ERGOMED

PRESS RELEASE

Audited Full Year Results for the year ended 31 December 2020

- ***Adjusted EBITDA £19.4 million (up 55.2%)***
- ***Revenue £86.4 million (up 26.5%)***
- ***Strategic acquisitions in CRO and pharmacovigilance in the US strengthen global specialist leadership***
- ***Forward visibility underpinned by strong order book of £193 million (up 55.5%)***
- ***Year-end net cash balance of £19.0 million with unutilised credit facilities of £30 million***

Guildford, UK – **23 March 2021**: Ergomed plc (LSE: ERGO) ('Ergomed' or the 'Company' or the 'Group'), a company focused on providing specialised services to the pharmaceutical industry, today announces its audited Full Year Results for the year ended 31 December 2020.

Selected Financial Highlights

Figures in £ millions, unless otherwise stated	**Full Year 2020**	**Full Year 2019**	***% change***
Total Revenue	**86.4**	**68.3**	*26.5*
Service Fee Revenue	*78.4*	*59.2*	*32.4*
Like-for-like Service Fee Revenue (Note 1)	*68.6*	*57.6*	*19.1*
Gross Profit	**39.7**	**29.5**	*34.6*
Gross Margin (%)	*45.9%*	*43.3%*	*+2.6ppts*
Adjusted EBITDA (*Note 2*)	**19.4**	**12.5**	*55.2*
Net cash at 31 December	**19.0**	**14.3**	*32.9*
Order book at 31 December	**193.0**	**124.1**	*55.5*
Basic adjusted earnings per share *(pence) (Note 3)*	**25.8p**	**19.9p**	*29.6*

Notes:
(1) Like-for-like Service Fee revenue excludes 2020 revenues of £9.2 million in PrimeVigilance USA Inc acquired on 10 January 2020 and £0.6 million in MS Clinical Services, LLC. and its subsidiaries ('MedSource') acquired on 11 December 2020, as well as exceptional 2019 revenues of £1.6 million.
(2) Adjusted EBITDA is defined as operating profit for the period plus depreciation and amortisation, share-based payment charge, acquisition related consideration and costs and exceptional items, less one-off receipts in the period comprising a prior year R&D tax credit and Serbian employment growth grants (Note 9 to the financial statements).
(3) Basic adjusted earnings per share is defined as earnings per share after adjustment for items referred to in Note 8 to the financial statements.

Dr Miroslav Reljanović, Executive Chairman of Ergomed, said: *"Ergomed made exceptional progress in delivering its strategy in 2020, despite the challenges of the COVID-19 pandemic. The resilience and robustness of our global services business was demonstrated by our continued strong organic growth whilst completing key strategic acquisitions in the US in both our pharmacovigilance and CRO businesses. We have started 2021 in a strong position, focused on our vision to achieve global leadership in specialised pharmaceutical services addressing unmet medical needs and patient safety."*

Key Financial Highlights

- Revenue of £86.4 million increased by 26.5% (2019: £68.3 million)
  - Revenue growth in pharmacovigilance (PV) up 55.6% to £55.1 million (2019: £35.4 million) and up 30.0% to £46.0 million on a like-for-like basis excluding the acquisition of Ashfield Pharmacovigilance
  - Revenue in Clinical Research Services (CRO) flat at £31.3 million (2019: £31.2 million excluding exceptional revenue) despite COVID-19, with service fee revenue returning to growth in H2 up 13.5% over H1
- Gross profit up 34.6% to £39.7 million (2019: £29.5 million)

- Adjusted EBITDA[2] up 55.2% to £19.4 million (2019: £12.5 million)
- Basic adjusted EPS up 29.6% to 25.8p (2019: 19.9p)
- Cash and cash equivalents up 32.9% to £19.0 million at 31 December 2020 (31 December 2019: £14.3 million) with operating cash flow of £19.0m
- Order book of £193.0 million future contracted revenue up 55.5% at 31 December 2020 (31 December 2019: £124.1 million)

Key Operational Highlights

- Continued strong growth trend in challenging markets
- Demonstrated resilience and ability to contribute in COVID-19 crisis
- Completed two strategic acquisitions in USA to significantly expand our presence in both pharmacovigilance and CRO
    - Ashfield Pharmacovigilance (now PrimeVigilance USA), acquired in January 2020, rapidly and successfully integrated
    - MS Clinical Services, LLC. and its subsidiaries (‘MedSource‘), acquired December 2020, in process of integration
- US revenue growth 82.4% over prior year
- Successful focus on business development and cross-selling opportunities

COVID-19 Update

The Group continues to monitor closely developments relating to the unprecedented global healthcare challenge of the COVID-19 pandemic. We have been able to adapt our business model to the challenge and are proud to play a role in helping to combat the disease. We are confident that we will continue to be able to bring our expertise and proven capabilities to bear in advancing drug development in the field and improving outcomes for patients.

Conference call for analysts:
A conference call for analysts will be held at 9.00am GMT on 23 March 2021.

Conference call details:

Participant dial-in: 080 0279 6619
International dial-in: +44 (0) 2071 928338
Participant code: 6293710

Webcast link: https://edge.media-server.com/mmc/p/mvia3sy8

Enquiries:

Ergomed plc	Tel: +44 (0) 1483 402 975
Miroslav Reljanović (Executive Chairman)	
Richard Barfield (Chief Financial Officer)	
Numis Securities Limited	Tel: +44 (0) 20 7260 1000
Freddie Barnfield / Matthew O’Dowd (Nominated Adviser)	
James Black (Broker)	
Consilium Strategic Communications	Tel: +44 (0) 20 3709 5700
Chris Gardner / Angela Gray	ergomed@consilium-comms.com
Matthew Neal / Olivia Manser	

About Ergomed plc

Ergomed provides specialist services to the pharmaceutical industry spanning all phases of clinical development, post-approval pharmacovigilance and medical information. Ergomed's fast-growing services business includes an industry-leading suite of specialist pharmacovigilance (PV) solutions, integrated under the PrimeVigilance brand, a full range of high-quality clinical research and trial management services under the Ergomed brand (CRO), and an internationally recognised specialist expertise in orphan drug development, under PSR. For further information, visit: http://ergomedplc.com.

Forward-Looking Statements

Certain statements contained within the announcement are forward-looking statements and are based on current expectations, estimates and projections about the potential returns of Ergomed plc (Ergomed) and the industry and markets in which Ergomed operates, the Directors' beliefs and assumptions made by the Directors. Words such as "expects", "anticipates", "should", "intends", "plans", "believes", "seeks", "estimates", "projects", "pipeline" and variations of such words and similar expressions are intended to identify such forward-looking statements and expectations. These statements are not guarantees of future performance or the ability to identify and consummate investments and involve certain risks, uncertainties, outcomes of negotiations and due diligence and assumptions that are difficult to predict, qualify or quantify. Therefore, actual outcomes and results may differ materially from what is expressed in such forward-looking statements or expectations. Among the factors that could cause actual results to differ materially are: the general economic climate, competition, interest rate levels, loss of key personnel, the result of legal and commercial due diligence, the availability of financing on acceptable terms and changes in the legal or regulatory environment.

These forward-looking statements speak only as of the date of this announcement. Ergomed expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in Ergomed's expectations with regard thereto, any new information or any change in events, conditions or circumstances on which any such statements are based, unless required to do so by law or any appropriate regulatory authority.

