

Ergomed

AGM statement

Healthcare services

FY21e EBITDA 'materially ahead' of consensus

Yesterday, Ergomed held its annual general meeting (AGM) and provided a high-level year to date trading update (four months to end-April 2021). The company guides to FY21e revenues in line with market expectations (Edison £119.6m; consensus £120.0m). Strong revenue growth has continued in its PrimeVigilance division, in line with prior trends (in FY20 revenues grew by 30%), and its CRO business has seen a further acceleration of growth from H220 (H220 service fee revenues up 13.5% vs H120). This indicates a continued rebound after a tough H120 for the CRO industry due to widespread lockdowns. The most pertinent takeaway is that adjusted EBITDA is now expected to be 'materially ahead of market expectations' in FY21 (Edison £21.7m; consensus £21.9m) due to effective cost management and the Ashfield and MedSource acquisition synergies being realised sooner than expected. We maintain our estimates and valuation of Ergomed (£683m or 1,400p/share) ahead of the more detailed H121 trading update due in July, but note upside potential to our estimates and possible consensus earnings upgrades.

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	65.7	N/A
12/20	86.4	19.4	23.7	0.0	54.9	N/A
12/21e	119.6	21.7	30.4	0.0	42.8	N/A
12/22e	136.8	23.2	32.9	0.0	39.5	N/A

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

Strong underlying revenue growth in both divisions was partially offset by FX headwinds (more than half of sales are now booked in US dollars), which indicates that on a constant currency basis revenue growth would have been ahead of consensus.

FY20 revenue was up 27% to £86.4m with the gross margin improving to 45.9% from 43.3%. FY20 adjusted EBITDA increased to £19.4m from £12.5m in FY19. Throughout 2020, Ergomed grew its order book substantially, which stood at an alltime high of £193m at the end of 2020, up 55.5% y-o-y.

We recently published an outlook report on Ergomed, where we outlined our base case valuation at £683m or 1,400p/share derived from our DCF model, implying an EV/EBITDA multiple of 30.5x based on our FY21 forecasts. We also analysed the sensitivity of our valuation to a set of DCF assumptions (long-term sales growth and profit margins) and found that a bull case would correspond to a valuation of 1,950p/share, while a bear case would correspond to a valuation of 995p/share.

11 June 2021

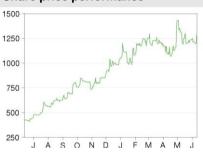
ERGO

Price	1,300p
Market cap	£634m
Net cash (£m) at end-2020	19.0
Shares in issue	48.8m
Free float	78%

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 services through its PrimeVigilance division. Ergomed is predominantly focused on oncology, orphan drugs, rare diseases and pharmacovigilance

Analyst

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

healthcare@edisongroup.com

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