

27 April 2021

Inspiration Healthcare Group Plc

Transformational year

Inspiration Healthcare has reported its preliminary results for the year to Jan-21. We believe FY21A was a transformational year for the group, highlighted by the acquisition of SLE Limited and supporting the NHS response to the COVID-19 pandemic. FY21A was also a financially successful year, with the company reporting revenue growth of 108% and adjusted EBITDA growth of c150%. We expect the company to deliver c10% revenue growth in FY22E but note the NHS COVID-19 ventilator sales will obviously not recur in the year. The company remains cash generative and closed the year with a strong cash balance. We maintain our Buy recommendation.

- Revenues** – Inspiration Healthcare reported FY21A revenues of £37.0, up 108% YoY. Underlying growth, excluding both SLE and the NHS COVID-19 related orders was 14%. The NHS COVID-19 orders contributed £7.3m and SLE £9.4m. Domestic revenues grew 46% to £17.1m and international revenues grew 108% to £12.5m, with this result particularly supported by the acquisition of SLE.
- Profitability** – Group profitability was up significantly YoY, with adjusted EBITDA up c150% to \$5.6m and net income up c280% to £2.8m. Adjusted EBITDA margin was up over 200bps at 15.2%.
- Forecasts** – For FY22E, our revenue to adjusted EBITDA forecasts remain unchanged, however we have lowered out forecast amortisation charge and increased our financial and tax expense expectations. This results in an increase to our net income forecasts of c19%. We have also adjusted our CAPEX forecasts, largely reflecting the proposed relocation of the group's manufacturing facilities.
- Outlook** – We note the company states FY22E has started well and in-line with expectations and that it has a strong order book in place. The company notes that the vast majority of its products serve critical care markets, which, as shown through FY21A, generates a level of demand despite the global economic background.
- Investment thesis** – We believe Inspiration Healthcare has set a strong foundation through FY21A, based upon the acquisition of SLE and strong cash flow generation. We see the company entering FY22 in a position of strength from which we expect it to continue to build. We maintain our Buy recommendation.

Forecast and Ratios

Y/E January (£m)	2018A	2019A	2020A	2021A	2022E
Revenue	15.5	15.5	17.8	37.0	40.6
EBITDA (adj)	1.5	1.6	2.3	5.6	5.3
EBIT (adj)	1.2	1.2	1.5	4.3	3.2
Dil EPS (adj) ¹	3.5	3.6	3.8	7.6	4.7
EV/sales (x)	1.0	1.0	1.2	1.3	1.8
EV/EBITDA (x)	10.4	9.5	9.0	8.7	14.2
Cash adj P/E (adj) ¹	31.6	30.5	28.7	14.5	23.2
P/E (adj) ¹	35.3	34.1	32.1	16.2	26.0
Net Cash	2.1	2.5	4.5	10.7	8.8

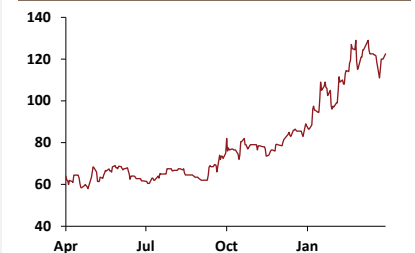
Source: Cenkos Securities estimates, Company data. EBITDA pre share based payments and exceptionals. 1 – adjusted for acquisition related amortisation payments

Brokership Company

BUY

Price at COB 26 Apr 21 122.5p
52-week range 58p-129p
Ticker IHC LN

Share Price Performance



Source: Morningstar

Performance	1m	3m	12m
Absolute	2.9	47.6	97.8

Stock Data

Market cap (£m)	83.4
Shares outstanding (m)	68.1

Activities

Inspiration Healthcare develops, manufactures, markets and sells medical devices with a focus on the neonatal intensive care market.

Directors

Mark Abrahams	NE Chairman
Neil Campbell	CEO
Jonathan Ballard	CFO

Significant Shareholders

Premier Miton Group	15.8%
BGF IM	15.5%
Neil Campbell	6.7%
Simon Motley	6.6%
Berenberg	6.1%

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FY21 results

Operational highlights

We note the following operational highlights achieved by Inspiration Healthcare through FY21A, which we have discussed in more detail in previous reports through the year.