Chairman's Statement

EXCEPTIONAL DELIVERY IN CHALLENGING TIMES

During 2020 Ergomed made exceptional progress in delivering its strategy, despite the global challenge of the COVID-19 pandemic. We achieved strong organic growth and completed acquisitions in the key US market in both our Clinical Research Services (CRO) and Pharmacovigilance (PV) businesses. Across the Group we transitioned smoothly to remote working with the business remaining fully operational whilst continuing to trade strongly and delivering a strong uplift in revenues in the second half of the year, particularly in the CRO business. We improved gross and net margins and continued to strengthen our balance sheet, with increased cash balances and financial resources, as well as a capital reduction approved unanimously by our shareholders. During an extraordinary and challenging year, the core strengths of our business and the hard work and dedication of all our colleagues have shone through, delivering exceptional progress towards our strategic vision of global leadership in specialised pharmaceutical services addressing unmet medical needs and patient safety.

Excellent Financial Performance

Following the positive results for the first half of the year reported in September 2020, Ergomed continued to deliver strong year on year top-line growth and financial performance across the business in the second half. For the year as a whole, Ergomed continued its excellent financial performance delivering substantial revenue growth of 26.5% with improved gross margins. Adjusted EBITDA increased by 55.2% to £19.4 million, substantially exceeding the market expectations set at the beginning of the year. After investing £12.0m on acquisitions, funded fully out of cash, the Group continued to be debt-free at the year end with cash and equivalent balances of £19.0 million (2019: £14.3 million) and unutilised banking facilities of £30.0 million. We ended 2020 with our order book of future contracted revenue at £193.0 million, up 55.5% versus the prior year. This excellent performance in a year that was extremely challenging for companies across the world, demonstrates the robustness of Ergomed's business model and firmly positions the Group to realise its ambitious long-term growth plans.

Executing our Strategy

The transition to a fully services-based business model announced in 2018 was completed on schedule in 2020, with the business now entirely focused on its core service businesses in the PV and CRO sectors. 2020 saw further validation of this strategic focus on services, evidenced by significantly improved financial and operational performance with revenue growth of 26.5% to £86.4 million and strong performances in both PV and CRO. This continued the trend of a compound annual revenue growth rate of over 20% since the initial public offering in 2014.

Building on these foundations, with the successful execution of our M&A strategy, rapid integration of acquisitions and alignment of commercial strategies in our CRO and PV businesses, as well as investment in business development, we are delivering substantial increases in cross-selling opportunities and a growing order book of contracted long-term future revenues.

In 2020, we completed two highly strategic acquisitions in the key US market for pharmaceutical services. In January, we acquired Ashfield Pharmacovigilance, a long-established and highly respected provider of pharmacovigilance services in the US. This was rapidly and successfully integrated, providing cross-selling and growth opportunities within the significantly expanded PV client base, as evidenced by the Group's US revenue growth of 82.4% in 2020. In December, we acquired MS Clinical Services, LLC. and its subsidiaries ('MedSource'), a specialist provider of oncology and rare disease CRO services, which is expected to provide further growth and development potential within the key CRO sector in the USA and globally.

The Board continues to actively consider further acquisitions that will complement and strengthen the existing CRO and PV service offerings and give access to new customers and geographies.

We are also continuing to invest in infrastructure, technology and digital transformation, with the development of applications to achieve significant automation over the coming years. In our PV business this includes the development of applications for robotic process automation and the digitisation of simple adverse event reports, leading to the deployment of machine learning for full case processing. In the CRO business, we plan to play a significant role in the global trend, accelerated by COVID-19, towards digital transformation of clinical trials, including eConsent, ePRO and wearable technology for remote and home-based patient monitoring as well as virtual and telemedicine as standard of care, risk-based monitoring and remote data verification. These investments are expected to build on Ergomed's leadership position with service offerings to our international client base, as well as providing further potential for profitability improvement.

Strong Leadership and Employment Growth

During the year, Ergomed continued to strengthen its executive leadership with key appointments in Europe and in the US where we are expanding rapidly both organically and through M&A. Our acquisitions of Ashfield Pharmacovigilance (now PrimeVigilance USA) and MedSource have included the addition of key new senior team members. Despite the COVID-19 pandemic, employment throughout the Group grew from 850 employees to around 1,150 over the course of 2020.

We are delighted to welcome our new colleagues to the Group. These additions to the Ergomed global team reflect the growing strength and ambition of our business, add to our high-quality professional experience and strength in depth and bolster Ergomed's growth potential.

COVID-19

The COVID-19 virus outbreak was a dominant factor for global businesses during 2020. Ergomed's response to the pandemic continues to demonstrate the robustness and resilience of our services business model, which, together with the hard work and dedication of all our colleagues, has been highlighted during this challenging year.

Health and Safety

Throughout the pandemic, our priority has remained the health and safety of our employees and the maintenance of our service to all the patients and medical staff involved in our clinical studies and pharmacovigilance services.

We took stringent hygiene measures across all our sites and cancelled unnecessary travel. Our established business continuity plans enabled the Group to transition to home working and we continued to provide clinical study and pharmacovigilance monitoring services in support of all our patients and medical partners. We saw a temporary reduction in our ability to provide on-site monitoring services in our CRO business particularly in H1, but elsewhere there was no impact on our service levels or productivity metrics, and the quality and scale of the care provided to our patients and the healthcare profession continued at normal levels.

Business Continuity

Ergomed's services in both clinical research and pharmacovigilance are provided under long-term contracts in order to meet monitoring needs essential for medical research as well as legally mandated pharmacovigilance requirements. We have not seen a material COVID-19 impact on our business or our performance metrics, nor major delays or cancellations to studies or contracts. The slowdown in monitoring experienced in the CRO business in the second quarter of 2020 was replaced by a return to growth in the second half of the year, with revenue higher than in the first half of the year and in the corresponding period in 2019, as remote monitoring was implemented combined with a limited return to near normal levels of onsite monitoring in H2. In addition, our development activities continued in the second half of 2020 providing a strong sales performance and a significant uplift in our order book at the end of the year.

Risk Mitigation

Ergomed maintained a robust financial position throughout the year, with strong cash generation and substantial cash balances. We continue to monitor closely the rapidly evolving situation and see no significant immediate risks to the Group's revenues or operations, however, plans for financial risk mitigation are in place if necessary. The Group has a strong balance sheet and an unutilized £30 million credit facility and is continuing to prove resilient in the face of the risks posed by COVID-19.

Our Contribution to the Global Fight Against COVID-19

Ergomed was proud to make an ongoing contribution to the global effort to overcome the challenges created by the spread of the COVID-19 virus. We continued to provide our clinical trial and monitoring services for our existing and new clients and patients to the highest professional standards.

At the same time, we provided our clinical research as well as pharmacovigilance services for new projects designed to combat the virus. A number of COVID-19 related studies and contracts are continuing, and our business development pipeline includes significant further opportunities.

Conclusion

Ergomed's success in 2020 reflects the resilient business model and robust position of the business as well as the hard work and dedication of all our colleagues in a time of exceptional challenge. I would like to thank everyone at Ergomed for their contribution during the year, and our investors for their continued support.

Miroslav Reljanović
Executive Chairman

Operational review

<u>INTRODUCTION</u>

In 2020 there was a strong operational and financial performance from both of the Group's businesses, Pharmacovigilance (PV) and Clinical Research Services (CRO). We continued to execute our strategy of delivering world-class PV and CRO services to our customers, whilst fostering business development and cross-selling opportunities between these two highly complementary businesses. Despite the challenges of the COVID-19 pandemic, Ergomed demonstrated resilience and maintained its momentum in 2020. The Group has begun 2021 from a position of strength, with a robust financial platform and a proven growth strategy, ensuring that we are well positioned to achieve the longer-term strategic priorities of the business.

<u>PHARMACOVIGILANCE</u>

Regulatory context

The increasing global requirement for pharmacovigilance services coupled with a perpetual drive to improve drug safety through regulation continue to facilitate the transition towards specialist outsourced PV providers and general market growth.

