

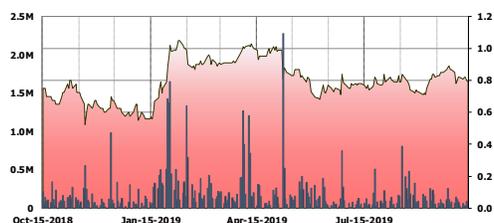
**PROTECH HOME MEDICAL CORP. (PTQ – TSXV, \$0.86)**

**Rating: BUY**  
**New Target Price: \$2.80**  
**Old Target Price: \$2.40**

**ACQUISITION PROGRAM BROUGHT BACK TO LIFE – INCREASING TARGET**

PROTECH HOME MEDICAL CORP.		TSXV:PTQ	
<i>(Currency is C\$ unless noted otherwise)</i>			
Last Price (\$)			\$0.86
Target Price (\$)			\$2.80
Return to Target			226%
52-Week Trading Range (\$)		\$0.52 - \$1.07	
Average Daily Volume (90-Day)			125.8K
<b>MARKET INFO</b>			
Shares Outstanding (M)			83.5
Market Capitalization (\$M)			\$72
Enterprise Value (\$M)			\$84
<b>FYE: SEP 30</b>			
	<b>F2018A</b>	<b>F2019E</b>	<b>F2020E</b>
Revenue (\$M)	\$77	\$87	\$108
Gross Margin	70%	71%	73%
Net Income (\$M)	\$19	(\$6)	\$6
Diluted EPS (\$)	\$0.23	(\$0.07)	\$0.06
Adj. EBITDA (\$M)	\$13	\$16	\$23
Cash (\$M)	\$4	\$10	\$13
Debt (\$M)	\$12	\$13	\$15
<b>VALUATION</b>			
	<b>F2018A</b>	<b>F2019E</b>	<b>F2020E</b>
EV/Revenue	1.1x	1.0x	0.8x
EV/EBITDA	8.5x	5.4x	3.7x
<b>RELATIVE VALUATION (EV/EBITDA)</b>			
	<b>F2018A</b>	<b>F2019E</b>	<b>F2020E</b>
N. American Small Cap Health Care	25.0x	18.1x	12.6x
<b>MAJOR SHAREHOLDERS</b>			
Management & Insiders (4.7%), Claret Asset Management (8.16%), Crawford, Gregory J. (4.39%), StoneCastle Investment M (1.4%), Spartan Fund Management (1%)			
<b>DISCLOSURE CODE:</b>			None
<i>(Please refer to applicable disclosures on the back page)</i>			

Source: M Partners, Capital IQ



Protech Home Medical Corp. is a Kentucky-based distributor of durable medical equipment (DME) across 12 states and 13,000 referring physicians in the U.S. Protech’s focus on service offerings that take advantage of favourable demographic trends in the U.S. should support strong organic growth for many years. PTQ can also leverage its financial strength and unique positioning in the market to acquire smaller businesses in a rapidly consolidating industry.

**Protech Home Medical Corp. announced yesterday that it has acquired Cooley Medical, Inc. (CMI), a leading provider of respiratory services in Eastern and Central Kentucky with six locations.** This acquisition strengthens Protech’s position in one of its key geographies and allows it to provide services to an additional 34 counties in Kentucky, 8 in Indiana and 5 in Virginia. CMI also brings 13,000 active patients and deliveries of 17,000 pieces of rental equipment annually. Following integration, CMI is expected to provide \$9M in revenues and \$1.6-1.9M in adjusted EBITDA, bringing Protech’s total run-rate to \$95-97M in revenue and \$17-19M in adjusted EBITDA.

We believe this is exactly the type of acquisition that is most beneficial to Protech, because it increases exposure in its key markets (which are also the highest concentration for COPD patients), expands its focus on the respiratory market and was made at an attractive purchase price.

The purchase price consists of \$3.1M in cash and \$0.9M in assumed debt. We assume \$1.7M in additional EBITDA from CMI, which implies a 2.4x EV/EBITDA multiple. This acquisition is the first to close since Protech had \$9.2M of funds stolen in May, putting the acquisition program on hold. With more than \$9M in cash on the balance sheet, we expect PTQ to close at least one more acquisition in the short term. For our model, we have assumed \$5M in additional acquired revenues in fiscal 2020. However, management has stated it has well over \$20M in potential revenue in its pipeline. At its current valuation, we believe Protech will only look to finance acquisitions through cash on hand and operating cash flow, and thus will have a disciplined approach moving forward.

