

INSTEM

SOFTWARE AND COMPUTER SERVICES

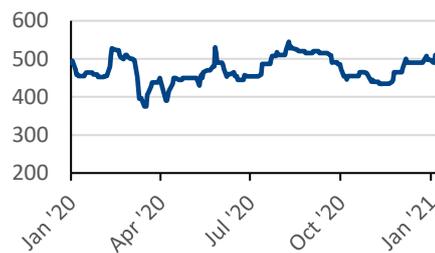
14 January 2021

INS.L

510p

Market Cap: £104.5m

SHARE PRICE (p)



12m high/low

545p/375p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£26.7m (at 31/12/20)
Enterprise value	£77.8m
Index/market	AIM
Next news	FY20 results, April '21
Shares in Issue (m)	20.5
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

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Strong end to 2020 – positioned for growth

Instem has delivered a positive trading update for the year to 31 December 2020 – revenue growth was “in excess of 11%”, suggesting a performance in line with our estimates, and net cash appears to have ended the year extremely strongly, with a figure of £26.7m vs our expectation of £22.4m.

- 2020 performance** The update gives a year-on-year growth figure (“in excess of 11%”) which aligns well with our expectation of c.12% growth during 2020. The net cash figure is, for us, the standout from the announcement – with the group ending 2020 with net cash of some £26.7m vs our expectation of £22.4m. Clearly, working capital has been managed well, which, alongside the July fundraising (of £15m) has combined to produce an exceptionally strong balance sheet. We upgrade our 2020E y/e cash forecast to reflect today’s news, with modest uplifts to both 2021E and 2022E as a result.
- Highlights** As well as commenting on the strength of recurring revenue growth, the RNS describes a number of positive aspects of the 2020 performance. All three areas are described as performing well (Study Management, Regulatory Solutions and Informatics), and there is a particular focus on the ongoing opportunity around the SEND data standard. This is driving both activity in terms of software demand and a good level of demand for Instem’s technology-enabled outsourced services. These opportunities are evolving to now include focus on historical drug studies (not just the new work for which SEND is mandated) and increasingly the use of advanced AI methods to maximise the value in the data being created and analysed.
- M&A** The statement highlights that, although no deals have been concluded since the fundraise last summer, there is “good progress with a number of acquisition targets”, so we hope to hear more in due course on one or more of these potential deals.

Today’s announcement from Instem suggests a business that has delivered well on 2020, sits with a very strong cash balance and a good order book, and seems overall very well placed for both organic delivery and acquisition-driven acceleration of strategy as 2021 evolves. FY2020 results are due in April, and we await further detail on the 2020 performance and, at some stage, hopefully news that the M&A opportunities are beginning to deliver.

FYE DEC (£M)	2018	2019	2020E	2021E	2022E
Revenue	22.7	25.7	28.8	30.9	32.7
Adj EBITDA	4.1	4.9	5.8	6.3	7.0
Fully adj PBT	3.0	3.7	4.1	4.3	4.8
Fully adj EPS (p)	15.5	18.4	17.3	16.3	18.1
EV/Sales	3.4x	3.0x	2.7x	2.5x	2.4x
EV/EBITDA	19.2x	16.0x	13.3x	12.4x	11.1x
PER	32.9x	27.7x	29.5x	31.3x	28.2x

Source: Company Information and Progressive Equity Research estimates

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Please refer to important disclosures at the end of the document.

Financial Summary: Instem

Year end: December (£m unless shown)

	2018	2019	2020E	2021E	2022E
PROFIT & LOSS					
Revenue	22.7	25.7	28.8	30.9	32.7
Adj EBITDA	4.1	4.9	5.8	6.3	7.0
Adj EBIT	3.2	4.0	4.3	4.5	5.0
Reported PBT	1.7	(0.9)	2.8	3.1	3.6
Fully adj PBT	3.0	3.7	4.1	4.3	4.8
NOPAT	2.4	3.4	3.5	3.6	4.0
Reported EPS (p)	8.7	(5.4)	11.4	10.9	12.9
Fully adj EPS (p)	15.5	18.4	17.3	16.3	18.1
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	1.8	5.7	8.9	3.2	3.5
Free Cash flow	0.6	4.1	6.6	1.8	3.0
FCF per share (p)	3.3	23.8	34.3	8.4	20.2
Acquisitions	(0.2)	(1.3)	(0.3)	(0.3)	(0.4)
Disposals	0.0	0.0	0.0	0.0	0.0
Capex	(1.6)	(1.4)	(1.4)	(1.4)	(1.4)
Shares issued	0.1	0.6	15.0	0.0	0.0
Net cash flow	0.5	2.4	22.2	0.8	2.2
Cash & equivalents	3.6	6.0	28.2	29.0	31.1
Net (Debt)/Cash	3.6	5.1	26.7	27.8	30.3
NAV AND RETURNS					
Net asset value	16.4	16.8	33.8	39.6	43.3
NAV/share	105.1	106.1	164.8	193.3	211.5
Net Tangible Asset Value	(1.0)	(1.3)	19.0	24.3	26.9
NTAV/share	(6.5)	(8.4)	119.8	118.8	131.1
Average equity	15.1	16.6	25.3	36.7	41.5
Post-tax ROE (%)	9.7%	(5.6%)	8.7%	6.3%	6.6%
METRICS					
Revenue growth		13.3%	12.0%	7.2%	5.9%
Adj EBITDA growth		20.0%	19.8%	7.8%	11.4%
Adj EBIT growth		24.7%	8.4%	5.7%	10.3%
Adj PBT growth		23.4%	9.5%	6.4%	11.1%
Adj EPS growth		N/A	(6.0%)	(5.7%)	11.1%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		15.4%	14.9%	14.7%	15.3%
VALUATION					
EV/Sales	3.4	3.0	2.7	2.5	2.4
EV/EBITDA	19.2	16.0	13.3	12.4	11.1
EV/NOPAT	32.7	22.6	22.1	21.4	19.5
PER	32.9	27.7	29.5	31.3	28.2
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	0.7%	4.7%	6.7%	1.6%	4.0%

Source: Company information and Progressive Equity Research estimates

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