

Protech Home Medical (PTQ – V) Major Step to Securing Stolen Money

June 27, 2019

Doug Cooper, MBA

Analyst - (416) 643-3863

dcooper@beaconsecurities.ca

- PTQ announced yesterday that it has obtained a default judgment against the perpetrator of its cybercrime. The Hong Kong Court has frozen the perpetrator's bank account bank account, which contains ~\$8.6 million of the \$9.2 million that was stolen. It is expected that the bank will release the \$8.6 million to the company upon receipt of a final Garnishee Order Absolute from the Court in Hong Kong. Such garnishee proceedings are expected to take several months.
- We believe such a major step in securing the stolen money should give investors confidence that such money will be returned. Not only would such a return of capital improve the balance sheet, but more importantly would re-initiate its M&A program. Recall that prior to the cybercrime, the company had announced LOI's that had to be put on hold.
- With this positive news, we believe investors should re-focus on the fundamental outlook for the company, which is very positive. On a TTM basis, PTQ has generated \$83.2 million in revenue and \$17 million in EBITDA (20% margin) with its last reported quarter +17% y/y on a revenue basis. The company is coming off its seasonally weakest quarter (March 31) and as such, we would expect some incremental growth its June quarter (Q3).
- If we assume that PTQ can recover the stolen money in the next few months, FY20 will not only benefit from the aging demographic trend, which should drive organic growth of ~5-7% but also the aforementioned M&A program.
- From a valuation perspective, PTQ remains incredibly undervalued. Based on its TTM results, the stock is trading at 4.3x EBITDA, which based on our FY20 forecast, it is at 3.6x. Any accretive acquisitions that are not factored into our model would imply the stock is even cheaper than that. The healthcare service peer group, which is also benefiting from the aging demographic trend is trading at 8-12x. Consequently, the stock could double and still be at the low-end of the valuation peer group.
- Recall that prior to the announcement of the cyberheft, the stock was trading at \$0.95 or a 12% higher than where the stock closed yesterday. If the fundamental value of the company does not get recognized by the market, we believe it could get taken private (private equity) or acquired by another industry player. As such, we continue to believe the risk-return of the shares at current prices is exceptional.
- We maintain our Buy recommendation and target price of \$2.50.

Update

BUY (Unch)

\$2.50 (Unch)

Recent/Closing Price	\$0.84
12-month Target Price	\$2.50
Potential Return	198%
52 Week Price Range	\$0.50 - \$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	1.0x	0.8x	0.7x
EV/EBITDA	6.0x	4.5x	3.6x
P/E	-	9.8x	5.8x

Stock Data (MM)

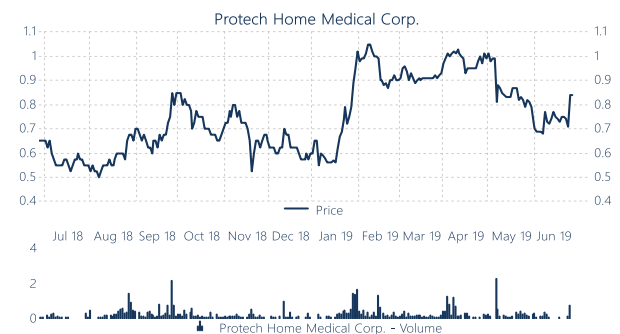
Shares Outstanding	
Basic	84
FD	107
Market Cap (C\$)	
Basic	\$70
FD	\$90
Net Debt	\$5
EV (C\$)	\$75

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



Disclosure Requirements

Does Beacon, or its affiliates or analysts collectively, beneficially own 1% or more of any class of the issuer's equity securities? Yes No

Does the analyst who prepared this research report have a position, either long or short, in any of the issuer's securities? Yes No

Has any director, partner, or officer of Beacon Securities, or the analyst involved in the preparation of the research report, received remuneration for any services provided to the securities issuer during the preceding 12 months?

Yes No

Has Beacon Securities performed investment banking services in the past 12 months and received compensation for investment banking services for this issuer in the past 12 months? Yes No

Was the analyst who prepared this research report compensated from revenues generated solely by the Beacon Securities Investment Banking Department? Yes No

Does any director, officer, or employee of Beacon Securities serve as a director, officer, or in any advisory capacity to the issuer? Yes No

Are there any material conflicts of interest with Beacon Securities or the analyst who prepared the report and the issuer? Yes No

Is Beacon Securities a market maker in the equity of the issuer? Yes No

This report makes reference to a recent analyst visit to the head office of the issuer or a site visit to an issuer's operation(s)? Yes No

Did the issuer pay for or reimburse the analyst for the travel expenses? Yes No

All information contained herein has been collected and compiled by Beacon Securities Limited, an independently owned and operated member of the Investment Industry Regulatory Organization of Canada (IIROC). All facts and statistical data have been obtained or ascertained from sources, which we believe to be reliable, but are not warranted as accurate or complete.

All projections and estimates are the expressed opinion of Beacon Securities Limited, and are subject to change without notice. Beacon Securities Limited takes no responsibility for any errors or omissions contained herein, and accepts no legal responsibility from any losses resulting from investment decisions based on the content of this report.

This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell securities discussed herein. Based on their volatility, income structure, or eligibility for sale, the securities mentioned herein may not be suitable or available for all investors in all countries.

As at May 31, 2019	#Stocks	Distribution
BUY	68	70.1%
Speculative Buy	14	14.4%
Hold	8	8.2%
Sell	0	0.0%
Under Review	5	5.2%
Tender	2	2.1%
Total	97	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

Dissemination

Beacon Securities distributes its research products simultaneously, via email, to its authorized client base. All research is then available on www.beaconsecurities.ca via login and password.

Analyst Certification

The Beacon Securities Analyst named on the report hereby certifies that the recommendations and/or opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of the report; or any other companies mentioned in the report that are also covered by the named analyst. In addition, no part of the research analyst's compensation is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.