Progressive EQUITY RESEARCH

INSTEM

SOFTWARE AND COMPUTER SERVICES

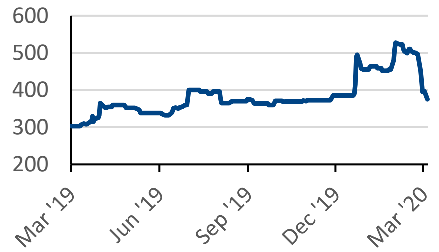
25 March 2020

INS.L

375p

Market Cap: £62.5m

SHARE PRICE (p)



12m high/low	528p/303p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£6.0m
Enterprise value	£56.6m
Index/market	AIM
Next news	FY 19 finals, TBC
Shares in Issue (m)	16.7
Chairman	David Gare
Chief Executive	Phil Reason
Finance Director	Nigel Goldsmith

COMPANY DESCRIPTION

Instem is a leading provider of IT solutions & services to the life sciences market.

www.instem.com

INSTEM IS A RESEARCH CLIENT OF PROGRESSIVE

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Defensive in uncertain times

Instem has released a trading update in lieu of FY 19 results scheduled for March 30. The announcement confirms the FY 19 outcome was in line with both the Jan-20 trading update and our forecasts. With COVID-19-driven disruption to the global economy ongoing, the release provides no commentary on outlook - we therefore maintain FY 20E and FY 21E forecasts at this stage and will revisit estimates in due course. We continue to consider Instem well placed to weather macro turbulence and note the £6m cash position – the business is, in our view, defensively positioned.

- **FY 19 results in line:** The release confirms FY 19 revenue at £25.7m (+13% YoY) and adjusted EBITDA of £4.9m. Both are in line with our forecasts (but remain subject to audit). As heralded in the January update, FY 19 performance was driven by good momentum across the business. All three of Instem's key business areas (Data Collection, Regulatory Solutions and Informatics) performed well during the year, with each benefitting from a positive market backdrop and strong market positioning. The closing cash position was confirmed at £6.0m - this figure is prior to IFRS 16 lease liabilities, and also before deferred consideration for Leadscope. Despite the c£1.9m initial consideration for Leadscope being paid during 2019, the closing cash is still some £2.4m stronger than the prior year.

- **Forecasts unchanged:** The release provides no commentary on the outlook for FY 20E. We therefore maintain FY 20E and FY 21E estimates at this stage but will revisit in due course.

- **Defensive in uncertain times:** There are currently a record number of drugs in development (*source: Pharmaprojects Annual Review 2019*) and historical data points demonstrate that the pharma market is resilient in times of macro-economic uncertainty. We note the drug pipeline is a key driver of demand for the types of services offered by Instem. In our view, the group has strong market positioning and a solid platform with no supply chain dependencies. It is therefore well-placed to weather macro-driven turbulence. Furthermore, with a cash balance of around 10% of the current market capitalisation, the Instem investment case is underpinned by a strong financial position.

Clearly COVID-19 continues to impact the global business environment. However, we believe that Instem has a number of defensive qualities in these challenging times. Given the business's core competences in facilitating new drug and vaccine development, it stands to be a beneficiary from the urgent demand for a solution to the COVID-19 pandemic.

FYE DEC (£M)	2017	2018	2019E	2020E	2021E
Revenue	21.7	22.7	25.7	29.6	31.7
Adj EBITDA	2.4	4.1	4.9	6.3	6.9
Fully adj PBT	1.6	3.0	3.4	4.8	5.3
Fully adj EPS	11.0	15.5	17.5	23.2	25.2
EV/Sales	2.6x	2.5x	2.2x	1.9x	1.8x
EV/EBITDA	23.4x	14.0x	11.6x	8.9x	8.2x
PER	34.0x	24.2x	21.4x	16.2x	14.9x

Source: Company Information and Progressive Equity Research estimates

Financial Summary: Instem

Year end: December (£m unless shown)

