Instem plc

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

Half Yearly 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 2017.

Financial Highlights

- Total revenues increased 13% to £10.3m (H1 2016: £9.1m)
  - Recurring revenues increased 23% to £6.5m (H1 2016: £5.3m), of which SaaS was £1.7m (H1 2016: £1.2m)
  - Proportion of recurring revenue to total revenue increased to 63% (H1 2016: 58%)
- EBITDA* of £0.6m (H1 2016: £1.2m)
- Adjusted** profit before tax of £0.1m (H1 2016: £1.0m)
- Adjusted** basic earnings per share of 0.2p (H1 2016: 6.3p)
- Reported loss before tax of £0.6m (H1 2016: profit of £0.1m)
- Reported basic loss per share of 4.4p (H1 2016: earnings per share of 0.4p)
- Seasonal net operating cash outflow of £1.4m (H1 2016: £1.5m)
- After acquisition related payments of £0.5m in H1 2017 and £1.7m in H2 2016, net cash balance as at 30 June 2017 of £1.2m (H1 2016: £4.8m)

**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 and the amortisation of intangibles on acquisitions. Profit is adjusted in this way to provide a clearer measure of underlying operating performance.*

Operational Highlights

Significant Strategic progress:

- Completion of a Group-wide re-organisation to improve efficiency and agility:
  - Non-recurring costs of £0.3m recognised during the period
  - Estimated operational cost savings of £1.5m per annum
- Further investment in resources to help secure the opportunity in SEND

Underlying trading remains strong:

- Regulatory Solutions Business saw increasing demand from the recently mandated Standard for the Exchange of Nonclinical Data ("SEND") and continued to increase market share, winning the majority of technology and outsourced services contracts
- Major expansion of a Study Management contract with the US Government
- Confirmation of the Target Safety Assessment opportunity addressed by our informatics-based KnowledgeScan service

Phil Reason, CEO of Instem plc, commented:

"Following a period of planned strategic progress, Instem is now undoubtedly better positioned for profitable growth than ever before. While our target markets are generally experiencing stability or growth, our focus is moving toward annually recurring revenue and higher margins, with less reliance on perpetual software license sales.

We are particularly excited by the growth potential for our technology-enabled outsourced services for SEND and Target Safety Assessment where there are increasing regulatory drivers, competitive differentiators and customer activity remains high.

The continued investment in our outsourced services team has increased our monthly revenue generation and the full benefit of the overhead reductions implemented at the end of the first half of the year will also be realised in the second half of 2017 and beyond. Consequently, we anticipate earnings for the full year to be in line with market expectations."

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 customers worldwide and enable our 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 supports over 500 clients through offices in the United States, United Kingdom, France, Japan, China and India.

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

CHAIRMAN'S STATEMENT

The first half of the current financial year has been a period of strategic development and significant operational change designed to both optimise the current operations and facilitate the future direction of the business. These improvements were completed during the first half of the year and are expected to improve efficiency and profitability in the second half of the current year and beyond.

Over recent years the Company has strengthened and expanded its business through the addition of world leading products and services for new and existing markets and has invested to ensure that we can operate in all relevant global territories.

Since flotation at the end of 2010, we have acquired five businesses, internally developed several additional product lines, widened our operational footprint in Europe and established a sales and customer service presence in China, Japan and India. Furthermore, in addition to our original focus on Study Management, we now address the Regulatory Solutions and Informatics markets. Simultaneously, our revenue model is changing with an increasing emphasis on recurring revenue through a combination of SaaS and technology enabled services.

In the first half of the year, we carried out a review of our operations to consolidate and centralise activities for synergies, where appropriate and ensure they are aligned to capture future growth opportunities. This is expected to result in annual cost savings of approximately £1.5m. To effectively manage these centralised activities we have strengthened our top management team with the appointment, in January this year, of Chief Operating Officer, MaryBeth Thompson. MaryBeth has extensive experience in the life sciences industry.

