

Ergomed

H121 results update

US is now the biggest market in the mix

Healthcare services

Ergomed has released its full H121 results. H121 revenue numbers were included in the trading update in July 2021, while the full accounts released last week provided details on profits. In the trading update, management also guided that FY21 adjusted EBITDA would be materially ahead of market expectations, which has since been discounted in the share price, hence last week's announcement delivered no surprises. However, the key takeaway for us was that overall operational momentum continues to be strong, including the first three months of H221 (following the already [stellar performance in FY20](#)). In H121, Ergomed has also launched its expansion into the Japanese market. We have slightly increased our valuation to £751m or 1,536p/share (from 1,445p/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	66.4	N/A
12/20	86.4	19.4	23.7	0.0	55.5	N/A
12/21e	119.6	24.0	34.1	0.0	38.6	N/A
12/22e	136.9	27.9	40.5	0.0	32.5	N/A

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

FX headwinds, but strong underlying growth

H121 results were substantially affected by FX headwinds, reflecting the increasing US\$ contribution (now c 63% of the mix) after the US-based MedSource acquisition in December 2020. Total revenues increased to £56.0m, up 48.1% on constant exchange rate basis (CER; 38.8% reported) y-o-y. Like-for-like (excluding MedSource) total service fees (revenues excluding costs that are reimbursed by clients) grew 18.2% CER (11.1% reported). Including the acquisition, total service fees were £47.6m, up 37.7% CER (29.3% reported). Growth was driven by a solid order book (£227.8m, up 51% y-o-y) and healthy new business wins in H121 (£90.8m, up 50.8% y-o-y). This provides high visibility for H221 and into 2022.

Margins also 'masked' by unfavourable FX rates

H121 gross profit increased to £23.0m, up 24.3% from H120. The total gross margin contraction to 41.1% from 45.8% was partially expected due to increased presence and personnel in the US after the MedSource acquisition in December 2020, but also due to FX headwinds. However, the underlying total service fee gross margin on CER basis was a healthy 48.2% in H121 versus 50.1% a year ago. Adjusted EBITDA increased to £12.1m, up 33% from H120 (£9.1m), while adjusted EPS was 16.8p, up 48.7% from H120 (11.3p).

Valuation: £751m or 1,536p/share

We keep our FY21 estimates unchanged and modestly increase our EBITDA forecasts starting from 2022 based on improved margins, cost control and integration synergies. After rolling our DCF model forward, our valuation has increased slightly to £751m or 1,536p/share. This implies an EV/EBITDA multiple of 30.0x (FY21e). Ergomed trades at a modest premium on EV/EBITDA of 25.5x vs the peer average of 24.2x, but at a discount to Medpace on 31.8x. Flexing our DCF assumptions (long-term sales growth and profit margins), our bull case stands at 2,086p/share and our bear case at 1,072p/share (details in our [Outlook report](#)).

04 October 2021

Price 1,315p
Market cap £643m

Net cash (£m) at 30 June 2021	24.6
Shares in issue	48.9m
Free float	80.2%
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 (CRO) 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

Trading update	January 2022
Additional bolt-on acquisitions	2021/22

Analysts

Dr Jonas Peculis	+44 (0)20 3077 5728
Dr Sean Conroy	+44 (0)20 3077 5700

healthcare@edisongroup.com
[Edison profile page](#)

**Ergomed is a research client of
Edison Investment Research
Limited**

H121 update: Operational momentum continues

PrimeVigilance: Expanding to Japan

H121 revenues in the PrimeVigilance segment increased to £28.8m, up 16.2% CER (10.3% reported) y-o-y. Gross margin was largely flat at 50.7% versus 51.3% last year. One notable development in H121 was the launch of the expansion process in Japan. The Japan office is now fully operational, with local pharmacovigilance experts providing fully integrated PV services.

