27 September 2022

Instem plc
("Instem", the "Company" or the "Group")

Half Year Report

Instem plc (AIM: INS.L), a leading provider of IT solutions to the global life sciences market, announces its unaudited half year results for the six months ended 30 June 2022.

Financial Highlights

- Total Group revenues increased by 39% to £27.6m (H1 2021: £19.8m)
    - Recurring revenue (annual support and SaaS) increased 62% to £16.0m (H1 2021: £9.9m) with SaaS increasing 29% to £6.3m (H1 2021: £4.9m)
    - Constant currency revenue growth was 34%
    - Annual Recurring Revenue ("ARR") of £32.0m at 1 July 2022
- Adjusted EBITDA* increased 8% to £4.5m (H1 2021: £4.2m), representing 16.3% (H1 2021: 21.0%) of revenue
- Profit before tax of £1.9m (H1 2021: £1.2m)
- Adjusted profit before tax** of £3.2m (H1 2021: £3.2m, as restated)
- Basic and diluted earnings per share of 5.7p (H1 2021: 4.8p) and 5.5p (H1 2021: 4.6p)
- Adjusted basic and diluted earnings per share** of 11.3p (H1 2021: 14.3p, as restated) and 10.8p (H1 2021: 13.6p, as restated)
- Net cash generated from operations of £1.8m (H1 2021 £4.1m)
- Gross cash balance as at 30 June 2022 of £10.3m (H1 2021: £17.9m)

**Earnings before interest, tax, depreciation, amortisation and non-recurring items (non recurring items are legal costs and increased settlement provision relating to an historical contract dispute plus acquisition costs, exceptional share based payment charge and US government loan forgiveness)*
*** After adjusting for the effect of foreign currency exchange and the unwinding of the finance liability included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions*

Operational Highlights

- First reporting period with full contribution from The Edge Software Consultancy Ltd ("The Edge"), d-Wise Technologies, Inc ("d-Wise") and PDS Pathology Data Systems Ltd ("PDS") (the "Acquisitions"), with integration almost finalised
    - Increasing recurring revenues and visibility
    - Strengthening relationships with clients
    - Increasing routes to market and cross selling opportunities
- Earn-outs met in full for d-Wise and The Edge (PDS has no earn out provision)
- New banking facility finalised with HSBC of up to £20m, £10m of which is committed and none currently utilised

Post-period end Highlights

- Won largest ever contract
    - $12m five-year agreement with global CRO, lead client for new Aspire software solution
    - Significant future SaaS revenues with long-term client
    - Further expands the Group's global coverage and end-to-end solutions

- Full and final settlement of historical contractual licence dispute
    - No impact on current operations; dispute arose in 2017
    - Settled at €1.48m (£1.3m), offset by insurance contribution of €450k (£400k), net £0.9m
    - Settlement provision increased by £0.65m during H1 2022 to£0.9m as a non-recurring charge
    - Cash payment of £0.9m due in October 2022

Outlook

- Our ability to increase revenue per client, add new clients as well as service larger contracts underpins management's growth expectations in the current period and beyond
- The market backdrop remains favourable, and we continue to see high demand for our products and solutions

Phil Reason, CEO, commented: *"The combination of continued underlying growth and the contribution of the Acquisitions meant that this was another strong period for the Company.*

"Our ability to increase revenues per client, add new clients as well as to increase recurring revenues underpins management's growth expectations in the current period and beyond. The market backdrop remains favourable and we continue to see high demand for our products and solutions. While, as previously flagged, essential salary inflation created a lag in H1 operating profit growth, this will be less pronounced in H2 as the price rises we have implemented take effect. Slower than expected consulting and service revenue growth is expected to be offset by stronger growth in higher margin software business, resulting in full year profit performance in line with market expectations[1].

The Acquisitions are now substantially integrated and we expect to see further benefit to the enlarged Group as we convert our order backlog. We will continue to focus on organic and acquisitive growth opportunities with a view to further leveraging our business model and strong industry standing."

1. *The Board understands that consensus market expectation adjusted profit before tax is £7.8m*

Analyst Presentation: 11:30 today
Management will be hosting a presentation via web conference today at 11:30. Analysts wishing to join should register their interest by emailing instem@walbrookpr.com or by telephoning 020 7933 8780.

Investor Presentation: 16:30 today
Management will be providing a presentation and hosting an Investor Q&A session on the results and future prospects today at 16:30, through the digital platform Investor Meet Company. Investors can sign up for free and add to attend the presentation via the following link https://www.investormeetcompany.com/instem-plc/register-investor. Questions can be submitted pre-event and at any time during the live presentation via the Investor Meet Company Platform.

For further information, please contact:

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About Instem

Instem is a leading provider of IT solutions & services to the life sciences market delivering compelling solutions for Study Management and Data Collection; Regulatory Solutions for Submissions and Compliance; and Informatics-based Insight Generation.

Instem solutions are in use by over 700 customers worldwide, including all the largest 25 pharmaceutical companies, enabling clients to bring life enhancing products to market faster. Instem's portfolio of software solutions increases client productivity by automating study-related processes while offering the unique ability to generate new knowledge through the extraction and harmonisation of actionable scientific information.

Instem products and services address aspects of the entire drug development value chain, from discovery through to market launch. Management estimate that over 50% of all drugs on the market have been through some part of Instem's platform at some stage of their development.

To learn more about Instem solutions and its mission, please visit www.instem.com

Chairman's Statement

This period has been of considerable strategic importance for the Company as we substantially completed the integration of the three recent Acquisitions. This is the first set of results to include their full contribution. The strong performance of the significantly enlarged Group emphasises the benefits of our acquisition strategy - with our increased scale and product range strengthening our growth ambitions whilst helping to reduce susceptibility to ongoing market fluctuations.

Having grown our reach, routes to market and ability to cross sell, our combined operations are increasingly setting us apart from our competitors.

Earn-Outs

I am delighted to confirm that the earn-out periods for d-wise and The Edge have now completed, with both earn-out targets met in full. PDS has no earn-out arrangement.

Financial Performance

While, as previously reported, there was minimal disruption to revenue in the challenging macro-economic environment, there were headwinds, mainly due to inflationary pressures, which led to essential increases in remuneration for staff across the Company. As stated earlier in the year, we successfully instigated a number of price increases to mitigate the impact of these additional costs.

We have seen a change in the revenue mix during the period with greater increases in higher margin recurring SaaS and annual support fees and lower growth in services. While service revenue is picking up again in the second half, we anticipate that software-related revenues will be the primary driver of growth in the full year.

Our performance during the period was largely in line with the Board's expectations, despite the above short-term issues, while importantly we established foundations for continued growth and margin improvement.