Despite the amount of operational change during the period, total revenues for the six months to June were some 13% higher than the prior year at £10.3m (H1 2016: £9.1m). In particular, our Regulatory Solutions business continued to develop and, we believe, continued to win the majority of SEND-related business placed. Our Informatics based KnowledgeScan business also continued to develop with a significant increase in the number of Target Safety Assessment reports being produced during the period. The performance of Study Management was also positive, including the award of a major contract extension for the US Government's National Institute of Environmental Health Sciences and substantially increasing the number of supported Provantis users at our largest client.

The increase in overheads in the period under review over the previous six months was the direct result of both a full six months' cost of the two acquisitions made in 2016 and the continued organic investment in our technology enabled outsourced services business, which required additional resource to meet growing demand. In addition, as a result of further management insight into our Clinical business, following its restructuring at the end of 2016, we have made additional investment in our Alphadas product to ensure that we maintain our strong market position. At the same time, we have made a one-off provision against potential costs arising from historical issues associated with this business.

Whilst EBITDA for the period at £0.6m was below earlier expectations, the second half will benefit from approximately £750k of cost savings. As a result of our operational improvements and success in securing anticipated new business, we expect a satisfactory outcome to the year as a whole.

David Gare, Non-Executive Chairman
25 September 2017

CHIEF EXECUTIVE'S REPORT

Strategic Development

The period under review was one of significant operational change and strategic progress. The arrival of our new Chief Operating Officer, MaryBeth Thompson at the start of the period, provided the opportunity to trigger the next stage of business reorganisation and integration. This saw the creation of centralised areas of excellence for all key operational functions under a new Operations leadership team, comprising new hires and existing experienced managers. The increased senior management team bandwidth has allowed us to analyse the opportunities, challenges and threats facing the business and also provided valuable insights into the Company's industry position and future opportunities. The process identified areas of the business where there was capacity that could be redeployed or reduced and enabled a number of out-sourced activities to be more cost-effectively delivered in-house, using UK and India based resources. This has all been achieved whilst ensuring the business remained agile and responsive to the dynamic markets in which it operates.

The Company has successfully reduced its annual overheads by approximately £1.5m or 10%, which should significantly improve the Group's profitability in the second half of the current year and beyond.

Whilst this transition obviously created some disruption within the business during the period, senior management continued to focus on driving higher quality recurring revenues, which now represent 63% of total revenues. Recurring revenues now cover approximately 68% of total overheads providing much greater visibility into the future financial performance of the business and support for our longer term investment decisions.

As a result of these actions, we believe that Instem is now 'purpose built' to deliver software and scientific services which address three distinct, but complementary, value propositions:

1. To efficiently capture, record and analyse scientific study data
2. To generate new insights from existing large data sets through the application of sophisticated informatics
3. To ensure compliance with global regulators such as the FDA, EPA etc

Instem products and services now address the entire drug development value chain, from discovery through to market launch, and are currently deployed by over 500 companies, including all the largest 25 pharmaceutical companies in the world.

Market Review

During the period Instem continued to win the majority of new business placed in Non-clinical, our largest market. However, while the order volume increased, the provision of client data for our out-sourced SEND services contracts was slower than projected, with much of the market leaving compliance with the December 2016 mandated regulatory standard until much later in the year than anticipated.

Study Management and Data Collection

The global market for software to ensure the efficient capture, recording and analysis of scientific study data remains robust as the number of compounds in Research and Development continues to increase. According to a recent report from Informa's Pharma Intelligence, a leading industry and market analysis firm, the number of compounds in the Global R&D Pipeline increased by 8.4% to 14,749 in 2017, its highest ever number. We believe that this is due to a number of factors, but the overall trend is largely underpinned by global population growth and from increasing life expectancy, which is unlikely to change over the near-term.

Importantly, the number of compounds in the R&D Pipeline within Pre-Clinical and Phase I trials, where Instem specialises, has increased year on year by 9.2% and 11.2% respectively, indicating a growing potential for the Company's products and services within these market segments.

The Company is particularly pleased to report that its contract with the National Institute of Environmental Health Sciences ("NIEHS ") has progressed well since it was first announced in 2013. This 10-year contract for the capture, recording and analysis of pre-clinical safety evaluation study data, as anticipated, has expanded in scope since commencement, with the number of locations and the number of authorised users both increasing over the period, further demonstrating the increasing value of the Company's software and services to the NIEHS.

