

# INSTEM

## SOFTWARE AND COMPUTER SERVICES

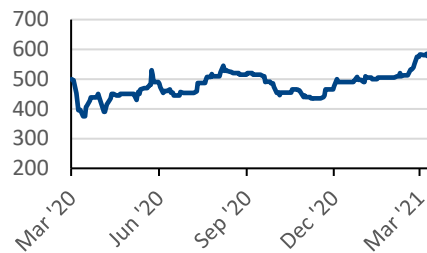
22 March 2021

INS.L

578p

Market Cap: £125.4m

### SHARE PRICE (p)



12m high/low 585p/375p

Source: LSE Data

### KEY DATA

Net (Debt)/Cash	£26.7m (at 31/12/20)
Enterprise value	£98.7m
Index/market	AIM
Next news	FY20 results, April '21
Shares in Issue (m)	21.7
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](http://www.instem.com)

INSTEM IS A RESEARCH CLIENT OF PROGRESSIVE

### ANALYSTS

Gareth Evans

+44 (0) 20 7781 5301

gevans@progressive-research.com



Blaine Tatum

+44 (0) 20 7781 5309

btatum@progressive-research.com



[www.progressive-research.com](http://www.progressive-research.com)

## Transformational deal in clinical trial analysis

Instem has announced that it has exchanged contracts to acquire d-Wise Technologies Inc (“d-wise”) a US-based clinical trial technology and consulting solutions provider. The total consideration is up to \$31m, subject to adjustments, to be satisfied by a combination of cash and the issue of new ordinary Instem shares (with a deferred element). We believe the deal is transformational for Instem, significantly increasing the group’s scale and reach, and extending the offering more into the clinical trial stage of drug development. We increase forecasts, with (our increased) FY 22E revenue and adjusted EPS improving by 58% and 29% respectively.

- Deal structure:** Instem has acquired d-wise, US-based provider of clinical trial solutions. The consideration is \$20m initially, satisfied by \$13m paid in cash and the issue of \$7m in new ordinary Instem shares. There is \$8m of deferred consideration, again payable in a combination of new shares and cash and up to a further \$3m contingent on d-wise achieving certain EBITDA targets in the year ending December 2021. d-wise is both growing and profitable and we estimate the \$31m maximum potential consideration equates to c9x trailing EBITDA.
- About d-wise:** d-wise provides strategic consulting and technology services to modernise clinical trial analysis environments, validate open-source tools, anonymise data & documents and move research to the public cloud. d-wise has a client list of blue-chip names, with 19 of the top 20 global pharma companies choosing its solutions.
- Potential for growth:** d-wise will be integrated into the Instem group as a new business unit – Clinical Trial Acceleration Solutions. In our view the acquisition gives Instem the ability to leverage data generated from all stages of the drug development lifecycle, from discovery through to late-stage clinical trials. We also see strong potential for cross-selling of solutions from both businesses to the combined client base.
- Accretive deal, forecasts increased:** For FY 21E, we upgrade revenue, EBITDA and adjusted EPS by 41%, 26% and 15% respectively, with larger increases for 22E with a full 12 months’ contribution.

Overall, we view d-wise as a very positive addition to the Instem group. The acquisition is transformational in terms of scale and reach, and in our view offers strong potential for cross-selling and increased recurring revenue streams.

FYE DEC (£M)	2018	2019	2020E	2021E	2022E
Revenue	22.7	25.7	28.8	46.0	56.4
Adj EBITDA	4.1	4.9	5.8	8.6	11.3
Fully adj PBT	3.0	3.7	4.1	5.7	7.9
Fully adj EPS (p)	15.5	18.4	17.3	21.0	28.5
EV/Sales	4.3x	3.8x	3.4x	2.1x	1.7x
EV/EBITDA	24.3x	20.3x	16.9x	11.4x	8.7x
PER	37.3x	31.4x	33.4x	27.5x	20.3x

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

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

## Background on d-wise

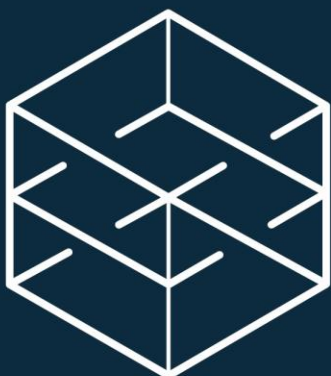
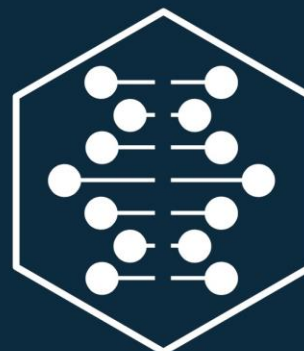
Founded in 2005 and based in Raleigh-Durham, USA, d-wise has market leading positions in high-value technology consulting, hosted Statistical Computing Environment (“SCE”) services for SMEs and software and technology-enabled outsourced clinical data anonymisation services.