Clearly, the Japanese market has unique characteristics and, as a developed country, no shortage of competitors. Ergomed has been subcontracting some work in Japan, but will now have a local presence. During the analyst call, management explained that due to the nature of its business, Ergomed can compete with local PV players from now. To compete in the CRO market, it will likely need to acquire a local player.

H121 revenues from Asia were £3.3m (versus total revenues of £56.0m). Japan is the fourth largest pharmaceutical market in the world, so even moderate success in this region could translate into a meaningful addition to sales. We believe management might try to emulate the successful expansion in the US. As recently as FY19, the US made up 27% of the total revenue mix, while after two acquisitions in both business segments (CRO and PV) over the course of 2020 (and organic growth), the US now represents 63% of the mix.

CRO: Strong post-pandemic rebound continues

Ergomed's total CRO revenues in H120 increased to £27.2m, up 106.4% CER (or 90.2% reported). Like-for-like (excluding MedSource) revenues increased to £16.6m, up 24.5% CER (16.1% reported). MedSource's performance during the first full half-year after acquisition was described as good. Furthermore, the parties agreed to accelerate the earnout agreed during the takeover in December 2020. Ergomed will make the final payment of \$3.8m (£2.7m) to MedSource shareholders in Q321, which will allow it to complete the integration.

For the near term CRO outlook, the company envisages few, if any, disruptions like those experienced last winter (due to the nature of the business, PV delivered a solid performance despite the pandemic). Ergomed is now also involved in a number of COVID-19 projects in its CRO and PV businesses, which could act as a mitigating factor in the case of potential disruptions this winter, or as a boost to performance (albeit no financial details about the size of COVID-19-related work were provided).

Estimate changes and near-term catalysts

Following the H121 results, we keep our FY21 estimates unchanged. In FY22 we slightly increased adjusted EBITDA margin by reducing SG&A costs to reflect Ergomed/MedSource synergies that we believe could be achieved sooner than we thought now that the integration is complete (Exhibit 1). Our total FY21, FY22 and FY23 revenue estimates are unchanged at £119.6m, £136.8m and £161.3m, respectively. Our FY22 adjusted EBITDA margin improved slightly to 20.4% (from 19.8%). Our adjusted EBITDA estimates are £24.0m for FY21 (unchanged) and £27.9m for FY22 (vs £27.1m previously).

Net cash was £24.6m at end-H121 versus £19.0m at end-FY20. Ergomed continues to be debt free, but still has access to facilities of £30m. The near-term catalysts are as follows:

- Bolt-on acquisitions: the strong balance sheet and access to debt (£30m facility available) position Ergomed very well to consider further inorganic growth opportunities.

- A reverse in US\$/£ rate could lead to an unexpected positive catalyst and continued weakness would mean further headwinds now that the US has become a major market.
- Next trading update is expected in January 2022.

Exhibit 1: Key changes to forecasts

£m	FY20	FY21e			FY22e			FY23e
	Actual	Old	New	Change (%)	Old	New	Change (%)	New
Total revenues	86.4	119.6	119.6	0.0%	136.8	136.8	0.0%	161.3
– PrimeVigilance	55.1	63.6	63.6	0.0%	73.6	73.6	0.0%	88.2
– CRO	31.3	56.0	56.0	0.0%	63.3	63.3	0.0%	73.1
O/W pass-through	7.6	13.6	13.6	0.0%	15.3	15.3	0.0%	17.7
Adjusted EBITDA	19.4	24.0	24.0	0.0%	27.1	27.9	2.8%	34.9
– Adj. EBITDA margin	22.4%	20.0%	20.0%	0.0pp	19.8%	20.4%	0.6pp	21.6%
Adjusted EBIT	14.5	19.8	19.8	0.0%	23.0	23.7	3.3%	30.7
– Adj. EBIT margin	16.8%	16.6%	16.6%	0.0pp	16.8%	17.3%	0.6pp	19.0%
Adjusted EPS (p)	23.7	34.1	34.1	0.0%	39.3	40.5	3.2%	52.1