Our largest customer also brought into operation over 700 additional Provantis user licenses during 2017 triggering enhanced recurring revenue.

Our genetic toxicology solutions continue to dominate their market and with a new release of our Cyto Study Manager solution we anticipate further cross-selling opportunities across additional Instem key accounts.

The Notocord business acquired in September 2016 has integrated well and made a solid contribution during the period. A particular highlight was a large order for the U.S. Army Medical Research Institute of Infectious Diseases.

The new business pipeline remains promising, although during the period the focus of our Study Management and Data Collection business has been predominantly on completing implementation projects for existing clients with some notable success. Following the conclusions of our review and re-structure, significant software development investment continues to be made in Alphadas to ensure that we continue to secure a sizeable market share in a competitive market.

Informatics

The KnowledgeScan™ informatics-based service was piloted in 2015 and formally launched by the Company in 2016. It offers the pharmaceutical industry insightful new ways to create value from huge volumes of public and proprietary scientific and health-related data to reduce the risk and cost of bringing new drugs to market.

The initial application of KnowledgeScan is for Target Safely Assessment ("TSA"), a process routinely undertaken at the earlier stages of drug discovery, but with continuing value throughout the drug development process. Business volume has grown well in 2017, having completed more TSAs in the first half of 2017 than in the full year of 2016, with the pace of increase in activity being sustained into the third quarter of 2017. We have added some resource, but TSA capacity has generally been increased through further process automation. Repeat business remains encouraging with over 80% of customers having already placed further orders.

Regulatory Solutions

Regulatory Solutions represent a growing market opportunity for Instem with a broad target market in Regulatory Information Management ("RIM") and growing demand for our regulatory submission related products and services that implement the FDA mandated Standard for Exchange of Non-clinical Data ("SEND").

Regulatory Information Management
The integration of Samarind, which we acquired in 2016, is now largely complete and, having identified specific areas of the RIM market where we have market leading capabilities, we are actively pursuing related opportunities. We were pleased to secure an order with one of the world's top 10 medical device businesses for the entire Samarind RMS suite during the period. The industry and regulatory initiative to implement an internationally harmonised standard for the Identification of Medicinal Products ("IDMP") has been delayed by several years, but it remains of keen interest to our current customers and prospects given our leadership in implementing the current European standard, which will ultimately be replaced.

Standard for the Exchange of Nonclinical Data ("SEND")
Instem continues to dominate the SEND technology market with software sales during the period predominantly focussed on our modules for "viewing" or "exploring" SEND datasets. With the first regulatory mandate coming into force in December 2016, those companies who hadn't already equipped themselves with the technology to "create" SEND datasets are now predominantly looking for out-sourced services for SEND creation. While we have won the large majority of out-sourced services contracts, many clients have then been slow to provide data for conversion. This is expected to pick up during the second half of 2017.

During 2017, enquiries for the Company's software solutions in general and its outsourcing services in particular have continued to increase as the next major milestone of the SEND mandate goes into effect during December 2017. This covers shorter duration studies that are undertaken in much greater volume and so is expected to generate a significant increase in SEND conversion demand.

During the first seven months of 2017, the Group has received a total of 54 orders from 38 organisations, of which 19 were first-time Instem customers.

Instem now has a total of 71 customers that have procured the Company's SEND technology and/or out-sourced services, which include eight of the top 10 pre-clinical CROs and 17 of the world's top 25 global pharmaceutical companies. Established SEND-related client relationships are expected to be a significant source of future business as the volume of out-sourced services increases.

During 2017, the Group introduced a new software module, SENDTrial™, that will deliver significant efficiencies for its clients (and our internal Services team) by reducing processing time in one specific area by up to 80%. This product is the first of its type on the market and offers a solution which can be deployed alongside Instem's existing submit™ products or used independently. SENDTrial™ will create additional opportunities for Instem with those companies that are currently running competing systems that cannot efficiently meet these specific requirements.

In addition, Instem has released an updated version of its submit™ software that enables clients to satisfy an FDA request for test data supporting the development of the next version of the standard. No other vendor in the marketplace has introduced this capability and this clearly gives Instem first mover advantage in this rapidly growing market segment.

