

17 May 2021

Inspiration Healthcare Group Plc

Continued progress in Asia

Inspiration Healthcare has announced an additional order worth over £1.25m for ventilators to be sold through its Chinese distributor. This new order follows the regulatory approval of the SLE6000 ventilator in China, announced in April 2021, and the £250k order placed at that time. We note that these Chinese orders follow on from the announced Japanese regulatory approval of the ventilator and c£400k order placed at that time. We maintain our Buy recommendation.

- China** – Inspiration Healthcare has announced a new c£1.25m order to supply ventilators to China via its Chinese distributor. The order is expected to be delivered within the next three months. This order brings the total order value to c£1.5m since the SLE60000 received regulatory clearance in April 2021.
- Acquisition delivering** – Both the Chinese and Japanese orders announced to date in 2021 demonstrate that the acquisition of SLE is delivering on expectations. In our SLE acquisition report we suggested that following approval the SLE6000 could generate revenues of c£0.5m in Japan and c£1.0m in China on an annual basis, with these figures broadly achieved already.
- SLE6000** – The SLE6000 is the company's lead neonatal ventilator and we understand, a key product in Inspiration Healthcare's decision to acquire SLE Ltd in July 2020. The ventilator can provide a range of ventilation modes including high frequency oscillatory ventilation for use on the most critical babies along with more conventional modes of ventilation, including continuous positive airway pressure.
- Forecasts & valuation** – We are leaving our forecasts for FY22E unchanged, modelling c10% revenue growth and adjusted EBITDA of £5.3m. We do not believe the current valuation of 2.3x sales and mid-teens EV/EBITDA are demanding for a business delivering on its M&A strategy to generated strong top line growth and healthy margins built off a solid balance sheet. We believe a 4.0x EV/sales multiple would remain comfortable for the company, suggesting a target price of 250p.
- 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

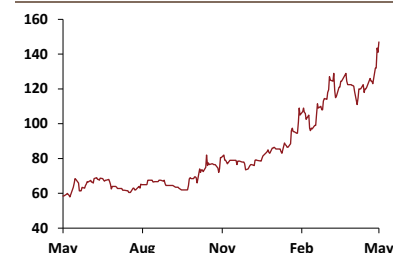
Source: Cenkos Securities estimates, Company data. EBITDA pre share based payments and exceptionals. 1 – adjusted for acquisition related amortisation payments

Brokership Company

BUY

Price at COB 14 May 21 147.0p
 52-week range 58-147p
 Ticker IHC LN

Share Price Performance



Source: Morningstar

Performance	1m	3m	12m
Absolute	20.5	34.9	143.2

Stock Data

Market cap (£m)	100.1
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

BGF IM	15.5%
Premier Miton Group	14.9%
Neil Campbell	6.7%
Simon Motley	6.6%
Berenberg	6.1%

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Financials

Table 1: 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 2: 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 3: 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
- SELL is an expected return less than -10%.
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	Corporate No.	Corporate %	No.	%
Buy	65	84	80	85
Hold	1	1	3	3
Sell	0	0	0	0
Under review	11	14	11	11

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	06 May 20	Buy	60.9p

Source: Cenkos Securities

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