

# Protech Home Medical (PTQ – V)

## Strong Q1 Results, Strong Balance Sheet = Strong FY19 in Offing

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- PTQ recently released its Q1/FY19 (December) results that were better than expected. Revenue/EBITDA was \$21.7m/\$4.4m (20.3%) versus our expectations of \$19.5m/\$3.9m. This quarter marked another excellent operational period for the company both from a growth and margin perspective.
- Looking at the highlights of the quarter:
  - Revenue growth was +17% on a y/y basis. While we believe the growth included some small contribution from 2 recent acquisitions, we believe the organic growth was ~15% - approximately 2x the growth of the industry;
  - EBITDA margin was 20.3%. While this was down from a reported 25% in Q4, we remind clients that Q4 included a reversal of prior period accruals. On a more normalized level, we believe Q4 EBITDA was ~19%. As such, the progression of EBITDA margins over the past 5 quarters has been 8%, 11.9%, 18.3%, 19%, 20.3%.
  - From a revenue perspective, it was segmented by \$8.5 million from the "sale of medical equipment" (+35% y/y) and \$13.2 million from "rental" (+7.8% y/y). We believe it is important to highlight a couple of further data points. **Patient growth was 4.2%, implying total revenue per patient grew by 13%.** This is due to the company's strategy of selling more product to the same customer. In particular, we note that "respiratory resupply set-ups" was +19% y/y (think ancillary supplies such as CPAP hoses, masks, etc, which are the company is focused on a re-order business every 3-4 months), which drove the aforementioned 35% growth in "sale of medical equipment". Clients may have noticed a y/y decline in the number of "equipment set-ups" (-3.3%). It is important to understand that this is not an apples-to-apples comparison as the company discontinued a number of lower margin products over the past year. On a pro-forma basis, this metric would have shown an increase.
  - With the significant improvement in its operations, subsequent to quarter-end, the company re-financed its debt and materially improved its balance sheet. In particular, PTQ raised \$15 million convertible debentures with a 4-year term, 8% coupon and \$1.30 conversion price. The primary use of proceeds will be to repay its \$8.6 million debenture, which is due December 31, 2019. Once that is repaid, **we estimate PTQ will have ~\$12 million in cash, with which to pursue acquisitions.** This is the best balance in its history. From a "near cash position" (defined as cash + A/R - A/P - Lease Payable) of negative \$5.3m in Q1/FY18, it now has a positive \$18m, a \$23 million swing in a year. Coupled with positive free cash flow, such balance sheet improvements gives the company a lot of flexibility to grow inorganically as well as organically.
- Given the better than expected Q1/FY19 results, we are raising our forecasts for this year. We now estimate revenue/EBITDA of \$88.7m/\$16.8m (was \$84.8m/\$16.1m). We are maintaining our current FY20 forecast of \$104.1m/\$20.8m. We note that we believe our forecasts have an upward bias given its improved balance sheet and the potential for acquisitions.
- We continue to be very impressed with management's operational execution. The industry should continue to see above average growth rates driven by positive demographic trends. We maintain our Buy recommendation and \$3.00 target price.

### Q1/FY19 Results

**BUY** (Unch)

**\$3.00** (Unch)

Recent/Closing Price	\$0.89
12-month Target Price	\$3.00
Potential Return	237%
52 Week Price Range	\$0.40 - \$1.07

#### Estimates

YE: Sept. 30	FY18	FY19E	FY20E
Revenue (\$MM)	\$76.9	\$88.7	\$104.1
EBITDA (\$MM)	\$12.6	\$16.9	\$20.8
Adj EPS	-\$0.05	\$0.09	\$0.14

#### Valuation

	FY18	FY19E	FY20E
EV/Sales	1.1x	1.0x	0.8x
EV/EBITDA	7.0x	5.2x	4.2x
P/E	-	10.4x	6.2x

#### Stock Data (MM)

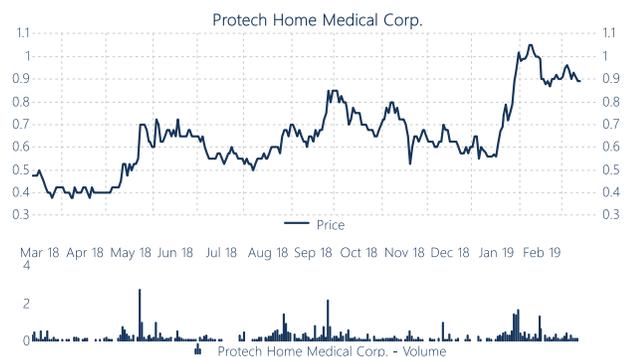
Shares Outstanding	
Basic	84
FD	84
Market Cap (C\$)	
Basic	\$84
FD	\$106
Net Debt	\$4
EV (C\$)	\$88

#### About the Company

PTQ is focused on a highly fragmented and developing market of small privately-held US companies servicing chronically ill patients with multiple disease states. PTQ is actively working to identify and evaluate profitable, annuity-based companies to acquire their patient databases and technical expertise at favorable prices. PTQ's post acquisition organic growth strategy is to increase annual revenue per patient by offering multiple services to the same patient, consolidating the patient's services and making life easier for the patient.

All prices in C\$ unless otherwise stated

#### Stock Performance



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As at February 28, 2019	#Stocks	Distribution
BUY	73	77.7%
Speculative Buy	12	12.8%
Hold	5	5.3%
Sell	0	0.0%
Under Review	4	4.3%
Tender	0	0.0%
Total	94	100%

BUY	Total 12-month return expected to be > 15%
Speculative Buy	Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
Hold	Total 12-month return is expected to be between 0% and 15%
Sell	Total 12-month return is expected to be negative
Under Review	
Tender	Clients are advised to tender their shares to a takeover bid or similar offer

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