27 September 2021

Instem plc

("Instem", the "Company" or the "Group")

Half Year Report

Instem plc (AIM: INS.L), a leading provider of IT solutions to the global life sciences market, announces its unaudited half year results for the six months ended 30 June 2021.

Financial Highlights

- Total Group revenues were up 41% to £19.8m (H1 2020: £14.0m)
  - Recurring revenue (annual support and SaaS) increased 18% to £9.9m (H1 2020: £8.4m) with SaaS increasing 29% to £4.9m (H1 2020: £3.8m)
  - Organic revenue growth of 8% to £15.2m (H1 2020: £14.0m), excluding The Edge Software Consultancy ("The Edge") and d-Wise Technologies Inc ("d-wise") acquisitions in March and April 2021, respectively
  - Revenue figures stated after a £0.65m fair value reduction to acquired deferred revenue associated with the d-wise acquisition
  - Organic constant currency revenue growth was 16%
- Profit performance
  - Adjusted EBITDA* increased 39% to £4.2m (H1 2020: £3.0m), representing an Adjusted EBITDA margin of 21.0% (H1 2020: 21.3%)
  - Profit before tax of £1.2m (H1 2020: £1.9m)
  - Adjusted profit before tax** of £2.9m (H1 2020: £2.1m)
  - Basic and diluted earnings per share of 4.8p (H1 2020: 9.5p) and 4.6p (H1 2020: 9.0p)
  - Adjusted basic and diluted earnings per share** of 12.8p (H1 2020: 10.7p) and 12.2p (H1 2020: 10.2p)
  - Profit figures also stated after the £0.65m fair value reduction
- Net cash generated from operations of £4.1m (H1 2020 £2.8m)
- Net cash balance*** at 30 June 2021 of £10.1m (H1 2020: £7.3m)

**Earnings before interest, tax, depreciation, amortisation and non-recurring items.*
***After adjusting for the effect of foreign currency exchange on the revaluation of inter-company balances included in finance income/(costs), non-recurring items, amortisation of intangibles on acquisitions*
Profit is adjusted in this way to provide a clearer measure of underlying operating performance.
**** Gross cash of £17.9m less financial liabilities but pre-IFRS16*

Operational Highlights

- Strong organic growth
- Continued transition to the SaaS model further increased earnings visibility and underlying margins across the business
- The acquisitions of The Edge and d-wise, which transformed the scale and reach of the business, are integrating well
  - Increasing recurring revenues
  - Strengthening relationships with clients
  - Increasing routes to market and potential cross selling opportunities

Post-period end Highlights

- Acquisition of PDS Pathology Data Systems ("PDS") expected to be immediately earnings enhancing
  - Further extends Instem's Study Management and SEND market share and deepening relationships with some of its largest clients

Analyst Presentation: 11:30 today

Management will be hosting a presentation via web conference today at 11:30. Analysts wishing to join should register their interest by emailing instem@walbrookpr.com or by telephoning 020 7933 8780.

Investor Presentation: 16:00 today

Management will be providing a presentation and hosting an Investor Q&A session on the results and future prospects today at 16:00, through the digital platform Investor Meet Company. Investors can sign up for free and add to attend the presentation via the following link https://www.investormeetcompany.com/instem-plc/register-investor

Questions can be submitted pre-event and at any time during the live presentation via the Investor Meet Company Platform.

Phil Reason, CEO of Instem plc, commented: *"As a company, we are focussed on growing both organically and by acquisition. We are delighted with the transactions completed during and post the period end as well as the performance of our existing operations. We have a scalable platform in place and a highly leverageable business model underpinning a number of growth opportunities in existing and adjacent markets.*

"We are delighted to have achieved strong organic growth, with the additions of The Edge, d-wise and, most recently, PDS underpinning a step change in the scale of the business. Market conditions remain buoyant and we have a strong pipeline of opportunities, with a significantly increased target market. The improvement in our trading profitability in the first half has been sustained post the period end and, as a result, we now expect trading performance, excluding any negative impact of the fair value adjustment to acquired deferred revenue, for the current financial year to be slightly ahead of the Board's previous expectations.

"My thanks go to our enlarged global team of over 480 staff, who have continued to perform exceptionally well whilst working remotely. We expect that an indefinite blend of home and hybrid working will provide permanent operational efficiencies while enhancing staff work-life balance."

For further information, please contact:

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About Instem

Instem is a leading provider of IT solutions & services to the life sciences market delivering compelling solutions for Study Management and Data Collection; Regulatory Solutions for Submissions and Compliance; and Informatics-based Insight Generation.

Instem solutions are in use by over 700 customers worldwide, including all the largest 25 pharmaceutical companies, enabling clients to bring life enhancing products to market faster. Instem's portfolio of software solutions increases client productivity by automating study-related processes while offering the unique ability to generate new knowledge through the extraction and harmonisation of actionable scientific information.

Instem products and services address aspects of the entire drug development value chain, from discovery through to market launch. Management estimate that over 50% of all drugs on the market have been through some part of Instem's platform at some stage of their development.

To learn more about Instem solutions and its mission, please visit www.instem.com

CHAIRMAN'S STATEMENT

In the half year period from January to June, and in the immediate post-period to September, the shape and scale of our operations has been transformed by the successful acquisition of three businesses.

The acquisitions of The Edge and d-wise have significantly extended the reach of our product and service portfolio, whilst the acquisition of PDS ensures that our position in the preclinical space is unrivalled. We are delighted to have added such strong businesses to our Company.

In July 2020 we specifically raised funds to acquire businesses that we believed would be transformational to the company by extending our 'footprint' in the life sciences R&D space and consequently provide a stronger platform for long term growth. I believe that we can say this has been achieved in terms of deploying those funds to increase our scale and provide a platform for further growth.

We can already see the positive impact from the acquisitions of The Edge and d-wise, which we are currently integrating into the business. While they only contributed four and three months respectively for the period under review, the resultant impact was significant.

Financial Performance.

Whilst the COVID-19 pandemic affected a number of sectors, Instem continued to deliver solutions remotely and with minimal disruption. The Company's performance during the period was underpinned by further strong organic growth and supplemented by the contributions from The Edge and d-wise.

- Revenue increased 41%
- SaaS Revenue increased 29%
- Adjusted EBITDA increased 39%
- Net cash generated from operations of £4.1m

Growth in these financial metrics is stated after a £0.65m fair value reduction to acquired deferred revenue associated with the d-wise acquisition affecting revenue and profit reported in the period by this same amount. This is discussed in further detail in the Financial Review section below.

Looking Forwards

We expect that, like The Edge and d-wise, PDS will be earnings enhancing with all three having brought strong management teams and synergies to our existing business and client base. These additions have extended the Company's reach from discovery to clinical trials across the drug discovery and development lifecycle. The Company is now even closer to becoming a one-stop shop for life sciences companies looking for long term partnerships to assist them over the drug discovery and development landscape.

In the short term, we will concentrate on the successful integration of the recently acquired businesses to ensure that we take best advantage of the opportunities that this platform will create.