Performance in the Period for some of our key financial metrics is summarised below:

- Revenue increased 39%
- SaaS Revenue increased 29%
- Recurring Revenue increased 62%
- Adjusted EBITDA increased 8%

Looking Forwards

As I noted earlier, our acquisition strategy is expected to extend the reach of the Company, enabling us to take advantage of additional growth opportunities as they arise. In this regard, we are extremely encouraged by the recently announced post-period end, $12m contract win – our largest ever contract. In this we will be supporting a large contract research organisation ("CRO"), with over 2,000 users worldwide, in its clinical trial analysis as it adopts our new Aspire software solution. This is being supplied by Company's Clinical Trial Acceleration business unit, formed following the acquisition of d-Wise. We believe that over the next 3-5 years we can achieve compound annual organic growth of 10% and, with further acquisitions, have the potential to more than double our 2022 revenue (i.e. reaching total revenue of £120m+).

Our customers are continuing to experience increased demand for their services and, as a result, we continue to see strong demand for our solutions across the drug development lifecycle. We have a healthy and growing order book, increased scale of operations and increased levels of visibility resulting from our SaaS conversion program. We remain confident about the future performance of the business.

David Gare
Non-Executive Chairman
27 September 2022

Chief Executive's Report

Strategic Development

The Group has continued to pursue its mission to help our clients radically reduce the cost and time of life sciences research and development through data driven optimisation of traditional non-clinical and clinical study processes, ultimately replacing many of those studies with "in silico" alternatives such as predictive analytics, simulation and modelling. The strategy is based on leveraging trusted client and regulatory relationships and our intimate understanding of complex scientific data, established by providing a broad portfolio of market leading IT solutions that optimise today's life sciences R&D processes, from early discovery to late-stage clinical trials.

The increasing SaaS deployment of an expanded suite of solutions ensures that we are in a stronger position to help our clients aggregate and leverage a broader and deeper set of information while increasing recurring revenue and visibility.

Group growth was supported by a robust underlying life sciences research and development market as we experienced demand for our solutions across the entire drug development life cycle. We further embedded operations from the Acquisitions, positioning the enlarged Group to take advantage of the positive prevailing market conditions.

Our larger suite of solutions and broader market reach provides further cross-selling opportunities to increase revenues from existing and new clients. This is further enhanced by our capacity to service larger contracts and provide a one-stop shop for clients seeking to reduce and simplify their supplier network.

Having previously integrated areas such as Finance, People & Culture, Information Systems and Marketing from the Acquisitions, we have been able to complete the more comprehensive integration of larger teams, such as those in Software Development, Out-Sourced Services, SaaS Delivery and Customer Implementations / Support. This is already starting to generate economies of scale, the ability to standardise on best practice processes and opportunities to target highly skilled resources at the most compelling business opportunities.

A combined Governance, Risk and Compliance team is now in place, overseeing global implementation and compliance with standards such as ISO 9001 Quality Management, ISO 27001 Information Security Management, industry regulation such as Good Laboratory / Clinical Practice ("GLP" and "GCP") and the increasing importance of Environmental, Social and Governance ("ESG") practices, standards and regulation, which is increasingly important to all of our stakeholders.

Most recently, we have been able to liberate senior management bandwidth from the enlarged team to make three new US-based appointments:

- VP Investor Relations, to support increased investor engagement following the appointment of Stifel as joint broker and an active programme intended to broaden institutional shareholding in North America and mainland Europe
- VP Corporate Development, to support our ability to target a growing landscape of acquisition targets, many of which are based in North America
- VP Strategic Partnerships, to ensure we maximise the benefits to Instem and a growing list of existing partners while ensuring we optimise our ability to evaluate, consummate and manage future additions. These relationships help differentiate Instem in the market and have previously led to acquisition opportunities.

Market Review

The market backdrop continues to be favourable for the Group given global population growth and life expectancy underpinning increased demand for successful innovation in life sciences. Increasing amounts of money are being invested in the biotech industry with the pharmaceuticals sector investing heavily in drug development, underpinning a strong pipeline for Instem.

In the pharmaceutical industry, which represents the largest proportion of Instem's revenue, we refer again to the Pharma R&D Annual Review, the 2022 version of which was released by Pharma Intelligence in March this year. This report shows that the industry grew strongly in 2021 with an 8.2% increase (2020: 4.8%) in the total number of drugs in the regulatory stages of global R&D, continuing a multi-year growth trend that shows no sign of abating. Most relevant to Instem are the increase in the number of drugs at the preclinical (or non-clinical) phase of drug development of 11.0% (2020: 6.0%) and clinical phases 1-3 where there was an 8.3% increase (2020: 3.6%), as these areas account for much of our business.

The Company works with most of the world's leading public and private CROs and tracks their business performance as this provides additional insight into the health of the underlying market and almost all of those companies have recently reported strong underlying growth and very limited impact of wider macro-economic headwinds.

Business Performance

Study Management

Most of our study management solutions address areas where technology adoption is mature and Instem enjoys significant market penetration. However, with global R&D study volume steadily increasing, existing clients have continued to expand numbers of users for most of our study management solutions, while adding further products from our solution portfolio. This is the area with the greatest opportunity to transition existing clients from on-premise to SaaS deployment. While this transition has slowed over the last two years, as clients concentrated on advancing Covid vaccines and therapies, we are now seeing clients refocussing on SaaS conversion projects.

This area generates a significant proportion of our recurring revenue, so client retention is critical and once again this has been exceptionally strong. Clients have generally been understanding of the inflationary pressures that are impacting Instem, particularly salary costs, in what remains a very competitive labour market, and have been accepting of material price increases as recurring contracts renew. As such, the Board remains confident that margins can be protected through this phase.

Regulatory Solutions

The majority of our clients and revenue in this area are associated with our software and out-sourced services to create, visualise and share information using Food & Drug Administration ("FDA") mandated format SEND (Standard for the Exchange of Non-clinical Data). The acquisition of PDS in September 2021, number two in the market behind Instem in SEND out-sourced services, has led to Instem taking substantial market share of new and repeat business, with good growth in new business bookings. However, revenue conversion (particularly in Q1 2022) was at a slower rate than in recent periods as client studies failed to deliver as many data sets ready for SEND conversion as they had anticipated. We are now seeing an improving flow of data for conversion and expect a stronger revenue performance in Q4 2022 and beyond.

Our out-sourced services productivity was also negatively impacted by a significant change in the commercial terms to use a widely adopted third-party product that helps check SEND packages for conformance against the standard. Along with many other organisations, Instem stopped using the third-party product and has performed the equivalent checks manually. In parallel we have been developing our own automated checking software, which will be implemented by our out-sourced services team in Q4 2022. This will be timely as we work through a growing order book for SEND conversions.

In Silico Solutions

Our Leadscope predictive analytics solutions which provide an in silico assessment of the potential safety liabilities associated with a specific chemical structure have continued to grow strongly in the period. New predictive assays, developed in collaboration with industry and regulatory partners, have been licensed and deployed, and work continues to add new in silico models, some of which will replace animal-based studies.

Our introduction of an out-sourced alternative to clients licensing our software is starting to build revenue momentum, and work is progressing well on a collaborative European Medicine Agency funded research project to investigate the mutagenicity of different classes of N-nitrosamines (“NAs”). Nitrosamines have become a focus of significant concern for the global pharmaceutical industry, and we are anticipating that a new NA-related in silico model will be created as we contribute to this important research project.