Outlook
Following a period of planned strategic progress, Instem is now undoubtedly better positioned for profitable growth than ever before. While our target markets are generally experiencing stability or growth, our focus is moving toward annually recurring revenue and higher margins, with less reliance on perpetual software license sales.

We are particularly excited by the growth potential for our technology-enabled outsourced services for SEND and Target Safety Assessment where there are increasing regulatory drivers, competitive differentiators and customer activity remains high.

The continued investment in our outsourced services team has increased our monthly revenue generation and the full benefit of the overhead reductions implemented at the end of the first half of the year will also be realised in the second half of 2017 and beyond. Consequently, we anticipate earnings for the full year to be in line with market expectations.

Phil Reason, Chief Executive
25 September 2017

CHIEF FINANCIAL OFFICER'S REVIEW

Instem's revenue model consists of a blend of fees for perpetual licences with annual support fees, SaaS subscriptions and professional services income. As previously stated, significant growth potential is seen for outsourced professional services for SEND and KnowledgeScan with customers now starting to place increasing levels of repeat business.

Total revenues increased 13% from £9.1m to £10.3m in the period. Recurring revenue, derived from annual support fees, SaaS subscriptions and outsourced managed services, increased 23% to £6.5m (H1 2016: £5.3m) or 63% (H1 2016: 58%) of total revenue.

Operating expenses were £1.9m higher in the period at £9.6m compared with £7.7m in H1 2016. The increase primarily related to the full 6 month cost impact of the recently acquired companies together with the full cost of the investment in key staff recruited in the second half of 2016.

The reorganisation exercise carried out at the end of the period resulted in non-recurring costs of £0.3m and an estimated operational cost saving of £0.75m in the second half of 2017, which increases to £1.5m per annum in future years.

Development expenditure in the period was £1.7m (H1 2016: £0.7m), of which £0.9m was capitalised (H1 2016: £0.1m). Importantly, a significant proportion of the new development costs related to the continued investment in our Study Management and Data Collection software as well as reflecting integration of the newly acquired products from the Notocord and Samarind acquisitions.

Earnings from operations before interest, tax, depreciation, amortisation and non-recurring items, ('EBITDA') for the period, were £0.6m (H1 2016: £1.2m). Depreciation and amortisation increased to £0.8m compared with £0.5m in the equivalent prior period. The majority of the change relates to acquired intangibles in 2016.

Non-recurring costs include £0.3m of reorganisation costs and a £0.3m provision against potential costs arising from historical issues relating to Instem Clinical. Non-recurring income of £0.1m arose from an adjustment to the contingent consideration payable in respect of the 2016 acquisitions.

The IAS19 funding deficit on Instem's defined benefit pension scheme decreased by a net £0.5m to £4.2m during the period, primarily due to lower expectations of future inflation, positive asset returns and employer deficit contributions.

In the first half of 2016 the Company raised £5.0m to fund acquisitions. The subsequent Samarind and Notocord acquisitions consumed the majority of those funds through payment of initial, deferred and contingent consideration during 2016 and a further £0.5m in H1 2017.

Instem's operating cash flow continues to reflect normal seasonality within the business, with cash inflow being more weighted towards the second half of the year, when annual fee renewals normally occur prior to the beginning of the new calendar year. Net cash at the end of June 2017 totalled £1.2m (H1 2016 £4.8m).

Share capital, share premium and merger reserve increased by £0.2m in the period due to shares issued to settle a proportion of the consideration payable on the acquisitions.

In line with previous periods, and given our existing 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 within the business remain unchanged from those described in our 2016 Annual Report.