Then, building on this new platform, the Board believes there are three distinct and deliverable opportunities to enable the continued and further development of the business:

- Organic revenue growth from additional market penetration, cross-selling and the introduction of new products and services;
- Margin improvement through conversion to SaaS deployment and extensively leveraging global infrastructure; and

- Accretive M&A and strategic partnerships in existing markets, as well as entry into related adjacent areas.

I would like to thank and congratulate our staff for their performance and contribution during this period and look forward to updating the market with further developments in due course.

We expect the momentum achieved during H1 and post period-end to be maintained throughout the remainder of the financial year and we continue to be excited by the significant potential of the business. As I said, we are focused on fully integrating the acquisitions and benefiting from the scale and opportunity they provide as we look to maximise the potential of the enlarged Group.

David Gare
Non-Executive Chairman
27 September 2021

CHIEF EXECUTIVE'S REPORT

Strategic Developments

The Company grew strongly during the period, both organically and acquisitively, supported by a buoyant life sciences R&D market.

The shift to SaaS continued, with SaaS subscription revenues growing significantly faster than annual support fees for perpetual licenses, benefitting from both first time SaaS revenue from new clients and established clients switching from on-premise to SaaS deployments. An increasing proportion of SaaS revenues has bolstered Instem's earnings visibility as well as its underlying margin through operating leverage. Despite the focus on SaaS, increased industry study volumes contributed to significant growth in many contract research organizations ("CROs"), resulting in increased perpetual licenses orders from long-standing clients. In the near-term, this will increase future annual support fees and ultimately SaaS subscriptions as these clients transition from on-premise deployment.

Significantly improved profitability contributed to the Company's cash balance of £17.9m at the period end, highlighting strong operational cash generation. This figure is post payment of the initial acquisition considerations for The Edge and d-wise transactions and represents a c.£3.9m improvement on the £14.0m balance disclosed subsequent to the two transactions.

The Company also benefited from the integration of The Edge, d-wise and post period end PDS, expanding its reach and significantly enhancing its scale and growth opportunities.

Once again revenue growth was particularly strong in North America and China, where successful early-phase R&D is starting to deliver a healthy pipeline of drug candidates requiring a significant increase in non-clinical development capacity, where Instem solutions are particularly strong. Instem remains a substantial market leader in China.

Market Review

The market backdrop remained favourable for the Group, with global population growth and life expectancy underpinning increased demand for successful innovation in life sciences. Growing levels of investment in the biotech industry - with the pharmaceuticals sector spending heavily in drug development – including the provision of therapies and vaccines to treat or prevent COVID-19, meant that Instem had a strong and growing target market, which was further enhanced by the acquisitions completed during the period.

In the pharmaceutical industry, which represents the largest proportion of Instem's revenue, we refer again to the Pharma R&D Annual Review, the 2021 version of which was released by Pharma Intelligence in March 2021. This report shows that the industry grew strongly in 2020 with a 4.8% increase (2019: 9.6%) in the total number of drugs in the regulatory stages of global R&D pipeline, continuing a multi-year growth trend that shows no sign of abating. The vast majority of the growth in the pipeline was within the preclinical market – which accounts for the majority of Instem's business, with the number of drugs at this stage of development rising 6% to 10,223.

Importantly, the Company grew its reach into the clinical trial analysis and submission market during the period via the acquisition of d-wise, further enhancing its capabilities and potential to deepen relationships with existing clients and attract new customers.

The modest negative COVID-19 related impact on revenue from the academic market in FY2020, which was closed or remote for much of the year, has largely normalized during 2021. However, site-based professional services delivery for all of our customers remains restricted, creating a healthy and growing backlog of business to work through as and when restrictions ease.

Business Performance

Study Management and Data Collection

Strong study demand from the non-clinical CROs has fuelled growth in licensed users for Instem's Study Management and Data Collection solutions and encouraged existing clients to take modules from our portfolio that they had not yet licensed. Clients have also been upgrading to later versions of our products to further increase their productivity. We have continued to benefit from the transition towards SaaS with steady progress again being made towards our goal of moving all existing on-premise enterprise software clients to SaaS deployment by the end of 2023 (or having firm commitments from them to do so).

The majority of the revenue associated with orders in excess of £2.7m, announced for one of our largest clients on 15 December 2020 and in our 14 January 2021 Trading Update, was recognized in H1 2021 and we continue to collaborate extensively with this customer as they look for competitive advantage through technology investment. Most of this additional revenue is study management related but also includes new SEND related capabilities, much of which will benefit the wider SEND community.

In March 2021 the Company completed the £8.5m acquisition of Discovery technology solutions provider The Edge – broadening Instem's reach into the Discovery Study Management market – and helping it to meet growing interest for the wider sharing of data. The acquisition also provides scope for increased cross-selling opportunities as well as enhancing the Company's product range and routes to market - particularly in the Drug Metabolism & Pharmacokinetics (DMPK) field.

The Edge extends the Company's reach within existing and new clients and enhances its technology offering. It is already the go-to partner for many of Instem's clients looking to revolutionise their R&D processes, and the combined operations will be able to provide a simplified service structure.

In Silico Solutions

Our computational toxicology business once again performed ahead of management expectations as clients sought to leverage predictive models to complement, or replace, laboratory-based studies. Collaborations with industry and regulatory authorities continue to provide high profile Instem thought-leadership in this area, helping to drive current product adoption and the expansion of the solution portfolio to introduce new, or materially enhanced, predictive models. Initial engagements have been successfully completed using the Predict™ In Silico Tox service, launched in December 2020, and we see further opportunity to expand our services in this area, some in combination with our KnowledgeScan based, Target Safety Assessment ("TSA") services.

Growth of TSA Services moderated in H2 2020 and H1 2021 as a result of the pandemic, but demand has picked up again during the initial months of H2 2021. This is an area where we have historically generated significant market awareness and sales pipeline at scientific conferences, as both Instem staff and reference clients present a new, "disruptive" approach to the established method of assessing the potential safety issues of modulating a biological target thought to offer therapeutic benefit. We are eagerly awaiting the post COVID-19 return to in person conferences, which have been further delayed by the Delta variant. Although we will actively participate in the programme for the influential "American College of Toxicology" remote annual meeting in November 2021, the largest event of this type is the "Society of Toxicology" annual meeting, which is scheduled to be held in person in San Diego in March 2022.

Regulatory Solutions
The Company's regulatory SEND solutions lead the FDA (Food and Drug Administration) mandated market and our leadership position has been further enhanced with the acquisition of PDS, ranked number two in the market. As industry familiarity and expertise with SEND has improved, CROs in particular are doing more of the SEND creation work in-house, the overwhelming majority with Instem technology. Although this has moderated the volume of SEND creation out-sourced services for submission purposes, business is growing for conversion work for non-submission legacy studies, as clients look to leverage harmonised data for insight generation. This is also leading to increased opportunity for our advanced SEND analytics and warehousing software solutions.

SEND continues to expand and evolve, with Instem actively involved in the standards consortium and taking a lead role during 2021 in areas such as the "fit for use" pilot of the Developmental and Reproductive Toxicology version of the standard. The FDA has announced, after a long period tolerating variable SEND submission quality (never a problem with Instem SEND conversions) while the industry became more SEND-literate, that it will more strictly enforce the SEND Technical Rejection Criteria, that commenced 15 September 2021. We expect that this can only enhance existing customer and wider market demand for our industry-leading technology and consulting services.

Clinical Trial Acceleration Solutions
In April 2021 the Company acquired d-wise for up to $31m and established the Clinical Trial Acceleration Solutions division. d-wise adds a market leading position to the Group in an attractive adjacent area of clinical trial analysis and submission, with good future visibility through recurring revenue streams and already contracted, high value consultancy projects. The combined strength of Instem and d-wise positions the enlarged Group as the foremost authority and driving force in generating, analysing and leveraging data from Discovery through late-stage Clinical Trials.

Initial integration of d-wise is largely complete, with a second phase of integration scheduled for H1 2022 when the transaction earn-out period has completed. In addition to the established provision of productised statistical computing environments ("SCEs") for small-midsized pharma companies and CROs; and the large, customised SCE solutions typically sought by the top 30-40 pharma and CROs, we have been advancing our next generation solution Aspire™, which blends deployment of standardized, next generation SCE components within custom configurations. We expect this approach to accelerate the time to client deployment, reducing client "cost of ownership", while increasing recurring revenue and project profitability.

Strengthened Team
Carlos Frade recently joined Instem as VP of business development. Carlos was formerly the VP of Non-clinical R&D at Xybion and was one of the original architects of the competing Pristima study management software solution. A highly respected figure in the life sciences community, Carlos brings with him decades of experience and success, working closely with customers and regulators to help streamline their R&D processes.

Post-Period Acquisition
Earlier this month the Company completed the acquisition of life sciences software company PDS for a total enterprise value of CHF 14.25m (c.£11.4m). PDS has been a direct competitor of Instem for over 25 years, providing software for non-clinical study management, and software and outsourced services for regulatory submissions using SEND. The acquisition further extends Instem's Study Management and SEND market share and deepens its relationships with some of its largest clients with product rationalisation expected to enhance clients' experience and increase operating margin.

Outlook

As a company, we are focussed on growing both organically and by acquisition. We are delighted with the transactions completed during and post the period end as well as the performance of our existing operations. We have a scalable platform in place and a highly leverageable business model underpinning a number of growth opportunities in existing and adjacent markets.

We are delighted to have achieved strong organic growth, with the additions of The Edge, d-wise and, most recently, PDS underpinning a step change in the scale of the business. Market conditions remain buoyant and we have a strong pipeline of opportunities, with a significantly increased target market. The improvement in our trading profitability in the first half has been sustained post the period end and, as a result, we now expect trading performance, excluding any negative impact of the fair value adjustment to acquired deferred revenue, for the current financial year to be slightly ahead of the Board's previous expectations.

My thanks go to our enlarged global team of over 480 staff, who have continued to perform exceptionally well whilst working remotely. We expect that an indefinite blend of home and hybrid working will provide permanent operational efficiencies while enhancing staff work-life balance.

Phil Reason
Chief Executive Officer
27 September 2021

Financial Review

Key Performance Indicators (KPIs)

The directors review monthly revenue and operating costs to ensure that sufficient cash resources are available for the working capital requirements of the Group.

The primary KPIs at 30 June 2021 were:

	6 months to 30 June 2021 £000	6 months to 30 June 2020 £000	12 months to 31 Dec 2020 £000	% Change (H1 2020 to H1 2021)
Total revenue	**19,826**	14,047	28,217	41%
Recurring revenue	**9,889**	8,357	16,941	18%
Recurring revenue as a percentage of total revenue	**50%**	59%	60%	-900bps
Adjusted EBITDA	**4,161**	2,995	5,919	39%
Adjusted EBITDA margin %	**21.0%**	21.3%	21.0%	-30bps
Cash and cash equivalents	**17,850**	9,132	26,724	95%

In addition, certain non-financial KPIs are periodically reviewed and assessed, including customer and staff retention rates.

Instem's revenue model consists of perpetual licence income with annual support and maintenance contracts, professional fees, technology enabled outsourced services fees, SaaS subscriptions and consulting services fees.

There was fair value adjustment on the acquired deferred revenue from d-wise of £0.65m (H1 2020: £nil). A provisional fair value adjustment of £1.1m has been made to the opening balance for d-wise acquired deferred revenue at the acquisition date, which is being amortised on a straight-line basis during the remaining period of the relevant customer contracts. The sum of £1.0m is expected to be charged to the 2021 Income Statement, of which £0.65m has been charged in H1. The calculation of the full year adjustment is ongoing and will be completed during H2 2021. This is a non-cash item and does not materially impact any period other than 2021.

Total revenues in the period increased by 41% to £19.8m (H1 2020: £14.0m). Like-for-like revenues, excluding the impact of The Edge and d-wise, which were acquired in March 2021 and April 2021 respectively, increased by 8%. Recurring revenue, derived from support & maintenance contracts and SaaS subscriptions, increased in the period by 18% to £9.9m (H1 2020: £8.4m). Recurring revenue as a percentage of total revenue was 50% (H1 2020: 59%). In absolute terms, recurring revenue increased over the prior year by £1.5m but its percentage of the total decreased due primarily to the addition of d-wise consulting revenue, which is shown as non-recurring.

Total operating expenses increased by 41% in the period reflecting the ongoing investment in operational teams and the inclusion of The Edge and d-wise costs. Like-for-like operating costs increased by 3%.

Earnings before interest, tax, depreciation, amortisation, impairment of goodwill and capitalised development and non-recurring items (Adjusted EBITDA) increased by 39% to £4.2m (H1 2020: £3.0m). For this measure of earnings, the margin as a percentage of revenue decreased in the period to 21.0% from 21.3% in H1 2020. Excluding The Edge and d-wise, like-for like Adjusted EBITDA increased by 27.2% to £3.8m in the period.

Non-recurring costs in the period were £0.8m (H1 2020: £0.05m), consisting of £0.06m for legal expenses associated with historical contract disputes, £0.17m for share based payments and £1.39m for acquisition costs, partially offset by income of £0.8m ($1.1m) for US federal government COVID-19 support loans, which were forgiven during 2021.

The reported profit before tax for the period was £1.2m (H1 2020: £1.9m). Adjusted profit before tax (i.e. adjusting for the effect of foreign currency exchange on the revaluation of inter-company balances included in finance income/(costs), non-recurring items, impairment of goodwill and capitalised development plus amortisation of intangibles on acquisitions) was £2.9m (H1 2020: £2.1m).

The Group continues to invest in its product portfolio. Development costs incurred in the period were £2.3m (H1 2020: £1.6m), of which £1.0m (H1 2020: £0.6m) was capitalised.