Source: Edison Investment Research

Exhibit 2: Ergomed base case DCF model

£'000s	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Revenue	119,600	136,877	161,301	187,109	215,487	246,374	279,634	315,054	352,336	391,093
Growth (%)	38.4%	14.4%	17.8%	16.0%	15.2%	14.3%	13.5%	12.7%	11.8%	11.0%
Adj. EBIT	19,829	23,740	30,709	37,422	44,893	53,381	62,918	73,513	85,148	97,773
Margin (%)	16.6%	17.3%	19.0%	20.0%	20.8%	21.7%	22.5%	23.3%	24.2%	25.0%
Tax	(3,536)	(4,279)	(5,603)	(6,932)	(8,325)	(9,908)	(11,689)	(13,668)	(15,843)	(18,205)
Rate (%)	-19%	-19%	-19%	-19%	-19%	-19%	-19%	-19%	-19%	-19%
D&A	4,150	4,150	4,150	4,150	4,150	4,150	4,150	4,150	4,150	4,150
Working capital	(3,226)	(1,388)	(2,541)	(2,415)	(2,377)	(2,677)	1,283	2,963	4,095	4,639
Capex	(3,550)	(3,550)	(3,550)	(1,733)	(649)	(893)	(771)	(832)	(802)	(817)
Operating free cash flow	13,668	18,674	23,165	30,492	37,692	44,053	55,891	66,126	76,748	87,540
								Value	Value	Value
DCF for forecast period (2021 to 2023)								48.6		99p
DCF for transition period (2023 to 2030)								209.2		428p
Terminal value								461.9		945p
Enterprise value								719.7		1,472p
Net cash/(debt), FY21e								31.4		64p
Equity value								751.2		1,536p

Source: Edison Investment Research. Note: 10% WACC.

Exhibit 3: Ergomed comparable companies

Company	Price	EV	EV/EBITDA (x)				EV/sales (x)				P/E (x)			
			2020	2021e	2022e	2023e	2020	2021e	2022e	2023e	2020	2021e	2022e	2023e
Ergomed*	1,315p	£611m	31.6x	25.5x	21.9x	17.5x	7.1x	5.1x	4.5x	3.8x	58.0x	40.1x	33.7x	26.2x
Syneos	\$96.0	\$12,615m	19.9x	16.6x	14.8x	13.4x	2.9x	2.4x	2.2x	2.1x	28.2x	22.0x	19.1x	16.6x
ICON	\$281.5	\$21,908m	46.1x	24.3x	16.0x	14.3x	7.8x	4.1x	2.8x	2.6x	43.1x	30.8x	25.3x	21.6x
Medpace	\$195.2	\$6,716m	35.8x	31.8x	25.8x	22.5x	7.3x	5.9x	4.9x	4.4x	50.8x	43.9x	38.6x	33.6x
Average			33.9x	24.2x	18.9x	16.7x	6.0x	4.1x	3.3x	3.0x	40.7x	32.2x	27.6x	23.9x

Source: Edison Investment Research, Refinitiv. Note: *Edison estimates. We note the merger of ICON and PRA Health Sciences announced on 24 February 2021.

