

Ergomed

MedSource acquisition to boost US CRO business

Company news

Healthcare services

14 December 2020

Today Ergomed announced it has agreed to acquire US-based MedSource. Headquartered in Houston, Texas, MedSource is a full-service clinical research organisation (CRO) specialising in oncology and rare diseases, so a good fit for Ergomed. Ergomed will pay \$16.2m (£12.2m) in cash and \$1.8m (£1.4m) in shares (at a 30-day average daily closing price before the acquisition). There is also an earn out up to \$7m (same 90:10 cash and shares split) depending on performance in 2021. MedSource booked \$19.3m (£14.4m) and \$17.0m (£12.8m) in service fees in 2019 and 2020, respectively. The gross margin was 47% in 2019 and 41% in 2020, while adjusted EBITDA was \$1.3m (£1m) in 2019. Ergomed indicated that MedSource is on track to rebound from the COVID-19 pandemic impact in 2021 (existing order book is valued at \$41m or £30.6m). The transaction will be immediately accretive, according to Ergomed. Our valuation is under review. Next key event is the H220 trading update in January 2021.

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	48.8	N/A
12/20e	84.1	18.3	23.8	0.0	40.6	N/A
12/21e	N/A	N/A	N/A	N/A	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

Prior to the onset of the pandemic, MedSource achieved 17% revenue growth y-o-y in 2019, while gross margin was up by 7pp. The order book grew by 33% in 2019. During the analyst call Ergomed indicated that MedSource is on track to rebound in 2021 with a potential uplift of 4% to 5% in revenues over 2019, which makes the timing of the acquisition ideal (the first meaningful consolidated Ergomed trading period will be H121). Ergomed's initial cash outlay is £7m (£5.2m), as the company will pocket MedSource's cash (no debt). Existing MedSource's order book is valued at around \$41m (£30.6m), so will significantly strengthen Ergomed's last reported order book of £151.4m (end-H120).

Ergomed has repeated on several occasions that it aims to expand via both organic top-line growth, but also M&A. This announcement means Ergomed has delivered on both these goals this year, despite the ongoing pandemic (which complicates the due diligence process). This is already the second acquisition in 2020 after Ergomed acquired a pharmacovigilance-focused business in January. Both new businesses are based in the US, so Ergomed has substantially strengthened its footprint in this key market. Once integrated, MedSource will also strengthen Ergomed's physical CRO presence in the US. We believe this will provide additional reassurance for potential clients, help with cross-selling, but also win new contracts. MedSource was founded by Eric Lund, who will continue as president of the company after the acquisition (an indication of orderly integration). Ergomed will use existing cash to fund the acquisition without drawing down any credit facilities. During the analyst call, the company added it will still retain financial capacity to invest in organic growth, but look for further acquisitions.

Price 966p

Market cap £471m

£/US\$1.34

Net cash (£m) at end-H120 14.1

Shares in issue 48.4m

Free float 78%

Code ERGO

Primary exchange AIM

Secondary exchange Frankfurt Xetra

Share price performance



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

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