PROFIT & LOSS	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Revenue	21.7	22.7	25.7	29.6	31.7
Adj EBITDA	2.4	4.1	4.9	6.3	6.9
Adj EBIT	1.8	3.2	3.3	4.7	5.2
Reported PBT	0.3	1.7	2.5	3.7	4.5
Fully adj PBT	1.6	3.0	3.4	4.8	5.3
NOPAT	1.3	2.4	2.9	3.9	4.2
Reported EPS	4.0	8.7	14.0	17.8	21.3
Fully adj EPS	11.0	15.5	17.5	23.2	25.2
Dividend per share	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Operating cash flow	1.9	1.8	5.7	4.1	4.6
Free Cash flow	0.2	0.6	3.9	1.7	3.1
FCF per share	1.0	3.3	23.0	10.4	18.7
Acquisitions	(0.9)	(0.2)	(1.9)	(0.3)	(0.3)
Disposals	0.0	0.0	0.0	0.0	0.0
Capex	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
Shares issued	0.0	0.1	0.4	0.0	0.0
Net cash flow	(0.9)	0.5	2.4	1.5	2.9
Cash & equivalents	3.1	3.6	6.0	7.4	10.3
Net (Debt)/Cash	3.1	3.6	6.0	7.4	10.3
NAV AND RETURNS	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Net asset value	13.8	16.4	18.3	21.1	28.2
NAV/share	88.3	105.1	115.6	133.2	178.0
Net Tangible Asset Value	(3.7)	(1.0)	2.4	6.0	10.9
NTAV/share	(23.5)	(6.5)	15.2	37.8	68.7
Average equity	13.3	15.1	17.3	19.7	24.6
Post-tax ROE (%)	4.8%	9.7%	13.5%	15.2%	14.6%
METRICS	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Revenue growth		4.8%	13.4%	14.8%	7.3%
Adj EBITDA growth		67.6%	20.2%	30.0%	8.8%
Adj EBIT growth		80.3%	5.6%	40.4%	10.9%
Adj PBT growth		84.7%	12.8%	40.5%	11.3%
Adj EPS growth		N/A	13.2%	32.2%	8.6%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		14.0%	13.0%	15.9%	16.4%
VALUATION	**2017**	**2018**	**2019E**	**2020E**	**2021E**
EV/Sales	2.6	2.5	2.2	1.9	1.8
EV/EBITDA	23.4	14.0	11.6	8.9	8.2
EV/NOPAT	42.9	23.8	19.4	14.7	13.6
PER	34.0	24.2	21.4	16.2	14.9
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	0.3%	0.9%	6.1%	2.8%	5.0%

Source: Company information and Progressive Equity Research estimates

25 March 2020

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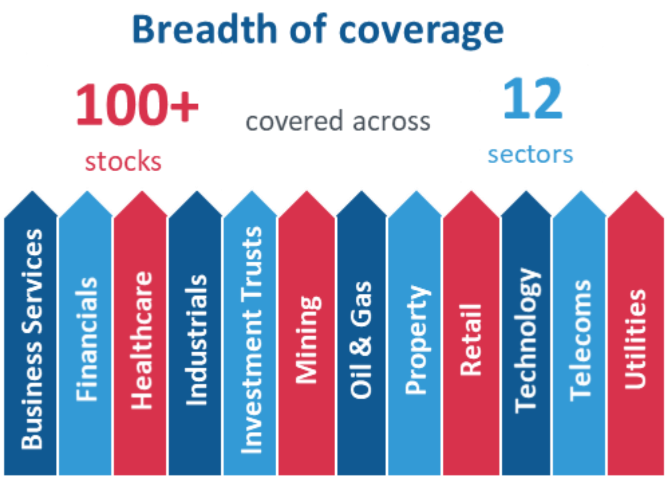

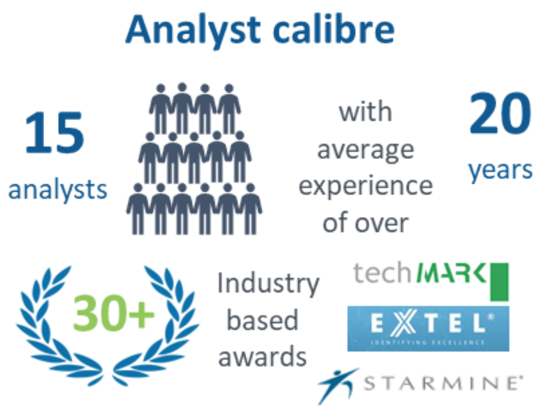

To arrange a meeting with the management team, or for further information about Progressive, please contact:

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