In Europe, the implementation of Good Pharmacovigilance Practice ('GPvP') in 2012 and subsequent mandatory compliance has led to an increased demand for outsourced PV services and been a consistent driver for Ergomed's growth. In the US, the existing stringent PV regulatory regime continues to be regularly strengthened on an ongoing basis. Similarly, PV regulation continues to be rolled out in the Middle East, China and South East Asia, providing further growth opportunities for Ergomed's PV business. Ergomed intends to continue to leverage existing partnerships in these regions to facilitate growth and meet client requirements.

The latest regulation to affect Europe is Brexit, as a result of which the UK will no longer fall under the EU GPvP jurisdiction. This is expected to add regulatory complexity and drive further demand for specialist outsourced PV services.

Acquisition of Ashfield Pharmacovigilance

In January 2020 PrimeVigilance, Ergomed's pharmacovigilance business, welcomed the addition of Ashfield Pharmacovigilance ('Ashfield PV'), an established PV provider in North America, into the Group. Ashfield PV was immediately rebranded as PrimeVigilance USA Inc. ('PV USA') and, through its rapid integration into the Group, significantly expanded Ergomed's PV offering in North America.

The acquisition immediately saw the addition of around 70 highly qualified and experienced staff, 40 new clients and around $12 million of annual revenue from this strategically important market. Since then, the operational and administrative functions of PV USA have been fully integrated into the wider Group and we have already seen the benefits of the acquisition through increased economies of scale and cross-selling opportunities. The hard work and dedication of all the Ashfield and PrimeVigilance staff was key to making this business combination as successful as it has been to date.

Financial Performance

The addition of PV USA and the strong organic growth of the PV business saw revenues increase by £19.7 million from £35.4 million in 2019 to £55.1 million in 2020 (55.6% increase) of which £9.3 million was due to the addition of PV USA. Margins continued to be strong for the PV business increasing from 51.5% in 2019 to 52.0% in 2020.

Sales Awards and Order Book

PV new business in 2020 was primarily driven by North America which accounted for 90% of repeat business and 72% of new business. The contracted order book grew from £54.6 million in 2019 to £79.8 million at the end of 2020, an increase of 46.2%.

Management and Staff

In addition to the acquisition of Ashfield, the business continued to invest in its employees to support its geographical expansion, with over 250 employees being promoted during the year. PrimeVigilance employs around 50 physicians, over 300 pharmacists and other life sciences professionals and over 20 in-house EU Qualified Persons for Pharmacovigilance ('QPPVs') covering more than 60 countries. This constitutes one of the largest qualified teams of PV specialist professionals in any independent pharmaceutical services business globally and it continues to grow. The breadth and depth of staff and professionals supporting PrimeVigilance is reflected in the quality of services provided. Testament to this is PrimeVigilance's high customer renewal and retention figures and the fact that PrimeVigilance participated in over 70 regulatory inspections with no critical findings relating to its activities.

Technology Investment

Investment in technology is at the core of the PrimeVigilance quality first approach. During the year the business, in partnership with DataRobot and Automation Anywhere, commenced the development of a cloud-based solution to automate certain PV processes, allowing faster analysis and reporting of adverse medical events.

The technology is expected to bring new levels of speed and intelligence to a key activity of the business, freeing up valuable hours for highly trained pharmacovigilance professionals to focus on value creation and problem solving that only humans can address, and helping to deliver a higher quality service more efficiently. The PV business is also consolidating its safety databases into a single cloud-based platform, which will drive further efficiencies.

Constantly evolving regulations, geographic expansion, investment in technology and people, combined with the strength of the PrimeVigilance brand, mean that the PV business is well placed to continue delivering its growth strategy into 2021 and beyond.

<u>CLINICAL RESEARCH SERVICES</u>

Ergomed delivers high-quality clinical research services through a comprehensive offering of clinical trial research support services covering all phases of medical development via a global network of research experts and patients.

The CRO market has experienced significant expansion with high annual growth in oncology and rare disease research expected to continue over the coming years. This specific growth in Ergomed's core focus areas is underpinned by broader market trends including increased investment in drug development by pharma-biotech companies, a shift towards clinical trial outsourcing and strong growth in the number of trials in markets such as Asia.

COVID-19

COVID-19 caused significant disruption to the global CRO market during 2020. Restrictions on movement meant that access to patients for physical monitoring visits was limited, with some leading listed CROs reporting restricted site access in 50% to 80% of trials at the pandemic peak.

Despite these disruptions, Ergomed's CRO business demonstrated robustness and resilience during the pandemic. While the pandemic peak did impact some of our clinical studies, clinical trials in rare disease and oncology, in which Ergomed specialises, are focused on critical unmet needs and were therefore among the therapeutic areas least disrupted by COVID-19. Restrictions on movement and patient access accelerated the trend towards remote monitoring, an area which Ergomed was already pioneering. During the pandemic, Ergomed successfully implemented remote and risk-based monitoring techniques, allowing clinical trial activities to continue even when physical access to sites was not possible. For early phase studies where frequent and timely monitoring of safety and tolerability is required, Ergomed implemented patient profile software that provides a holistic view of each patient in an interactive and real time environment. In addition, study physicians supported trial investigators in patient identification and procedures resulting in consistent patient recruitment and milestone achievement.

Financial Performance

Overall the CRO business saw total revenues flat at £31.3 million year on year (2019: £31.2 million after adjusting for exceptional revenues of £1.6 million in 2019). This included an increase in service fee revenue of £1.0 million to £23.7 million, offset by a decline of £0.9 million in zero-margin pass-through revenue to £7.6 million. There was also an increase in third party full-margin service fee revenue (excluding co-development) from £18.3 million to £21.5 million, an increase of 17.5%, with almost all co-development projects having now concluded. As a result of these positive trends, the service fee gross margin in the CRO business grew by 3.7ppts from 42.6% to 46.3%, highlighting the underlying strength of the CRO business and resilience to the pandemic. It is also notable that in H2 2020, the CRO business resumed growth with service fee revenues increasing by 13.5% compared to the first half of the year.

Acquisition of MS Clinical Services LLC. and its subsidiaries ('MedSource')

In December 2020, Ergomed was pleased to announce the acquisition of MedSource, a US-based CRO business with over 20 years' experience in delivering specialist oncology and rare disease clinical trial services. MedSource further strengthens Ergomed's position as a high-quality oncology and rare disease CRO provider in the strategically important North American market. With the acquisition of MedSource, the Group welcomed the addition of 110 highly qualified staff, primarily based in the US, and 20 new clients. The work of integrating the business has already started as the Group looks to expand its offering in North America and build upon the success in 2020 which saw 65% of Ergomed's CRO repeat business wins in this region.

Sales Awards and Order Book

The CRO contract order book grew from £69.5 million in 2019 to £113.2m million in 2020. The combined total order book gives the Group excellent visibility on the rollout of revenue during 2021 and confidence in delivering its strategy of growth.

Rare Disease and Oncology Focus

Ergomed's CRO business works across all therapeutic areas, as a differentiated provider of clinical trial services with a particular strength in patient recruitment in oncology and rare disease trials. Oncology trials are generally very complex, although this varies with the type of cancer, and studies are often confronted by challenges including low patient enrolment, changing regulatory requirements, increased research costs, and trial protocols with increased study-related procedures. This explains in part why oncology trials are the biggest recipients of funding and makes the case for outsourcing to CROs who are better positioned to address these challenges. Ergomed's expertise and focus on oncology supports its CRO growth strategy and is evidenced by the fact that 88% (by value) of new business wins in 2020 related to oncology and rare disease, where similarly specialist expertise is also required.

Patient and Clinician Focus

Ergomed's focus on rare and orphan drug development is one of its core strengths. Drug development for rare and orphan diseases is challenging for many reasons, including complex biology, limited knowledge of the history and progression of the disease and the inherently small patient population available for clinical trials, who are usually geographically dispersed. Ergomed's focus on physician support teams helps ensure efficient patient recruitment, patient retention and clinical trial management of complex studies. Through the PSR Orphan Expert brand and the recent addition of MedSource, Ergomed distinguishes itself from peers in the market.