Our KnowledgeScan target safety assessment business, having slowed through the height of the Covid crisis, has picked up well in Q2 2022 and continues to grow strongly in Q3 as client scientists have returned to their laboratories and have once again outsourced this work.

Clinical Trial Acceleration

The highlight in this area is undoubtedly the post period end award of Instem’s largest ever contract, a $12 million multi-year SaaS project for a large CRO. As detailed in the 2 September 2022 RNS, this project will create an early adopter and key reference client for our new Aspire™ statistical computing environment (“SCE”). Our Clinical Trial Acceleration team are global leaders in this market, providing many small to medium sized CROs and pharma companies with a productised SCE and the largest companies with custom SCE solutions. Aspire is expected to provide a transformational product-based alternative for the larger clients and to replace large, resource intensive consulting projects with a standardised SaaS solution.

With several large consulting projects completing in the period and other large opportunities taking longer through the sales cycle, growth in consulting revenue will be modest in 2022; a scenario that will diminish in frequency and impact as a consequence of the growing annuity revenue stream arising from Aspire.

Outlook

The combination of continued underlying growth and the contribution of the Acquisitions meant that this was another strong period for the Company.

Our ability to increase revenue per client, add new clients as well as service larger contracts underpins the Board’s growth expectations in the current period and beyond. The market backdrop remains favourable, and we continue to see high demand for our products and solutions. While, as previously flagged, essential salary inflation created a lag in H1 operating profit growth, this will be less pronounced in H2 as the price rises we have implemented take effect. Slower than expected consulting and service revenue growth is expected to be offset by stronger growth in higher margin software business resulting in full year profit performance in line with market expectations[1].

The Acquisitions are now substantially integrated, and we expect to see further benefit to the enlarged Group as we convert our order backlog. We will continue to focus on organic and acquisitive growth opportunities with a view to further leveraging our business model and strong industry standing.

Phil Reason
Chief Executive Officer
27 September 2022

1. The Board understands that consensus market expectation adjusted profit before tax is £7.8m.

Financial Review

Key Performance Indicators (KPIs)

The directors review monthly revenue and operating costs to ensure that sufficient cash resources are available for the working capital requirements of the Group.

The primary KPIs at 30 June 2022 were:

	6 months to 30 June 2022 £000	6 months to 30 June 2021 £000	% Change (H1 2021 to H1 2022)	12 months to 31 Dec 2021 £000
Total revenue	**27,604**	19,826	39%	46,017
Recurring revenue	**15,973**	9,889	62%	24,083
Recurring revenue as a percentage of total revenue	**58%**	50%	-	52%
Annual recurring revenue	**32,124**	n/a	-	28,741
Adjusted EBITDA	**4,500**	4,161	8%	8,250
Adjusted EBITDA margin %	**16.3%**	21%	-470bps	17.9%
Cash and cash equivalents	**10,280**	17,850	-42%	15,021
Operating profit after non-recurring items	**1,568**	1,921	-18%	4,098

In addition, certain non-financial KPIs are periodically reviewed and assessed, including customer and staff retention rates.

Instem's revenue model consists of perpetual licence income with annual support and maintenance contracts, professional fees, technology enabled outsourced services fees, SaaS subscriptions and consulting services fees.

Total revenues in the period increased by 39% to £27.6m (H1 2021: £19.8m) with constant currency revenue growth at 34%. Recurring revenue, derived from support & maintenance contracts and SaaS subscriptions, increased in the period by 62% to £16.0m (H1 2021: £9.9m). Recurring revenue as a percentage of total revenue was 58% (H1 2021: 50%). In absolute terms, recurring revenue increased over the prior year by £6.1m. Revenue from technology enabled outsourced services increased by 42% to £3.7m (H1 2021: £2.6m).

Operating expenses increased by 47% in the period reflecting the full year cost of the 2021 acquisitions, ongoing investment in operational teams and the increase in the rate of inflation, primarily in salaries.

Adjusted earnings before interest, tax, depreciation, amortisation, and non-recurring items (Adjusted EBITDA) increased by 4% to £4.5m (H1 2021: £4.2m). For this measure of earnings, the margin as a percentage of revenue decreased in the period to 16.3% from 21% in H1 2021, due to the impact of the lower than Instem average margins of d-Wise and PDS and abnormally high salary cost inflation across the Group from January 2022. The average number of employees (including non-executive directors) for the period was 485 globally, an increase of 49 since December 2021.

Non-recurring costs in the period were £0.8m (H1 2021: £1.6m), consisting of an £0.7m increase of the provision associated with an historical contract dispute (see Subsequent Events section below for more detail) and £0.1m for integration costs relating to the 2021 acquisitions of The Edge, d-Wise and PDS.

The reported profit before tax for the period was £1.9m (H1 2021: £1.2m). The calculation for the adjusted profit before tax was changed in 2022 to include two additional components; the effect of foreign currency exchange and the unwinding of the financial liability included in finance income/(costs). Those two components have been included to better reflect the normalised, ongoing operations of the Group. Adjusted profit before tax (i.e. after adjusting for the effect of foreign currency exchange and the unwind of the finance liability included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions) was £3.2m (H1 2021: £3.2m, restated).

The Group operates internationally and is exposed to foreign currency risk on transactions denominated in a currency other than the functional currency and on the translation of the statement of financial position and statement of comprehensive income of foreign operations into sterling. The currency that gave rise to this risk in 2022 was primarily from realised US dollars transactions. In 2022, the revenue and Adjusted EBITDA growth on a constant currency basis, excluding the foreign exchange exposure was 34% and 3% respectively. The foreign exchange gain recorded during H1 2022 was £0.94m (H1 2021: £0.26m loss), which is composed of unrealised gains/losses from translation of intercompany balances. The Group seeks to settle those intercompany balances whenever possible.

The Group continues to invest in its product portfolio. Development costs incurred in the period were £3.7m (H1 2021: £2.3m), of which £1.4m (H1 2021: £1.0m) was capitalised. The Group has a development process in place and is committed to ensure its own technology continues to evolve to meet client needs.

Basic and diluted earnings per share calculated on an adjusted basis were 11.3p and 10.8p respectively (H1 2021: 14.3p basic and 13.6p diluted, as restated). The reported basic and diluted earnings per share were 5.7p and 5.5p respectively (H1 2021: 4.8p basic and 4.6p diluted).

The Group cash generated from operations for the period was £1.8m (H1 2021: £4.1m), a reduction from prior year primarily due to more cash tied up in working capital. The deferred and contingent consideration payments of £4.5m which related to the 2021 acquisitions were part of the net cash used in financing activities. The net cash used in investing activities includes £1.4m (H1 2021: £1.0m) from the capitalisation of software development. As a result of the above the gross cash balance decreased from £15.0m at 31 December 2021 to £10.3m at 30 June 2022.

The remaining financial obligations associated with The Edge, d-Wise and PDS acquisitions for H2 2022 and 2023 are deferred and contingent consideration payments of £4.2m and £2.2m respectively in cash. The contingent consideration provision reflected management's estimate that the entities would achieve their profitability targets and that the full amount of contingent consideration would be paid. This was confirmed in the period.

Intangible assets increased from the 30 June 2021 to the 30 June 2022 interim results due to the PDS acquisition completed on 1 September 2021 and an element of deferred consideration £3.2m (US$ 4.3m) relating to the d-Wise acquisition, which was originally recognised in H1 2021 as employee remuneration through the Statement of Comprehensive Income. As part of the procedures performed at the 31 December 2021 year end the accounting treatment was reassessed and it was concluded that no substantive employment link existed. Appropriate adjustments were made to the results in the year ended 31 December 2021 to include the deferred consideration as part of the cost of business combination. Any employment remuneration expense recognised in the interim 2021 results was reversed in H2 2021. Additionally, in 2022 the Goodwill in d-wise has increased by £0.05m (US$0.06m) due to a change in the contingent consideration paid.

The deficit on the Group's legacy defined benefit pension scheme was £1.3m at 30 June 2022 (H1 2021: £2.7m) having improved from a deficit of £2.0m at 31 December 2021. Liabilities decreased from £16.0m at 31 December 2021 to £12.5m at 30 June 2022 and Plan Assets have decreased from £14.0m at 31 December 2021 to £11.2m at 30 June 2022. The scheme liabilities fell in value due to significantly higher discount rates, which reflect the rise in the yields on corporate bonds over the period and contributions paid by the Group during the period have caused the deficit to reduce.

These reductions in the scheme deficit were offset by investment returns that were materially lower than expected, as well as higher inflation assumptions over the period that led to a decrease in the value of the Scheme's assets.

Movements in share capital and the share premium, merger rand share based payment reserves reflect the exercise of share options during the period, the fair value of share options granted being charged to the Statement of Comprehensive Income and the issue of shares paid in lieu of cash as deferred consideration for d-Wise. The share capital of Instem at 30 June 2022 was 22,676,808 ordinary shares of 10p each (note 12).

In line with previous periods and given our policy of retaining cash within the business to capitalise on available growth opportunities, the Board has not recommended the payment of a dividend.

Principal risks and uncertainties

The principal risk and uncertainties that management have made for the six months ended 30 June 2022 remained unchanged with those reported in the annual statutory financial statement for the year ended 31 December 2021.

The current weak economic conditions, spiralling cost inflation, the Ukrainian conflict and the threat of a global recession, compounded by the UK's departure from the European Union ("EU"), may disrupt or negatively impact the Group's operations and associated revenues. The Group has no clients or operations located in either Ukraine or Russia. The Board is actively monitoring the developing situation and is mindful of the potential for escalation. The impact of Covid-19 remains a challenge, particularly in China where the zero-tolerance approach by the Chinese government and consequent widespread lockdowns has impacted the Group's ability to implement its solutions on site for some clients in a timely way.

However, it is not apparent that this has caused any material revenue or client loss and the Group continues to work closely with its clients to service their needs.

The Group operates internationally and is exposed to foreign currency risks on transactions denominated in a currency other than the functional currency. The main currency giving rise to this risk is the US dollar. Whilst weak sterling against the US dollar is beneficial to revenue, our substantial US cost base provides a natural hedge so that a strengthening USD is only modestly beneficial to profit.

Finally, any significant inflationary increases would quickly impact the Group's cost base as experienced during the period with salary increases across the Group. The Group has taken steps to mitigate these increases with corresponding increases in sales prices wherever possible but there will be a time lag before the full impact of these increases is reflected in the Group's results.

The Group seeks to mitigate exposure to all forms of risk through a combination of regular performance review and a comprehensive insurance programme. Additionally, the Group has a significant proportion of recurring revenue (circa 58% of total) from annual support & maintenance and SaaS contracts from a well-established global customer base. Consequently, the Group ensures that it maintains a diversified portfolio in terms of customers, revenue mix, geography and markets.

Subsequent events

No adjusting events have occurred between the 30 June 2022 reporting date and the date of approval of this Interim Report.

A full and final settlement has been negotiated and agreed with a former customer regarding an historical contractual licence dispute that arose in 2017. Instem has agreed to pay €1.48m (approx. £1.3m), of which its insurer has agreed to contribute €0.45m (approx. £0.4m) resulting in a net payment due of approx. €1.0m (£0.9m). This will be made in October 2022.

As previously announced, the Company had created a provision of £0.25m in respect of the dispute and this was increased in the period by £0.64m, resulting in a provision at 30 June 2022 of approx. £0.9m. The increase in the provision was treated as a non-recurring, exceptional charge in the half year ended 30 June 2022.

The issue involved does not affect the ongoing operations of the Group.

Alternative performance measures

This report contains certain financial alternative performance measures ("APMs") that are not defined or recognised under IFRS but are presented to provide readers with additional financial information that is evaluated by management and investors in assessing the performance of the Group. This additional information presented is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other companies.

The table below provides the data for certain performance measures mentioned above:

	30 Jun 2022	30 Jun 2021	31 Dec 2021
	£000	£000	£000
Annual support fees	**9,716**	4,988	14,378

SaaS subscription and support fees	**6,257**	4,901	9,704
Recurring revenue	**15,973**	9,889	24,082
Licence fees	**2,803**	3,086	4,597
Professional services	**1,486**	1,509	3,651
Technology enabled outsourced services	**3,738**	2,594	6,378
Consultancy services	**3,604**	2,748	7,309
Total revenue	**27,604**	19,826	46,017

Recurring revenue is the revenue that repeats annually under contractual arrangements. It highlights how much of the Group's total revenue is secured and anticipated to repeat in future periods, providing a measure of the financial strength of the business.

	30 Jun 2022	30 Jun 2021	31 Dec 2021
	£000	£000	£000
Annual Recurring Revenue	**32,124**	-	**28,741**

Annual recurring revenue is revenue that annually repeats under contractual arrangements and consists of Software as a Service (SaaS) revenue together with annual support and maintenance fees.

	30 Jun 2022	30 Jun 2021	31 Dec 2021
	£000	£000	£000
EBITDA (before non recurring items)	**3,731**	3,344	7,769
Non recurring cost (see note 6)	**769**	1,622	1,286
Non recurring income (see note 6)	**-**	(805)	(805)
Adjusted EBITDA	**4,500**	4,161	8,250

Adjusted EBITDA is EBITDA plus non-recurring items (as set out in note 6). The same adjustments are also made in determining the adjusted EBITDA margin. Items are only classified as non-recurring or exceptional due to their nature or size and the Board considers that this metric provides the best measure of assessing underlying trading performance.

	30 Jun 2022	30 Jun 2021 (as restated)	30 Jun 2021 (as originally reported)	31 Dec 2021 (as restated)	31 Dec 2021 (as originally reported)
	£000	£000	£000	£000	£000
Profit before tax	**1,918**	1,177	1,177	2,984	2,984
Amortisation of intangibles arising on acquisition	**977**	599	599	1,563	1,563
Non recurring cost (see note 6)	**769**	1,622	1,622	1,286	1,286
Non recurring income (see note 6)	**-**	(805)	(805)	(805)	(805)
Intercompany foreign exchange (gain)/loss	**-**	-	268	-	(18)
Foreign currency exchange (gain)/ loss	**(944)**	258	-	44	-
Unwinding discount on deferred consideration	**455**	318	-	867	-
Adjusted profit before tax	**3,175**	3,169	2,861	5,939	5,010

The calculation for the adjusted profit before tax was changed in H1 2022 compared with prior periods by including two additional components, the effect of the foreign currency exchange and the unwinding of the finance liability included in finance income/(costs). Those two components have been included as adjustments as they do not affect the ongoing operations of the Group.

Adjusted profit before tax is after adjusting for the effect of foreign currency exchange and the unwinding of the finance liability included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions. The same adjustments are also made in determining adjusted earnings per share ("EPS"). The Board considers this adjusted measure of operating profit provides the best metric of assessing underlying performance.

	30 Jun 2022	30 Jun 2021 (as restated)	30 Jun 2021 (as originally reported)	31 Dec 2021 (as restated)	31 Dec 2021 (as originally reported)
Weighted average number of shares (000's)	23,547	22,168	22,168	22,719	22,719
Adjusted diluted earnings per share	10.8p	13.6p	12.2p	20.4p	16.3p

	30 Jun 2022	30 Jun 2021	31 Dec 2021
	£000	£000	£000
Cash at bank	**10,280**	26,848	24,019
Bank overdraft	**-**	(8,998)	(8,998)
Cash balance	**10,280**	17,850	15,021

Nigel Goldsmith
Chief Financial Officer
27 September 2022

Instem plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Note	**Unaudited Six months ended 30 June 2022 £000**	Unaudited Six months ended 30 June 2021 £000	Audited Year ended 31 December 2021 £000
REVENUE	4	**27,604**	19,826	46,017
Employee benefits expense		**(14,676)**	(11,504)	(26,918)
Other expenses		**(8,428)**	(4,161)	(10,491)
Net impairment loss on financial assets		**-**	-	(358)
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING COSTS (ADJUSTED EBITDA)		**4,500**	4,161	8,250
Depreciation		**(168)**	(123)	(312)
Amortisation of intangibles arising on acquisition		**(977)**	(599)	(1,563)
Amortisation of internally generated intangibles		**(469)**	(397)	(851)
Amortisation of right of use assets		**(549)**	(304)	(945)
OPERATING PROFIT BEFORE NON-RECURRING COSTS		**2,337**	2,738	4,579
Non-recurring income	6	**-**	805	805
Non-recurring costs	6	**(769)**	(1,622)	(1,286)
OPERATING PROFIT AFTER NON-RECURRING COSTS		**1,568**	1,921	4,098
Finance income	7	**1,030**	22	30
Finance costs	8	**(680)**	(766)	(1,144)
PROFIT BEFORE TAXATION		**1,918**	1,177	2,984
Taxation		**(631)**	(154)	(1,306)
PROFIT FOR THE PERIOD		**1,287**	1,023	1,678
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit and loss account				
Actuarial gain on retirement benefit obligations		**382**	785	1,375
Deferred tax on actuarial gain & loss		**(96)**	(149)	(140)
Deferred tax on share options		**-**	-	-
		286	636	1,235
Items that may be reclassified to profit and loss account:				
Exchange differences on translating foreign operations		**(1,216)**	24	(294)
OTHER COMPREHENSIVE (EXPENSE)/ INCOME FOR THE PERIOD		**(930)**	660	941
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**354**	1,683	2,619
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**1,287**	1,023	1,678
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**354**	1,683	2,619
Earnings per share from continuing operations				
- Basic	5	**5.7p**	4.8p	7.8p
- Diluted	5	**5.5p**	4.6p	7.4p

Instem plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Note	Unaudited 30 June 2022 £000	Unaudited 30 June 2021 £000	Audited 31 December 2021 £000
ASSETS				
NON-CURRENT ASSETS				
Intangible assets		**58,381**	**43,098**	58,311
Property, plant and equipment		**552**	**637**	592
Right of use assets		**1,542**	**2,110**	2,077
Finance lease receivables		**69**	**105**	85
TOTAL NON-CURRENT ASSETS		**60,544**	**45,950**	61,065
CURRENT ASSETS				
Inventories		**99**	**54**	64
Trade and other receivables		**15,224**	**12,250**	14,852
Finance lease receivables		**51**	**42**	44
Tax receivable		**15**	**648**	130
Cash and cash equivalents	9	**10,280**	**17,850**	15,021
TOTAL CURRENT ASSETS		**25,669**	**30,844**	30,111
TOTAL ASSETS		**86,213**	**76,794**	91,176
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables		**4,905**	**4,055**	5,723
Deferred income		**17,672**	**14,243**	18,935
Provision for liabilities and charges	10	**885**	**-**	-
Financial liabilities	11	**6,235**	**4,515**	6,612
Lease liabilities		**935**	**1,079**	1,077
TOTAL CURRENT LIABILITIES		**30,632**	**23,892**	32,347
NON-CURRENT LIABILITIES				
Financial liabilities	11	**-**	**3,244**	4,728
Retirement benefit obligations		**1,303**	**2,729**	2,014
Provision for liabilities and charges	10	**43**	**250**	291
Lease liabilities		**858**	**1,312**	1,248
Deferred tax liabilities		**2,977**	**2,855**	3,247
TOTAL NON-CURRENT LIABILITIES		**5,181**	**10,390**	11,528
TOTAL LIABILITIES		**35,813**	**34,482**	43,875
EQUITY				
Share capital		**2,268**	**2,178**	2,219
Share premium		**28,224**	**28,191**	28,191
Merger reserve		**14,013**	**9,359**	12,104
Share based payment reserve		**3,045**	**1,447**	2,294
Translation reserve		**(1,418)**	**66**	(202)
Retained earnings		**4,268**	**1,221**	2,695
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**50,400**	**42,512**	47,301
TOTAL EQUITY AND LIABILITIES		**86,213**	**76,794**	91,176

Instem plc

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Note	**Unaudited Six months ended 30 June 2022 £000**	Unaudited Six months ended 30 June 2021 £000	Audited Year ended 31 December 2021 £000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation		**1,918**	1,177	2,984
Adjustments for:				
Depreciation		**168**	123	312
Amortisation of intangibles		**1,446**	996	2,414
Amortisation of right of use assets		**549**	304	945
Share based payment charge		**751**	517	1,061
Retirement benefit obligations		**(398)**	(380)	(530)
Finance income	7	**(1,030)**	(22)	(30)
US government loans forgiven	6	**-**	(805)	(805)
Finance costs	8	**680**	766	1,144
d-Wise acquisition cost	6	**-**	809	-
Loss on disposal of fixed assets		**-**	6	3
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL		**4,084**	3,491	7,498
Movements in working capital:				
(Increase) in inventories		**(35)**	(4)	(14)
Decrease/ (Increase) in trade and other receivables		**140**	(151)	(1,573)
(Decrease)/ Increase in trade, other payables and deferred income		**(2,995)**	746	4,432
Increase in provisions		**637**	-	-
NET CASH GENERATED FROM OPERATIONS		**1,831**	4,082	10,343
Finance income		**86**	3	6
Finance costs		**(116)**	(482)	(276)
Income taxes		**(936)**	(485)	(873)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**865**	3,118	9,200
CASH FLOWS FROM INVESTING ACTIVITIES				
Capitalisation of development costs		**(1,465)**	(922)	(2,238)
Purchase of property, plant and equipment		**(122)**	(37)	(144)
Purchase of subsidiary undertaking (net of cash acquired)		**-**	(10,567)	(14,840)
NET CASH USED IN INVESTING ACTIVITIES		**(1,587)**	(11,526)	(17,222)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital		**35**	22	22
Payment of deferred consideration		**(3,061)**	-	(277)
Payment of contingent consideration		**(1,412)**	-	-
Repayment of lease liabilities		**(587)**	(367)	(963)
Receipts from sublease of asset		**16**	22	40
Repayment of former PDS shareholder loan		**-**	-	(2,387)
NET CASH (USED)/GENERATED FROM FINANCING ACTIVITIES		**(5,009)**	(323)	(3,565)
NET (DECREASE) /INCREASE IN CASH AND CASH EQUIVALENTS		**(5,731)**	(8,731)	(11,587)
Cash and cash equivalents at start of period		**15,021**	26,724	26,724
Effect of exchange rate changes on the balance of cash held in foreign currencies		**990**	(143)	(116)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**10,280**	17,850	15,021

Instem plc
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2022

	Share capital £000	Share premium £000	Merger reserve £000	Share based payment reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2021 – (Audited)	**2,048**	**28,172**	**2,432**	**930**	**92**	**(438)**	**33,236**
Profit for the period	-	-	-	-	-	1,023	1,023
Other comprehensive income	-	-	-	-	24	636	660
Total comprehensive income	-	-	-	-	24	1,659	1,683
Shares issued	130	19	6,927	-	-	-	7,076
Share based payment	-	-	-	517	-	-	517
Balance as at 30 June 2021 (Unaudited)	**2,178**	**28,191**	**9,359**	**1,447**	**116**	**1,221**	**42,512**
Profit for the period	-	-	-	-	-	655	655
Other comprehensive (expense)/income	-	-	-	-	(318)	599	281
Total comprehensive expense	-	-	-	-	(318)	1,254	936
Shares issued	41	-	2,745	-	-	-	2,786
Share based payment	-	-	-	544	-	-	544
Deferred tax on share options	-	-	-	528	-	-	528
Nil cost option charge	-	-	-	(5)	-	-	(5)
Reserve transfer on lapse of share options	-	-	-	(25)	-	25	-
Reserve transfer on exercise of share options	-	-	-	(195)	-	195	-
Balance as at 31 December 2021 (Audited)	**2,219**	**28,191**	**12,104**	**2,294**	**(202)**	**2,695**	**47,301**
Profit for the period	-	-	-	-	-	1,287	1,287
Other comprehensive income					(1,216)	286	(930)
Total comprehensive income	-	-	-	-	(1,216)	1,573	357
Shares issued	49	33	1,909	-	-	-	1,991
Share based payment	-	-	-	751	-	-	751
Balance as at 30 June 2022 (Unaudited)	**2,268**	**28,224**	**14,013**	**3,045**	**(1,418)**	**4,505**	**50,400**

NOTES TO THE FINANCIAL INFORMATION

For the six months ended 30 June 2022

1. General information

The principal activity and nature of operations of the Group is the provision of world class IT solutions and services to the life sciences research and development market. Instem's solutions for data collection, management and analysis are used by customers worldwide to meet the needs of life science organisations for data-driven decision making leading to safer, more effective products. Instem plc is a public limited company, listed on AIM, incorporated in England and Wales under the Companies Act 2006 and domiciled in England. The registered office is Diamond Way, Stone Business Park, Stone, Staffordshire ST15 0SD, UK.

2. Basis of preparation and accounting policies

Basis of preparation

The Group's half-yearly financial information, which is unaudited, consolidates the results of Instem plc and its subsidiary undertakings made up to 30 June 2022. The Group's accounting reference date is 31 December.

The consolidated financial information is presented in Pounds Sterling (£) which is also the functional currency of the parent.

The financial information contained in this half year financial report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. It does not therefore include all of the information and disclosures required in the annual financial statements.

The financial information presented for the six months ended 30 June 2022 and 30 June 2021 is unaudited.

Instem plc's consolidated statutory accounts for the year ended 31 December 2021, prepared under IFRS, have been delivered to the Registrar of Companies. The report of the auditors on these accounts was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

Significant accounting policies

The accounting policies used in the preparation of the financial information for the six months ended 30 June 2022 are in accordance with the recognition and measurement criteria of international accounting standards and are consistent with those that will be adopted in the annual statutory financial statements for the year ending 31 December 2022.

While the financial information included has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), these financial statements do not contain sufficient information to comply with IFRS's.

Instem plc and its subsidiaries have not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK AIM listed groups, in the preparation of this half-yearly financial report.

Significant judgement and estimates

The judgements and estimations that management have made for the six months ended 30 June 2022 are consistent with those reported in the annual statutory financial statements for the year ended 31 December 2021.

Going concern

The Directors continue to adopt the going concern basis of accounting in preparing these financial statements, which the Directors believe is appropriate given the Group's trading performance and financial liquidity. At 30 June 2022, the Group had cash balances of £10.3m together with a £10.0m committed banking facility.

The Group signed a new financing arrangement on 8 April 2022, which consists of a committed facility of £10.0m with HSBC UK Bank plc to support the Group's working capital needs and its acquisition strategy, which can be extended up to £20.0m if needed, subject to further bank approval. The financial covenants have been considered in the Group cash forecast to ensure compliance. During 2022, the Group settled the bank overdraft facility of £9.0m with NatWest Bank plc.

The Group has considered a downside scenario which is also linked to the company's risks when modelling the forecast results and cash flow. The downside scenario showed that there is sufficient liquidity headroom for at least 12 months from the date of approval of these financial statements.

In the period to 30 June 2022, we have not observed any material detriment to our overall existing business or in the level of new business opportunities that are being presented to us in the markets in which we operate, and we do not anticipate any during the next 12 months.

Cash and cash equivalents
Cash and cash equivalents for the purposes of the Statement of Cash Flows comprise the net of cash and overdraft balances that are shown in the Statement of Financial Position in Cash and Cash Equivalents.

