

28 September 2020

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 2020.

Financial Highlights

- Total revenues were up 20% to £14.0m (H1 2019: £11.7m)
 - Recurring revenue (annual support and SaaS) increased 19% to £8.4m (H1 2019: £7.0m)
 - Organic revenue growth (excluding Leadscope acquisition in November 2019) of 12% to £13.1m (H1 2019: £11.7m)
- Adjusted EBITDA* of £3.0 m (H1 2019: £1.7m)
- Profit before tax of £1.9m (H1 2019: £0.4m)
- Adjusted profit before tax** of £2.1m (H1 2019: £0.8m)
- Basic and diluted earnings per share of 9.5p (H1 2019: 2.0p) and 9.0p (H1 2019: 1.9p)
- Net operating cash inflow of £3.0m (H1 2019 inflow £3.2m)
- Cash balance as at 30 June 2020 of £9.1m (H1 2019: £6.0m)

**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 amortisation of intangibles on acquisitions.*

Profit is adjusted in this way to provide a clearer measure of underlying operating performance.

Operational Highlights

- All parts of the business performed well, highlighting the resilience of the business model given the Covid-19 backdrop
- Continued transition towards a SaaS based delivery and revenue model, in line with the strategic objective to increase earnings visibility
- \$1 million contract win with South Korea-based Biototech

Post-period end Highlights

- Oversubscribed £15.75m gross placing at 435p per share to accelerate the Group's acquisition strategy
- £0.7m contract from a top 30 pharmaceutical company for conversion of historical studies to the SEND format

Phil Reason, CEO of Instem plc, commented:

"The performance in the first half of the year reflects the strength of the Company's growing suite of solutions and services, the underlying market fundamentals and the tremendous performance of the entire Instem team, who have performed admirably in the challenging Covid-19 environment.

"The organic growth achieved highlights the resilience of the Company's model, especially given the Covid-19 backdrop, while the positive impact from Leadscope provides a strong reference point for the range of acquisitions that management is currently progressing following the post-period end fundraise.

The Company continues to trade in line with the Board's expectations, with the Board anticipating that the momentum achieved during the first half and post period-end will continue over the rest of the year."

For further information, please contact:

Instem plc

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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 500 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

The Company's business during the first half of 2020 was conducted against the dramatic backdrop of the rapidly developing Covid-19 global pandemic. I am delighted with our achievements throughout this difficult and continuing period. Our performance reflected the ongoing importance of our products and services and the resilience of our business and staff. This was underpinned by strong cash generation, organic growth and a strong performance from our November 2019 acquisition of Leadscope.

All three areas of the business performed well with significant revenue and profit growth over the equivalent period in the prior year. The addition of new clients and the continued transition to SaaS based contracts improves the scale of repeat business and hence increases the visibility of future revenues.

The timing and success of our post period-end fundraise of £15m net of expenses is of great strategic importance to the Company. It both places Instem in a strong position to implement its acquisitive growth strategy and has significantly strengthened our institutional investor base.

Growth Strategy

As announced on completion of the fundraise in July 2020, the Board's strategy is to pursue expansion through both organic growth and targeted acquisitions. The market conditions created by the global Covid-19 pandemic, in particular for the life sciences sector, are generating opportunities in both areas. With a scalable platform in place, the Board believes there are three distinct and deliverable opportunities to enable continued 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 markets.

H1 Performance

All areas of the business performed well with a particularly strong performance (albeit from a low base) from Informatics – driven by growing demand for AI-based solutions.

The integration of Leadscope helped to significantly broaden this offering and enhance our reputation in this area. Importantly, this enables the Company to focus on growing the longevity of relationships with existing and new clients by offering services that span the drug development lifecycle. Our Regulatory Solutions business, based on the US Food & Drug Administration mandated Standard for the Exchange of Nonclinical Data ("SEND"), also continued to provide strong growth as the Company took advantage of a record number of new drug submissions. Additionally, the contract for Biototech, the largest contract research facility in South Korea, demonstrated the global reputation of the Company. It was particularly impressive that we were able to successfully install this large system remotely.