Exhibit 4: Financial summary

Accounts: IFRS, year end 31 December (£000s)	2019	2020	2021e	2022e	2023e
INCOME STATEMENT					
Total revenues	68,255	86,391	119,600	136,877	161,301
Cost of sales	(29,790)	(38,686)	(58,600)	(59,131)	(69,682)
Reimbursable expenses	(8,940)	(8,055)	(22,650)	(16,379)	(18,967)
Gross profit	29,525	39,650	54,120	61,367	72,651
Gross margin %	43%	46%	45%	45%	45%
SG&A (expenses)	(23,513)	(27,803)	(35,064)	(38,396)	(42,708)
R&D costs	(545)	(152)	(203)	(207)	(211)
Other income/(expense)	51	1,839	0	0	0
Exceptionals and adjustments	3,265	993	976	976	976
Reported EBITDA	9,230	18,378	23,003	26,914	33,883
Depreciation and amortisation	3,712	4,844	4,150	4,150	4,150
Reported EBIT	5,518	13,534	18,853	22,764	29,733
Finance income/(expense)	(245)	(395)	(245)	(245)	(245)
Other income/(expense)	(286)	(511)	0	0	0
Reported PBT	4,987	12,628	18,608	22,519	29,488
Income tax expense (includes exceptionals)	583	(2,936)	(3,536)	(4,279)	(5,603)
Reported net income	5,570	9,692	15,073	18,241	23,885
Basic average number of shares, m	46.6	48.5	48.9	48.9	48.9
Basic EPS (p)	12.0	20.0	30.8	37.3	48.9
Adjusted EBITDA	12,495	19,371	23,979	27,890	34,859
Adjusted EBIT	8,783	14,527	19,829	23,740	30,709
Adjusted PBT	8,637	14,442	20,184	24,095	31,064
Adjusted EPS (p)	19.8	23.7	34.1	40.5	52.1
Adjusted diluted EPS (p)	19.8	22.7	32.8	39.1	50.2
Order book	124,100	193,000	246,902	276,736	423,642
BALANCE SHEET					
Property, plant and equipment	1,110	1,742	1,742	1,742	1,742
Right-of-use assets	5,171	4,715	4,715	4,715	4,715
Goodwill	13,380	24,605	24,605	24,605	24,605
Intangible assets	2,755	9,618	9,018	8,418	7,818
Other non-current assets	2,616	4,310	4,310	4,310	4,310
Total non-current assets	25,032	44,990	44,390	43,790	43,190
Cash and equivalents	14,259	18,994	31,440	48,892	70,836
Trade and other receivables	14,359	22,224	27,852	32,821	40,310
Other current assets	3,382	7,009	7,009	7,009	7,009
Total current assets	32,000	48,227	66,301	88,723	118,156
Lease liabilities	3,716	3,128	3,128	3,128	3,128
Long term debt		0	0	0	0
Other non-current liabilities	635	2,529	2,529	2,529	2,529
Total non-current liabilities	4,351	5,657	5,657	5,657	5,657
Trade and other payables	10,373	15,702	18,104	21,685	26,633
Lease liabilities	1,718	1,978	1,978	1,978	1,978
Other current liabilities	3,770	17,388	17,388	17,388	17,388
Total current liabilities	15,861	35,068	37,470	41,051	45,999
Equity attributable to company	36,820	52,492	67,565	85,805	109,690
CASH FLOW STATEMENT					
Profit before tax	4,987	12,628	18,608	22,519	29,488
Cash from operations (CFO)	11,788	18,084	15,997	21,003	25,494
Capex	(996)	(974)	(3,550)	(3,550)	(3,550)
Acquisitions & disposals net	(107)	(11,969)	0	0	0
Other investing activities	(1,728)	0	0	0	0
Cash used in investing activities (CFIA)	(2,831)	(12,760)	(3,550)	(3,550)	(3,550)
Net proceeds from issue of shares	1,427	(157)	0	0	0
Movements in debt	(1,677)	(2,189)	0	0	0
Other financing activities	0	0	0	0	0
Cash from financing activities (CFF)	(250)	(477)	0	0	0
Increase/(decrease) in cash and equivalents	8,707	4,847	12,447	17,453	21,944
Currency translation differences and other	363	(113)	0	0	0
Cash and equivalents at start of period	5,189	14,259	18,993	31,440	48,892
Cash and equivalents at end of period	14,259	18,993	31,440	48,892	70,836
Net (debt)/cash	14,259	18,993	31,440	48,892	70,836

Source: Ergomed accounts, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by Ergomed and prepared and issued by Edison, in consideration of a fee payable by Ergomed. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2021 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia