

INSTEM

SOFTWARE AND COMPUTER SERVICES

INS.L

254p

Market Cap: £40.4m

SHARE PRICE (p)



12m high/low

330p/148p

Source: LSE Data

KEY INFORMATION

Enterprise value	£37.4m
Index/market	AIM
Next news	FY 18 finals, Mar-19
Gearing	N/A
Interest cover	N/A

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All business areas performing well

Instem's trading update for the twelve months ending December 2018 confirms that all three key business areas (Data Collection, Regulatory Solutions and Informatics) are performing well, with underlying group EBITDA in line with management's expectations. Momentum in SEND Services remains strong, with order value +500% YoY. Management commentary on the outlook is positive, and we make no changes to earnings estimates following the announcement.

- EBITDA in line:** The release confirms underlying FY 2018 EBITDA to be in line with management's expectations, with strong EBITDA margin expansion during the year. Net cash closed the year at £3.6m. The balance was impacted by certain delayed payments (see below) and is expected to increase early in the current year.
- All business areas performing well:** The release confirms all three of Instem's key business areas (Data Collection, Regulatory Solutions and Informatics) are all performing well, and all made a positive contribution to full-year financials. With a "host" of new contract wins recorded during the year, and a number of customer upgrades, the transition to a SaaS delivery model continues. This should benefit recurring revenue and revenue visibility – we note 62% of H1 2018A revenues were recurring.
- Momentum in SEND Services remains strong:** Order value for SEND services received during 2018 was up 500% YoY. The group continues to invest in SEND, having recruited additional staff into the business and also having recently released a software update. This version supports the latest version of the US FDA's SEND standard, which is mandatory for submissions after 15 March 2019.
- Positive outlook commentary:** Management note that recent investment in the Instem platform is being converted into profitable growth. Momentum in the SEND business remains strong, where order backlog remains high and revenue visibility continues to improve.
- Earnings estimates unchanged:** We make no changes to earnings estimates following the announcement. The release confirms that the closing FY 2018E cash position was impacted by delayed payments from a small number of large pharma clients. The outstanding balances will be included in FY 2018 debtors and are expected to be collected over the next few weeks. We adjust our FY 2018E cash forecast accordingly but note our expectations of closing FY 2019E and 2020E cash balances are unchanged.

FYE DEC (£M)	2016	2017	2018E	2019E	2020E
Revenue	18.3	21.7	23.0	25.2	27.4
Adj EBITDA	1.3	3.0	3.6	4.5	5.0
Fully adj PBT	0.5	2.2	2.6	3.4	3.8
Fully adj EPS	2.0	10.1	11.5	15.3	17.0
EV/Sales	2.0	1.7	1.6	1.5	1.4
EV/EBITDA	29.8	12.6	10.5	8.2	7.4
PER	125.7	25.2	22.1	16.6	14.9

Source: Company Information and Progressive Equity Research estimates

Disputed contract update

Instem made a cost provision in its FY2017 results against an historic contract with a German customer. This has been maintained in the 2018 accounts and the trading update confirms the dispute does not impact ongoing business operations. Having taken legal advice, management continues to believe the claim is without merit and is contesting the claim.

With the initial court hearing scheduled for 22 January 2019, the dispute appears to be moving closer to resolution.

Summary

This is an upbeat and solid announcement from Instem, highlighting what appears to have been a good finish to the year, strength across all major areas of the business, and particular ongoing positive trends within the SEND and SEND Services areas. We look forward to further detail with full-year results due in March.

Financial Summary: Instem

Year end: December (£m unless shown)

PROFIT & LOSS	2016	2017	2018E	2019E	2020E
Revenue	18.3	21.7	23.0	25.2	27.4
Adj EBITDA	1.3	3.0	3.6	4.5	5.0
Adj EBIT	0.7	2.3	2.6	3.4	3.8
Reported PBT	0.0	0.8	1.6	2.4	2.8
Fully adj PBT	0.5	2.2	2.6	3.4	3.8
NOPAT	0.5	1.7	1.9	2.6	2.8
Reported EPS	6.8	6.8	6.0	9.4	10.8
Fully adj EPS	2.0	10.1	11.5	15.3	17.0
Dividend per share	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET	2016	2017	2018E	2019E	2020E
Operating cash flow	1.3	1.9	2.6	5.8	5.2
Free Cash flow	(0.2)	0.1	0.7	3.6	2.9
FCF per share	(1.2)	0.6	4.3	21.6	17.5
Acquisitions	(3.3)	(0.7)	(0.2)	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Capex	(1.0)	(1.6)	(1.3)	(1.3)	(1.3)
Shares issued	4.8	0.0	0.0	0.0	0.0
Net cash flow	1.3	(0.8)	0.5	3.6	2.9
Cash & equivalents	4.2	3.1	3.6	7.2	10.2
Net (Debt)/Cash	4.2	3.1	3.6	7.2	10.2
NAV AND RETURNS	2016	2017	2018E	2019E	2020E
Net asset value	12.8	14.2	18.0	19.5	22.3
NAV/share	82.0	91.2	115.2	125.2	143.3
Net Tangible Asset Value	(4.8)	(3.2)	1.3	3.8	5.5
NTAV/share	(30.9)	(20.6)	8.2	24.2	35.4
Average equity	9.7	13.5	16.1	18.7	20.9
Post-tax ROE (%)	10.9%	8.1%	6.3%	8.4%	8.7%
METRICS	2016	2017	2018E	2019E	2020E
Revenue growth	12.2%	18.3%	6.4%	9.4%	8.6%
Adj EBITDA growth	(50.0%)	136.4%	20.5%	27.5%	10.9%
Adj EBIT growth	(63.7%)	221.2%	11.4%	33.2%	10.8%
Adj PBT growth	(73.5%)	381.4%	18.5%	33.3%	11.0%
Adj EPS growth	N/A	N/A	14.0%	33.3%	11.0%
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margins	3.9%	10.6%	11.1%	13.5%	13.8%
VALUATION	2016	2017	2018E	2019E	2020E
EV/Sales	2.0	1.7	1.6	1.5	1.4
EV/EBITDA	29.8	12.6	10.5	8.2	7.4
EV/NOPAT	74.5	21.6	19.4	14.6	13.2
PER	125.7	25.2	22.1	16.6	14.9
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(0.5%)	0.2%	1.7%	8.5%	6.9%

Source: Company information and Progressive Equity Research estimates

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