

Ergomed

Diversified services offering proves resilient

H120 trading update

Healthcare services

According to Ergomed's H120 trading update, the business successfully navigated the COVID-19 pandemic in H120. Underlying revenues in the PrimeVigilance segment grew 36.0% (or 62.1% including the recent acquisition), while the CRO segment, unsurprisingly, saw a modest decline as a result of the widespread lockdowns. The growth prospects, however, remain intact in our view. Ergomed has proved to be a resilient business, which we attribute to a diversified and well-balanced pharma services offering (pharmacovigilance and CRO). Strong H120 sales and a record order book at 30 June 2020 should see Ergomed carry its strong momentum into 2020 and beyond. Net positive revisions to our estimates and a material expansion of peer multiples has led to a significant upgrade to our valuation to £345m or 713p/share.

Year end	Revenue (£m)	Adj. EBITDA* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/18	54.1	2.3	1.9	0.0	N/A	N/A
12/19	68.3	12.5	19.8	0.0	30.9	N/A
12/20e	85.7	16.9	27.7	0.0	21.7	N/A
12/21e	100.5	18.8	29.8	0.0	20.1	N/A

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

Good order book growth, high revenue visibility

Total H120 revenues increased to £40.4m, up 14.8%, while underlying service fees grew by 18.0% (excludes revenue from the recently acquired PrimeVigilance USA, pass-through revenues and H119 one-off revenues of £1.6m). Sales of new business increased to £60.2m, up 22.9% y-o-y, which led to a strong period book-to-bill ratio of 1.49x vs 1.22x in FY19. Ergomed indicated that new business was won across both segments, including within the newly acquired PrimeVigilance USA. Order book growth was therefore strong as well, to £151.4m, up 22.0% from the last reported figure (end FY19) and up 28.0% y-o-y. This provides high visibility for the remainder of 2020 and 2021.

PrimeVigilance segment outperforms

Revenues in the PrimeVigilance segment increased to £26.1m, up 62.1% y-o-y. This includes the PrimeVigilance USA business (formerly Ashfield Pharmacovigilance) acquired in January 2020, which is now fully integrated. Excluding that the comparable PrimeVigilance revenues grew 36.0% y-o-y. Modest disruption from the pandemic resulted in a decrease in H120 CRO underlying service fees to £11.1m, down 6.7% y-o-y. Total CRO segment revenues decreased to £14.3m, down 24.7% (taking into account pass-through revenues and the inclusion of the £1.6m one-off revenue in H119). Pass-through costs are billed to clients.

Valuation: £345m or 713p/share

We value Ergomed at £345m or 713p/share, compared to £186m or 399p/share previously. This is a result of net positive revisions of our estimates, but more significantly substantial peer multiple expansion (Exhibit 2 vs last published in the [initiation report](#)). Ergomed indicated that FY20 EBITDA will be 'materially ahead of current market expectations'. Full audited interim results will be released in September 2020, which is when we will revise our estimates in detail.

23 July 2020

Price 600p
Market cap £290m

Net cash (£m) at end-June 2020	14.1
Shares in issue	48.3m
Free float	67%
Code	ERGO
Primary exchange	AIM
Secondary exchange	Frankfurt (Xetra)

Share price performance



%	1m	3m	12m
Abs	46.3	37.9	85.8
Rel (local)	47.3	27.3	121.6
52-week high/low	605p		280p

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 (Phase IV) services through its PrimeVigilance division. The company is predominantly focused on oncology, orphan drugs, rare diseases and pharmacovigilance.

Next events

H120 results September 2020

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H120 trading update: FY20 EBITDA ‘to be materially ahead of current market expectations’

Widespread lockdowns inevitably caused disruptions to the clinical drug development industry, however, demand for Pharmacovigilance services remained high. Gross margins across Ergomed’s PrimeVigilance and CRO businesses are roughly similar once pass-through costs have been accounted for. As a result of this well-balanced services offering, Ergomed was able to successfully navigate the disruptions caused by the pandemic and is now guiding FY20 EBITDA ‘to be materially ahead of current market expectations’.

