

INSTEM

SOFTWARE AND COMPUTER SERVICES

4 August 2022

INS.L

700p

Market Cap: £158.7m

SHARE PRICE (p)



12m high/low

905p/570p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£3.7m (at 30/12/21)
Enterprise value	£155m
Index/market	AIM
Next news	Interims, Sep-22
Shares in Issue (m)	22.7
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.

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INSTEM IS A RESEARCH CLIENT OF PROGRESSIVE

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H1 22 – strong trading and positive outlook

Instem's update for the six months to 30 June 2022 (H1 22) confirms that the business continues to trade strongly, with revenue up c.39% YoY. The group continues to experience wage inflation, as was previously signalled in the FY21 results. However, this will, at least partially, be offset by price increases implemented in April 2022. The group's financial position remains robust, and commentary on the outlook for H2 22E is positive. We make no changes to earnings estimates following the announcement.

- H1 22 – strong trading.** H1 22 revenue is expected to be c.£27.6m (+39% YoY), with growth benefitting from the three acquisitions made during 2021. Growth remains well-supported by the favourable market backdrop in life sciences R&D. As we have highlighted in [previous research](#), the number of drugs currently in development has once again reached record levels in 2022. A further positive for Instem is that volumes in early-stage drug development – the group's key area of focus – continue to grow. The period also saw a strong improvement in revenue visibility, with recurring software revenue growth of 60% YoY.
- Price increases to (partially) mitigate cost inflation.** Instem's FY21 results (announced in April 2022) signalled that the group was experiencing cost increases, particularly wage inflation. Note that, in common with most software companies, staff costs is the group's major expense line. Management continues to expect profits to grow at a slower rate than revenues for FY22 – consistent with our own forecasts – although cost inflation has been partly mitigated by a range of price increases implemented by the group in late April 2022.
- Robust financial position.** The group had a gross cash balance of £10.3m as of 30 June 2022 and undrawn credit facilities (with HSBC) of £10.0m. We believe that £20m of financial headroom positions the group strongly to capture growth opportunities in its respective marketplaces, both organically and via further M&A.
- Positive outlook commentary.** Citing improved visibility on H2 22E performance from 1) increased recurring revenue, 2) the value of the order backlog for professional and outsourced services and 3) reduced growth in staff numbers, the release reaffirms the Board's confidence that the group is set to deliver on its FY22E expectations.

FYE DEC (€M)	2020	2021	2022E	2023E	2024E
Revenue	28.2	46.0	61.7	68.2	75.1
Adj EBITDA	5.9	8.3	11.0	14.4	16.2
Fully adj PBT	4.0	5.0	7.6	10.0	12.2
Fully adj EPS (p)	19.1	18.0	26.9	35.6	43.5
EV/Sales	5.5x	3.4x	2.5x	2.3x	2.1x
EV/EBITDA	26.2x	18.8x	14.1x	10.8x	9.6x
PER	36.7x	38.9x	26.1x	19.7x	16.1x

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)