With the addition of MedSource and the continuing focus on patient needs, the CRO business is well placed to deliver on its growth strategy in 2021. There is an increasing need to draw on patient knowledge and experience to improve the discovery, development and evaluation of new effective medicines. In addition, greater patient engagement optimises clinical study design, outcome measures and endpoint development. Ergomed maintains a Patient Organisation Advisory Board, comprising of representatives of patient groups in the field of rare diseases and has a dedicated Patient Engagement Officer.

BUSINESS DEVELOPMENT AND COMMERCIAL INTEGRATION

A strong business development performance in 2020 resulted in sales increasing by 41.9% to £117.8 million (2019: £83.0 million). This included significant levels of new awards due to effective cross-selling between the CRO and PV businesses, bolstered by the addition of Ashfield PV in the USA (now PrimeVigilance USA). In 2020 total cross-selling awards were £8.6 million, with over £50 million of further opportunities in the business development pipeline at the end of the year. Key to new contract wins in both CRO and PV services was Ergomed's broader geographic footprint arising from organic expansion into the USA and Asia, as well as its ability to offer increased services and broader geographic coverage to the newly acquired PrimeVigilance USA client base. As a result, the order book increased to £193.0 million at the year end, up 55.5% over the course of 2020.

OUTLOOK

Ergomed made exceptional progress in delivering its strategy in 2020, despite the challenges of the COVID-19 pandemic. The resilience and robustness of our global services business was demonstrated by our continued strong organic growth whilst completing key strategic acquisitions in the US in both our pharmacovigilance and CRO businesses. We have started 2021 in a strong position focused on our vision to achieve global leadership in specialised pharmaceutical services addressing unmet medical needs and patient safety.

For and on behalf of the Board of Directors

Miroslav Reljanović
Executive Chairman

Financial Review

Introduction

Ergomed's financial performance was strong in 2020 with market expectations upgraded on a number of occasions. With the transition to a fully services-based business model now largely complete, the Group's complementary CRO and PV divisions continued to trade strongly despite the impact of the pandemic. Gross and net margins continued to improve throughout the year. This was in part due to effective cost control both at the cost of sales and general and administration levels, coupled with the successful integration of recent acquisitions and continuing investment in technology. Effective management of working capital and the new £30.0 million credit facility established in March 2020, which remains undrawn, also contributed to the overall strong financial position of the Group. The balance sheet has been further strengthened by the elimination of exposure to previous co-development investments. The capital reduction, approved unanimously by the Group's shareholders in October 2020, together with significantly increased profitability in the past two years, have increased the Group's consolidated retained earnings by over £50 million.

KPIs and APMs

Key Performance Indicators (KPIs)

The table below summarizes the KPIs that management uses to measure the financial performance of the Group.

£ millions (unless otherwise stated)	**2020**	2019
Total Revenue	86.4	68.3
CRO (Note 1)	*31.3*	*31.2*
PV	*55.1*	*35.4*
Gross profit	39.7	29.5
Gross margin	45.9%	43.3%
EBITDA	18.4	9.2
Adjusted EBITDA	19.4	12.5
Basic adjusted earnings per share	25.8p	19.9p
Cash generated from operations	19.0	11.7
Cash and cash equivalents	19.0	14.3
Order book	193.0	124.1

Note 1: CRO Revenue in 2019 is stated after adjustment for exceptional revenues of £1.6 million.

Alternative performance measures (APMs)

In measuring and reporting financial information, management reviews Alternative Performance Measures (APMs), such as EBITDA, adjusted EBITDA and basic adjusted earnings per share, which are not defined measures under financial reporting standards. Management believes that these measures, when considered in conjunction with defined financial reporting measures, provide management and stakeholders with a broader understanding of the performance of the business.

Operating profit is the financial reporting measure under IFRS most comparable to EBITDA and adjusted EBITDA. The Directors make certain adjustments to EBITDA to derive adjusted EBITDA, which they consider more reflective of the Group's underlying trading performance, enabling comparisons to be made with prior periods. Certain items, such as share-based payments and change in fair value of contingent consideration for acquisitions are non-cash items and reflect adjustments to expected future consideration payments.

Operating profit is reconciled to EBITDA and adjusted EBITDA as follows:

	2020 £000's	2019 £000's
Operating profit	13,534	5,517
Adjusted for:		
Depreciation and amortisation charges within Other selling, general & administration expenses	3,511	3,041
Amortisation of acquired fair valued intangible assets	1,332	671
EBITDA	**18,377**	9,229
Adjusted for:		
Share-based payment charge	742	870
Acquisition related contingent compensation	-	87
Change in fair value of contingent consideration for acquisitions	-	(512)
RDEC income (2017)	(527)	-
Grants in recognition of employment creation in Serbia	(307)	-
Acquisition costs	853	393
Pay in lieu and non-compete compensation	232	-
Exceptional items	-	2,427
Adjusted EBITDA	**19,370**	12,494

Acquisition-related contingent compensation relates to the cash component of deferred consideration which is payable contingent on the continued employment of the vendors. These costs, together with acquisition costs, pay in lieu and non-compete compensation and exceptional items, are cash costs but are not considered as normal recurring trading items and therefore are not included in adjusted EBITDA. RDEC income in relation to 2017 and grants received are not considered as normal recurring trading items and therefore are not included in adjusted EBITDA.

Adjusted basic earnings per share is calculated on a similar basis to basic earnings per share but uses a profit measure which, like adjusted EBITDA, is adjusted for non-recurring income items (see note 8 of the financial statements).

Management has previously used order book, (referred to in prior years as contracted order backlog) as an APM. Order book is the contracted value of customer revenue relating to in-progress performance obligations which are expected to be recognised in the future. The use of order book by management is no longer considered to be an APM as, from 1 January 2018, it is now a defined financial measure under IFRS 15 and is therefore included in KPIs.

Growth

Ergomed's CRO and PV businesses both continued to show positive revenue performance through to year-end, resulting in a strong order book to start 2021.

Revenues for 2020 totalled £86.4 million, an increase of 26.5% over the prior year (2019: £68.3 million). CRO revenues were flat at £31.3 million (2019: £31.2 million after adjusting for exceptional revenues of £1.6 million), with the wider CRO sector experiencing challenges in the wake of the pandemic. PV revenues increased 55.6% from £35.4 million to £55.1 million including £9.3 million due to the addition of PV USA.

The 26.5% revenue growth overall was accompanied by a 34.6% increase in gross profit from £29.5 million in 2019 to £39.7 million in 2020, with gross margin increasing from 43.3% in 2019 to 45.9% in 2020 as a result of effective cost controls at the cost of sales level.

The Group also concluded most of its co-development projects, in line with the strategy to focus on the services-based model in both PV and CRO. As a result, the Group has reduced its overall R&D expenditure from £0.5 million in 2019 to £0.2 million in 2020. Having recognised realised impairment charges and write-offs totalling £2.4 million as exceptional costs related to this strategic focus in 2019, there were no exceptional charges in 2020. Ongoing costs required to exercise prudent stewardship over the co-development assets are not expected to be material.

In 2020 the significant revenue growth, profitability focus and effective cost management resulted in an adjusted EBITDA of £19.4 million, an increase of 55.2% over the prior year (2019: £12.5 million).

Financial strength

The growth in revenue and profitability achieved during 2020 led to strong cash generation at an operating level. Cash generated from operations was £19.0 million, an increase of £7.3 million over the prior year (2019: £11.7 million). The cash generated represented 99.0% of adjusted EBITDA and demonstrated the strong cash conversion capabilities of the business.

