

August 16, 2022

QUIPT HOME MEDICAL CORP. (QIPT-TSXV, \$7.09)

Rating: BUY
Target Price: \$13.00

IMPRESSIVE QUARTER GIVEN SUPPLY CHAIN CONSTRAINTS

Quipt Home Medical Corp.		QIPT	
<i>(Currency is C\$ unless noted otherwise)</i>			
Last Price (\$)			\$7.09
Target Price (\$)			\$13.00
Return to Target			83%
52-Week Trading Range (\$)		\$5.14 /	\$8.87
Average Daily Volume (90-Day)			42.3K
MARKET INFO			
Shares Outstanding (M)			33.7
Market Capitalization (\$M)			\$239.1
Enterprise Value (\$M)			\$262.4
FYE: SEP 30	F2021A	F2022E	F2023E
Revenue (US\$M)	\$102.4	\$143.0	\$175.6
Gross Margin (%)	72%	75%	74%
Adj. EBITDA (US\$M)	\$21.4	\$30.3	\$39.0
Net Income (US\$M)	(\$6.2)	\$13.3	\$11.8
MOST RECENT QUARTER		Jun-22	
Revenue (US\$M)			\$36.7
Gross Margin (%)			76%
Adj. EBITDA (US\$M)			\$7.7
Net Income (US\$M)			\$0.2
Cash (US\$M)			\$18.5
Debt (US\$M)			\$36.7
VALUATION	F2021A	F2022E	F2023E
EV/Revenue	2.0x	1.4x	1.2x
EV/EBITDA	9.5x	6.7x	5.2x
DISCLOSURE CODE:	None		
<i>(Please refer to applicable disclosures on the back page)</i>			
Source: M Partners, Capital IQ, Bloomberg, Company Documents			



Quipt Home Medical Corp. is a distributor of durable medical equipment (DME) across 15 states, with 170,000 active patients and 19,000 referring physicians in the U.S. Recently, QIPT's focus has been on leveraging its financial strength and unique positioning to acquire smaller businesses in a rapidly consolidating industry.

Yesterday after market close, Quipt Home Medical reported Q3/22 financial results that beat our expectations. We were particularly impressed by QIPT's gross margin which came in at 76% (vs. 70% last year), expanding nicely despite inflationary pressures on global supply chains. QIPT posted 2% organic growth, similar to last quarter which was heavily impacted by supply chain issues in the sleep segment. The sleep devices backlog stood at 6,000 patients at the end of the quarter (vs. 6,500 in Q2 and 8,000 in Q1); this remains much higher than the typical 1,000 patient backlog, providing an opportunity for outsized revenue growth in the coming quarters as supply comes online.

Additional highlights from the quarter include:

- Revenue of US\$36.7M (+40% YoY) vs. our estimate of US\$36.0M and US\$33.6M in the prior quarter. During Q3, 77% of total revenue was recurring.
- Gross margin of 76% vs. our estimate of 72% and 78% in Q2.
- Adjusted EBITDA of US\$7.7M (21% margin) vs. our estimate of US\$7.2M (20% margin) and US\$7.0M (21% margin) last quarter.
- Cash flow from operations for the quarter of US\$7.2M.
- QIPT ended the quarter with a cash balance of US\$18.5M.

Quarterly Financials Summary				
	Q3/22A	MPI Est.	QoQ	YoY
Revenue (US\$M)	\$36.7	\$36.0	+9%	+40%
Gross Margin (%)	76%	72%	-235 bps	+525 bps
Adj. EBITDA (US\$M)	\$7.7	\$7.2	+9%	+44%

Figure 1: Quarterly Financials Summary

Operating Metrics: QIPT reported strong operating metrics once again in Q3, including 63K respiratory resupply set-ups/deliveries (+55% YoY), 89K unique patients served (+38% YoY), and 134K unique set-ups/deliveries (+40% YoY). Quipt now operates out of 94 locations in nineteen states across the U.S. and has over 200K active patients with 22K referring physicians. QIPT continues to accelerate its hiring of sales staff to expand its reach across the U.S, in a push to increase organic growth. 80% of QIPT's revenue came from respiratory products in Q3 as the demand for oxygen concentrators, ventilators, and CPAP supplies remained robust. CEO Greg Crawford highlighted that the respiratory product momentum accelerated towards the end of the quarter and into Q4.

Acquisitions: During the quarter, Quipt acquired Good Night Medical (US\$7.0M, 4.7x EBITDA), NorCal Respiratory (US\$3.1M, 4.8x EBITDA) and Access Respiratory (transaction details not disclosed), and subsequently acquired Hometown Medical (transaction details not disclosed). For additional information on each transaction and their strategies rationales, please refer to our previous notes. We are very encouraged by the pace of acquisitions and expect more to come given the new financing package (details below).

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Subsequent Events: QIPT executed a supply contract with Cardinal Health at-Home where Quipt will offer products supplied and distributed by Cardinal nationwide. The contract brings new cross selling opportunities and additional product lines to Quipt's current offering. Additionally, yesterday QIPT received a binding commitment letter from CIT Bank for up to \$80M in senior secured credit facilities. The facilities include \$5M in principal, \$55M in a delayed term loan facility and \$20M in revolving credit. The funds will be used to finance future acquisitions and general working capital purposes. We also think that this is very encouraging as management previously communicated that it had access to this financing package, but would only obtain it if there was an opportunity for large-scale M&A.

Our Thoughts: We continue to expect QIPT to execute on its roll-up strategy (at <1.0x sales) and take advantage of the favourable reimbursement environment to post 8%+ annual organic growth. **We are maintaining our BUY rating and target price of \$13.00/share based on 9.0x 2023E adjusted EBITDA.**

(\$USD Millions)											
Income Statement	1Q21A	2Q21A	3Q21A	4Q21A	FY21	1Q22A	2Q22A	3Q22A	4Q22E	FY22	FY23
Revenue	22.8	24.2	26.2	29.1	102.4	29.5	33.6	36.7	43.2	143.0	175.6
<i>YoY Growth</i>						<i>30%</i>	<i>38%</i>	<i>40%</i>	<i>48%</i>	<i>40%</i>	<i>23%</i>
Gross Margin	16.7	18.1	18.5	20.9	74.2	21.9	26.2	27.8	32.0	107.8	129.9
<i>Margin %</i>	<i>73%</i>	<i>75%</i>	<i>70%</i>	<i>72%</i>	<i>72%</i>	<i>74%</i>	<i>78%</i>	<i>76%</i>	<i>74%</i>	<i>75%</i>	<i>74%</i>
Adjusted EBTIDA	5.1	5.4	5.3	5.6	21.4	6.0	7.0	7.7	9.5	30.3	39.0
<i>Margin %</i>	<i>23%</i>	<i>22%</i>	<i>20%</i>	<i>19%</i>	<i>21%</i>	<i>20%</i>	<i>21%</i>	<i>21%</i>	<i>22%</i>	<i>21%</i>	<i>22%</i>

Figure 2: Financial Projections

Disclosure Code: None

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Rating System	
Buy:	Price expected to rise
Speculative Buy:	Buy rating with increased risk
Hold:	Properly priced
Sell:	Price is inflated and expected to decrease
Under Review (U/R):	Under review
Not Rated (N/R):	Not currently rated

Summary of Recommendations	
Buy	17
Speculative Buy	1
Hold	0
Sell	0
U/R	1
Total	19