Nigel Goldsmith, Chief Financial Officer
25 September 2017

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Unaudited Six months ended 30 June 2017 £000	Unaudited Six months ended 30 June 2016 £000	Audited Year ended 31 December 2016 £000
REVENUE		**10,278**	**9,052**	**18,319**
Operating expenses		(9,644)	(7,699)	(16,843)
Share based payment		(46)	(154)	(223)
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING ITEMS ("EBITDA")		**588**	**1,199**	**1,253**
Depreciation		(97)	(77)	(156)
Amortisation of intangibles arising on acquisition		(466)	(268)	(667)
Amortisation of internally generated intangibles		(225)	(157)	(380)
(LOSS)/PROFIT BEFORE NON-RECURRING COSTS		**(200)**	**697**	**50**
Non-recurring (costs)/income	4	(426)	(126)	619
(LOSS)/PROFIT AFTER NON-RECURRING COSTS AND BEFORE FINANCE COSTS		**(626)**	**571**	**669**
Finance income	5	167	3	-
Finance costs	6	(168)	(446)	(646)
(LOSS)/PROFIT BEFORE TAXATION		**(627)**	**128**	**23**
Taxation		(73)	(67)	1,035
(LOSS)/PROFIT FOR THE PERIOD		**(700)**	**61**	**1,058**
OTHER COMPREHENSIVE INCOME/(EXPENSE)				
Items that will not be reclassified to profit and loss account				
Actuarial gain/(loss) on retirement benefit obligations		333	(875)	(1,192)
Deferred tax on actuarial (gain)/loss		(57)	157	215
		276	(718)	(977)
Items that may be reclassified to profit and loss account				
Exchange differences on translating foreign operations		(480)	454	844
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD		**(204)**	**(264)**	**(133)**
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD		**(904)**	**(203)**	**925**
(LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**(700)**	**61**	**1,058**
TOTAL COMPREHENSIVE (EXPENSE)/INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**(904)**	**(203)**	**925**
Earnings per Share from continuing operations attributable to owners of the parent				
- Basic	3	(4.4p)	0.4p	6.9p
- Diluted	3	(4.4p)	0.4p	6.8p

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	Unaudited 30 June 2017 £000	Unaudited 30 June 2016 £000	Audited 31 December 2016 £000
ASSETS				
NON-CURRENT ASSETS				
Intangible assets		17,996	14,390	17,607
Property, plant and equipment		376	359	374
Deferred tax assets		506	534	947
TOTAL NON-CURRENT ASSETS		**18,878**	**15,283**	**18,928**
CURRENT ASSETS				
Inventories		62	1,045	916
Trade and other receivables		6,698	6,371	6,899
Financial asset		-	-	10
Cash and cash equivalents	7	1,165	4,755	4,189
TOTAL CURRENT ASSETS		**7,925**	**12,171**	**12,014**
TOTAL ASSETS		**26,803**	**27,454**	**30,942**
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables		3,206	2,237	2,670
Deferred income		6,598	6,897	9,092
Current tax payable		19	599	429
Financial liabilities		389	1,118	979
TOTAL CURRENT LIABILITIES		**10,212**	**10,851**	**13,170**
NON-CURRENT LIABILITIES				
Financial liabilities		69	600	242
Retirement benefit obligations		4,166	4,511	4,746
Provision for liabilities and charges	8	250	-	-
TOTAL NON-CURRENT LIABILITIES		4,485	5,111	4,988
TOTAL LIABILITIES		**14,697**	**15,962**	**18,158**

EQUITY			
Share capital	1,587	1,571	1,577
Share premium	12,466	12,373	12,462
Merger reserve	1,598	1,432	1,432
Shares to be issued	910	686	864
Translation reserve	568	658	1,048
Retained earnings	(5,023)	(5,228)	(4,599)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	**12,106**	**11,492**	**12,784**
TOTAL EQUITY AND LIABILITIES	**26,803**	**27,454**	**30,942**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Unaudited	Unaudited	Audited
	Six months ended 30 June	Six months ended 30 June	Year ended 31 December
	2017	2016	2016
	£000	£000	£000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss/(profit) before taxation	(627)	128	23
Adjustments for:			
Depreciation	97	77	156
Loss on disposal of property, plant and equipment	-	-	2
Amortisation of intangibles	691	425	1,047
Share based payment	46	154	223
Retirement benefit obligations	(312)	(367)	(518)
Finance income	(167)	(3)	-
Finance costs	168	446	646
Decrease in deferred contingent consideration	(148)	-	(1,017)
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL	**(252)**	**860**	**562**
Movements in working capital:			
Decrease/(increase) in inventories	678	(156)	12
Increase in trade and other receivables	(310)	(599)	(1,737)
(Decrease)/increase in trade, other payables and deferred income	(1,796)	(1,663)	1,810
Increase in provisions	250	-	-
CASH (USED IN)/GENERATED FROM OPERATIONS	**(1,430)**	**(1,558)**	**647**
Finance income	167	-	-
Finance costs	(44)	(9)	(379)
Income taxes	(102)	42	(141)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(1,409)**	**(1,525)**	**127**