### d-wise – key products

#### Clinical Trial Acceleration

Accelerating clinical trials requires an automated, validated, and scalable system. Our technology and clinical trial experts have created services and products that enable you to focus on the science and get to market faster, including our cloud-based SCE Accel and our Acceleration Strategies and Services.

[LEARN MORE](#)



#### Clinical Trial Transparency

d-wise transparency services and software empower sponsors to meet EMA Policy 0070 and Health Canada Public Release of Clinical Information.

Built in collaboration with industry sponsors, Blur is an anonymization software that measures re-identification risk and automates anonymization of both document and data through Natural Language Programming. Available as a SaaS or as an outsourced service, d-wise also provides transparency strategy, software, and resources to enable sharing that powers medical innovation.

[LEARN MORE](#)

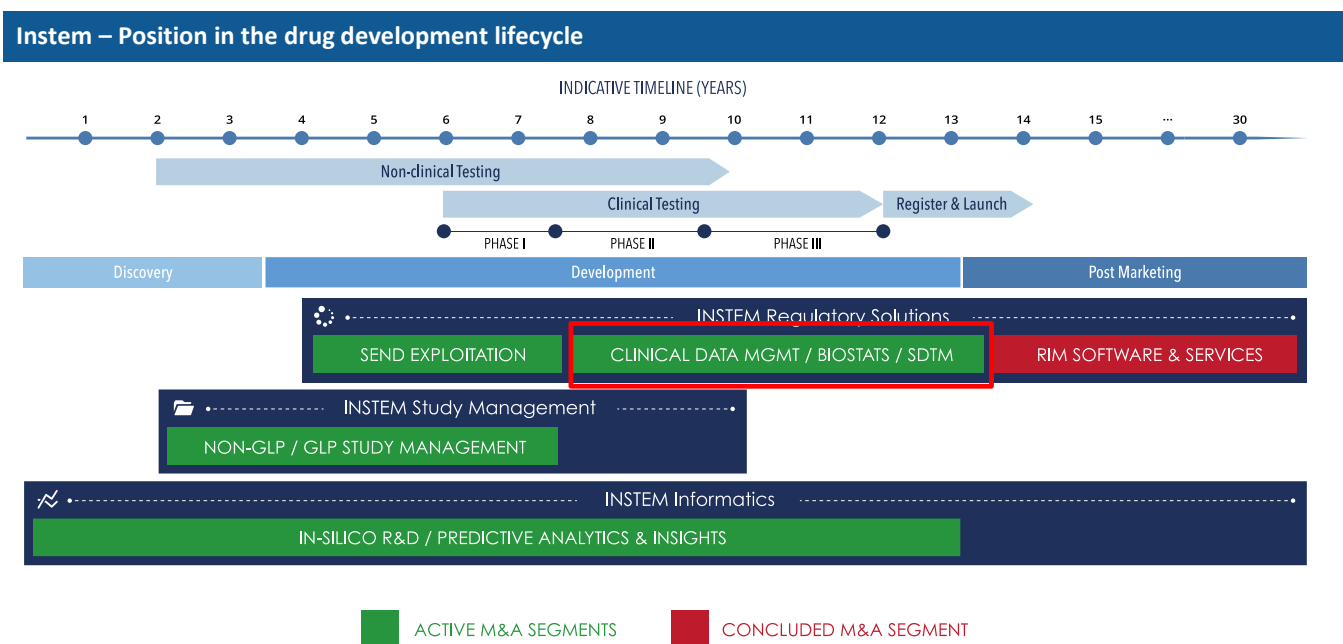
Source: Company data

The company currently has 70 staff in the US and 20 in the UK/mainland Europe and all are expected to remain with the Instem group post-acquisition. Finance and HR functions will be integrated into the Instem group following completion, with further integration to be phased over a twelve-month period post-completion.

The business is both growing and profitable. It delivered FY 2020A revenue of c\$24m and EBITDA of c\$3.6m. Of the \$24m, approximately 30% was recurring SaaS, hosting services and software support & maintenance.

## A transformational deal for Instem

We believe d-wise represents a transformational deal for Instem, generating a significant increase in the group’s scale and reach. d-wise also has a strong strategic and operational fit with the existing Instem business. The following graphic matches Instem’s product set to the drug development cycle and illustrates where d-wise fits into the combined group.