Cash was £14.1m at end-June 2020 (no debt) vs £14.3m at end-December 2019. PrimeVigilance USA was acquired in January 2020 (all cash), which means Ergomed has earned the £8m spent amount back, indicating strong cash flow in the period. The company has access to £30m in debt, which could be used for further business expansion.

We have made some revisions to our estimates, mainly to reflect the top-line trends reported in the H120 trading update (Exhibit 1). The effect on our top-line estimate for 2020 was slightly net positive and our adjusted EBITDA estimates now stand at £16.9m and £18.8m for 2020 and 2021, respectively.

We value Ergomed using 2020 and 2021 peer EV/EBITDA multiples of 20.8x and 16.3x (equally weighted). We note that peer multiples have risen significantly since our 25 March 2020 report (which reflected our prior valuation of £186m); the peer FY20e sector EV/EBITDA multiple used as the basis of the prior valuation was 11.5x.

Exhibit 1: Key changes to our financial forecasts

£m	FY19	FY20e			FY21e		
	Actual	Old	New	Change (%)	Old	New	Change (%)
Total revenues	68.3	84.8	85.7	1.1%	100.3	100.5	0.2%
– PrimeVigilance	35.4	49.6	53.6	8.1%	58.0	58.4	0.8%
– CRO	32.8	35.2	32.1	-8.8%	42.3	42.1	-0.5%
O/W pass-through	8.5	7.5	6.7	-10.5%	8.5	8.8	4.1%
Adjusted EBITDA	12.5	14.9	16.9	13.1%	17.6	18.8	6.7%
Adjusted EBIT	8.8	13.5	15.4	14.5%	16.2	17.3	7.3%
Adjusted EPS (p)	19.8	24.9	27.7	11.6%	28.9	29.8	3.1%

Source: Ergomed H120 trading update, Edison Investment Research. Note: Adjustments mainly exclude share-based payments.

Exhibit 2: Comparable companies

	EV (\$m)	EV/EBITDA (x)	EV/sales (x)	P/E (x)	P/book (x)
Market consensus forecast/actual FY19					
Syneos Health	8,829	13.68	1.89	18.81	2.08
PRA Health Sciences	7,536	14.14	2.46	19.79	5.96
ICON	9,796	19.79	3.49	27.73	6.32
Medpace	3,604	24.09	4.19	34.97	5.24
Average	7,441	17.93	3.01	25.32	4.90
FY20e					
Syneos Health	8,829	14.98	1.98	20.42	2.11
PRA Health Sciences	7,536	16.23	2.46	23.79	5.41
ICON	9,796	22.53	3.64	32.05	7.04
Medpace	3,604	29.62	4.35	44.80	5.08
Average	7,441	20.84	3.10	30.26	4.91
FY21e					
Syneos Health	8,829	12.73	1.77	16.28	1.94
PRA Health Sciences	7,536	13.23	2.23	18.21	4.95
ICON	9,796	18.62	3.24	25.37	6.36
Medpace	3,604	20.55	3.51	29.63	4.59
Average	7,441	16.28	2.69	22.37	4.46

Source: Refinitiv. Note: Prices at 21 July 2020.

