

INSTEM

SOFTWARE AND COMPUTER SERVICES

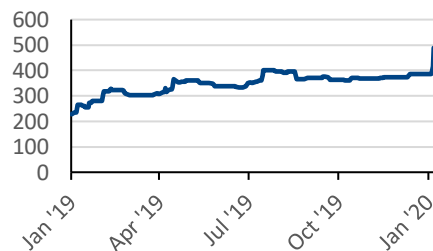
13 January 2020

INS.L

495p

Market Cap: £82.3m

SHARE PRICE (p)



12m high/low

489p/236p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£5.9m
Enterprise value	£76.4m
Index/market	AIM
Next news	FY 19 finals, March 20
Shares in Issue (m)	16.6
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

INSTEM IS A RESEARCH CLIENT OF PROGRESSIVE

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Firing on all cylinders

Instem's trading update for the twelve months ending December 2019 confirms that all three key business areas (Data Collection, Regulatory Solutions and Informatics) are performing well. The business is expected to deliver revenue growth of c12% for the year – in line with our forecasts, and the closing cash balance well ahead of our expectations. Management commentary on the outlook is positive; we make no changes to earnings estimates following the announcement but upgrade cash forecasts.

- Strong revenue growth and cash performance:** The release confirms c12% revenue growth versus FY 2018, with improved revenue visibility and earnings quality from the ongoing transition to SaaS delivery. Net cash closed the year at £5.9m, c£1.4m ahead of our forecast (*see below*) and a £2.3m improvement on FY 2018.
- All business areas performing well:** The release confirms that all three of Instem's key business areas (Data Collection, Regulatory Solutions and Informatics) continue to perform well, with each benefitting from a positive market backdrop and strong market positioning. Growth in the **SEND** business remains strong, driven by a favourable regulatory environment and strong repeat business volumes. Increasing industry-wide adoption of artificial intelligence solutions continues to drive growth in the **Informatics** division, with November's Leadscope acquisition complementing the growing demand for Target Safety Assessments delivered by Instem's KnowledgeScan platform. The **Study Management** business saw increased order volume and high renewal rates.
- Positive outlook commentary:** Management herald their confidence that momentum delivered during 2019 will continue into the current financial year, highlighting that continued organic revenue growth, margin improvement and accretive M&A all represent key opportunities.

Earnings estimates unchanged – cash upgraded: We make no changes to earnings estimates following the announcement. We understand the closing FY 2019E cash position benefitted from the combined effects of: 1) option exercises (c£200k), 2) early cash collections from certain clients, and 3) a more favourable working capital position within the Leadscope business. We adjust our FY 2019E cash forecast accordingly and increase our forecast FY 2020E and 2021E cash balances by £200k in both years.

FYE DEC (£M)	2017	2018	2019E	2020E	2021E
Revenue	21.7	22.7	25.8	29.6	31.7
Adj EBITDA	2.4	4.1	4.9	6.3	6.9
Fully adj PBT	1.6	3.0	3.4	4.8	5.3
Fully adj EPS	11.0	15.5	17.5	23.2	25.2
EV/Sales	3.5x	3.4x	3.0x	2.6x	2.4x
EV/EBITDA	31.6x	18.9x	15.7x	12.1x	11.1x
PER	44.9x	31.9x	28.2x	21.3x	19.7x

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)

	2017	2018	2019E	2020E	2021E
PROFIT & LOSS					
Revenue	21.7	22.7	25.8	29.6	31.7
Adj EBITDA	2.4	4.1	4.9	6.3	6.9
Adj EBIT	1.8	3.2	3.3	4.7	5.2
Reported PBT	0.3	1.7	2.5	3.7	4.5
Fully adj PBT	1.6	3.0	3.4	4.8	5.3
NOPAT	1.3	2.4	2.9	3.9	4.2
Reported EPS	4.0	8.7	14.0	17.8	21.3
Fully adj EPS	11.0	15.5	17.5	23.2	25.2
Dividend per share	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	1.9	1.8	5.6	4.1	4.6
Free Cash flow	0.2	0.6	3.8	1.7	3.1
FCF per share	1.0	3.3	22.7	10.4	18.7
Acquisitions	(0.9)	(0.2)	(1.9)	(0.3)	(0.3)
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	0.4	0.0	0.0
Net cash flow	(0.9)	0.5	2.3	1.5	2.9
Cash & equivalents	3.1	3.6	5.9	7.4	10.2
Net (Debt)/Cash	3.1	3.6	5.9	7.4	10.2
NAV AND RETURNS					
Net asset value	13.8	16.4	18.3	21.1	28.2
NAV/share	88.3	105.1	115.7	133.3	178.1
Net Tangible Asset Value	(3.7)	(1.0)	2.4	6.0	10.9
NTAV/share	(23.5)	(6.5)	15.2	37.9	68.8
Average equity	13.3	15.1	17.4	19.7	24.6
Post-tax ROE (%)	4.8%	9.7%	13.5%	15.2%	14.6%
METRICS					
Revenue growth		4.8%	13.5%	14.7%	7.3%
Adj EBITDA growth		67.6%	20.3%	30.0%	8.8%
Adj EBIT growth		80.3%	5.7%	40.4%	10.9%
Adj PBT growth		84.7%	12.8%	40.4%	11.3%
Adj EPS growth		N/A	13.2%	32.2%	8.6%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		14.0%	13.0%	15.9%	16.4%
VALUATION					
EV/Sales	3.5	3.4	3.0	2.6	2.4
EV/EBITDA	31.6	18.9	15.7	12.1	11.1
EV/NOPAT	57.9	32.1	26.2	19.8	18.3
PER	44.9	31.9	28.2	21.3	19.7
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	0.2%	0.7%	4.6%	2.1%	3.8%

Source: Company information and Progressive Equity Research estimates

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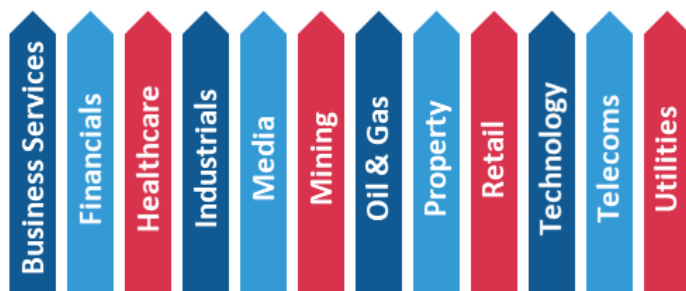
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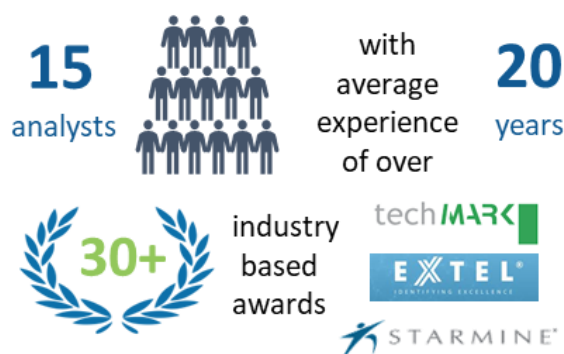
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across **12** sectors



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