

INSTEM

SOFTWARE AND COMPUTER SERVICES

INS.L

355p

Market Cap: £57.7m

SHARE PRICE (p)



12m high/low

365p/228p

Source: LSE Data

KEY INFORMATION

Enterprise value	£54.1m
Index/market	AIM
Next news	Interims - Sept '19
Gearing	N/A
Interest cover	N/A

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SEND, SaaS and strength of pipeline

Instem has published a trading update for H1 2019E – the group is trading well, and we make no changes to estimates. Highlights include a faster-than-expected transition to SaaS for new deals, a doubling of SEND-related sales, and a strong pipeline for H2. Cash collections appear robust, and the business is seeing strength across the board. FY 2019E will be H2-weighted (especially at the profit level, given the SaaS transition) but appears to be shaping up well.

- Financial update** The group's RNS highlights c.10% revenue growth during H1, which maps well to our c.11% expectation for the full year. Within this mix, SaaS has taken a larger-than-expected share of new business – this clearly lowers near-term revenue and profitability, but is a major positive for long term visibility and value. Cash generation also appears to have been strong, with H1 net cash at £6.0m comparing well to our year-end estimate of £6.7m.
- Strength across the board** H1 appears to show strength across all of the group – Data Collection (largely Provantis) has seen “increased customer wins”, which is very positive for such a mature product. Informatics (largely the KnowledgeScan product) has seen revenue up by 20%, which is good news after a long period of uncertainty. Finally, the SEND-related business continues to benefit dramatically from regulatory tail-winds, and has more than doubled year-on-year.
- No changes to numbers** We make no changes to estimates following today's news, noting the strong H1 performance and the comments around pipeline strength going into H2. We would expect H1 performance to have been impacted in profit terms by the ramp-up in costs to deliver on SEND and Informatics opportunities, which may not have been matched by the (modest) revenue recognition on SaaS deals. Nevertheless, the outlook for the full year remains upbeat and cash generation appears well on track for our end-2019 forecast.

Instem seems to be firing on all cylinders – the informatics-related business, the regulatory-driven areas and even the mature Provantis product. The group is benefiting from its scale and reach, the breadth of its offering, and many years of investment in sales channels and delivery to major CRO and other customers. We look forward to further positive news across H2, and to potentially very material opportunities as the SEND-related market evolves, and as China's pharmaceuticals sector continues to grow and adopt more Western practices and technologies.

FYE DEC (€M)	2017	2018	2019E	2020E	2021E
Revenue	21.7	22.7	25.3	28.0	30.0
Adj EBITDA	2.4	4.1	4.6	5.3	5.8
Fully adj PBT	1.6	3.0	3.6	4.4	4.9
Fully adj EPS	11.0	15.5	18.8	21.4	23.3
EV/Sales	2.5x	2.4x	2.1x	1.9x	1.8x
EV/EBITDA	22.4x	13.4x	11.9x	10.2x	9.3x
PER	32.2x	22.9x	18.9x	16.6x	15.3x

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	25.3	28.0	30.0
Adj EBITDA	2.4	4.1	4.6	5.3	5.8
Adj EBIT	1.8	3.2	3.6	4.3	4.8
Reported PBT	0.3	1.7	2.6	3.4	4.1
Fully adj PBT	1.6	3.0	3.6	4.4	4.9
NOPAT	1.3	2.4	3.1	3.5	3.8
Reported EPS	4.0	8.7	14.4	16.0	19.4
Fully adj EPS	11.0	15.5	18.8	21.4	23.3
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	4.9	5.0	4.3
Free Cash flow	0.2	0.6	3.2	2.8	2.9
FCF per share	1.0	3.3	18.8	16.4	17.3
Acquisitions	(0.9)	(0.2)	0.0	0.0	0.0
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	0.0	0.0	0.0
Net cash flow	(0.9)	0.5	3.2	2.8	2.9
Cash & equivalents	3.1	3.6	6.7	9.5	12.4
Net (Debt)/Cash	3.1	3.6	6.7	9.5	12.4
NAV AND RETURNS	2017	2018	2019E	2020E	2021E
Net asset value	13.8	16.4	18.8	24.9	29.2
NAV/share	88.3	105.1	120.6	159.9	187.2
Net Tangible Asset Value	(3.7)	(1.0)	2.3	8.6	10.1
NTAV/share	(23.5)	(6.5)	14.8	55.3	64.6
Average equity	13.3	15.1	17.6	21.9	27.1
Post-tax ROE (%)	4.8%	9.7%	13.7%	12.3%	12.0%
METRICS	2017	2018	2019E	2020E	2021E
Revenue growth		4.8%	11.3%	10.9%	7.0%
Adj EBITDA growth		67.6%	12.3%	17.0%	9.8%
Adj EBIT growth		80.3%	12.9%	20.3%	11.0%
Adj PBT growth		84.7%	20.8%	20.8%	11.4%
Adj EPS growth		N/A	21.3%	13.8%	8.7%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		14.0%	14.2%	15.3%	15.9%
VALUATION	2017	2018	2019E	2020E	2021E
EV/Sales	2.5	2.4	2.1	1.9	1.8
EV/EBITDA	22.4	13.4	11.9	10.2	9.3
EV/NOPAT	41.0	22.8	17.4	15.3	14.2
PER	32.2	22.9	18.9	16.6	15.3
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	0.3%	0.9%	5.3%	4.6%	4.9%

Source: Company information and Progressive Equity Research estimates

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