I am pleased with the Company's performance - especially given the Covid-19 backdrop. Not only was our response extremely well handled with the transition to working from home but our ability to grow and take advantage of the pipeline of opportunities highlights the resilient nature of our operations. Added to this, the post period end fundraise now provides us with the ability to drive a step change in the size and scale of the business through acquisitions.

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.

David Gare
Non-Executive Chairman
28 September 2020

CHIEF EXECUTIVE'S REPORT

Strategic Developments

The Company continued to show its resilience during the period with growth across all parts of the business despite the backdrop of Covid-19. Importantly, cash balances grew whilst high levels of recurring revenues provide enhanced visibility going forward.

The shift to SaaS continued, with SaaS revenues growing from both new clients and established clients switching from on-premise to SaaS deployments. The Company also benefited from the integration of Leadscope enabling it to cross sell and upsell to existing clients in addition to adding new customers.

Given the continued organic growth trajectory, the success of the Leadscope acquisition and the potential to materially advance its acquisition strategy, the Company took the opportunity to raise £15.75m via an oversubscribed placing post-period end. The Board is currently progressing a range of acquisition opportunities having already identified a number of targets.

Market Review

The general market backdrop remained buoyant with the Company benefiting from strong demand as the well-funded biotech industry continued to focus on growing its development pipeline - as highlighted by growing client demand for Covid-19 related R&D activities during the period.

Research from Pharma Intelligence highlighted that the number of drugs in the global pharmaceutical R&D pipeline grew almost 10% year-on-year to an all-time high, providing a strong foundation for the Company to build on the momentum it has already achieved.

The number of drugs in the preclinical (non-clinical) phase of development, where much of Instem's business arises, grew particularly strongly (over 13% through March 2020) creating strong study demand for the non-clinical contract research organisations ("CROs"), who represent an important segment of the Instem market.

There are also increasing regulatory-backed growth opportunities that highlight the strength of the Group's product and services suite. The volume of studies required to be submitted to the US Food and Drug Administration using the Standard for the Exchange of Non-clinical Data ("SEND") has continued to grow, underpinning demand for Instem's SEND technology and outsourced services. In addition, the Company's AI-based in-silico R&D business Leadscope remains especially well-placed, having worked extensively through research collaboration agreements ("RCAs") with the FDA, and in collaboration with other agencies, to develop both predictive and expert review solutions to satisfy regulatory guideline ICH M7 (R1), for the assessment and control of DNA reactive (mutagenic) impurities in pharmaceuticals to limit potential carcinogenic risk.

Business Performance

Study Management and Data Collection

Strong study demand for 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. The largest new study management contract in H1 2020 was for Biototech, a prominent South Korean non-clinical CRO. The contract is worth approximately \$1 million, the majority of which will be recognised as revenue in H2 2020 and the balance in 2021.

Informatics

Informatics performed particularly well in the period with strong organic growth in Target Safety Assessment ("TSA") services and a first full half-year period contribution from Leadscope. Our TSA work brings the Company into contact with customers at an early stage in the therapeutic discovery process, providing a service that aims to avoid very expensive later stage drug programme failures.

TSA capacity has expanded through team growth (doubling since H1 2019, with staff now in Cambridge, UK and Pune, India), further development of our underlying KnowledgeScan technology platform and optimization of the workflow processes.

In addition to strong organic growth, the performance of the Leadscope acquisition has been especially pleasing, helping the Company grow existing customer revenues while also attracting new clients.

We continue to see tremendous growth potential in our augmented intelligence, machine learning and predictive analytics solutions in informatics, with considerable appetite from clients to leverage huge volumes of historic data to radically reduce the time and cost to bring new drugs to market.

Regulatory Solutions

The Company's regulatory SEND solutions lead the FDA (Food and Drug Administration) mandated market, with the industry continuing to try to address a backlog of SEND conversion work, while keeping up with the growing current study volumes. FDA driven demand remains the cornerstone of growth, although pharma clients are increasingly turning to SEND as their preferred approach to securing all study data in a format that facilitates cross compound analysis and insight generation. Instem aims to maintain approximately 70% share of the accessible SEND outsourced services market.