Source: Company data

d-wise is a leader in clinical trial analysis and submission, an area adjacent to Instem’s existing clinical data management business. We believe the acquisition to be both transformational and highly complementary:

- The acquisition represents a step-change in capacity for the Instem platform. The combined group will have c450 employees across the globe – split roughly 27%/40%/33% in the US, Europe and Asia.
- On a proforma basis, we estimate the combined group would have delivered FY 2020 revenue of c\$64.3m and EBITDA of c\$13m. These figures are 60% and 37% higher than our previous FY 2020E estimates for the Instem group pre-acquisition.
- The combined group has a full product set, encompassing all stages of the drug R&D cycle from discovery to post-marketing. We believe Instem has competitive advantage in pre-clinical software and technology-enabled outsourced services. d-wise has a greater focus on providing solutions for later-stage clinical trials, and also brings a strong market position in a third area - high-value consulting.
- Both Instem and d-wise have strong penetration of the global top twenty pharma companies. We understand that their respective client penetration in the lower tiers is somewhat different. We believe there is strong potential for revenue synergies from cross-selling of solutions from both businesses to the combined client base.

- d-wise delivered FY 2020A revenue and EBITDA of c\$24m and EBITDA of c\$3.6m respectively. We estimate that Instem is paying c9x historic EBITDA for a business in an exciting area, and which transforms the group in scale and reach.

## Structure of the deal

The initial consideration for the deal is \$20m, to be satisfied by \$13m paid in cash (funded from the group's existing resources) and the issue of \$7m in new ordinary shares in Instem plc.

The transaction also includes deferred and contingent consideration depending on the future financial performance of d-wise.

The deferred consideration is payable in two tranches. Tranche one includes the payment of \$3m in cash and \$1m in new ordinary Instem shares. Tranche two comprises \$4m in cash. Tranche one is payable on the twelve-month anniversary of completion, tranche two on the twenty fourth month following completion.

The earnout involves a \$3m payment contingent on d-wise achieving certain (undisclosed) EBITDA targets in the financial year ending December 2021. If achieved, the earnout will be paid as \$1.5m on 31 March 2022 in any combination of cash and new Instem shares at Instem's discretion, followed by a \$1.5m cash payment on the twenty-fourth month anniversary of completion.

The maximum possible consideration is \$31m, assuming the earnout target is met.

## Forecast changes

Following the deal, we make changes to forecasts as shown in the table below. Note fuller financials are detailed overleaf.

Forecast changes following the d-wise acquisition									
£m unless stated	FY 20E			FY 21E			FY 22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	28.8	28.8	0.0%	32.5	46.0	41.3%	35.7	56.4	58.0%
Adj EBITDA	5.8	5.8	0.0%	6.8	8.6	26.2%	8.2	11.3	38.4%
Fully adj PBT	4.1	4.1	0.0%	4.9	5.7	17.2%	6.0	7.9	32.8%
Fully adj EPS (p)	17.3	17.3	0.0%	18.2	21.0	15.4%	22.2	28.5	28.6%

Source: Progressive Equity Research estimates

- The acquisition has been made during the FY 21E financial year, and the group is expected to report FY 20E financials in April 2021. We have made no changes to estimates on the underlying Instem business.
- Our model assumes the business will be incorporated for nine months of the current financial year. FY 22E will be the first full- year of consolidation.
- We forecast the deal to be accretive, with 58%, 38% and 29% respective increases in revenue, EBITDA and EPS in the first full- year of consolidation (FY 22E).

## Summary

- We believe d-wise is a strategically sensible transaction, with excellent operational fit with the existing Instem business. The acquisition pushes Instem further into the clinical-stage phases of drug development, a logical extension to the existing strengths largely in the pre-clinical arena, and one which also comes with significant further opportunity. Based upon our forecasts, the deal is both accretive, and, we believe, transformational in terms of the group's scale and reach.
- The combined group goes to market with a product set that addresses all stages of the drug R&D cycle from discovery to post-marketing. In our view there is strong potential for revenue synergies from cross-selling of solutions from both businesses to the combined client base.
- Lastly, having made a number of successful acquisitions over the recent past - including BioWisdom (2011), Logos (2013), Perceptive Instruments (2013), Notocord (2016), Samarind (2016), Leadscope (2019) and The Edge (2021), we believe the Instem Management team has a strong track record of value creation from M&A.

**Financial Summary: Instem**

Year end: December (£m unless shown)