The Group continues to strengthen its balance sheet, with cash and cash equivalents increasing by £4.7 million to £19.0 million at the year-end (2019: £14.3 million). This was after net cash outflows on the acquisitions of Ashfield Pharmacovigilance in January 2020 of £7.6 million and MedSource in December 2020 of £4.4 million. In March 2020 as a precautionary measure taken during the initial phase of the COVID-19 pandemic, £15.0 million cash was drawn down on the Group's £30.0 million credit facility established in March 2020 with the Group's banking partner, HSBC UK Bank plc. This cash was held in the bank and remained unutilised until it was repaid in full in August 2020.

In October 2020, a capital reduction was unanimously approved by shareholders, whereby the amounts of £27.6 million standing to the credit of the share premium account and £11.1 million standing to the credit of the merger reserve were cancelled and the balances were transferred to the retained earnings account. As a result of this and the generation of distributable reserves, the consolidated retained earnings account of the Group stood at £45.4 million at the end of 2020.

Ergomed plc has a strong balance sheet with net assets as of 31 December 2020 of £52.9 million up 43.8% on prior year (2019: £36.8 million) which includes cash and cash equivalents of £19.0 million (2019: £14.3 million) within total assets of £92.3 million (2019: £57.0 million). Consolidated retained earnings of the Group at the year-end were £45.4 million, an increase of £50.9 million over the retained earnings deficit of £5.5 million reported in 2019.

Outlook

A strong financial foundation is now in place to continue to support the Group on a steady course beyond the COVID-19 pandemic. Ergomed is well placed to trade strongly into new opportunities for organic growth and expansion through M&A activity.

Richard Barfield
Chief Financial Officer

Consolidated income statement

For the year ended 31 December 2020

	Notes	2020 £000s	2019 £000s
Revenue	**2, 3**	**86,391**	68,255
Cost of sales		**(38,686)**	(29,790)
Reimbursable expenses		**(8,055)**	(8,940)
Gross profit	**3**	**39,650**	29,525
Selling, general and administration expenses		**(27,518)**	(23,514)
Selling, general and administration expenses comprises:			
Other selling, general and administration expenses		**(24,591)**	(19,578)
Amortisation of acquired fair valued intangible assets		**(1,332)**	(671)
Share-based payment charge		**(742)**	(870)
Acquisition-related contingent compensation		**–**	(87)
Change in the fair value of contingent consideration for acquisitions		**–**	512
Acquisition costs	**4**	**(853)**	(393)
Exceptional items	**5**	**–**	(2,427)
Research and development expenses		**(152)**	(545)
Net impairment losses on trade receivables and contract assets		**(285)**	–
Other operating income	**6**	**1,839**	51
Operating profit		**13,534**	5,517
Finance income		**8**	28
Change in fair value of equity investments	**12**	**(511)**	(286)
Finance costs	**7**	**(403)**	(273)
Profit before taxation		**12,628**	4,986
Taxation		**(2,946)**	583
Profit for the year		**9,682**	5,569

All activities in the current and prior period relate to continuing operations.

The accompanying notes form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	2020 £000s	2019 £000s
Profit for the year	**9,682**	5,569
Items that may be classified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(59)**	(208)

Other comprehensive (loss) for the year net of tax		**(59)**	(208)
Total comprehensive profit for the year		**9,623**	5,361

Profit or loss and each component of other comprehensive income are attributable to the owners of the Company.

Earnings Per Share (EPS)	**8**	**2020 pence**	2019 pence
Basic		**20.0**	12.0
Diluted		**19.2**	11.5

Unaudited

Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (Adjusted EBITDA)		**2020 £000s**	2019 £000s
Adjusted EBITDA	**9**	**19,370**	12,494

Unaudited

Adjusted Earnings Per Share (Adjusted EPS)	**8**	**2020 pence**	2019 pence
Basic		**25.8**	19.9
Diluted		**24.7**	19.1

The accompanying notes form an integral part of these financial statements.

Consolidated balance sheet

As at 31 December 2020

	Notes	**2020 £000s**	2019 £000s
Non-current assets			
Goodwill	10	**24,605**	13,380
Other intangible assets	11	**9,618**	2,755
Property, plant and equipment		**1,742**	1,110
Right-of-use assets		**4,715**	5,171
Equity investments	12	–	–
Deferred tax asset		**4,898**	2,616
		45,578	25,032
Current assets			
Trade and other receivables	13	**22,224**	14,359
Accrued revenue		**5,553**	3,382
Cash and cash equivalents	14	**18,994**	14,259
		46,771	32,000
Total assets		**92,349**	57,032
Current liabilities			
Lease liabilities		**(1,978)**	(1,718)
Trade and other payables	15	**(15,702)**	(10,373)

Deferred consideration		**(328)**	–
Deferred revenue		**(13,829)**	(2,957)
Current tax liability		**(1,775)**	(813)
		(33,612)	(15,861)
Net current assets		**13,159**	16,139
Non-current liabilities			
Lease liabilities		**(3,128)**	(3,716)
Provisions		**(317)**	(341)
Deferred tax liability		**(2,426)**	(294)
		(5,871)	(4,351)
Total liabilities		**(39.483)**	(20,212)
Net assets		**52,866**	36,820
Equity			
Share capital	16	**489**	473
Share premium account	16	**3**	25,790
Merger reserve	16	**1,349**	11,088
Share-based payment reserve		**5,042**	4,300
Translation reserve		**615**	674
Retained earnings		**45,368**	(5,505)
Total equity		**52,866**	36,820

The accompanying notes form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2020

	Notes	Share capital £000s	Share premium account £000s	Merger reserve £000s	Share-based payment reserve £000s	Translation reserve £000s	Retained earnings £000s	Total equity £000s
Balance at 1 January 2019		**452**	**24,384**	**11,088**	**3,430**	**882**	**(11,873)**	**28,363**
Profit for the year		–	–	–	–	–	5,569	**5,569**
Other comprehensive income for the year		–	–	–	–	(208)	–	**(208)**
Total comprehensive income		**–**	**–**	**–**	**–**	**(208)**	**5,569**	**5,361**
Transactions with shareholders								
Shares issued during the year for cash	16	21	1,406	–	–	–	–	**1,427**
Share-based payment charge for the year		–	–	–	870	–	–	**870**
Deferred tax credit taken directly to equity		–	–	–	–	–	799	**799**
Total transactions with shareholders		**21**	**1,406**	**–**	**870**	**–**	**799**	**3,096**
Balance at 31 December 2019		**473**	**25,790**	**11,088**	**4,300**	**674**	**(5,505)**	**36,820**
Profit for the year		–	–	–	–	–	9,682	**9,682**
Other comprehensive income for the year		–	–	–	–	(59)	–	**(59)**
Total comprehensive income		**–**	**–**	**–**	**–**	**(59)**	**9,682**	**9,623**
Transactions with shareholders								
Shares issued during the year for cash	16	14	1,855	–	–	–	–	**1,869**
Share-based payment charge for the year		–	–	–	742	–	–	**742**
Deferred tax credit taken directly to equity		–	–	–	–	–	2,461	**2,461**
Shares issued for non-cash consideration	16	2	–	1,349	–	–	–	**1,351**

Transactions with shareholders – Capital Reduction	16							
Capitalisation of Merger reserve to 'B' Ordinary Shares	16	11,088	–	(11,088)	–	–	–	**–**
Cancellation of 'B' Ordinary Shares	16	(11,088)	–	–	–	–	11,088	**–**
Cancellation of Share Premium	16	–	(27,642)	–	–	–	27,642	**–**
Total transactions with shareholders		**16**	**(25,787)**	**(9,739)**	**742**	**–**	**41,191**	**6,423**
Balance at 31 December 2020		**489**	**3**	**1,349**	**5,042**	**615**	**45,368**	**52,866**