Basic and diluted earnings per share calculated on an adjusted basis were 12.8p and 12.2p respectively (H1 2020: 10.7p basic and 10.2p diluted). The reported basic and diluted earnings per share were 4.8p and 4.6p respectively (H1 2020: 9.5p basic and 9.0p diluted).

On 1 March 2021, Instem announced the acquisition of The Edge, a study management software provider based in the UK. The Edge is focused on improving the efficiency of early-stage drug R&D, improving productivity and ensuring high-quality data capture. The consideration payable is up to £8.5m, payable as £6.0m initially, satisfied by £4.0m in cash from existing reserves and £2.0m via the issuance of 391,920 new ordinary shares in Instem plc, £0.5m of deferred consideration and up to a further £2.0m payable contingent on The Edge's future trading performance, both amounts payable in cash. In addition, the amount of £1.5m was paid as a net cash adjustment after deducting the estimated debt at the point of the acquisition.

On 20 March 2021, Instem exchanged contracts to acquire US-based clinical trial technology & consulting leader d-wise Technologies, Inc. (d-wise). The acquisition was completed on 1 April 2021. d-wise adds a market leading position to the Group in an attractive adjacent area of clinical trial analysis and submission, with good future visibility through recurring revenue streams and already contracted, high value consultancy projects. The combined strength of Instem & d-wise positions the enlarged Group as the foremost authority and driving force in generating, analysing and leveraging data from Discovery through late-stage Clinical Trials. The total consideration is up to $31m comprising $20m on completion, $8m of deferred consideration and up to a further $3m which is payable contingent upon the future financial performance of d-wise. The initial consideration on completion was satisfied by $13m in cash and $7m via the issuance of 868,203 new ordinary shares of 10p each in Instem plc. The initial cash payment was funded from the Group's existing financial resources.

The period saw again strong net cash generated from operations of £4.1m (H1 2020: £3.0m), largely due to cash inflows from the newly acquired businesses, key contracts, outsourced services and effective working capital management. The Group's cash resources were used to accelerate the Group's acquisition strategy with the acquisition of the Edge and d-wise. The net cash used in investing activities includes the net cash payment of £10.6m for purchasing those subsidiaries (net of cash acquired). The proceeds of £0.8m ($1.1m) which were part of the US federal government support for businesses during the COVID-19 pandemic have been fully forgiven during 2021. As a result of the above and the positive organic cash generation achieved in the period, the cash balance decreased from £26.7m to £17.9m .

The deficit on the Group's legacy defined benefit pension scheme was £2.7m at 30 June 2021 (H1 2020: £4.0m) having improved from a deficit of £3.9m at 31 December 2020. Liabilities decreased from £16.4m at 31 December 2020 to £15.9m at 30 June 2021 and Plan Assets have increased from £12.5m at 31 December 2020 to £13.2m at 30 June 2021. The liabilities have fallen in value due to the rise in corporate bond yields over the period, albeit offset to some extent by an increase in expected future price inflation and a modest increase in assumed life expectancy. Positive asset returns combined with the deficit contributions paid over the period led to a rise in the value of the Scheme's assets. The latest triennial actuarial valuation of the Group's defined benefit pension arrangement as at 5 April 2020, was completed in July 2021, with the results to be reflected in the Group's Annual Report and Accounts for the year ending 31 December 2021

Movements in share capital, share premium, merger reserve and share based payment reserve reflect the exercise of share options during the period, the fair value of share options granted being charged to the statement of comprehensive income and the issue of shares connected to the acquisition of The Edge and d-wise.

In line with previous periods and given our policy of retaining cash within the business to capitalise on available growth opportunities, the Board has not recommended the payment of a dividend.

Principal risks and uncertainties

The principal risks and uncertainties remain unchanged from those described in our 2020 Annual Report.

Post balance sheet events

On 1 September 2021, Instem announced the acquisition of PDS Pathology Data Systems Ltd ("PDS"), a life sciences software company with headquarters in Switzerland and offices in the United States and Japan. PDS provides software for non-clinical study management and software and outsourced services for regulatory submissions using SEND (the Standard for the Exchange of Non-clinical Data). The acquisition will enable Instem to concentrate investment on a single line of SEND and preclinical study management products, removing unnecessary duplication in the market. The combination of technologies and highly experienced teams will enable the Company to enhance the development and delivery of existing and new solutions that provide higher value to our clients. The consideration comprises CHF 8.2m payable to the sellers of PDS on completion of the acquisition (the "Initial Consideration"), CHF 3.0m of seller loan repayments, CHF 2.0m to satisfy other net PDS liabilities and CHF 1.0m of deferred consideration (the "Deferred Consideration"). The Initial Consideration was satisfied by CHF 4.7m in cash (c. £3.8m) and CHF 3.5m (c. £2.8m) in new ordinary shares of 10 pence each in the Company (the "Consideration Shares").

The enlarged share capital of Instem is now 22,189,856 ordinary shares of 10p each.

Nigel Goldsmith
Chief Financial Officer
27 September 2021

Instem plc
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2021

	Note	**Unaudited Six months ended 30 June 2021 £000**	Unaudited Six months ended 30 June 2020 £000	Audited Year ended 31 December 2020 £000
REVENUE	**3**	**19,826**	14,047	28,217
Employee benefits expense		**(11,504)**	(8,009)	(16,508)
Other expenses		**(4,161)**	(3,043)	(5,790)
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING COSTS (ADJUSTED EBITDA)		**4,161**	2,995	5,919
Depreciation		**(123)**	(76)	(138)
Amortisation of intangibles arising on acquisition		**(599)**	(332)	(664)
Amortisation of internally generated intangibles		**(397)**	(310)	(736)
Amortisation of right of use assets		**(304)**	(272)	(572)
OPERATING PROFIT BEFORE NON-RECURRING COSTS		**2,738**	2,005	3,809
Non-recurring costs	6	**(817)**	(49)	(606)
OPERATING PROFIT AFTER NON-RECURRING COSTS		**1,921**	1,956	3,203
Finance income	7	**22**	67	38
Finance costs	8	**(766)**	(124)	(692)
PROFIT BEFORE TAXATION		**1,177**	1,899	2,549
Taxation		**(154)**	(308)	(275)
PROFIT FOR THE PERIOD		**1,023**	1,591	2,274
OTHER COMPREHENSIVE (EXPENSE)/INCOME				
Items that will not be reclassified to profit and loss account				
Actuarial (loss)/gain on retirement benefit obligations		**785**	(2,525)	(2,537)
Deferred tax on actuarial gain & loss		**(149)**	480	518
Deferred tax on share options		**-**	-	322
		636	(2,045)	(1,697)
Items that may be reclassified to profit and loss account:				
Exchange differences on translating foreign operations		**24**	77	10
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD		**660**	(1,968)	(1,687)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD		**1,683**	(377)	587
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**1,023**	1,591	2,274
TOTAL COMPREHENSIVE INCOME/(EXPENSE) ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**1,683**	(377)	587
Earnings per share from continuing operations				
- Basic	5	4.8p	9.5p	12.3
- Diluted	5	4.6p	9.0p	11.6