3. Segmental Reporting

The business is organised into four operating segments to better manage and report revenues; Study Management, Regulatory Solutions, In Silico Solutions and Clinical Trial Acceleration. During 2021 the fourth segment, Clinical Trial Acceleration (CTA), was established following the acquisition of d-Wise.

The Group's Chief Operating Decision Maker (CODM) is its Chief Executive who monitors the performance of these operating segments as well as deciding on the allocation of resources to them alongside the executive management team.

Historically the Group's finance systems have recorded costs centrally and have managed costs in this way. Over recent years the Group has expanded both organically and through acquisition, increasing the number of products and services offered.

During 2021 the financial system enabled more centrally recorded costs to be allocated to the individual segments and that process was further developed during 2022. The operations of the Group are managed centrally along with group-wide functions including sales, marketing, software development, information technology, customer support, human resources. The CTA and In Silico segments already bear the majority of their costs directly and as such report a lower direct contribution margin to central overheads than the other two segments. However, for the Study Management and Regulatory Solutions segments most of their operational costs are centrally managed. Consequently, these bear a higher proportion of allocated central costs resulting in a reduction in profit contribution compared with prior periods.

The expectation in future periods is to be able to allocate a higher proportion of centrally held operational costs to the individual segments as internal reporting systems evolve, thereby enabling the Board to use the segmental cost information for meaningful decision making. A higher proportion of central costs were allocated to the operating segments during H1 2022 (79% of total costs) compared with H1 2021 (40%).

The analysis provided below reflects costs directly attributable to the respective segments in H1 2022 and 2021, which are primarily third-party costs of sale and costs of allocated employees. The remaining indirect operational costs are accounted for centrally and are not allocated to specific segments.

Unaudited six months ended 30 June 2022	Study Management £000	Regulatory Solutions £000	In Silico Solutions £000	Clinical Trial Acceleration £000	**Total £000**
Total revenue	11,908	5,594	1,651	8,451	**27,604**
Direct attributable costs	(6,072)	(4,262)	(907)	(6,900)	**(18,141)**
Contribution to indirect overheads	5,836	1,332	744	1,551	**9,463**
Contribution to indirect overheads %	49%	24%	45%	18%	**34%**
Central unallocated indirect costs					**(4,963)**
Adjusted EBITDA					**4,500**

Unaudited six months ended 30 June 2021	Study Management £000	Regulatory Solutions £000	In Silico Solutions £000	Clinical Trial Acceleration £000	Total £000
Total revenue	9,798	4,686	1,487	3,855	19,826
Direct attributable costs	(2,024)	(1,113)	(771)	(2,477)	(6,385)
Contribution to indirect overheads	7,774	3,573	716	1,378	13,441
Contribution to indirect overheads %	79%	76%	48%	36%	68%
Central unallocated indirect costs					(9,280)
Adjusted EBITDA					4,161

Audited year ended 31 December 2021	Study Management £000	Regulatory Solutions £000	In Silico Solutions £000	Clinical Trials Acceleration £000	Total £000
Total revenue	20,259	10,010	3,042	12,706	46,017
Direct attributable costs	(10,388)	(6,016)	(1,681)	(11,308)	(29,393)
Contribution to indirect overheads	9,871	3,994	1,361	1,398	16,624
Contribution to indirect overheads %	49%	40%	45%	11%	36%
Central unallocated indirect costs					(8,374)
Adjusted EBITDA					8,250

4. Key performance measures

	Unaudited Six months ended 30 June 2022 £000	Unaudited Six months ended 30 June 2021 £000	Audited Year ended 31 December 2021 £000

a) Recurring revenue

Annual support fees	**9,716**	4,988	14,378
SaaS subscriptions and support fees	**6,257**	4,901	9,704
Recurring revenue	**15,973**	9,889	24,082
Licence fees	**2,803**	3,086	4,597
Professional services	**1,486**	1,509	3,651
Technology enabled outsourced services	**3,738**	2,594	6,378
Consulting services	**3,604**	2,748	7,309
Total revenue	**27,604**	19,826	46,017

b) Adjusted EBITDA

EBITDA	**3,731**	3,344	7,769
Non-recurring items (see note 6)	**769**	817	481
Adjusted EBITDA	**4,500**	4,161	8,250

Adjusted profit after tax and bank balance performance measures are detailed in notes 5 and 9.

5. *Earnings per share*

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential shares arising from the share option scheme.
The deferred and contingently issuable shares in relation to the d-Wise acquisition, which could potentially dilute basic EPS in the future, were not included in the calculation of diluted EPS as they are antidilutive for the half year and the year ended in 2021.

The dilutive impact of the share options is calculated by determining the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) minus the issue price. The number of ordinary shares that could have been acquired at their average market price during the period is ignored. However, the shares that would generate no proceeds and would not have any effect on profit or loss attributable to ordinary shares outstanding are included.

a) Basic earnings per share

	Unaudited Six months ended 30 June 2022	Unaudited Six months ended 30 June 2021	Audited Year ended 31 December 2021
Profit after tax (£000)	**1,287**	1,023	1,678
Weighted average number of shares (000's)	**22,464**	21,145	21,591
Basic earnings per share	**5.7p**	4.8p	7.8p

b) Diluted earnings per share

	Unaudited Six months ended 30 June 2022	Unaudited Six months ended 30 June 2021	Audited Year ended 31 December 2021
Profit after tax (£000)	**1,287**	1,023	1,678
Weighted average number of shares (000's)	**22,464**	21,145	21,591
Potentially dilutive shares (000's)	**1,083**	1,023	1,128
Adjusted weighted average number of shares (000's)	**23,547**	22,168	22,719
Diluted earnings per share	**5.5p**	4.6p	7.4p

c) Adjusted earnings per share

Adjusted earnings per share is calculated after adjusting for the effect of foreign currency exchange and the unwinding of the finance liability included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions.
The adjusted profit after tax has been amended in 2022 to ensure that the foreign exchange movements and exceptional business expenses do not impact and distort the earnings per share calculation.

