

Ergomed

Sustained growth momentum in H122

H122 trading update

Healthcare services

27 July 2022

Price 1,072p
Market cap £528m

Net cash (£m) at 30 June 2022 12.0
Shares in issue 49.3m
Free float 81%
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 services through its PrimeVigilance division. Ergomed is predominantly focused on oncology, orphan drugs, rare diseases and pharmacovigilance.

Analysts

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Ergomed's [H122 trading update](#) re-emphasised its robust business model and resilient growth despite the challenging macro environment. Revenues grew 24.8% y-o-y to £69.9m, underpinned by strong and sustained demand for both the clinical research services (CRO) and pharmacovigilance (PV) segments. In February 2022, Ergomed acquired ADAMAS, which added supplementary quality assurance services to its portfolio, and we expect this to further enhance group margins in the forthcoming quarters. Importantly, the order book continues to be strong, recording 18.7% growth since end-December 2021, indicating robust contractual revenues into H222. With a £12m cash balance and £80m in debt facilities, the balance sheet remains robust. Management expects FY22 revenue and adjusted EBITDA to be 'in line with market expectations'. We maintain our estimates and valuation for the company.

Year end	Revenue (£m)	Adjusted EBITDA* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/20	86.4	19.4	23.8	0.0	45.0	N/A
12/21	118.6	25.4	41.3	0.0	26.0	N/A
12/22e	140.3	28.1	43.9	0.0	24.4	N/A
12/23e	156.3	31.6	49.5	0.0	21.7	N/A

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

H122 growth was driven by sustained demand across both the CRO and PV segments (underlying service fee revenue up by 25.6% y-o-y to £59.8m). FX tailwinds (in particular the appreciation of the US\$ against GBP) partially supported this growth as revenues grew 20% at constant exchange rates (CER).

In the first half of 2022, CRO revenues increased 26.2% y-o-y (21.4% CER) to £34.3m, indicating strong demand as the company signed a number of new contracts during the period. The PV segment increased 23.4% y-o-y (18.7% CER) to £35.6m with stable sales and repeat business. Generally, the PV business is less sensitive to macro cycle changes as these services relate to post-marketing requirements for commercialised products, for which customer demand remains sticky. We expect the business integration of ADAMAS ([acquired in February 2022](#)) to start showing incrementally in group operations in the coming months (both revenue and margins). The order book, a leading indicator of forthcoming sales potential, remained robust at £284.5m, up 18.7% from end December 2021 and 24.9% from H121 (ahead of our estimates).

Management expects full year revenue and EBITDA to be in line with current market expectations. Our forecasts and consensus estimates for FY22 revenue and adjusted EBITDA are £140.3m/£28.1m and £141m/£28.1m, respectively. Ergomed remains well capitalised to fund further expansion plans with a period-end cash balance of £12m (following its £24.2m net cash purchase of ADAMAS) and an undrawn revolving credit facility worth £80m (increased from £30m in H221). Our estimates and valuation are unchanged.

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