Instem plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Note	**Unaudited 30 June 2021 £000**	Unaudited 30 June 2020 £000	Audited 31 December 2020 £000
ASSETS				
NON-CURRENT ASSETS				
Intangible assets		**43,098**	18,122	18,023
Property, plant and equipment		**637**	252	238
Right of use assets		**2,110**	1,982	1,742
Finance lease receivables		**105**	165	128
TOTAL NON-CURRENT ASSETS		**45,950**	20,521	20,131
CURRENT ASSETS				
Inventories		**54**	39	50
Trade and other receivables		**12,250**	8,621	6,093
Finance lease receivables		**42**	19	41
Tax receivable		**648**	579	724
Cash and cash equivalents	9	**17,850**	9,132	26,724
TOTAL CURRENT ASSETS		**30,844**	18,390	33,632
TOTAL ASSETS		**76,794**	38,911	53,763
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables		**4,055**	2,315	2,958
Deferred income		**14,243**	11,048	9,878
Tax payable		**-**	425	-
Financial liabilities		**4,515**	749	268
Lease liabilities		**1,079**	461	608
Deferred tax liabilities		**2,855**	31	90
TOTAL CURRENT LIABILITIES		**26,747**	15,029	13,802
NON-CURRENT LIABILITIES				
Financial liabilities		**3,244**	1,079	1,131
Retirement benefit obligations		**2,729**	3,985	3,868
Provision for liabilities and charges	10	**250**	250	250
Lease liabilities		**1,312**	1,927	1,476
TOTAL NON-CURRENT LIABILITIES		**7,535**	7,241	6,725
TOTAL LIABILITIES		**34,282**	22,270	20,527
EQUITY				
Share capital		**2,178**	1,667	2,048
Share premium		**28,191**	13,219	28,172
Merger reserve		**9,359**	2,432	2,432
Share based payment reserve		**1,447**	784	930
Translation reserve		**116**	159	92
Retained earnings		**1,221**	(1,620)	(438)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**42,512**	16,641	33,326
TOTAL EQUITY AND LIABILITIES		**76,794**	38,911	53,763

Instem plc

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Note	Unaudited Six months ended 30 June 2021 £000	Unaudited Six months ended 30 June 2020 £000	Audited Year ended 31 December 2020 £000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation		**1,177**	1,899	2,549
Adjustments for:				
Depreciation		**123**	76	138
Amortisation of intangibles		**996**	642	1,400
Amortisation of right of use assets		**304**	272	572
Share based payment charge		**517**	130	427
Retirement benefit obligations		**(380)**	(362)	(512)
Finance income	7	**(22)**	(67)	(38)
US government loans forgiven	6	**(805)**	-	-
Finance costs	8	**766**	124	692
d-wise acquisition cost	12	**809**	-	-
Loss on disposal of fixed assets		**6**	-	2
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL		**3,491**	2,714	5,230
Movements in working capital:				
(Increase) in inventories		**(4)**	(3)	(14)
(Increase)/decrease in trade and other receivables		**(151)**	(1,705)	742
Increase in trade, other payables and deferred income		**746**	1,759	1,410
NET CASH GENERATED FROM OPERATIONS		**4,082**	2,765	7,368
Finance income		**3**	67	38
Finance costs		**(482)**	(124)	(648)
Income taxes		**(485)**	315	183
NET CASH GENERATED FROM OPERATING ACTIVITIES		**3,118**	3,023	6,941
CASH FLOWS FROM INVESTING ACTIVITIES				
Capitalisation of development costs		**(922)**	(600)	(1,272)
Purchase of property, plant and equipment		**(37)**	(85)	(141)
Payment of deferred consideration		**-**	-	(277)
Purchase of subsidiary undertaking (net of cash acquired)	11, 12	**(10,567)**	(73)	-
NET CASH USED IN INVESTING ACTIVITIES		**(11,526)**	(758)	(1,690)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital		**22**	89	15,423
Proceeds from US government loan		**-**	901	810
Repayment of lease liabilities		**(367)**	(327)	(621)
Receipts from sublease of asset		**22**	25	40
Repayment of lease capital		**-**	(15)	(15)
NET CASH (USED)/GENERATED FROM FINANCING ACTIVITIES		**(323)**	673	15,637
NET (DECREASE) /INCREASE IN CASH AND CASH EQUIVALENTS		**(8,731)**	2,938	20,888
Cash and cash equivalents at start of period		**26,724**	5,957	5,957
Effect of exchange rate changes on the balance of cash held in foreign currencies		**(143)**	237	(121)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**17,850**	9,132	26,724

Instem plc
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2021

	Share capital £000	Share premium £000	Merger reserve £000	Share based payment reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2020 – (Audited)	**1,662**	**13,135**	**2,432**	**654**	**82**	**(1,166)**	**16,799**
Profit for the period	-	-	-	-	-	1,591	1,591
Other comprehensive income/(expense)	-	-	-	-	77	(2,045)	(1,968)
Total comprehensive income	-	-	-	-	77	(454)	(377)
Shares issued	5	84	-	-	-	-	89
Share based payment	-	-	-	130	-	-	130
Balance as at 30 June 2020 (Unaudited)	**1,667**	**13,219**	**2,432**	**784**	**159**	**(1,620)**	**16,641**
Profit for the period	-	-	-	-	-	683	683
Other comprehensive (expense)/income	-	-	-	-	(67)	348	281
Total comprehensive expense	-	-	-	-	(67)	1,031	964
Shares issued	381	14,953	-	-	-	-	15,334
Share based payment	-	-	-	297	-	-	297
Reserve transfer on lapse of share options	-	-	-	(65)	-	65	-
Reserve transfer on exercise of share options	-	-	-	(86)	-	86	-
Balance as at 31 December 2020 (Audited)	**2,048**	**28,172**	**2,432**	**930**	**92**	**(438)**	**33,236**
Profit for the period						1,023	1,023
Other comprehensive income					24	636	660
Total comprehensive income	-	-	-	-	24	1,659	1,683
Shares issued	130	19	6,927	-	-	-	7,076
Share based payment	-	-	-	517	-	-	517
Balance as at 30 June 2021 (Unaudited)	**2,178**	**28,191**	**9,359**	**1,447**	**116**	**1,221**	**42,512**

NOTES TO THE FINANCIAL INFORMATION

For the six months ended 30 June 2021

1. General information

The principal activity and nature of operations of the Group is the provision of world class IT solutions and services to the life sciences research and development market. Instem's solutions for data collection, management and analysis are used by customers worldwide to meet the needs of life science organisations for data-driven decision making leading to safer, more effective products. Instem plc is a public limited company, listed on AIM, incorporated in England and Wales under the Companies Act 2006 and domiciled in England. The registered office is Diamond Way, Stone Business Park, Stone, Staffordshire ST15 0SD, UK.

2. Basis of preparation and accounting policies

Basis of preparation

The Group's half-yearly financial information, which is unaudited, consolidates the results of Instem plc and its subsidiary undertakings made up to 30 June 2021. The Group's accounting reference date is 31 December.

