

# INSTEM

## SOFTWARE AND COMPUTER SERVICES

5 September 2022

INS.L

660p

Market Cap: £149.7m

### 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	£146m
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.

[www.instem.com](http://www.instem.com)

INSTEM IS A RESEARCH CLIENT OF PROGRESSIVE

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## Largest ever contract validates growth strategy

Instem has signed its largest ever single contract, a five-year \$12m deal with a leading global contract research organisation (CRO). The group is deploying its new Aspire clinical trial acceleration solution to over 2,000 users worldwide. In our view, the contract win validates the group's growth strategy and further demonstrates Instem's inherent M&A ability. We leave forecasts unchanged following this positive news, anticipating that the deal will underpin our future projections.

- Major global CRO to deploy Aspire™.** Aspire™ is Instem's modular clinical analysis framework that both accelerates and reduces the cost of drug development. A major (unnamed) CRO has signed a multi-year contract to deploy the suite to over 2,000 users worldwide, with the value to Instem in excess of \$12m. The client is a longstanding Instem customer.
- Contract economics.** The contract includes two key elements: 1) a one-time implementation project worth approximately \$3m, with revenue to be recognised in FY22E and FY23E financials, and 2) approximately \$2.25m annually in recurring SaaS subscription revenues over a four-year period to be recognised from late Q3 2023. In addition, Amazon Web Services Cloud fees will be billed to the client based on usage.
- Further demonstration of the group's M&A ability.** With the group having made nine acquisitions since 2011, we have long viewed M&A as a core strength of Instem. Aspire™ is being developed by Instem's Clinical Trial Acceleration business, which was formed in 2021 following the d-Wise acquisition in March of that year. Instem acquired d-Wise for \$31m. Less than 18 months later, the acquisition has already been leveraged to sign the group's largest ever single contract. Furthermore, with the CRO having been a clinical trial analysis client since 2016, the announcement reveals a material expansion of an existing client relationship.
- Validating the growth strategy.** Organically, the resulting Aspire™-related SaaS subscription revenue from the contract will improve revenue visibility and the group's margin profile. Overall, the deal therefore also improves earnings quality. Note that for this specific client, management's expectation is for annual recurring revenue to be approximately \$1m higher than currently generated by the existing custom statistical computing environment (SCE).

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	5.2x	3.2x	2.4x	2.1x	1.9x
EV/EBITDA	24.7x	17.7x	13.3x	10.1x	9.0x
PER	34.6x	36.7x	24.6x	18.5x	15.2x

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.

**Financial Summary: Instem**

Year end: December (£m unless shown)

	2020	2021	2022E	2023E	2024E
<b>PROFIT &amp; LOSS</b>					
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
<b>CASH FLOW &amp; BALANCE SHEET</b>					
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
<b>NAV AND RETURNS</b>					
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%
<b>METRICS</b>					
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%
<b>VALUATION</b>					
EV/Sales	5.2	3.2	2.4	2.1	1.9
EV/EBITDA	24.7	17.7	13.3	10.1	9.0
EV/NOPAT	35.3	25.7	26.7	18.1	14.7
PER	34.6	36.7	24.6	18.5	15.2
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	4.5%	4.5%	4.1%	6.6%	8.4%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

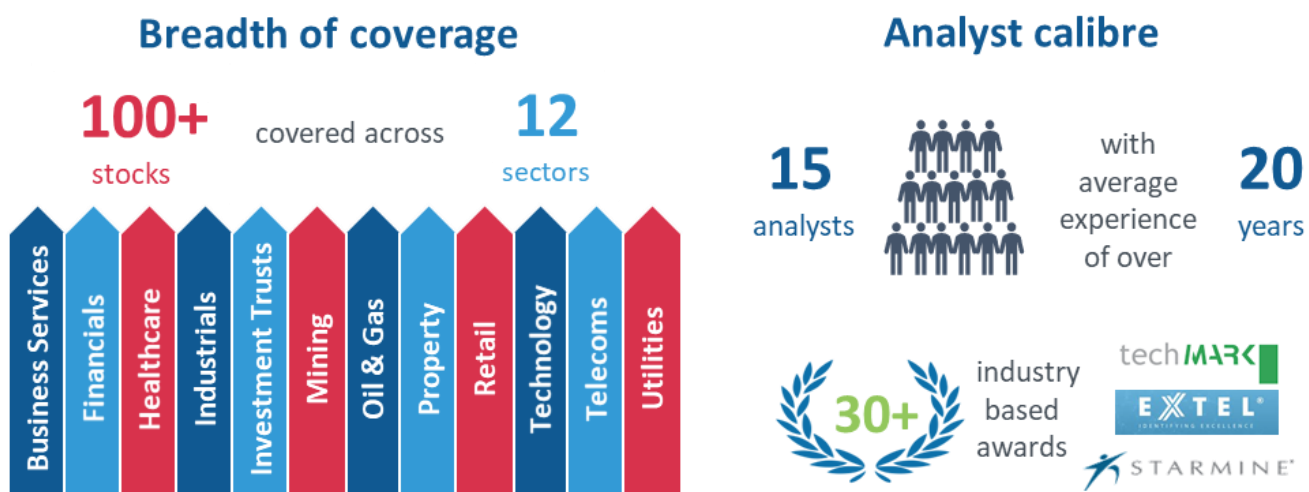
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