With industry expertise in SEND expanding, many CROs, who had previously outsourced SEND conversion work, are choosing to license Instem's SEND conversion technology and to bring the conversion work in-house.

The more SEND data sets that are created (by Instem or others) and the more pharma companies that have access to them, the greater the demand for our technology solutions that explore and exploit SEND data, an area that is showing good software growth in 2020. We continue to explore the potential to expand our technology into the closely associated clinical submission standard SDTM.

Post-Period Fund Raise

The Company successfully completed an oversubscribed £15.75m fundraise (pre-expenses) in July 2020, providing funds to advance existing acquisition targets in line with its M&A strategy. A number of bolt-on acquisitions and more substantial targets have already been identified and are now being progressed – aided by the impact of Covid-19 on certain business valuations.

Covid-19

The Company remains well placed and has seen minimal impact from Covid-19, with working from home practices implemented and the majority of business relatively unaffected. The transition to remote operations was seamless, ensuring business continuity, reflected by the Company's performance during the period. As highlighted in the results announcement for the year ended 31 December 2019, while some new business opportunities have been delayed, principally those in the early phase clinical and academic sectors, most 2020 opportunities remain within the year and, to date, no pipeline opportunities have been cancelled altogether by clients. About 10% of Instem's professional services associated with software deployment are performed on client premises, with some consequential revenue slippage as travel and client site access are not expected to materially improve until 2021.

Outlook

The performance in the first half of the year reflects the strength of the Company's growing suite of solutions and services, the underlying market fundamentals and the tremendous performance of the entire Instem team, who have performed admirably in the challenging Covid-19 environment. Furthermore, the Company is reaping the benefits of the transition to SaaS at the same time as strengthening its relationships with existing customers while also growing its client base.

The organic growth achieved highlights the resilience of the Company's model while the positive impact from Leadscope provides a strong reference point for the range of acquisitions that management is currently progressing following the post-period end fundraise.

The Company continues to trade in line with the Board's expectations, with the Board anticipating that the momentum achieved during the first half and post-period end will continue over the rest of the year.

Phil Reason

Chief Executive Officer

28 September 2020

Financial Review

Key Performance Indicators

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 2020 were:

	6 months to 30 June 2020 £000	6 months to 30 June 2019 £000	12 months to 31 Dec 2019 £000
Total revenue	14,047	11,669	25,717
Recurring revenue	8,357	7,041	14,862
Recurring revenue as a percentage of total revenue	59%	60%	58%
*Adjusted EBITDA	2,995	1,662	4,864
Cash and cash equivalents	9,132	6,039	5,957

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

Total revenues in the period increased by 20% to £14.0m (H1 2019: £11.7m). Like-for like revenues, excluding the impact of Leadscope Inc, which was acquired in November 2019, increased by 12%. Recurring revenue, derived from support & maintenance contracts and SaaS subscriptions, increased in the period by 19% to £8.4m (H1 2019: £7.0m). Recurring revenue as a percentage of total revenue was 59% (H1 2019: 60%). In absolute terms, recurring revenue increased over the prior year by £1.4m but its percentage of the total decreased due to the growth in technology enabled outsourced services, which is currently all shown as non-recurring. Revenue from technology enabled outsourced services increased to £3.4m (H1 2019: £2.3m).

Total operating expenses increased by 10% in the period reflecting the ongoing investment in operational teams and the inclusion of Leadscope Inc costs. Lower travel and associated costs due to Covid-19 were offset by a higher holiday pay accrual, as employee holidays were deferred, again due to Covid-19.

Earnings before interest, tax, depreciation, amortisation, impairment of goodwill and capitalised development and non-recurring items (*Adjusted EBITDA) increased by 76% to £3.0m (H1 2019: £1.7m). For this measure of earnings, the margin as a percentage of revenue increased in the period to 21.3% from 14.2% in H1 2019. Excluding Leadscope Inc, like-for like adjusted EBITDA increased by 53% to £2.6m in the period.

Non-recurring costs in the period consist of £0.05m for legal expenses associated with historical contract disputes (H1 2019: £0.08m).

The reported profit before tax for the period was £1.9m (H1 2019: £0.4m). 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 and amortisation of intangibles on acquisitions) was £2.1m (H1 2019: £0.8m).