The consolidated financial information is presented in Pounds Sterling (£) which is also the functional currency of the parent.

The financial information contained in this half year financial report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. It does not therefore include all of the information and disclosures required in the annual financial statements.

The financial information for the six months ended 30 June 2021 and 30 June 2020 is unaudited.

Instem plc's consolidated statutory accounts for the year ended 31 December 2020, prepared under IFRS, have been delivered to the Registrar of Companies. The report of the auditors on these accounts was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

Significant accounting policies

The accounting policies used in the preparation of the financial information for the six months ended 30 June 2021 are in accordance with the recognition and measurement criteria of international accounting standards and are consistent with those which will be adopted in the annual statutory financial statements for the year ending 31 December 2021.

While the financial information included has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), these financial statements do not contain sufficient information to comply with IFRS's.

Instem plc and its subsidiaries have not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK AIM listed groups, in the preparation of this half-yearly financial report.

Significant judgement and estimates

The judgements and estimations that management have made for the six months ended 30 June 2021 are consistent with those reported in the annual statutory financial statements for the year ended 31 December 2020.

2. Basis of preparation and accounting policies (continued)

Going concern

The Directors continue to adopt the going concern basis of accounting in preparing these financial statements, which the Directors believe is appropriate given the Group's trading performance and financial liquidity. At 30 June 2021, the Group had cash balances of £17.9m together with £0.5m of unused banking facilities.

The uncertainty regarding the impact on the Group of COVID-19 has been considered as part of the Group's adoption of the going concern basis. In the period to 30 June 2021, we have not observed any material detriment to our overall existing business or in the level of new business opportunities that are being presented to us in the markets in which we operate and we do not anticipate any during the next 12 months.

Cash and cash equivalents
Cash and cash equivalents for the purposes of the Statement of Cash Flows comprise the net of cash and overdraft balances that are shown in the Statement of Financial Position in Cash and Cash Equivalents.

3. *Segmental Reporting*

The business is organised into four operating segments to better manage and report revenues; Study Management, Regulatory Solutions, In Silico Solutions and Clinical Trials Acceleration. The fourth segment was established after the d-wise acquisition on 01 April 2021.

Certain direct costs are allocated to the revenue streams whilst the majority of costs are recorded and reported centrally, primarily supporting Study Management and Regulatory Solutions. Whilst the expectation in future years is to allocate more centrally held operational costs to the individual segments, it will take time for the allocations to be sufficiently accurate for the Board to use segmental cost information for meaningful decision making. A higher proportion of central costs were allocated to the operating segments during H1 2021 compared with 2020.

The operations of the Group are managed centrally with group-wide functions including sales, marketing, software development, customer support, IT, human resources and finance & administration.

Unaudited six months ended 30 June 2021	Study Management £000	Regulatory Solutions £000	In Silico Solutions £000	Clinical Trials Acceleration £000	**Total £000**
Total revenue	9,798	4,686	1,487	3,855	**19,826**
Direct attributable costs	(2,024)	(1,113)	(771)	(2,477)	**(6,385)**
Contribution to indirect overheads	7,774	3,573	716	1,378	**13,441**
Contribution to indirect overheads %	79.3%	76.2%	48.2%	35.7%	**67.7%**
Central unallocated indirect costs					**(9,280)**
Adjusted EBITDA					**4,161**

Unaudited six months ended 30 June 2020	Study Management £000	Regulatory Solutions £000	In Silico Solutions £000	Clinical Trials Acceleration £000	Total £000
Total revenue	7,057	5,278	1,712	-	14,047
Direct attributable costs	(1,765)	(980)	(788)	-	(3,533)
Contribution to indirect overheads	5,292	4,298	924	-	10,514
Contribution to indirect overheads %	75.0%	81.4%	54.0%	-	74.9%

Central unallocated indirect costs	(7,519)
Adjusted EBITDA	2,995

Audited year ended 31 December 2020	Study Management £000	Regulatory Solutions £000	In Silico Solutions £000	Clinical Trials Acceleration £000	Total £000
Total revenue	15,054	9,839	3,324	-	28,217
Direct attributable costs	(3,516)	(2,046)	(1,630)	-	(7,192)
Contribution to indirect overheads	11,538	7,793	1,694	-	21,025
Contribution to indirect overheads %	76.6%	79.2%	51.0%	-	74.5%
Central unallocated indirect costs					(15,106)
Adjusted EBITDA					5,919

4. *Key performance measures*

	Unaudited Six months ended 30 June 2021 £000	Unaudited Six months ended 30 June 2020 £000	Audited Year ended 31 December 2020 £000
a) Recurring revenue			
Support fees	**4,988**	4,588	8,917
SaaS subscriptions	**4,901**	3,769	8,024
Recurring revenue	**9,889**	8,357	16,941
Licence fees	**3,086**	1,510	3,477
Product services	**1,509**	739	1,603
Outsourced services	**2,594**	3,441	6,196
Consulting	**2,748**	-	-
Total revenue	**19,826**	14,047	28,217
b) Adjusted EBITDA			
EBITDA	**3,344**	2,946	5,313
Non-recurring costs (see note 6)	**817**	49	606
Adjusted EBITDA	**4,161**	2,995	5,919

Adjusted profit after tax and bank balance performance measures are detailed in notes 5 and 9.

5. *Earnings per share*

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential shares arising from the share option scheme. The dilutive impact of the share options is calculated by determining the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

a) Basic earnings per share

	Unaudited Six months ended 30 June 2021	Unaudited Six months ended 30 June 2020	Audited Year ended 31 December 2020
Profit after tax (£000)	**1,023**	1,591	2,274
Weighted average number of shares (000's)	**21,145**	16,662	18,421
Basic earnings per share	**4.8p**	9.5p	12.3

b) Diluted earnings per share

	Unaudited Six months ended 30 June 2021	Unaudited Six months ended 30 June 2020	Audited Year ended 31 December 2020
Profit after tax (£000)	**1,023**	1,591	2,274
Weighted average number of shares (000's)	**21,145**	16,662	18,421
Potentially dilutive shares (000's)	**1,023**	948	1,231
Adjusted weighted average number of shares (000's)	**22,168**	17,610	19,652
Diluted earnings per share	**4.6p**	9.0p	11.6

c) Adjusted earnings per share

Adjusted earnings per share is calculated after adjusting for the effect of foreign currency exchange on the revaluation of inter-company balances included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions. Diluted adjusted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential shares arising from the share option scheme. The dilutive impact of the share options is calculated by determining the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

	Unaudited Six months ended 30 June 2021	Unaudited Six months ended 30 June 2020	Audited Year ended 31 December 2020
Profit after tax (£000)	**1,023**	1,591	2,274
Non-recurring costs	**817**	49	606
Amortisation of acquired intangibles (£000)	**599**	332	664
Foreign exchange loss/(gain) on revaluation of intergroup balances (£000)	**268**	(181)	208
Adjusted profit after tax (£000)	**2,707**	1,791	3,752