- **Acquisition of SLE Limited (SLE)** – Completed in July 2020, we view the acquisition of SLE as a transformational accomplishment for Inspiration Healthcare, which as shown in the current results, significantly enhanced the size and potential of the overall group.
- **NHS ventilator contracts** – Inspiration Healthcare announced its first orders to support the NHS through the COVID-19 pandemic in March 2020, and subsequently over the course of FY21A delivered £7.3m of equipment to the NHS as well as being part of Ventilator Challenge UK.
- **Operational investments** – The group closed the year with around 200 employees, almost double the staff numbers in the previous year. While this clearly reflects acquisitions made through the year, Inspiration Healthcare has also been investing in its operations to support and deliver future revenue growth.
- **Project Wave** – The company's lead pipeline project is Project Wave, which the company has continued to develop and invest in. As announced, the first patient enrolled in the project's clinical trial is expected in May 2021.
- **Dividend** – Following an interim dividend of 0.2p per share, the Board is recommending a final dividend of 0.4p per share to take the total dividend for FY21 to 0.6p per share. This marks the first dividends paid by the company since it listed.

We note that the company has highlighted its intention to relocate its main manufacturing businesses, during the fiscal year, to two new sites, both of which are within three miles radius of the current locations. The Hailsham site will move production to a new building with a state-of-the-art clean room for manufacturing single use medical devices. The Croydon facility will move to a purpose designed factory and offices with a purpose-built R&D centre.

Outlook

Inspiration Healthcare notes the current financial year has started well and in-line with expectations, pointing to a strong order book which we believe supports our forecasts for FY22E.

FY21A versus FY20A

Inspiration Healthcare delivered exceptionally strong performance through FY21A, as shown in the table below in comparison to FY20A.

Table 1: FY2021 versus FY2020

Year-end Jan (£000)	2020A	2021A	Difference (Δ or bps)
Revenues	17,775	36,980	108.0%
Gross profit	8,572	18,022	110.2%
Gross margin	48.2%	48.7%	51
Adjusted EBITDA	2,272	5,611	147.0%
margin	12.8%	15.2%	239
Adjusted Operating profit	1,521	4,258	179.9%
margin	8.6%	11.5%	296
Pre-tax profit	1,126	3,133	178.2%
Net income	733	2,815	284.0%
Underlying diluted EPS (p)	3.63	6.89	90.1%

Source: Company data. EBITDA pre share based payments. Underlying EPS adjusted for non-trading items.

Revenues

Inspiration Healthcare delivered revenue growth of over 100% for the year. This was driven by both organic and M&A driven growth. Underlying growth was 14%, ahead of the contribution of SLE and one-time ventilator sales to the NHS in response to the COVID-19 pandemic. SLE contributed £9.4m of revenues and the ventilator sales £7.3m.

Domestic revenues were £17.1m for the year (including SLE but excluding NHS orders), up 46% YoY. The company notes strong demand for its Micrel parenteral feeding range and a greater installed base of devices generating consumable revenues. We note Inspiration Healthcare recently renewed its distribution agreement with Micrel (RNS 29 March 2021).

International revenues increased by 108% to £12.5m supported by the contribution of SLE, which as we have discussed in previous notes, has a strong international distribution network.

Gross profit

Gross profit increased by c110%, with a 50bps margin improvement delivering stronger profit growth than revenue growth. Margin benefited from improved Branded Product margins, contribution from SLE and the consolidation of manufacturer margins following the acquisition of Viomedex.

Adjusted EBITDA & operating profit

Adjusted EBITDA grew c150% YoY, with Inspiration Healthcare delivering £5.6m of profit. Adjusted operating profit was £4.3m, up c180% YoY. Both measures clearly benefited from stronger group revenues, offset in part by increased administrative expenses.

Before non-cash expenses (D&A and share based payments) and c£1.0m of exceptional expenses relating to recent acquisitions, FY21A operating expenses were c£12.4m versus £6.3m in FY20A. This increase reflects the larger size of the business and additional expenses relating the NHS ventilator orders alongside planned investment to support future revenue growth.

FY21 actuals versus forecast

The table below shows Inspiration Healthcare's FY21A results versus our forecasts. We note that in its most recent trading update (RNS 18 February 2021), the company suggested its revenues would be 'approximately £36.8 million' and EBITDA 'not less than £4.9 million'. Clearly the company had met both of these expectations.

Table 2: FY2021 Actuals versus Cenkos forecasts

Year-end Jan (£000)	Actual	Forecast	Difference (Δ or bps)
Revenues	36,980	36,506	1.3%
Gross profit	18,022	15,916	13.2%
Gross margin	48.7%	43.6%	513
Adjusted EBITDA	5,611	4,911	14.3%
<i>margin</i>	15.2%	13.5%	172
Adjusted Operating profit	4,258	2,865	48.6%
<i>margin</i>	11.5%	7.8%	367
Pre-tax profit	3,133	1,777	76.3%
Net income	2,815	1,476	90.7%
Underlying diluted EPS (p)	6.89	4.48	53.8%

Source: Company data. Cenkos Securities estimates. EBITDA pre share based payments. Underlying EPS adjusted for non-trading items.