The Group continues to invest in its product portfolio. Development costs incurred in the period were £1.6m (H1 2019: £1.5m), of which £0.6m (H1 2019: £0.7m) was capitalised.

Basic and diluted earnings per share calculated on an adjusted basis were 10.7p and 10.2p respectively (H1 2019: 4.6p basic and 4.4p diluted). The reported basic and diluted earnings per share were 9.5p and 9.0p respectively (H1 2019: 2.0p basic and 1.9p diluted).

The period saw strong net cash generated from operating activities of £3.0m (H1 2019: £3.2m), largely due to cash inflows from key contracts, outsourced services, working capital management and a £0.6m R&D tax credit claimed in respect of 2018. H1 2019 cash benefitted from a number of customer payments which were delayed from 2018 and paid in early 2019. Net cash generated from financing activities includes the proceeds from loans of £0.9m from the US government. The loans are part of the US federal government support for businesses during the Covid-19 pandemic, having a maturity of two years and potentially being partly or fully forgiven. Cash balances increased to £9.1m at 30 June 2020 (H1 2019: £6.0m).

The deficit on the Group's legacy defined benefit pension scheme was £4.0m at 30 June 2020 (H1 2019: £2.2m) having worsened from a deficit of £1.8m at 31 December 2019. Liabilities have increased from £13.8m at 31 December 2019 to £15.5m at 30 June 2020 due to a significant fall in corporate bond yields over the period. This was compounded by a combination of negative asset returns and a modest increase in assumed life expectancy but offset by deficit contributions paid over the period and a slight fall in assumed price inflation.

Movements in share capital, share premium and share based payment reserve reflect the exercise of share options during the period and the fair value of share options granted being charged to the statement of comprehensive income.

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 2019 Annual Report.

Post balance sheet events

On 26 June 2020, the Company announced that it had successfully raised gross proceeds of £15.75 million (£15.0 million net of expenses) through a placing of 3,620,690 new shares at a price of 435p per share. At the same date, the Company also announced that following an exercise of options, 187,427 shares were issued to Phil Reason, the Company's Chief Executive Officer, of which 142,000 were sold. Admission of the shares on AIM became effective on 17 July 2020. The enlarged share capital of Instem is now 20,481,909 ordinary shares.

Brexit

Trade negotiations with the European Union ("EU") are continuing during 2020 with the transition period planned to end on 31 December 2020. Whilst the outcome remains uncertain, there is always the associated risk of adverse implications for the business, including the impact on exchange rate fluctuations. However, the Group has to its knowledge experienced no negative impact on its business to date and does not expect to do so in the future. Instem operates in a global market with a multinational customer base and its revenues and costs spread around the globe without over reliance on Europe or exposure to it. The 2016 acquisition of Notocord in France provides the Group with a presence in the EU that we expect to help mitigate any impact that might arise from the Brexit outcome. The Group will

continue to monitor the progress of the UK/EU trade negotiations and any potential implications for the business.

Nigel Goldsmith
Chief Financial Officer

28 September 2020

Instem plc
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
REVENUE		14,047	11,669	25,717
Employee benefits expense		(8,009)	(6,860)	(13,609)
Other expenses		(3,043)	(3,147)	(7,244)
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING COSTS (ADJUSTED EBITDA)		2,995	1,662	4,864
Depreciation		(76)	(77)	(155)
Amortisation of intangibles arising on acquisition		(332)	(262)	(523)
Amortisation of internally generated intangibles		(310)	(374)	(755)
Amortisation of right of use assets		(272)	(272)	(607)
Impairment of goodwill and capitalised development		-	-	(3,175)
PROFIT/(LOSS) BEFORE NON-RECURRING COSTS		2,005	677	(351)
Non-recurring costs	5	(49)	(84)	(302)
PROFIT/(LOSS) AFTER NON-RECURRING COSTS		1,956	593	(653)
Finance income	6	67	11	7
Finance costs	7	(124)	(185)	(255)
PROFIT/(LOSS) BEFORE TAXATION		1,899	419	(901)
Taxation		(308)	(90)	(22)
PROFIT/(LOSS) FOR THE PERIOD		1,591	329	(923)
OTHER COMPREHENSIVE (EXPENSE)/INCOME				
<i>Items that will not be reclassified to profit and loss account</i>				
Actuarial (loss)/gain on retirement benefit obligations		(2,525)	(275)	30
Deferred tax on actuarial gain & loss		480	47	(6)
		(2,045)	(228)	24
<i>Items that may be reclassified to profit and loss account:</i>				
Exchange differences on translating foreign operations		77	16	(208)
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD		(1,968)	(212)	(184)
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD		(377)	117	(1,107)
PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		1,591	329	(923)
TOTAL COMPREHENSIVE (EXPENSE)/INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		(377)	117	(1,107)