Weighted average number of shares (000's)	**21,145**	16,662	18,421
Potentially dilutive shares (000's)	**1,023**	948	1,231
Adjusted weighted average number of shares (000's)	**22,168**	17,610	19,652
Adjusted basic earnings per share	**12.8p**	10.7p	20.4p
Adjusted diluted earnings per share	**12.2p**	10.2p	19.1p

6. *Non-recurring costs*

	Unaudited Six months ended 30 June 2021 £000	Unaudited Six months ended 30 June 2020 £000	Audited Year ended 31 December 2020 £000
Guaranteed Minimum Pension (GMP) equalisation provision	-	-	5
Legal cost relating to historical contract disputes	**62**	49	149
Share based payment	**170**	-	-
US government loans forgiven	**(805)**	-	-
Acquisition costs	**1,390**	-	452
	817	49	606

7. *Finance income*

	Unaudited Six months ended 30 June 2021 £000	Unaudited Six months ended 30 June 2020 £000	Audited Year ended 31 December 2020 £000
Foreign exchange gains	**-**	62	-
Right of use interest income	**3**	-	7
Other interest	**19**	5	31
	22	67	38

8. *Finance costs*

	Unaudited Six months ended 30 June 2021 £000	Unaudited Six months ended 30 June 2020 £000	Audited Year ended 31 December 2020 £000
Bank loans and overdrafts	**43**	19	38
Unwinding discount on deferred consideration	**318**	40	70
Net interest charge on pension scheme	**26**	18	34
Right of use asset interest cost	**121**	47	96
Foreign exchange losses	**258**	-	454
	766	124	692

9. *Cash and cash equivalents*

	Unaudited 30 June 2021 £000	Unaudited 30 June 2020 £000	Audited 31 December 2020 £000
Cash at bank	**26,848**	18,130	35,722
Bank overdraft	**(8,998)**	(8,998)	(8,998)
Bank balance	**17,850**	9,132	26,724

10. Provision for liabilities and charges

	Unaudited 30 June 2021 £000	Unaudited 30 June 2020 £000	Audited 31 December 2020 £000
At beginning of the period	**250**	250	250
Movement in provision	**-**	-	-
At end of period	**250**	250	250

The provision relates to potential costs arising from historical contract disputes (see note 6 for associated legal fees).

11. Acquisition of The Edge Software Consultancy Ltd ('The Edge')

On 1 March 2021, Instem acquired 100% of the issued share capital of The Edge. The acquisition has increased the group's market share in the global Life Science Sector and complements the group in continuing its expansion and development in this industry.

Company	Principal activity	Date of acquisition	Proportion of voting equity interests acquired %	Consideration £000
The Edge	Provider of Discovery Technology Solutions software and services to Life Science sector	1 March 2021	100	9,230

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Consideration

£000

Initial cash consideration	4,000
Initial share consideration	2,009
Deferred consideration – cash payable March 2022	500
Contingent consideration – cash payable by June 2022	1,000
Contingent consideration – cash payable March 2023	1,000
Net cash adjustment (after deduction of estimated debt)	1,500
Working capital and cash adjustment – cash receivable March 2022	(67)
Total consideration	9,942
Discounting of estimated future cashflows	(712)
Present value of consideration	9,230

The initial share consideration was satisfied by the issue of 391,920 new Instem plc ordinary shares at a value of £2.0m which was based on the published share price. The premium arising on the share issue of £2.0m has been credited to the merger relief reserve.

The deferred consideration is not based on any performance related conditions and is payable in March 2022. The contingent consideration is based on certain performance related conditions in the twelve-month period post-completion. The contingent consideration in the table above is based on the forecast estimate that the performance related conditions will be fully met and the full consideration will be payable. The contingent consideration was re-measured at the reporting date. The deferred consideration had been discounted using Instem's estimated cost of borrowing and the contingent consideration has been discounted using the Internal Rate of Return ('IRR').

Acquisition related costs amounting to £0.2m have been recognised as an expense within non-recurring items in the Consolidated Statement of Comprehensive Income.

Fair value of assets acquired and liabilities recognised at the date of acquisition

	Fair Value £000

Non-Current Assets	
Customer relationships	2,550
Intellectual property	1,342
Brand	105
Right of use assets	37
Current Assets	
Cash and cash equivalents	2,570
Trade and other receivables	407
Deferred tax asset	64
Current Liabilities	
Trade and other payables	(430)
Deferred income	(555)
Lease liabilities	(36)
Non-Current Liabilities	
Deferred tax on acquisition	(759)
Fair value of identifiable net assets acquired	5,295

Goodwill arising on acquisition

	£000
Consideration transferred	9,230
Less: fair value of identifiable net assets	(5,295)
Goodwill arising on acquisition	3,935

Goodwill

Goodwill of £3.9m primarily relates to the ability to generate growth from new customers, synergies provided by the Group and the skill and expertise of The Edge's staff.

Identifiable net assets

A provisional fair value exercise to determine the fair value of assets and liabilities acquired has been carried out. Fair values are provisional as they are within the twelve month hindsight period to adjust fair values. No fair value adjustments have been made to the assets and labilities acquired.

The fair value of intangible assets are:

- Customer relationships of £2.6m calculated using the income approach - excess earnings. Acquired customer relationships consisting of ongoing relationships with companies to which The Edge provides annual licenses, maintenance assistance and bespoke services.
- Intellectual property of £1.3m calculated using the income approach - relief from royalty. Two proprietary software packages were acquired, namely BioRails and Morphit.
- Brands of £0.1m calculated using the income approach - relief from royalty. 'The Edge' brand and sub-brands (principally BioRails and Morphit) are considered in aggregate a separable intangible asset and a driver of the overall business model.

Acquired receivables

The fair value of acquired trade receivables is £0.079m as no loss allowance was required to be recognised on acquisition.

Impact of acquisition on the results of the Group

Profit for the half year includes a profit of £0.5m attributable to the additional business generated by The Edge from the date of acquisition. Revenue for the half year includes £0.8m in respect of The Edge.

If this business combination had been effected at 1 January 2021, the revenue of The Edge would have been £1.0m and the profit for the half year would have been £0.5m. These values do not represent a measure of the performance of The Edge as the company's accounting policy have been changed at the acquisition date to comply with the policies of the Group.

Purchase consideration – cash outflow

	£000
Outflow of cash to acquire subsidiary, net of cash acquired	
Initial cash consideration	4,000
Net cash adjustment (after deduction of estimated debt)	1,500
Less: Balance acquired	
Cash	(2,570)
Net outflow of cash – investing activities	2,930

12. *Acquisition of d-wiseTechnologies, Inc*

On 20 March 2021, Instem exchanged contracts to acquire the 100% of the issued share capital of US-based clinical trial technology & consulting leader d-wise Technologies, Inc ("d-wise"). The acquisition was completed on 1 April 2021. The acquisition has increased the group's market share in the global Life Science Sector and complements the group by entering an attractive adjacent area of clinical trial analysis and submission.