CASH FLOWS FROM INVESTING ACTIVITIES			
Finance income received	-	3	-
Purchase of intangible assets	(921)	(138)	(890)
Purchase of property, plant and equipment	(103)	(39)	(113)
Payment of deferred contingent consideration	(496)	-	-
Repayment of capital from finance leases	(15)	(18)	(33)
Purchase of subsidiary undertakings (net of cash acquired)	-	(616)	(2,347)
NET CASH USED IN INVESTING ACTIVITIES	**(1,535)**	**(808)**	**(3,383)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	5	4,728	4,823
Finance lease interest	(4)	(5)	(8)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**1**	**4,723**	**4,815**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(2,943)**	**2,390**	**1,559**
Cash and cash equivalents at start of period	4,189	2,183	2,183
Effect of exchange rate changes on the balance of cash held in foreign currencies	(81)	182	447
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,165**	**4,755**	**4,189**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

Attributable to owners of the parent

	Called up share capital £000	Share premium £000	Merger reserve £000	Shares to be issued £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance as at 31 January 2016 (audited)	**1,304**	**7,903**	**1,241**	**641**	**204**	**(4,680)**	**6,613**
Profit for the period	-	-	-	-	-	61	61
Other comprehensive income/(expense)	-	-	-	-	454	(718)	(264)
Total comprehensive income/(expense)	-	-	-	-	454	(657)	(203)
Shares issued	267	4,470	191	(109)	-	109	4,928
Share based payment	-	-	-	154	-	-	154
Balance as at 30 June 2016 (unaudited)	**1,571**	**12,373**	**1,432**	**686**	**658**	**(5,228)**	**11,492**
Profit for the period	-	-	-	-	-	997	997
Other comprehensive income/(expense)	-	-	-	-	390	(259)	131
Total comprehensive income	-	-	-	-	390	738	1,128
Shares issued	6	89	-	109	-	(109)	95
Share based payment	-	-	-	69	-	-	69
Balance as at 31 December 2016 (audited)	**1,577**	**12,462**	**1,432**	**864**	**1,048**	**(4,599)**	**12,784**
Loss for the period	-	-	-	-	-	(700)	(700)
Other comprehensive (expense)/income	-	-	-	-	(480)	276	(204)
Total comprehensive expense	-	-	-	-	(480)	(424)	(904)
Shares issued	10	4	166	-	-	-	180
Share based payment	-	-	-	46	-	-	46
Balance as at 30 June 2017 (unaudited)	**1,587**	**12,466**	**1,598**	**910**	**568**	**(5,023)**	**12,106**

NOTES TO THE FINANCIAL INFORMATION
For the six months ended 30 June 2017

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

Notes to the accounts

1. 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 2017. 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-yearly 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 2016 and 30 June 2017 is unaudited.

Instem plc's consolidated statutory accounts for the year ended 31 December 2016, 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 2017 are in accordance with the recognition and measurement criteria of International Financial Reporting Standards ('IFRS') as adopted by the European Union and are consistent with those which will be adopted in the annual statutory financial statements for the year ending 31 December 2017.

While the financial information included has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), 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.

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 on the Statement of Financial Position in Cash and Cash Equivalents.

2. Segmental Information

The Directors consider that the Group operates in one business segment - Global Life Sciences, and therefore there are no additional segmental disclosures to be made in these financial statements.

