources, LLC	Respiratory	Q3/2020	5.4	5.5	1x	3x
Acadia Medical, Inc.	Respiratory	Q4/2019	2.3	4.0	0.5x	3x
Cooley Medical, Inc.	Respiratory	Q4/2019	4.0	9.0	0.5x	2x
Riverside Medical & Central Oxygen	Respiratory	Q4/2018	0.9	n.d.	n.d.	n.d.
Coastal Med Tech Inc.	Respiratory	Q3/2018	0.9	4.0	0.2x	1x

Source: QIPT Home Medical, Stifel

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Investment Thesis

We see QIPT as offering important respiratory infrastructure services within healthcare that help keep patients out of the hospital or lead to early discharges, something that has become increasingly important. We expect a good organic growth rate to trend higher with increasing preference for at-home care, spurred by Telehealth and related innovation. QIPT is also seeking scale by rolling up smaller competitors with an aggressive, but disciplined, approach that includes an M&A playbook that works. We expect the combination of organic growth and M&A in an increasingly valuable home healthcare space to result in a positive re-rating in valuation and a higher share price.

Target Price Methodology/Risks

Our C\$12.75 target price is based on 8x F2023E EBITDA.

Acquisition risk: QIPT's strategy includes growth by acquisition. Expected synergies may not materialise for these acquisitions or integration costs may be more than expected.

Reimbursement changes: QIPT's business model is based on reimbursement from Medicare, Medicaid and private insurance in the U.S. The industry is subject to competitive bid processes that may result in lower pricing for certain services and/or products.

Supply chain: there are a concentrated number of suppliers from which QIPT sources its equipment, and they are largely domestic. If there were disruptions in this supply chain, growth and the ability to serve customers well could be affected.

Bad debt expense: QIPT's customers may not return medical equipment or equipment may otherwise be damaged under a rental/lease model. QIPT has the ability to turn off some products remotely, and serialisation of equipment helps prevent theft, but some bad debt expense exists.

COVID-19: QIPT's business has been deemed an essential service. Providing healthcare infrastructure at home, thereby keeping patients healthy and out of the hospital or resulting in early discharges, is increasingly important now. QIPT's business has not been materially affected by COVID-19, speaking to the resilience of the model, but prolonged periods of shutdowns could impact the business, including unforeseen risks.

Company Description

QIPT provides in-home monitoring and disease management services, with a specific focus on offering end-to-end respiratory solutions for patients in the U.S. 80% of QIPT's business is providing respiratory equipment rental/leases with associated consumable supplies and 20% related to mobility and related home equipment. QIPT's respiratory segment breaks down further to 40% related to Oxygen and Ventilator services and 40% for sleep therapy solutions.

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Quipt Home Medical Corp. (QIPT CN) as of September 08, 2023 (in CAD)



*Represents the value(s) that changed.

Buy=B; Speculative Buy=SB; Hold=H; Sell=S; Discontinued=D; Suspended=SU; Initiation=I

For a price chart with our ratings and target price changes for QIPT CN go to <http://stifel2.bluematrix.com/sellside/Disclosures.action?ticker=QIPT CN>

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