The accompanying notes form an integral part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2020

	Notes	**2020 £000s**	2019 £000s
Cash flows from operating activities			
Profit before taxation		**12,628**	4,986
Adjustment for:			
Amortisation and depreciation		**4,843**	3,712
Impairment of goodwill, intangibles, equity investments and other assets	**5**	**–**	2,427
Loss on disposal of fixed assets		**16**	25
Share-based payment charge		**742**	870
Change in the fair value of equity investments	**12**	**511**	286
Change in the fair value of contingent consideration for acquisition		**–**	(512)
RDEC income	**6**	**(1,188)**	–
Finance income		**(8)**	(28)
Finance costs	**7**	**403**	273
Operating cash inflow before changes in working capital and provisions		**17,947**	12,039
(Increase)/decrease in trade, other receivables and accrued revenue		**(6,137)**	1,878
Increase/(decrease) in trade, other payables and deferred revenue		**7,182**	(2,380)
(Decrease)/increase in provisions		**(18)**	126
Cash generated from operations		**18,974**	11,663
Taxation (paid)/received		**(926)**	124
Net cash inflow from operating activities		**18,048**	11,787
Investing activities			
Interest received		**8**	7
Acquisition of intangible assets	**11**	**(542)**	(604)
Acquisition of property, plant and equipment		**(432)**	(392)
Receipts from sale of property, plant and equipment		**46**	8
Equity investments received in exchange for services provided	**12**	**–**	(1,904)
Receipts from the sale of equity investments	**12**	**175**	1,099
Acquisition of subsidiaries, net of cash acquired	**17,18**	**(12,031)**	(115)
Acquisition related earn-out paid		**–**	(930)
Net cash outflow from investing activities		**(12,776)**	(2,831)
Financing activities			
Issue of new shares	**16**	**1,869**	1,427
Finance costs paid		**(157)**	–
Proceeds from borrowings	**14**	**15,000**	–
Repayment of borrowings	**14**	**(15,000)**	–
Payment of lease liabilities		**(2,189)**	(1,677)
Net cash outflow from financing activities		**(477)**	(250)
Net change in cash and cash equivalents		**4,795**	8,706

Effect of foreign currency on cash balances		**(60)**	364
Cash and cash equivalents at start of year		**14,259**	5,189
Cash and cash equivalents at end of year	**14**	**18,994**	14,259

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2020

1. Basis of preparation

The consolidated financial statements of the Group have been prepared on the going concern basis in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, the IFRS Interpretations Committee ('IFRS-IC') interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on a historical cost basis except that the following assets and liabilities are stated at their fair value: certain financial assets and financial liabilities measured at fair value, and liabilities for cash-settled share-based payments.

The same accounting policies, presentation and methods of computation have been followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2020.

The financial statements for 2019 have been delivered to the Registrar of Companies and the 2020 financial statements will be delivered after the Annual General Meeting on 10 June 2021.

The Auditor has reported on both sets of accounts without qualification, did not draw attention to any matters by way of emphasis without qualifying their report, and did not issue a statement under Section 498(2) or 498(3) of the Companies Act 2006.

Except as described below, the accounting policies adopted are consistent with those of the financial statements for the year ended 31 December 2019, as described in those financial statements.

Going concern

The financial statements have been prepared on the going concern basis, which assumes that the Group and Company will have sufficient funds to continue in operational existence for the foreseeable future, being a period of no less than 12 months from the date of signing of the financial statements. The Directors have reviewed a cash flow forecast for the period 31 December 2023, which is derived from the 2021 Board approved budget and a medium-term cash flow forecast through to 31 December 2023, which is an extrapolation of the approved budget under multiple scenarios and growth rates. The 2021 budget and medium-term forecast represents the Directors' best estimate of the Group's future performance and necessarily includes a number of assumptions, including the level of revenues. The 2021 budget and medium-term forecast demonstrate that the Directors have a reasonable expectation that the Group will be able to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements.

On the basis of the above factors and, having made appropriate enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

2. Revenue

The Group's revenue is disaggregated by geographical market and major service lines:

Geographical market and major service lines
2020

	Major service lines		
	CRO £000s	**PV £000s**	**Total £000s**
Geographical market by client location			
UK	3,589	8,590	12,179
Rest of Europe, Middle East and Africa	10,146	13,183	23,329
North America	15,828	30,836	46,664
Asia	1,753	2,269	4,022

Australia	-	197	197
	31,316	55,075	86,391

2019

	Major service lines		
	CRO £000s	PV £000s	Total £000s
Geographical market by client location			
UK	5,096	7,590	12,686
Rest of Europe, Middle East and Africa	17,427	10,910	28,337
North America	9,245	16,337	25,582
Asia	1,064	445	1,509
Australia	10	131	141
	32,842	35,413	68,255

3. Operating segments

Products and services from which reportable segments derive their revenues

Information reported to the Company's Board, which is the chief operating decision maker ('CODM'), for the purpose of resource allocation and assessment of segment performance, is focused on the Group operating as two business segments, being Clinical Research Services ('CRO') and Pharmacovigilance ('PV'). All revenues arise from direct sales to customers. The segment information reported below all relates to continuing operations. The PV segment includes the revenues of Ashfield Pharmacovigilance Inc. ('Ashfield') following its acquisition by the Group in the year. The CRO segment includes the revenues of MS Clinical Services, LLC. and its subsidiaries ('MedSource') following its acquisition by the Group in the year.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the gross profit earned by each segment. Other amounts, including selling, general and administration expenses were not allocated to a segment. This was the measure reported to the CODM for the purpose of resource allocation and assessment of segment performance.

2020

	CRO £000s	**PV £000s**	**Consolidated total £000s**
Segment revenues	**31,316**	**55,075**	**86,391**
Cost of sales	**(12,737)**	**(25,949)**	**(38,686)**
Reimbursable expenses	**(7,584)**	**(471)**	**(8,055)**
Segment gross profit	**10,995**	**28,655**	**39,650**
Selling, general and administration expenses			**(27,518)**
Selling, general and administration expenses comprises:			
Other selling, general and administration expenses			**(24,591)**
Amortisation of acquired fair valued intangible assets			**(1,332)**
Share-based payment charge			**(742)**
Acquisition costs			**(853)**
Research and development expenses			**(152)**
Net impairment of trade receivables and contract assets			**(285)**
Other operating income			**1,839**
Operating profit			**13,534**
Finance income			**8**
Change in fair value of equity investments			**(511)**
Finance costs			**(403)**
Profit before tax			**12,628**

2019

	CRO £000s	PV £000s	Consolidated total £000s
Segment revenues	32,842	35,413	68,255
Cost of sales	(13,045)	(16,745)	(29,790)
Reimbursable expenses	(8,498)	(442)	(8,940)

Segment gross profit	11,299	18,226	29,525
Selling, general and administration expenses			(23,514)
Selling, general and administration expenses comprises:			
Other selling, general and administration expenses			(19,578)
Amortisation of acquired fair valued intangible assets			(671)
Share-based payment charge			(870)
Acquisition-related contingent compensation			(87)
Change in the fair value of contingent consideration for acquisitions			512
Acquisition costs			(393)
Exceptional items			(2,427)
Research and development expenses			(545)
Other operating income			51
Operating profit			5,517
Finance income			28
Change in fair value of equity investments			(286)
Finance costs			(273)
Profit before tax			4,986

4. Acquisition costs

	2020 £000s	2019 £000s
Acquisition of Ashfield Pharmacovigilance	**14**	393
Acquisition of MedSource	**825**	–
Other acquisition costs	**14**	–
	853	393

5. Exceptional items

Exceptional items
In line with the way the Board and chief operating decision maker review the business, large one-off exceptional costs are shown as exceptional items.