	2018	2019	2020E	2021E	2022E
<b>PROFIT &amp; LOSS</b>					
Revenue	22.7	25.7	28.8	46.0	56.4
Adj EBITDA	4.1	4.9	5.8	8.6	11.3
Adj EBIT	3.2	4.0	4.3	6.0	8.2
Reported PBT	1.7	(0.9)	2.8	3.4	6.7
Fully adj PBT	3.0	3.7	4.1	5.7	7.9
NOPAT	2.4	3.4	3.5	4.8	6.5
Reported EPS (p)	8.7	(5.4)	11.4	12.5	24.1
Fully adj EPS (p)	15.5	18.4	17.3	21.0	28.5
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	1.8	5.7	8.9	3.0	6.6
Free Cash flow	0.6	4.1	6.6	1.2	5.1
FCF per share (p)	3.3	23.8	34.3	5.4	20.2
Acquisitions	(0.2)	(1.3)	(0.3)	(18.7)	(4.4)
Disposals	0.0	0.0	0.0	0.0	0.0
Capex	(1.6)	(1.4)	(1.4)	(1.8)	(1.9)
Shares issued	0.1	0.6	15.0	5.0	1.9
Net cash flow	0.5	2.4	22.2	(13.1)	2.2
Cash & equivalents	3.6	6.0	28.2	15.0	17.2
Net (Debt)/Cash	3.6	5.1	26.7	4.9	12.1
<b>NAV AND RETURNS</b>					
Net asset value	16.4	16.8	33.8	45.0	53.3
NAV/share	105.1	106.1	164.8	210.9	245.9
Net Tangible Asset Value	(1.0)	(1.3)	19.0	30.7	38.8
NTAV/share	(6.5)	(8.4)	119.8	149.7	181.7
Average equity	15.1	16.6	25.3	39.4	49.2
Post-tax ROE (%)	9.7%	(5.6%)	8.7%	6.9%	10.9%
<b>METRICS</b>					
Revenue growth		13.3%	12.0%	59.6%	22.6%
Adj EBITDA growth		20.0%	19.8%	48.1%	30.8%
Adj EBIT growth		24.7%	8.4%	40.2%	36.1%
Adj PBT growth		23.4%	9.5%	41.2%	38.6%
Adj EPS growth		N/A	(6.0%)	21.4%	35.8%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		15.4%	14.9%	13.1%	14.5%
<b>VALUATION</b>					
EV/Sales	4.3	3.8	3.4	2.1	1.7
EV/EBITDA	24.3	20.3	16.9	11.4	8.7
EV/NOPAT	41.5	28.7	28.1	20.5	15.1
PER	37.3	31.4	33.4	27.5	20.3
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	0.6%	4.1%	5.9%	0.9%	3.5%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

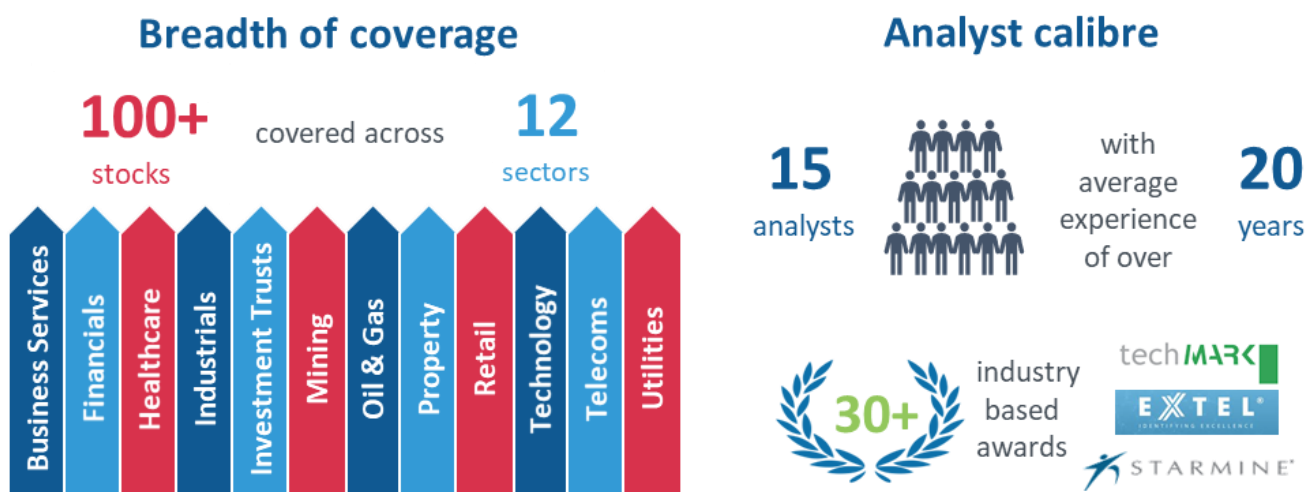
Copyright 2021 Progressive Equity Research Limited (“PERL”). All rights reserved. Progressive’s research is commissioned by the subject company under contract and is freely available to the public and all institutional investors. Progressive does not offer investors the ability to trade securities. Our publications should not, therefore, be considered an inducement under MiFID II regulations. PERL provides professional equity research services, and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by PERL for publication in the United Kingdom only. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of PERL at the time of publication, and any estimates are those of PERL and not of the companies concerned unless specifically sourced otherwise. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

This document is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

PERL does not hold any positions in the securities mentioned in this report. However, PERL’s directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.



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

Emily Ritchie  
+44 (0) 20 7781 5311  
eritchie@progressive-research.com