	2020	2021	2022E	2023E	2024E
PROFIT & LOSS					
Revenue	28.2	46.0	61.7	68.2	75.1
Adj EBITDA	5.9	8.3	11.0	14.4	16.2
Adj EBIT	5.0	7.1	6.8	10.1	12.4
Reported PBT	2.5	3.0	6.3	8.6	10.8
Fully adj PBT	4.0	5.0	7.6	10.0	12.2
NOPAT	4.1	5.7	5.5	8.1	9.9
Reported EPS (p)	11.6	9.2	21.7	29.8	37.5
Fully adj EPS (p)	19.1	18.0	26.9	35.6	43.5
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	7.7	10.3	8.4	14.6	17.8
Free Cash flow	5.8	6.8	6.2	9.8	12.5
FCF per share (p)	29.7	29.7	27.1	43.8	55.5
Acquisitions	(0.3)	(17.5)	(6.0)	(5.0)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Capex	(1.4)	(2.4)	(2.8)	(2.8)	(2.8)
Shares issued	15.4	0.0	0.0	0.0	0.0
Net cash flow	20.8	(11.6)	(0.2)	4.9	12.5
Cash & equivalents	26.7	15.0	14.8	19.7	32.2
Net (Debt)/Cash	25.3	3.7	8.4	13.7	26.2
NAV AND RETURNS					
Net asset value	33.2	47.7	50.6	57.3	65.7
NAV/share	162.3	222.2	232.0	262.8	301.5
Net Tangible Asset Value	15.2	(10.6)	(6.7)	0.0	6.4
NTAV/share	74.3	(49.3)	(30.7)	0.0	29.6
Average equity	25.0	40.5	49.1	53.9	61.5
Post-tax ROE (%)	9.1%	5.2%	10.1%	12.4%	13.7%
METRICS					
Revenue growth		63.1%	34.1%	10.5%	10.1%
Adj EBITDA growth		39.4%	33.1%	31.2%	12.3%
Adj EBIT growth		40.5%	(3.7%)	47.9%	22.6%
Adj PBT growth		24.4%	52.5%	31.1%	22.1%
Adj EPS growth		N/A	49.3%	32.5%	22.1%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		15.4%	11.1%	14.8%	16.5%
VALUATION					
EV/Sales	5.5	3.4	2.5	2.3	2.1
EV/EBITDA	26.2	18.8	14.1	10.8	9.6
EV/NOPAT	37.5	27.3	28.4	19.2	15.7
PER	36.7	38.9	26.1	19.7	16.1
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	4.2%	4.2%	3.9%	6.3%	7.9%

Source: Company information and Progressive Equity Research estimates

¹ See Instem Plc: FY21: Strong financial performance, strategic transformation. PERL 26/04/22

Disclaimers and Disclosures

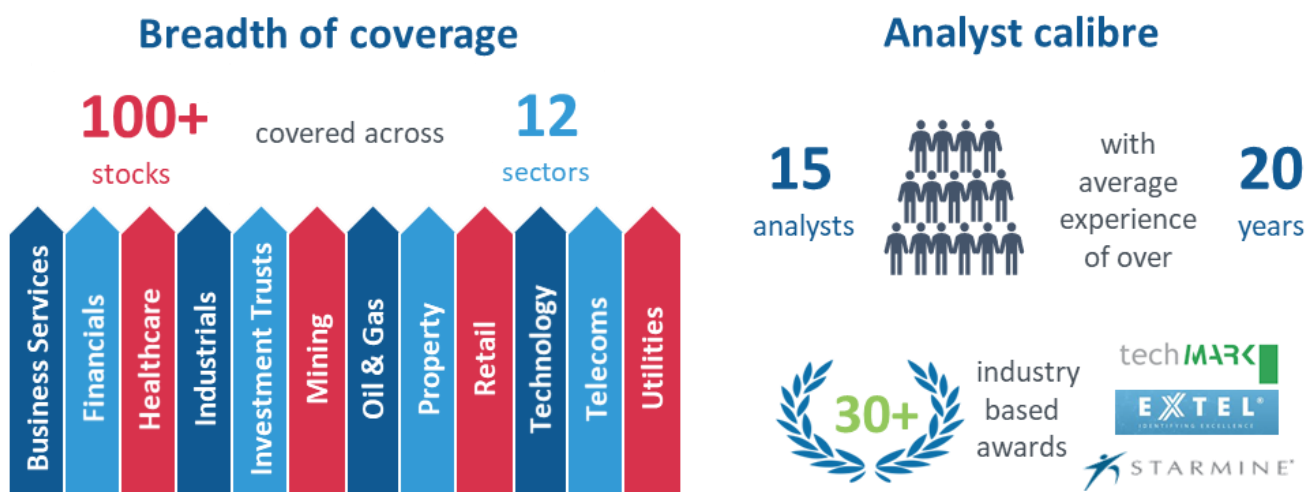
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