As shown, Inspiration Healthcare delivered a gross margin for the year c500bps above our expectations, generating c£2.1m of additional gross profit. Broadly, the company's operating expenses (pre-non cash items) were c£1.4m ahead of our forecast, resulting in a £0.7m beat at the adjusted EBITDA line.

D&A and share based payments were c£0.7m below our expectations, supporting the c£1.4m beat at the adjusted operating profit line. Other expense items in the P&L were generally in-line with expectations, delivering the beat to the bottom line.

The higher profits than expected generated stronger cash flow from operations than expected of £4.9m versus our expected £3.5m. Acquisition costs were below our forecasts which we believe relates to the levels of cash acquired with SLE, which along with the stronger operational cash flow saw an overall cash in flow for FY21A of £6.2m versus our £1.0m forecasts.

Inspiration Healthcare closed the year with a strong cash position of £10.7m versus our expected £5.4m.

Change to forecasts

We have updated our FY22E forecasts following the results announcement.

The key changes to the P&L include a reduced Depreciation and Amortisation charge, resulting in an increased adjusted operating forecast, while our adjusted EBITDA forecast remains unchanged. We have marginally increased our finance expense charge and tax for the year. Overall, our net income expectation has increased by c20%.

The changes to our P&L forecasts are shown in the table below.

Table 3: Change to estimates

Year-end Jan (£000)		2020A	2021E	2022E
Revenues	Previous	17,775	36,506	40,566
	New	17,775	36,980	40,566
	% Diff	0.0%	1.3%	0.0%
EBITDA (adj)	Previous	2,272	4,911	5,271
	New	2,272	5,611	5,271
	% Diff	0.0%	14.3%	0.0%
EBIT	Previous	1,521	2,865	2,523
	New	1,521	4,258	3,159
	% Diff	0.0%	48.6%	25.2%
Net Profit	Previous	733	1,476	2,156
	New	733	2,815	2,572
	% Diff	0.0%	90.7%	19.2%
EPS (basic, GBp)	Previous	2.19	2.66	3.17
	New	2.19	5.10	3.78
	% Diff	0.0%	91.8%	19.2%
Underlying diluted EPS (p)	Previous	3.63	4.48	3.15
	New	3.63	6.89	3.76
	% Diff	0.0%	53.8%	19.5%

Source: Company data. Cenkos Securities estimates. EBITDA pre share based payments and non-trading items. Underlying EPS adjusted for non-trading items.

We have made the following changes to our Balance Sheet and Cash Flow forecasts.

- **Amortisation.** We have lowered our amortisation charge. This relates to an improved estimate of the level of acquisition related amortisation.
- **Working capital.** We expect a positive move in working capital for FY22E of £175k versus an outflow of c£180k previously.
- **CAPEX, PP&E.** The company intends to relocate its manufacturing facilities and to account for this we have increased our PP&E CAPEX expectation to c£2.8m from our previous c£0.7m.
- **Capitalised development costs.** We have increased our capitalised development cost investment to c£2.8m from c£2.5m to reflect increased investment in R&D.

Given the CAPEX investments we expect Inspiration Healthcare to make we now forecast a c£1.8m cash outflow for the year, and a closing FY22E cash balance of c£8.8m.

Financials

Table 4: Inspiration Healthcare Profit & Loss

Y/E Jan, £000s	2018A	2019A	2020A	2021A	2022E
Revenues	15,495	15,487	17,775	36,980	40,566
<i>growth%</i>	8.2%	-0.1%	14.8%	108.0%	9.7%
Cost of sales	(8,709)	(8,445)	(9,203)	(18,958)	(22,517)
Gross profit	6,786	7,042	8,572	18,022	18,049
<i>Gross margin</i>	43.8%	45.5%	48.2%	48.7%	44.5%
U/I Operating Expense	(5,332)	(5,394)	(6,300)	(12,411)	(12,778)
Adjusted EBITDA	1,454	1,648	2,272	5,611	5,271
<i>margin</i>	9.4%	10.6%	12.8%	15.2%	13.0%
Depr & Amort	(230)	(364)	(689)	(1,275)	(2,042)
SBP	(20)	(71)	(62)	(78)	(70)
Adjusted Op profit	1,204	1,213	1,521	4,258	3,159
<i>margin</i>	7.8%	7.8%	8.6%	11.5%	7.8%
Exceptionals	0	0	(383)	(1,014)	0
Operating profit	1,204	1,213	1,138	3,244	3,159
<i>Operating margin</i>	7.8%	7.8%	6.4%	8.8%	7.8%
Net financials	(2)	6	(12)	(111)	(186)
Pre-tax profit	1,202	1,219	1,126	3,133	2,973
Tax expense	21	(116)	(393)	(318)	(401)
<i>Tax rate%</i>	-1.7%	9.5%	34.9%	10.2%	13.5%
Net profit	1,223	1,103	733	2,815	2,572
Ave no. shares (diluted)	30,734	30,984	33,999	55,545	68,431
Diluted EPS (p)	4.0	3.6	2.2	5.1	3.8
<i>growth%</i>	291.1%	-10.5%	-39.4%	135.1%	-25.8%
Underlying Diluted EPS (p)	3.5	3.6	3.6	6.9	3.8
<i>growth%</i>	3.1%	2.8%	5.4%	100.8%	-37.6%