Company	**Principal activity**	**Date of acquisition**	**Proportion of voting equity interests acquired %**	**Consideration £000**
d-wise Inc	Provider of clinical trial acceleration solutions to Life Science sector	1 April 2021	100	18,904

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Consideration

	$000	**£000**

Initial cash consideration	13,000	9,437
Initial share consideration	7,000	5,044
Deferred consideration (1 April 2022) – To be settled in cash	1,480	1,074
Deferred consideration (1 April 2022) – To be settled in shares	408	296
Deferred consideration (1 April 20233) – To be settled in cash	2,058	1,494
Contingent consideration (1 March 2022) – To be settled in cash or shares	1,500	1,089
Contingent consideration (1 March 2023) – To be settled in cash	1,500	1,089
Working capital adjustment – (Q3 2021) – To be settled in cash	5	4
Total consideration	26,951	19,527
Discounting of estimated future cashflows		(623)
Present value of consideration		18,904

The initial share consideration was satisfied by the issue of 868,203 new Instem plc ordinary shares at a value of \$7.0m (£5.0m) which was based on the published share price. The premium arising on the share issue of £5.0m has been credited to the merger relief reserve.

The deferred consideration is not based on any performance related conditions and is payable in two instalments in April 2022 and 2023. The contingent consideration is based on certain performance related conditions in the twelve-month period post-completion. The deferred consideration has been discounted using the interest rate as defined in the share purchase agreement and the contingent consideration has been discounted using the IRR.

The contingent consideration in the table above is based on the forecast estimate that the performance related conditions will be fully met and the full consideration will be payable. The contingent consideration was re-measured at the reporting date.

An amount of \$4.3m (£3.1m) which is contingent on the continued employment of certain of the former d-wise management has been excluded from the total purchase consideration and is instead treated as an expense in non-recurring costs as it incurred. The above treatment will not affect the Group's cash position as the total consideration payable remains at \$31m.

Acquisition related costs amounting to £1.2m have been recognised as an expense within non-recurring items in the Consolidated Statement of Comprehensive Income.

Fair value of assets acquired and liabilities recognised at the date of acquisition

	Fair Value £000

Non-Current Assets	
Customer relationships	5,770
Intellectual property	1,061
Brand names	1,134
Property, plant and equipment	491
Right of use assets	662
Current Assets	
Trade and other receivables	5,766
Cash and cash equivalents	1,800
Current Liabilities	
Trade and other payables	(1,633)
Deferred income	(2,693)
Financial Liabilities	(48)
Lease liability	(662)
Non-Current Liabilities	
Deferred tax on acquisition	(1,991)
Fair value of identifiable net liabilities acquired	9,655

Goodwill arising on acquisition

	£000
Consideration transferred	18,904
Less: fair value of identifiable net assets	(9,655)
Goodwill arising on acquisition	9,249

Goodwill

Goodwill of £9.2m primarily relates to the ability to enter an attractive adjacent area of clinical trial analysis and submission, generating growth from new customers, synergies provided by the Group and the skill and expertise of the d-wise staff.

Identifiable net assets

A provisional fair value exercise to determine the fair value of assets and liabilities acquired has been carried out. Fair values are provisional as they are within the twelve month hindsight period to adjust fair values. Except for the Deferred revenue no other fair value adjustments have been made to the assets and liabilities acquired.

The fair value of intangible assets are:

- Customer relationships of £5.8m calculated using the income approach - excess earnings. Acquired customer relationships consisting of ongoing relationships with companies to which d-wise provides hosting and consultancy services, support and maintenance and product licences.
- Intellectual property of £1.1m calculated using the income approach - relief from royalty. Two proprietary software products were acquired, namely Blur and Reveal.
- Brands of £1.1m calculated using the income approach - relief from royalty. The 'd-wise' brand is a separable intangible asset and a driver of the overall business model in the fair value measurement and the proportion of overall enterprise value attributed to the brand. The brand has been trading since 2003 and is well established within the pharmaceutical industry.

Acquired receivables

The fair value of acquired trade receivables is £5.1m as no loss allowance was required to be recognised on acquisition.

Impact of acquisition on the results of the Group

Profit for the half year includes a loss of £0.3m attributable to the additional business generated by d-wise from the date of acquisition. The loss was incurred due to the fair value adjustment on the acquired deferred revenue of £0.6m. Revenue for the half year includes £3.9m in respect of d-wise.

If this business combination had been effected at 1 January 2021, the revenue of d-wise would have been £9.2m and the profit for the half year would have been £0.4m. The directors consider these values represent an approximate measure of the performance of d-wise on a half year basis as the fair value adjustment on the acquired deferred revenue was not determined to provide a reference point for comparison in future years.

Purchase consideration – cash outflow

	£000
Outflow of cash to acquire subsidiary, net of cash acquired	
Initial cash consideration	9,437
Less: Balance acquired	
Cash	(1,800)
Net outflow of cash – investing activities	7,637

13. *Subsequent Events*

No adjusting events have occurred between the 30 June 2021 reporting date and the date of approval of this Interim Report.

The latest triennial actuarial valuation of the Group's defined benefit pension arrangement as at 5 April 2020 was completed in July 2021. The outcome of the valuation will be disclosed in the Group's full year results for 2021. The next valuation of the Scheme is due as at 5 April 2023.

On 1 September 2021, Instem announced the acquisition of PDS Pathology Data Systems Ltd ("PDS"), a life sciences software company with headquarters in Switzerland and offices in the United States and Japan. PDS has been a direct competitor of Instem for over 25 years. PDS provides software for non-clinical study management and software and outsourced services for regulatory submissions using SEND (the Standard for the Exchange of Non-clinical Data). In the year ended December 2020, PDS had unaudited, normalised profits before tax of CHF 0.75m (c. £0.6m) on sales of CHF 6.5m (c. £5.1m), of which CHF 2.3m (c. £1.8m) was recurring SaaS and software maintenance revenue. As at 31 December 2020, PDS had net liabilities of CHF 1.5m (c. £1.2m), including loans from its shareholders of approximately CHF 3.0m (c. £2.4m). These loans were settled in full out of the proceeds received by PDS shareholders. The Acquisition will enable Instem to concentrate investment on a single line of SEND and preclinical study management products, removing unnecessary duplication in the market. The combination of technologies and highly experienced teams will enable the Company to enhance the development and delivery of existing and new solutions that provide higher value to its clients. The consideration comprises CHF 8.2m paid to the sellers of PDS on completion of the Acquisition (the "Initial Consideration"), CHF 3.0m of seller loan repayments, CHF 2.0m to satisfy other net PDS liabilities and CHF 1.0m of deferred consideration (the "Deferred Consideration"). The Initial Consideration was satisfied by CHF 4.7m in cash (c. £3.8m) and CHF 3.5m (c. £2.8m) in new ordinary shares of 10 pence each in the Company (the "Consideration Shares"), equating to the issue of 359,157 shares at a deemed price of a 777 pence per share. The cash payment, loan repayments and other net liabilities payments are being funded from the Group's existing financial resources.

14. *Availability of this Interim Announcement*

Copies of the 2021 Interim Report for Instem plc will be available from the Group's website at www.instem.com.