	2020 £000s	2019 £000s
Impairment of equity investment	**–**	2,427

During the year ended 31 December 2019, the fair value equity investment in Modus Therapeutics Holding AB was impaired to £nil resulting in a charge to exceptional items of £2,427,000 (see note 12).

6. Other operating income

Research and Development Expenditure Credit (RDEC)
The Group is eligible, within the UK, to claim tax credits against certain research and development expenditure under the RDEC scheme. During the year the Group submitted claims in respect of the 2017 and 2018 financial years and recognised the related profit and loss charge within other operating income in the current financial year.

	2020 £000s	2019 £000s
Foreign grant income	**574**	–
RDEC income	**1,188**	–
Other income	**77**	51
	1,839	51

7. Finance costs

	2020 £000s	2019 £000s
Loan and other interest payable	**158**	13
Interest on lease liabilities	**245**	260
	403	273

8. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings	2020 £000s	2019 £000s
Profit for the purposes of earnings per share – net profit attributable to owners of the Company	**9,682**	**5,569**
Adjust for:		
Amortisation of acquired fair valued intangible assets	**1,332**	671
Share-based payment charge	**742**	870
Acquisition-related contingent consideration	**–**	87
Change in fair value of contingent consideration for acquisitions	**–**	(512)
Acquisition costs	**853**	393
Exceptional items	**–**	2,427
Pay in lieu and non-compete compensation	**232**	–
Change in fair value of equity investments	**511**	286
RDEC income (2017)	**(527)**	–
Grants in recognition of employment creation in Serbia	**(307)**	–
Tax effect of adjusting items	**(41)**	(509)
Adjusted earnings for the purposes of adjusted earnings per share *(Unaudited)*	**12,477**	9,282

Number of shares	2020 Number	2019 Number
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	**48,323,814**	46,599,917
Incremental shares in respect of employee share schemes	**2,176,170**	2,027,154
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	**50,499,984**	**48,627,071**

Earnings per share (EPS)	2020 pence	2019 pence
Basic	**20.0**	12.0
Diluted	**19.2**	11.5

Unaudited

Adjusted earnings per share (Adjusted EPS)	2020 pence	2019 pence
Basic	**25.8**	19.9
Diluted	**24.7**	19.1

9. EBITDA and Adjusted EBITDA

Unaudited	2020 £000's	2019 £000's
Operating profit	**13,534**	5,517
Adjusted for:		
Depreciation and amortisation charges within Other selling, general & administration expenses	**3,511**	3,041
Amortisation of acquired fair valued intangible assets	**1,332**	671
EBITDA	**18,377**	9,229
Adjusted for:		
Share-based payment charge	**742**	870
Acquisition related contingent compensation	**–**	87
Change in fair value of contingent consideration for acquisitions	**–**	(512)
RDEC income (2017)	**(527)**	–
Grants in recognition of employment creation in Serbia	**(307)**	–
Acquisition costs (note 4)	**853**	393
Pay in lieu and non-compete compensation	**232**	–
Exceptional items (note 5)	**–**	2,427
Adjusted EBITDA	**19,370**	12,494

10. Goodwill

Cost	£000s
At 1 January 2019	15,802
Translation movement	(279)
At 31 December 2019	**15,523**
Arising on business combinations	11,261
Translation movement	(36)
At 31 December 2020	**26,748**
Impairment provision	
At 1 January 2019 and 2020	2,143
At 31 December 2019 and 2020	**2,143**
Net book value	
At 31 December 2020	**24,605**
At 31 December 2019	13,380

The goodwill arising during the year ended 31 December 2020 relates to the acquisitions of Ashfield Pharmacovigilance Inc. ('Ashfield') (note 17) and MS Clinical Services, LLC. and its subsidiaries ('MedSource') (note 18).

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ('CGUs') that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

Cash-generating unit	2020 £000s	2019 £000s
CRO	**10,859**	3,535
PV	**13,746**	9,845
	24,605	13,380

11. Other intangible assets

Cost	Total £000s
At 1 January 2019	24,075
Additions	604
Translation movement	(112)
At 31 December 2019	**24,567**
Acquisitions through business combinations	8,730
Additions	542
Translation movement	(63)
At 31 December 2020	**33,776**
Amortisation	
At 1 January 2019	20,335
Charge for the year	1,503
Impairment charge	–
Translation movement	(26)
At 31 December 2019	**21,812**
Charge for the year	2,266
Translation movement	80
At 31 December 2020	**24,158**
Net book value	
At 31 December 2020	**9,618**
At 31 December 2019	2,755

12. Equity investments

2020	Carrying amount at	Equity received in	Change in fair value recognised	Impairment of investments	Disposals £000s	Translation movement	Carrying amount at

	1 January 2020 £000s	exchange for services provided £000s	in the income statement £000s	£000s		£000s	31 December 2020 £000s
Asarina Pharma AB	**–**	**699**	**(511)**	**–**	**(175)**	**(13)**	**–**
Modus Therapeutics Holdings AB	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	**699**	**(511)**	**–**	**(175)**	**(13)**	**–**

2019	Carrying amount at 1 January 2019 £000s	Equity received in exchange for services provided £000s	Change in fair value recognised in the income statement £000s	Impairment of investments £000s	Disposals £000s	Translation movement £000s	Carrying amount at 31 December 2019 £000s
Asarina Pharma AB	863	567	(286)	–	(1,099)	(45)	–
Modus Therapeutics Holdings AB	1,202	1,337	–	(2,427)	–	(112)	–
	2,065	1,904	(286)	(2,427)	(1,099)	(157)	–

Asarina Pharma AB ('Asarina')
In 2018, Asarina completed a public offering and listing on the Nasdaq First North Exchange and the investment in equity was publicly traded. Under the co-development agreement with Asarina, the Group receives shares in Asarina in return for services provided to them under the co-development programme. During the year ended 31 December 2020, shares valued at £699,000 (2019: £567,000) were issued to the Group in exchange for services provided. All the shares received were sold in the year for proceeds of £175,000 (2019: £1,099,000).

Modus Therapeutics Holding AB ('Modus')
Under the co-development agreement with Modus, the Group receives shares in Modus in return for its contribution to the co-development programme. During the year ended 31 December 2019, shares valued at £1,337,000 were issued to the Group in exchange for services provided by the Group.
Modus announced the initial results from its Phase II trial on 13 May 2019. Data from the study failed to show a meaningful benefit in the total study population. Given the results of the trial and the company's lack of funding, management have impaired the value of the investment to £nil as at the year end.

13. Trade and other receivables

	2020 £000s	2019 £000s
Trade receivables	**19,079**	11,235
Amounts receivable from Group companies	–	–
Other receivables	**1,241**	1,609
Prepayments	**1,482**	1,144
Corporation tax receivable	**422**	371
	22,224	14,359

14. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits.

	2020 £000s	2019 £000s
Cash at bank	**18,994**	14,259

The Group has a £15 million multi-currency rolling credit facility ('RCF') with an option to increase by a further £15 million. The RCF was drawn down on 23 March 2020 and was subsequently repaid on 19 August 2020. The RCF expires on 13 March 2024.

15. Trade and other payables

	2020 £000s	2019 £000s
Trade payables	**4,197**	2,579
Amounts payable to related parties	**55**	58
Amounts payable to Group companies	–	–
Social security and other taxes	**1,112**	629
Other payables	**1,295**	1,086
Customer advances	**408**	537
Accruals	**8,635**	5,484
	15,702	10,373

16. Ordinary share capital

	2020		2019	
	Number	**£000s**	Number	£000s
Ordinary shares of £0.01 each				
Balance at 1 January	**47,286,289**	**473**	45,175,248	452
Exercise of share options	**1,433,237**	**14**	2,111,041	21
Shares to be issued for non-cash consideration	**155,558**	**2**	–	–
	48,875,084	**489**	47,286,289	473

	2020		2019	
	Number	**£000s**	Number	£000s
B Ordinary shares of £0.23 each				
Balance at 1 January	**–**	**–**	–	–
Capitalisation of Merger reserve to 'B' Ordinary Shares	**48,717,776**	**11,088**	–	–
Cancellation of 'B' Ordinary Shares	**(48,717,776)**	**(11,088)**	–	–
	–	**–**	–	–

Options over 1,433,237 (2019: 2,111,041) Ordinary Shares were exercised for proceeds of £1,869,000 (2019: £1,427,000).