Source: Company data, Cenkos Securities estimates. EBITDA pre share based payments. Underlying EPS adjusted for non-trading items

Table 5: Inspiration Healthcare Balance Sheet

Y/E Jan, £000s	2018A	2019A	2020A	2021A	2022E
Intangibles	1,209	1,293	1,634	6,639	8,708
Goodwill	0	0	2,021	8,567	8,567
PP&E	461	408	496	919	3,150
Right of use	0	0	553	3,102	2,412
Investments	111	111	0	0	0
Non-current assets	1,781	1,812	4,704	19,227	22,837
Inventories	560	718	3,091	8,190	7,992
Receivables	3,066	3,107	4,205	5,163	5,192
Cash & equivs	2,086	2,539	4,480	10,653	8,818
Current assets	5,712	6,364	11,776	24,006	22,002
Total assets	7,493	8,176	16,480	43,233	44,839
Payables	2,756	2,210	3,988	6,809	6,815
Lease liabilities	0	0	132	369	369
Other liabilities	331	328	416	542	542
Current liabilities	3,087	2,538	4,536	7,720	7,726
Payables	0	0	742	0	0
Lease liabilities	0	0	426	2,796	2,163
Other liabilities	41	105	227	1,141	1,141
Debt facility	0	0	0	0	0
Non-current liabilities	41	105	1,395	3,937	3,304
Total liabilities	3,128	2,643	5,931	11,657	11,030
Share capital	3,067	3,067	3,838	6,812	6,812
Share premium account	0	0	3,475	18,838	18,838
Capital redemption reserve	(16,164)	(16,164)	(16,164)	(16,164)	(16,164)
Other reserve	17	82	119	130	200
Retained earnings	17,445	18,548	19,281	21,960	24,123
Total equity	4,365	5,533	10,549	31,576	33,809
Total equity&liability	7,493	8,176	16,480	43,233	44,839

Source: Company data, Cenkos Securities estimates

Table 6: Inspiration Healthcare Cash Flow Statement

Y/E Jan, £000s	2018A	2019A	2020A	2021A	2022E
Profit before tax	1,202	1,219	1,126	3,133	2,973
Depreciation and amortisation	230	364	689	1,228	2,042
Share based payment	20	71	62	78	70
Loss on disposal	10	6	3	79	0
Net finance income (expense)	2	(6)	12	111	186
Movement in working capital	(487)	(643)	(444)	(161)	175
Change in deferred income	(58)	(16)	168	(6)	0
Tax paid	35	(147)	(131)	(209)	(401)
Interest paid	(2)	0	(21)	0	0
Other	0	0	0	435	0
Cash flow from operations	952	848	1,465	4,735	5,044
CAPEX PP&E	(254)	(101)	(163)	(257)	(2,799)
CAPEX Intangibles	(68)	(24)	(24)	(49)	(203)
Capitalised development costs	(688)	(276)	(192)	(614)	(2,840)
Other	(5)	6	(2,991)	(13,140)	4
Cash flow from investing	(1,015)	(395)	(3,370)	(14,060)	(5,838)
Share issue (net)	0	0	3,996	16,010	0
Finance leases	(16)	0	(149)	(262)	(443)
Change in debt	0	0	0	0	0
Dividends paid	0	0	0	(136)	(409)
Cash flow from financing	(16)	0	3,847	15,498	(1,042)
Change in cash	(79)	453	1,941	6,173	(1,835)
Opening cash	2,165	2,086	2,539	4,480	10,653
Closing cash	2,086	2,539	4,480	10,653	8,818

Source: Company data, Cenkos Securities estimates

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- HOLD is an expected return -10% - +10%; and
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	Corporate No.	Corporate %	No.	%
Buy	55	78	69	80
Hold	1	1	3	3
Sell	0	0	0	0
Under review	14	20	14	16

Temporary movements by stocks across the boundaries of these categories due to share price volatility will not necessarily trigger a recommendation change. All recommendations are based on 12 month time horizon unless otherwise stated.

Recommendation History

Company	Disclosures	Date	Rec	Price
Inspiration Healthcare Group Plc	2,6,7,8,9,10,11	02 Oct 19	Buy	64.9p

Source: Cenkos Securities

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