Earnings per share from continuing operations

- Basic	4	9.5p	2.0p	(5.7p)
- Diluted	4	9.0p	1.9p	(5.7p)

Instem plc
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

	Unaudited 30 June 2020 £000	Unaudited 30 June 2019 £000	Audited 31 December 2019 £000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	18,122	17,506	18,108
Property, plant and equipment	252	290	237
Right of use assets	1,982	2,848	2,165
Finance lease receivables	165	-	175
Deferred tax assets	-	34	-
TOTAL NON-CURRENT ASSETS	20,521	20,678	20,685
CURRENT ASSETS			
Inventories	39	39	36
Trade and other receivables	8,621	7,187	6,921
Finance lease receivables	19	-	39
Tax receivable	579	532	1,158
Cash and cash equivalents	9,132	6,039	5,972
TOTAL CURRENT ASSETS	18,390	13,797	14,111
TOTAL ASSETS	38,911	34,475	34,796
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	2,315	2,566	2,662
Deferred income	11,048	9,323	8,942
Tax payable	425	176	404
Financial liabilities	749	35	301
Lease liabilities	461	682	565
Deferred tax liabilities	31	-	506
TOTAL CURRENT LIABILITIES	15,029	12,782	13,380
NON-CURRENT LIABILITIES			
Financial liabilities	1,079	-	559
Retirement benefit obligations	3,985	2,231	1,804
Provision for liabilities and charges	250	250	250
Lease liabilities	1,927	2,256	2,004
TOTAL NON-CURRENT LIABILITIES	7,241	4,737	4,617
TOTAL LIABILITIES	22,270	17,519	17,997
EQUITY			
Share capital	1,667	1,630	1,662
Share premium	13,219	12,937	13,135
Merger reserve	2,432	1,598	2,432
Share based payment reserve	784	1,082	654
Translation reserve	159	306	82
Retained earnings	(1,620)	(621)	(1,166)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT	16,641	16,932	16,799
TOTAL EQUITY AND LIABILITIES	38,911	34,475	34,746

Note

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Instem plc

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation	1,899	419	(901)
<i>Adjustments for:</i>			
Depreciation	76	77	155
Amortisation of intangibles	642	636	1,278
Amortisation of right of use assets	272	272	607
Impairment of goodwill and capitalised development	-	-	3,175
Share based payment charge	130	72	75
Retirement benefit obligations	(362)	(325)	(475)
Finance income	(67)	(11)	(7)
Finance costs	124	185	255
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL	2,714	1,325	4,162
<i>Movements in working capital:</i>			
(Increase)/Decrease in inventories	(3)	(2)	1
(Increase)/Decrease in trade and other receivables	(1,705)	590	790
Increase in trade, other payables and deferred income	1,759	1,063	693
NET CASH GENERATED FROM OPERATIONS	2,765	2,976	5,646
Finance income	67	11	7
Finance costs	(124)	(17)	(255)
Income taxes	315	256	25
NET CASH GENERATED FROM OPERATING ACTIVITIES	3,023	3,226	5,423
CASH FLOWS FROM INVESTING ACTIVITIES			
Capitalisation of development costs	(600)	(731)	(1,344)
Purchase of property, plant and equipment	(85)	(67)	(91)
Purchase of subsidiary undertaking (net of cash acquired)	(73)	-	(1,268)
NET CASH USED IN INVESTING ACTIVITIES	(758)	(798)	(2,703)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	89	440	648
Proceeds from US government loan	901	-	-
Lease interest payment	-	(1)	(2)
Repayment of lease liabilities	(327)	(306)	(693)
Receipts from sublease of asset	25	-	7
Repayment of lease capital	(15)	(17)	(34)
NET CASH GENERATED FROM FINANCING ACTIVITIES	673	116	(74)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,938	2,544	2,646
Cash and cash equivalents at start of period	5,957	3,572	3,572
Effect of exchange rate changes on the balance of cash held in foreign currencies	237	(77)	(261)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9,132	6,039	5,957

