Cello Health PLC

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Cello's two parts add up to a very valuable whole

The near 70% rise in the share price of Cello Group (LON:CLL) in the last year suggests the market is finally tuning into its potential.

However, sensible analysis of the healthcare marketing specialist reveals this may just be the start.

At eight times EBITDA (underlying earnings), the stock trades at a significant discount to its US peers, which tend to change hands for upwards of 20 times EBITDA, while deal multiples in the private sector can be even higher.

Before assessing Cello's future trajectory, it is probably worth taking a closer look at what it actually does.

It is essentially a business of two parts: Cello Health and Signal.

The former, accounting for 50% of turnover and 65% of operating profit, provides science-led market intelligence and advice for the pharmaceuticals and biotechnology industries.

Chief executive Mark Scott puts the proposition very succinctly: "We gather lots of primary data, put together and facilitate business.

"We are more than a market research business; we are a consultancy."

The unit is split primarily between the UK and US and included on its client roster are some of the biggest names in the pharmaceuticals and biotechnology industries.

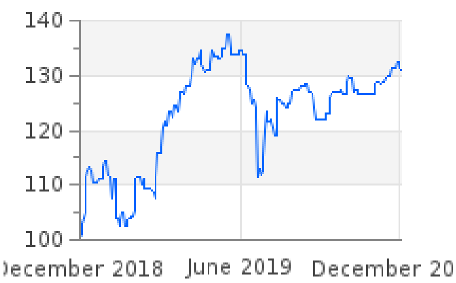
Signal, meanwhile, is domestically focused and provides "web-centred marketing solutions for big corporates" in the technology, gaming, retail, consumer goods and charities sectors.

Scott says the key to maintaining and building both businesses is careful management of existing staff and recruitment of new human capital.

Price: 130.5

Market Cap: £138.63 m

1 Year Share Price Graph



Share Information

Code:		CLL
Listing:		AIM
52 week	**High**	**Low**
	140.065	**98**
Sector:		**Pharma & Biotech**
Website:		**cellohealth.com**

Company Synopsis:
We are a global healthcare-focused advisory group comprised of a set of leading clinical, commercial advisory and digital delivery capabilities. We currently service 24 of the top 25 pharmaceutical clients globally as well as a wide range of biotech, diagnostics, devices and other key non-healthcare clients.

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This is why Cello operates a John Lewis-style share scheme that helps motivate and retain employees and around 45% of the equity is held by key workers and management.

"We run pretty conservatively and the focus is on maintaining the culture we have developed," says Scott.

"We have a stable client base. There are high entry barriers, and unless you really mess up the client tends to want to keep on going.

"The challenge is finding and retaining good people. A lot of the battle is at the HR level."

Cello is something of a novelty for AIM in that it is profitable and pays a dividend.

It will also be debt free by the end of the year assuming no debt funded acquisitions in the meantime.

A recent trading update revealed it is firing on all cylinders and "well ahead" of the same period last year.

Analysts estimate organic growth at around 10% a year, while the pharmaceutical sector is expanding at 4-5%.

The downside, is seems, is the investment community doesn't particularly understand what it does.

"There is also a lot of cynicism about people businesses like ours," Scott adds.

This begs the question: why not list Cello in the US where there is a greater understanding and liking of its business model?

The simple answer is with a market capitalisation of £76mln it is just too small to join the NASDAQ technology exchange.

The entry level is £146mln, or US$250mln – which gives the group something to aim at.

As the share price rise reveals, investors here in the UK are starting to warm to Cello.

The group has a strong track record for organic growth, but it has in the past augmented this with bolt-on acquisitions.

Cello has a £26mln debt facility, though Scott and the team are in no rush to spend this.

And when they do, there are a few simple but effective rules they adhere to.

"We are cautious and careful, don't want to overpay and definitely don't want ballooning deferred payments," the Cello CEO explains.

"We definitely want to avoid dilution. We don't want to issue shares unless it is at a very juicy price."

Broker Cenkos is predicting the group will post adjusted EBITDA of £11.7mln this year, up from £10.5mln, rising to £12.3mln in 2015.

It points out Cello currently trades on 11 times full-year earnings, falling to 10.5 times the following year.

"With strong momentum in both Health and Signal businesses going into a historically slightly second-half weighted business; an increasingly supportive economic environment for marketing; and potential for growth to be seen from previous start-up initiatives and recent acquisitions, we believe current pricing does not adequately reflect the opportunities that lie ahead for Cello," Cenkos says.

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