

Ergomed

Momentum continues with EBITDA upgrades

H121 trading update

Healthcare services

Ergomed's H121 trading update highlights that operational momentum continues to be strong following its stellar performance in FY20. The order book continues to grow at an impressive rate, up 18% from end-2020 with a strong 1.62x book-to-bill ratio for the period. We maintain our FY21 revenue forecast, in line with company guidance, which assumes no additional FX headwinds, but note that this could mean our FY22 revenue forecast is conservative. With acquisition synergies being realised faster than expected, we adjust our near-term margin assumptions, somewhat increasing our FY21/22e adjusted EBITDA forecasts. Our valuation increases to £706m or 1,445p/share from £683m or 1,400p/share.

Year end	Revenue (£m)	Adjusted EBITDA* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/19	68.3	12.5	19.8	0.0	63.4	N/A
12/20	86.4	19.4	23.7	0.0	53.0	N/A
12/21e	119.6	24.0	34.1	0.0	36.8	N/A
12/22e	136.8	27.1	39.3	0.0	31.9	N/A

Note: *Adjusted EBITDA and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Burgeoning order book underpins momentum

Total H121 revenues increased by 38.8% to £56.0m (+48.1% CER) with underlying service fees up 28.6% to £47.6m (+37.2% CER). FX headwinds did curtail growth, reflecting the increasing US\$ contribution (now c 50% of the mix after the MedSource acquisition in December 2020), which was c 9% lower versus GBP relative to H120. In the AGM statement in June 2021, Ergomed guided that FY21 EBITDA is expected to be 'materially ahead' of consensus (£21.9m at the time). We increase our adjusted FY21 EBITDA by 10.6% from £21.7m to £24.0m by adjusting near-term margins. Full H121 results are due in September 2021. The order book stood at £227.8m, up 18.0% from end-2020 and 50.5% y-o-y, providing high visibility of revenue into 2022.

Plenty of firepower for bolt-on acquisitions

Management has repeated on several occasions that it will continue to expand via both organic top-line growth and additional bolt-on acquisitions. The latter is evident from the two acquisitions it completed in 2020 (details in our last [outlook report](#)). Looking forward, with net cash of £24.6m on hand (at 30 June 2021) and £30m in unused credit facilities, Ergomed has plenty of firepower to continue pursuing its active M&A strategy, which could bolster the growth outlook.

Valuation: £706m or 1,445p/share

Adjusting our near-term margin assumptions, updating for net cash and rolling our DCF model forward increases our valuation to £706m or 1,445p/share, implying an EV/EBITDA multiple of 28.4x based on our FY21 forecast. Ergomed trades at a premium EV/EBITDA of 24.5x compared to the peer average of 21.9x, but at a discount to Medpace on 28.5x. In our recent outlook note, we provided bull and bear scenarios from flexing our DCF assumptions (long-term sales growth and profit margins). Implementing these near-term adjustments results in a bull case of 2,005p/share and a bear case of 1,032p/share.

11 August 2021

Price 1,255p
Market cap £612m

Net cash (£m) at 30 June 2021	24.6
Shares in issue	48.8m
Free float	77.7%
Code	ERGO
Primary exchange	AIM
Secondary exchange	Frankfurt Xetra

Share price performance



%	1m	3m	12m
Abs	8.2	(2.7)	116.4
Rel (local)	7.1	(3.9)	77.8
52-week high/low	1,430p		585p

Business description

Ergomed is a global full-service contract research outsourcing business with a core focus on the US and EU. It provides Phase I-III clinical services in addition to post-marketing pharmacovigilance services through its PrimeVigilance division. Ergomed is predominantly focused on oncology, orphan drugs, rare diseases and pharmacovigilance.