Looking at Protech Home Medical’s small cap peers in health care products/service distribution, the discount on both an EV/EBITDA and EV/Revenue basis is striking. This is becoming increasingly unwarranted considering its high-margin cash-flow positive business model, and its financial and operational flexibility to acquire small businesses for rapid revenue growth. We also note that shares were trading above \$1.00 prior to the cyber-theft in May. We believe that Protech should trade closer to the peer average of 12.6x on an EV/EBITDA multiple basis.

**We are maintaining our BUY rating on Protech Home Medical with a \$2.80 target price (previously \$2.40) based on 11.0x 2020 EBITDA.** The increased target price reflects \$1.7M of additional EBITDA as a result of the CMI acquisition.

**INVESTMENT THESIS**

**An aging population and increasing prevalence of chronic illnesses in the U.S. should support over 5% annual growth in demand for DME over the next 10+ years.** As pressure continues to build on the health care system, reimbursement rates are falling, creating a crucial need for home health care and medical equipment. Durable medical equipment is expected to be one of the fastest growing segments of health care spending, and PTQ has consistently grown revenues at a pace faster than the market. Protech focuses on the highest-concentration states for potential respiratory customers.

**As demand rises, the number of DME distributors is rapidly falling due to cost cutting and unfavourable pricing conditions for smaller companies.** Protech's size makes it one of the few companies capable of acquiring smaller regional operators as the industry consolidates. When it acquires regional businesses, it expands its patient base and can cross-sell new and existing products, while taking advantage of economies of scale and purchasing power. Management has over 50 years of M&A experience.

**Protech's business model, focused around servicing chronic illnesses on monthly rentals and resupply, provides stable recurring revenues as it approaches \$100M in total annual sales.** As the patient base and cross-selling opportunities continue to grow, recurring revenues should become an increasingly large proportion of revenue. PTQ's cash flow-positive business can fuel future acquisitions and technology investments.

**PTQ shares trade at a substantial discount of 3.7x 2020 EBITDA vs. peers at 12.6x.** We believe over time, with Protech's high-margin, recurring revenue business and accretive acquisitions, shares should re-rate closer to peers. In an increasingly uncertain economic environment, Protech provides a compelling value investment opportunity.

Disclosure Code: None

---

**Disclosure**

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein. Disclosure codes are used in accordance with Policy 3400 of IIROC.

**Description of Possible Disclosure Codes**

1. M Partners or its affiliates collectively beneficially own 1% or more of any class of equity securities of the company which is the subject of the research report.
2. The analyst or any associate of the analyst responsible for the report or public comment hold shares in the company.
3. M Partners or a director or officer of M Partners or any analyst provided services to the company for remuneration other than normal investment advisory or trade execution services within the preceding 12 months, (may seek compensation for investment banking services from the company herein within the next 3 months).
4. The director, officer, employee or research analyst is an officer, director or employee of the company, or serves in an advisory capacity to the company.
5. The analyst has viewed the material operations of the company. We define material operations as an issuer's corporate head office and its main production facility or a satellite facility that is representative of the company's operations.
6. M Partners provided investment banking services for the company during the 12 months preceding the publication of the research report
7. The analyst preparing the report received compensation based upon M Partners investment banking revenues for this issuer

**Dissemination**

All final research reports are disseminated to institutional clients of M Partners simultaneously in electronic form. Hard copies will be disseminated to any client that has requested to be on the distribution list of M Partners. Reproduction of this report in whole or in part without permission is prohibited.

**Research Analysts**

The Research Analyst(s) who prepare this report certify that their respective report accurately reflects his/her personal opinion and that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views as to the securities or companies. M Partners compensates its research analysts from a variety of sources and research analysts may or may not receive compensation based upon M Partners investment banking revenue.

Member of the Investment Industry Regulatory Organization of Canada and the Canadian Investor Protection Fund  
Participating organization of the Toronto Stock Exchange and the TSX Venture Exchange  
[http://www.mpartners.ca/email\\_disclaimer.html](http://www.mpartners.ca/email_disclaimer.html)