3. Earnings per share

Basic earnings per share are calculated by dividing the (loss)/profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. 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

	Six months ended 30 June 2017 Unaudited	**Six months ended 30 June 2016 Unaudited**	**Year ended 31 December 2016 Audited**
(Loss)/profit after tax (£000)	**(700)**	**61**	**1,058**
Weighted average number of shares (000's)	15,785	14,865	15,302
Basic (loss)/earnings per share	(4.4p)	0.4p	6.9p

(b) Diluted

	Six months ended 30 June 2017 Unaudited	**Six months ended 30 June 2016 Unaudited**	**Year ended 31 December 2016 Audited**
(Loss)/profit after tax (£000)	**(700)**	**61**	**1,058**
Weighted average number of shares (000's)	15,785	14,865	15,302
Potentially dilutive shares (000's)	-*	384	324
Adjusted weighted average number of shares (000's)	15,785	15,249	15,626
Diluted (loss)/earnings per share	(4.4p)	0.4p	6.8p

*Dilutive share options have been excluded from the calculations in accordance with IAS33 - 'Earnings per share' as they are only included where the impact is dilutive.

(c) Adjusted

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.

	Six months ended 30 June 2017 Unaudited	**Six months ended 30 June 2016 Unaudited**	**Year ended 31 December 2016 Audited**
(Loss)/profit after tax (£000)	**(700)**	**61**	**1,058**
Non-recurring costs/(income) (£000)	426	126	(619)
Amortisation of acquired intangibles (£000)	466	268	667
Foreign exchange differences on revaluation of intergroup balances (£000)	(159)	476	646
Adjusted profit after tax (£000)	33	931	1,752
Weighted average number of shares (000's)	15,785	14,865	15,302
Potentially dilutive shares (000's)	201	384	324
Adjusted weighted average number of shares (000's)	15,986	15,249	15,626
Adjusted basic earnings per share	0.2p	6.3p	11.5p
Adjusted diluted earnings per share	0.2p	6.1p	11.2p

4. Non-recurring (costs)/income

	Six months ended 30 June 2017 Unaudited £000	**Six months ended 30 June 2016 Unaudited £000**	**Year ended 31 December 2016 Audited £000**
Professional fees in respect of acquisitions	-	(126)	(249)
Amendment to consideration payable in respect of Instem Clinical	-	-	690
Cost provision relating to historical issues associated with Instem Clinical	(250)	-	-
Restructuring costs	(324)	-	(149)
Amendment to contingent consideration post acquisition in respect of Notocord and Samarind	148	-	327
	(426)	**(126)**	**619**

5. *Finance income*

	Six months ended 30 June 2017 Unaudited £000	Six months ended 30 June 2016 Unaudited £000	Year ended 31 December 2016 Audited £000
Foreign exchange gains	167	3	-

6. *Finance costs*

	Six months ended 30 June 2017 Unaudited £000	Six months ended 30 June 2016 Unaudited £000	Year ended 31 December 2016 Audited £000
Bank loans and overdrafts	44	9	32
Unwinding discount on deferred consideration	56	11	120
Net interest on pension scheme	64	70	139
Foreign exchange losses	-	351	347
Finance lease interest	4	5	8
	168	446	646

7. *Cash and cash equivalents*

	30 June 2017 Unaudited £000	30 June 2016 Unaudited £000	31 December 2016 Audited £000
Cash at bank	10,163	13,753	13,187
Bank overdraft	(8,998)	(8,998)	(8,998)
	1,165	4,755	4,189

8. *Provision for liabilities and charges*

	30 June 2017 Unaudited £000	30 June 2016 Unaudited £000	31 December 2016 Audited £000
At beginning of the period	-	-	-
Increase in provisions	250	-	-
At end of period	250	-	-

The provision relates to potential costs arising from historical issues associated with Instem Clinical (see note 4).

9. *Availability of this Interim Announcement*

Copies of the Interim Report will shortly be available to download from the Group's website or available to order from the registered office of the Group.

INDEPENDENT REVIEW REPORT TO INSTEM PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2017 which comprises of the Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Cash Flows, Condensed Consolidated Statement of Changes in Equity and the related explanatory Notes that have been reviewed. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "'Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim financial report, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing and presenting the interim financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with the presentation, recognition and measurement criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements, as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed set of financial statements in the interim financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with the presentation, recognition and measurement criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union, and the AIM Rules of the London Stock Exchange.

RSM UK Audit LLP

Chartered Accountants
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Liverpool
L3 9AG

25 September 2017