Exhibit 3: Financial summary

Accounts: IFRS, year-end 31 December (£000s)	2017	2018	2019	2020e	2021e
INCOME STATEMENT					
Total revenues	47,624	54,112	68,255	85,726	100,509
Cost of sales	(22,398)	(26,788)	(29,790)	(39,902)	(46,751)
Reimbursable expenses	(7,609)	(8,070)	(8,940)	(7,472)	(9,645)
Gross profit	17,617	19,254	29,525	38,352	44,113
Gross margin %	37%	36%	43%	45%	44%
SG&A (expenses)	(19,784)	(28,152)	(23,513)	(23,394)	(27,241)
R&D costs	(2,689)	(1,578)	(545)	(485)	(495)
Other income/(expense)	952	30	51	0	0
Exceptionals and adjustments	5,062	10,165	3,265	957	957
Reported EBITDA	(2,278)	(7,912)	9,230	15,924	17,836
Depreciation and amortisation	1,626	2,534	3,712	1,451	1,460
Reported EBIT	(3,904)	(10,446)	5,518	14,473	16,376
Finance income/(expense)	(543)	(599)	(245)	(205)	(156)
Other income/(expense)	0	277	(286)	0	0
Reported PBT	(4,447)	(10,768)	4,987	14,268	16,220
Income tax expense (includes exceptionals)	(57)	(89)	583	(2,510)	(3,244)
Reported net income	(4,504)	(8,980)	5,570	11,758	12,976
Basic average number of shares, m	41.1	44.7	46.6	47.5	48.3
Basic EPS (p)	(11.0)	(20.1)	12.0	24.8	26.8
Adjusted EBITDA	2,784	2,253	12,495	16,881	18,793
Adjusted EBIT	1,158	(281)	8,783	15,430	17,333
Adjusted PBT	1,782	960	8,637	15,676	17,637
Adjusted EPS (p)	4.2	1.9	19.8	27.7	29.8
Adjusted diluted EPS (p)	4.2	1.9	19.8	27.7	29.8
Order book	88,200	109,200	125,000	143,961	163,810
BALANCE SHEET					
Property, plant and equipment	1,078	1,344	1,110	1,100	1,090
Right-of-use assets	-	-	5,171	5,171	5,171
Goodwill	15,269	13,659	13,380	21,080	21,080
Intangible assets	20,229	3,740	2,755	2,304	1,845
Other non-current assets	2,367	2,646	2,616	2,666	2,716
Total non-current assets	38,943	21,389	25,032	32,321	31,902
Cash and equivalents	3,218	5,189	14,259	17,839	30,043
Trade and other receivables	16,807	16,429	14,359	19,528	22,867
Other current assets	2,945	3,857	5,665	5,665	5,665
Total current assets	22,970	25,475	34,283	43,032	58,575
Lease liabilities	0	0	3,716	3,716	3,716
Long term debt				0	0
Other non-current liabilities	13,201	1,314	635	635	635
Total non-current liabilities	13,201	1,314	4,351	4,351	4,351
Trade and other payables	10,717	10,989	10,373	14,653	16,801
Lease liabilities	0	0	1,718	1,718	1,718
Other current liabilities	3,134	6,192	6,053	6,053	6,053
Total current liabilities	13,863	17,187	18,144	22,424	24,572
Equity attributable to company	34,843	28,363	36,820	48,578	61,554
CASH FLOW STATEMENT					
Profit before tax	(4,447)	(10,768)	4,987	14,268	16,220
Cash from operations (CFO)	70	1,044	11,788	12,270	13,194
Capex	(1,425)	(1,587)	(996)	(1,000)	(1,000)
Acquisitions & disposals net	(1,932)	(398)	(107)	(7,690)	10
Other investing activities	(559)	(751)	(1,728)	0	0
Cash used in investing activities (CFIA)	(3,916)	(2,736)	(2,831)	(8,690)	(990)
Net proceeds from issue of shares	2,676	3,790	1,427	0	0
Movements in debt	10	(12)	(1,677)	0	0
Other financing activities	(2)	(4)	0	0	0
Cash from financing activities (CFF)	2,684	3,774	(250)	0	0
Increase/(decrease) in cash and equivalents	(1,162)	2,082	8,707	3,580	12,204
Currency translation differences and other	(44)	(111)	363	0	0
Cash and equivalents at start of period	4,424	3,218	5,189	14,259	17,839
Cash and equivalents at end of period	3,218	5,189	14,259	17,839	30,043
Net (debt) cash	3,218	5,189	14,259	17,839	30,043

Source: Ergomed accounts, Edison Investment Research

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