Next events

H121 interim results	September 2021
Additional bolt-on acquisitions	2021/22

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Exhibit 1: Financial summary

Accounts: IFRS, year end 31 December (£000s)	2019	2020	2021e	2022e
INCOME STATEMENT				
Total revenues	68,255	86,391	119,600	136,813
Cost of sales	(29,790)	(38,686)	(58,600)	(74,808)
Reimbursable expenses	(8,940)	(8,055)	(22,650)	(24,371)
Gross profit	29,525	39,650	54,120	61,403
Gross margin %	43%	46%	45%	45%
SG&A (expenses)	(23,513)	(27,803)	(35,064)	(39,200)
R&D costs	(545)	(152)	(203)	(207)
Other income/(expense)	51	1,839	0	0
Exceptionals and adjustments	3,265	993	976	976
Reported EBITDA	9,230	18,378	23,003	26,147
Depreciation and amortisation	3,712	4,844	4,150	4,150
Reported EBIT	5,518	13,534	18,853	21,997
Finance income/(expense)	(245)	(395)	(245)	(245)
Other income/(expense)	(286)	(511)	0	0
Reported PBT	4,987	12,628	18,608	21,752
Income tax expense (includes exceptionals)	583	(2,936)	(3,536)	(4,133)
Reported net income	5,570	9,692	15,073	17,619
Basic average number of shares, m	46.6	48.5	48.8	48.8
Basic EPS (p)	12.0	20.0	30.9	36.1
Adjusted EBITDA	12,495	19,371	23,979	27,123
Adjusted EBIT	8,783	14,527	19,829	22,973
Adjusted PBT	8,637	14,442	20,184	23,328
Adjusted EPS (p)	19.8	23.7	34.1	39.3
Adjusted diluted EPS (p)	19.8	22.7	32.8	37.8
Order book	124,100	193,000	246,902	274,995
BALANCE SHEET				
Property, plant and equipment	1,110	1,742	1,742	1,742
Right-of-use assets	5,171	4,715	4,715	4,715
Goodwill	13,380	24,605	24,605	24,605
Intangible assets	2,755	9,618	9,018	8,418
Other non-current assets	2,616	4,310	4,310	4,310
Total non-current assets	25,032	44,990	44,390	43,790
Cash and equivalents	14,259	18,994	29,064	43,018
Trade and other receivables	14,359	22,224	34,405	46,551
Other current assets	3,382	7,009	7,009	7,009
Total current assets	32,000	48,227	70,478	96,578
Lease liabilities	3,716	3,128	3,128	3,128
Long term debt		0	0	0
Other non-current liabilities	635	2,529	2,529	2,529
Total non-current liabilities	4,351	5,657	5,657	5,657
Trade and other payables	10,373	15,702	22,282	30,162
Lease liabilities	1,718	1,978	1,978	1,978
Other current liabilities	3,770	17,388	17,388	17,388
Total current liabilities	15,861	35,068	41,648	49,528
Equity attributable to company	36,820	52,492	67,565	85,184
CASH FLOW STATEMENT				
Profit before tax	4,987	12,628	18,608	21,752
Cash from operations (CFO)	11,788	18,084	13,621	17,504
Capex	(996)	(974)	(3,550)	(3,550)
Acquisitions & disposals net	(107)	(11,969)	0	0
Other investing activities	(1,728)	0	0	0
Cash used in investing activities (CFIA)	(2,831)	(12,760)	(3,550)	(3,550)
Net proceeds from issue of shares	1,427	(157)	0	0
Movements in debt	(1,677)	(2,189)	0	0
Other financing activities	0	0	0	0
Cash from financing activities (CFF)	(250)	(477)	0	0
Increase/(decrease) in cash and equivalents	8,707	4,847	10,071	13,954
Currency translation differences and other	363	(113)	0	0
Cash and equivalents at start of period	5,189	14,259	18,993	29,064
Cash and equivalents at end of period	14,259	18,993	29,064	43,018
Net (debt)/cash	14,259	18,993	29,064	43,018

Source: Ergomed accounts, Edison Investment Research

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