Shares to be issued for non-cash consideration

Ordinary shares to be issued as consideration for acquisitions (non-cash consideration) are included within share capital once the conditions for issuance have been met. Included within the ordinary share capital at 31 December 2020 are 155,558 Ordinary Shares that will be issued as part consideration for the acquisition of MS Clinical Services, LLC. and its subsidiaries and is subject to the satisfaction of certain representations and warranties. The shares will be issued during the 2021 financial year.

Capital reduction

During the year the Directors determined that they would request shareholder and court approval for a capital reduction for Ergomed plc, whereby the balance on the Company's share premium account and merger reserves would be used to eliminate the deficit on the retained earnings reserve.

The Capital Reduction was approved by shareholders at a General Meeting of the Company held on 19 October 2019. The Capital Reduction was sanctioned by the High Court of England and Wales on 10 November 2020 and was registered with the Registrar of Companies on 17 November 2020 whereupon it became effective.

The Capital Reduction comprised: (i) the cancellation of the entire amount standing to the credit of the Company's share premium account and (ii) the capitalisation of the entire amount standing to the credit of the Company's merger reserve by issuing B ordinary shares in the capital of the Company and the subsequent cancellation of such B ordinary shares (the 'Merger Reserve Reduction').

Share premium

As a result of the Capital Reduction, the entire amount standing to the credit of the Company's Share premium (£27,642,000) was cancelled on 17 November 2020.

Merger reserve

When the Company issues shares in consideration for the shares in an acquired entity, and on completion of the transaction the Company has secured at least a 90% equity holding in the other entity, the excess of the fair value of the shares over the nominal value is credited to the merger reserve ('Merger Relief').

As a result of the Capital Reduction, the entire amount standing to the credit of the Company's Merger reserve (£11,088,000) was capitalised on 9 November 2020 by issuing 48,717,776 B ordinary shares of £0.227584 each in the capital of the Company. The B ordinary shares were subsequently cancelled on 17 November 2020.

On 11 December 2020, 155,558 Ordinary Shares were offered as part consideration for MS Clinical Services LLC, MedSource UK Ltd and MS Clinical Services (Canada) Inc ('MedSource') at an agreed market price of £8.76 per share. The excess of the fair value over the nominal value of £1,349,000 was credited to the merger reserve. The shares are subject to the satisfaction of certain representations and warranties and will be issued during the 2021 financial year

17. Acquisition of subsidiary – PrimeVigilance USA Inc.

On 13 January 2020, the Group acquired all the issued share capital in Ashfield Pharmacovigilance Inc. for $10,000,000, satisfied in cash. Immediately after acquisition the subsidiary changed its name to PrimeVigilance USA Inc. The company is a specialist pharmacovigilance provider based in the US. The acquisition expands the geographical coverage of PrimeVigilance, the pharmacovigilance brand of the Ergomed group, and further develop the Group's broader combined CRO and PV business globally.

	Book value £000s	Fair value adjustments £000s	Final valuation £000s
Intangible assets	159	2,392	2,551
Property, plant and equipment	779	–	779
Right-of-use assets	987	–	987
Total non-current assets	**1,925**	**2,392**	**4,317**
Trade and other receivables	1,462	(75)	1,387
Cash and cash equivalents	727	–	727
Current assets	**2,189**	**(75)**	**2,114**
Trade and other payables	(321)	–	(321)
Lease liability	(1,075)	–	(1,075)
Tax payable	–	–	–
Deferred tax liability	(1,945)	1,282	(663)
Financial liabilities	**(3,341)**	**1,282**	**(2,059)**
Total identifiable net assets	**773**	**3,599**	**4,372**
Goodwill	7,703	(3,692)	4,011
Total consideration	**8,476**	**(93)**	**8,383**
Satisfied by:			
Cash			7,613
Cash – working capital advance			770
Total consideration			**8,383**
Net cash outflow arising on acquisition			
Cash consideration			8,433
Less: cash and cash equivalent balances acquired			(727)
Less: working capital adjustment			(93)
Transaction expenses			407
			8,020

The fair value of intangible assets relates to customer relationships of £1,998,000 and contracted orderbook of £553,000. The Group incurred acquisition related cost of £393,000 related to due diligence and legal activities in the year ended 31 December 2019 and an additional £14,000 in the year to 31 December 2020. These costs have been included in acquisition costs within selling and administrative expenses in the Group's consolidated income statement.

The fair value of acquired receivables was £1,250,000. The gross contractual amount receivable is £1,325,000 and, at the acquisition date, £75,000 of contractual cash flows were not expected to be received

Ergomed plc has a 12-month measurement period from the date of acquisition, and therefore the measurement period ended on 13 January 2021.

18. Acquisition of subsidiary – MedSource

On 11 December 2020, the Group acquired all of the issued share capital in MS Clinical Services, LLC, MedSource UK Ltd and MS Clinical Services (Canada) Inc ('MedSource') for $16,200,000 in cash, adjusted for net debt, and paid at the closing of the transaction, with further consideration of $1,800,000 payable in Ergomed plc equity issued at a price based on the average daily closing price for 30 days preceding the acquisition (155,558 shares at a price of £8.76) upon the satisfaction of certain representations and warranties. Up to a further $7,000,000 is payable, 90% in cash and 10% in equity, depending on MedSource's financial results in the year to 31 December 2021.

MedSource is a full-service CRO with a focus on complex diseases and study designs. The acquisition greatly expands the geographical presence of Ergomed's CRO service offering in the US whilst complementing the current business specialism in oncology and rare disease. Eric Lund, founder of MedSource and the primary shareholder, will continue in his current role as President of MedSource after the acquisition.

	Book value £000s	Fair value adjustments £000s	Provisional valuation £000s
Intangible assets	475	5,704	6,179
Property, plant and equipment	89	–	89
Right-of-use assets	–	131	131
Total non-current assets	**564**	**5,835**	**6,399**
Trade and other receivables	3,062	–	3,062
Cash and cash equivalents	4,346	–	4,346
Current assets	**7,408**	**–**	**7,408**
Trade and other payables	(2,348)	–	(2,348)
Lease liability	–	(131)	(131)

Deferred Revenue	(6,528)	–	(6,528)
Deferred tax liability	–	(1,607)	(1,607)
Financial liabilities	**(8,876)**	**(1,738)**	**(10,614)**
Total identifiable net assets	**(904)**	**4,097**	**3,193**
Goodwill	11,347	(4,097)	7,250
Total consideration	**10,443**	–	**10,443**
Satisfied by:			
Cash			9,092
Equity			1,351
Total consideration			**10,443**
Net cash outflow arising on acquisition			
Cash consideration			8,764
Less: cash and cash equivalent balances acquired			(4,346)
Add: working capital adjustment			328
Transaction expenses			825
			5,571

The fair value of intangible assets relates to customer relationships of £4,077,000, contracted orderbook of £1,186,000 and brand of £916,000.

The Group incurred acquisition related cost of £825,000 related to due diligence and legal activities in the year ended 31 December 2020. These costs have been included in acquisition costs within selling and administrative expenses in the Group's consolidated income statement.

Ergomed plc has a 12-month measurement period from the date of acquisition, and therefore the measurement period will end on 11 December 2021.