Diluted adjusted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential shares arising from the share option scheme. The dilutive impact of the share options is calculated by determining the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

	Unaudited Six months ended 30 June 2022	Unaudited Six months ended 30 June 2021 (as restated)	Unaudited Six months ended 30 June 2021 (initially reported)	Audited Year ended 31 December 2021 (as restated)	Audited Year ended 31 December 2021 (initially reported)
Profit after tax (£000)	**1,287**	1,023	1,023	1,678	1,678
Non-recurring costs	**769**	1,622	1,622	1,286	1,286
Non- recurring income	**-**	(805)	(805)	(805)	(805)
Amortisation of acquired intangibles (£000)	**977**	599	599	1,563	1,563
Foreign exchange loss/(gain) on revaluation of intergroup balances (£000)	**-**	-	268	-	(18)
Foreign currency exchange (gain)/loss	**(944)**	258	-	44	-
Finance cost on deferred and contingent consideration (£000)	**455**	318	-	867	-
Adjusted profit after tax (£000)	**2,544**	3,169	2,707	5,939	3,704
Weighted average number of shares (000's)	**22,464**	21,145	21,145	21,591	21,591
Potentially dilutive shares (000's)	**1,083**	1,023	1,023	1,128	1,128
Adjusted weighted average number of shares (000's)	**23,547**	22,168	22,168	22,719	22,719

Adjusted basic earnings per share	**11.3p**	14.3p	12.8p	21.5p	17.2p
Adjusted diluted earnings per share	**10.8p**	13.6p	12.2p	20.4p	16.3p

6. *Non-recurring items*

	Unaudited Six months ended 30 June 2022	Unaudited Six months ended 30 June 2021	Audited Year ended 31 December 2020
Non-recurring cost	**£000**	£000	£000
Legal cost relating to historical contract dispute	**698**	62	95
Share based payment	**-**	170	175
Acquisition costs	**71**	1,390	1,019
	769	1,622	1,286

	Unaudited Six months ended 30 June 2022	Unaudited Six months ended 30 June 2021	Audited Year ended 31 December 2020
Non-recurring income	**£000**	£000	£000
US government loans forgiven	**-**	(805)	(805)
	-	(805)	(805)

Non-recurring costs include a cost provision relating to an historical contractual licence dispute, which does not affect the ongoing operations of the Group. The provision was increased by £0.64m in the period to 30 June 2022.

Non-recurring costs also include acquisition costs relating to the 2021 acquisitions of The Edge, d-Wise and PDS.

The non-recurring income of £0.8m ($1.1m) included in 2021 relates to US federal government COVID-19 support loans which were forgiven during 2021 and there are no remaining unfulfilled conditions or contingencies related to this income

7. *Finance income*

	Unaudited Six months ended 30 June 2022 £000	Unaudited Six months ended 30 June 2021 £000	Audited Year ended 31 December 2021 £000
Foreign exchange gains	**945**	-	-
Right of use interest income	**2**	3	6
Other interest	**83**	19	24
	1,030	22	30

8. *Finance costs*

	Unaudited Six months ended 30 June 2022 £000	Unaudited Six months ended 30 June 2021 £000	Audited Year ended 31 December 2021 £000
Bank loans and overdrafts	**116**	43	85
Unwinding discount on deferred consideration	**455**	318	867
Net charge on pension scheme	**69**	26	51
Right of use asset interest cost	**40**	121	97
Foreign exchange losses	-	258	44
	680	766	1,144

9. *Cash and cash equivalents*

	Unaudited 30 June 2022 £000	Unaudited 30 June 2021 £000	Audited 31 December 2021 £000
Cash at bank	**10,280**	26,848	24,019
Bank overdraft	**-**	(8,998)	(8,998)
Bank balance	**10,280**	17,850	15,021

The Group signed a new financing arrangement with HSBC UK Bank plc in April 2022, which consists of a committed facility of £10.0m for general corporate purposes, which can be extended up to £20.0m if needed, subject to further bank approval. The financial covenants have been considered in the forecast to ensure compliance. During 2022, the Group settled its bank overdraft of £9.0m with former bankers NatWest Bank plc.

10. *Provision for liabilities and charges*

Current liability	Unaudited 30 June 2022 £000	Unaudited 30 June 2021 £000	Audited 31 December 2021 £000
Historical legal dispute provision	**885**	-	-
At end of period Current liability	**885**	-	-

Non-current liability	Unaudited 30 June 2022 £000	Unaudited 30 June 2021 £000	Audited 31 December 2021 £000
Historical legal dispute provision	**-**	250	250
PDS warranty provision	**43**	-	41
At end of period Non current liability	**43**	250	291

At the period end the Group held a provision of £0.9m (2021: £0.25m) in respect of an historical contract dispute against a maximum exposure of approximately £3.8m. The maximum exposure included an additional claim for consequential loss. Since the period end a settlement has been agreed with the plaintiff (see note 13).

11. Financial liabilities

An analysis of financial liabilities as presented in the statement of financial position is as follows:

Current liability	**Unaudited 30 June 2022 £000**	Unaudited 30 June 2021 £000	Audited 31 December 2021 £000
Deferred consideration	**4,271**	2,435	4,276
Contingent consideration	**1,964**	2,080	2,336
At end of period Current liability	**6,235**	4,515	6,612

Non-current liability	**Unaudited 30 June 2022 £000**	Unaudited 30 June 2021 £000	Audited 31 December 2021 £000
Deferred consideration	-	1,780	3,060
Contingent consideration	-	1,464	1,668
At end of period Non current liability	-	3,244	4,728

The contingent consideration is in respect of The Edge and d-Wise. The conditions to pay both sums have been met in full.

The deferred consideration above is in respect of the acquisitions of d-Wise and PDS.

12. Share Capital

The share capital of Instem plc consists of fully paid ordinary shares with a nominal value of 10p per share.

	30 June 2022 No. of shares	30 June 2021 No. of shares	31 December 2021 No. of shares
Shares issued:			
Beginning of the period	22,189,856	20,481,909	20,481,909
Issued on exercise of employee share options	190,000	38,667	88,667
Share issue on acquisition of The Edge	-	391,920	391,920
Share issue on acquisition of d-Wise	296,952	868,203	868,203
Share issue on acquisition of PDS	-	-	359,157
Total shares issued and fully paid at end of period	**22,676,808**	21,780,699	22,189,856

Share premium

Proceeds received in addition to the nominal value of the shares issued during the year have been included in share premium, less fees, commissions and disbursements. Costs of new shares charged to equity amounted to £nil.

Share premium has also been recorded in respect of the issue of share capital related to employee share-based payment.

Merger reserve

The merger reserve represents

- the difference between the consideration payable at the date of acquisition, net of merger relief, and the share capital and share premium of Instem Life Science Systems Limited and
- the difference between the nominal value and share issue price of shares issued as consideration in the purchase of Leadscope Inc, The Edge Software Consultancy Ltd, d-Wise Technologies, Inc and PDS Pathology Data Systems

13. Subsequent Events

No adjusting events have occurred between the 30 June 2022 reporting date and the date of approval of this Interim Report.

A full and final settlement has been negotiated and agreed with a former customer regarding an historical contractual licence dispute that arose in 2017. Instem has agreed to pay €1.48m (approx. £1.3m), of which its insurer has agreed to contribute €0.45m (approx. £0.4m) resulting in a net payment due of approx. €1.0m (£0.9m). This will be made in October 2022.

As previously announced, the Company had created a provision of £0.25m in respect of the dispute and this was increased in the period by £0.64m, resulting in a provision at 30 June 2022 of approx. £0.9m. The increase in the provision was treated as a non-recurring, exceptional charge in the half year ended 30 June 2022.

The issue involved does not affect the ongoing operations of the Group.

14. Availability of this Interim Announcement

Copies of the 2022 Interim Report for Instem plc will be available from the Group’s website at www.instem.com.