Instem plc
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2020

	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 31 December 2018 (Audited)	1,592	12,535	1,598	1,010	290	(630)	16,395
Adjustment on initial application of IFRS 16	-	-	-	-	-	(68)	(68)
Adjusted balance as at 1 January 2019 - Audited	1,592	12,535	1,598	1,010	290	(698)	16,327
Profit for the period	-	-	-	-	-	329	329
Other comprehensive income/(expense)	-	-	-	-	16	(228)	(212)
Total comprehensive income	-	-	-	-	16	101	117
Shares issued	38	402	-	-	-	-	440
Share based payment	-	-	-	72	-	-	72
Balance as at 30 June 2019 (Unaudited)	1,630	12,937	1,598	1,082	306	(597)	16,956
Loss for the period	-	-	-	-	-	(1,252)	(1,252)
Other comprehensive (expense)/income	-	-	-	-	(224)	252	28
Total comprehensive expense	-	-	-	-	(224)	(1,000)	(1,224)
Shares issued	32	198	834	-	-	-	1,064
Share based payment	-	-	-	3	-	-	3
Reserve transfer on lapse of share options	-	-	-	(431)	-	431	-
Balance as at 31 December 2019 (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/(expense)	-	-	-	-	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

NOTES TO THE FINANCIAL INFORMATION

For the six months ended 30 June 2020

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, 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.

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 2020. 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 2020 and 30 June 2019 is unaudited.

Instem plc's consolidated statutory accounts for the year ended 31 December 2019, 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 2020 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 2020.

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.

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 financial liquidity. In addition to the 30 June 2020 cash balances of £9.1m plus £0.5m of unused banking facilities, the Group raised a further £15.0m in equity funds in July 2020, which remains unused.

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 2020, 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 on the Statement of Financial Position in Cash and Cash Equivalents.

2. **Segmental Reporting**

The business is organised in three operating segments to better manage and report revenues; Study Management, Regulatory Solutions and Informatics. Certain direct costs are allocated to the revenue streams whilst the majority of costs are recorded and reported centrally. 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.

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

Unaudited six months ended 30 June 2020	Study Management £000	Regulatory Solutions £000	Informatics £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
Central unallocated indirect costs				(7,519)
Adjusted EBITDA				2,995

Unaudited six months ended 30 June 2019	Study Management £000	Regulatory Solutions £000	Informatics £000	Total £000
Total revenue	7,270	4,008	391	11,669
Direct attributable costs	(2,047)	(1,219)	(221)	(3,487)
Contribution to indirect overheads	5,223	2,789	170	8,182
Central unallocated indirect costs				(6,520)
Adjusted EBITDA				1,662

Audited year ended 31 December 2019	Study Management £000	Regulatory Solutions £000	Informatics £000	Total £000
Total revenue	15,188	9,037	1,492	25,717
Direct attributable costs	(4,370)	(2,111)	(660)	(7,141)
Contribution to indirect overheads	10,818	6,926	832	18,576
Central unallocated indirect costs				(13,712)

Adjusted EBITDA	4,864
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3. *Key performance measures*

	Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
a) Recurring revenue			
Annual support fees	4,588	4,107	8,418
SaaS subscription and support fees	3,796	2,934	6,444
Recurring revenue	8,357	7,041	14,862
Licence fees	1,510	1,385	3,501
Professional services	739	947	1,773
Technology enabled outsourced services	3,441	2,296	5,581
Total revenue	14,047	11,669	25,717
b) Adjusted EBITDA			
EBITDA	2,946	1,578	4,562
Non-recurring costs (see note 5)	49	84	302
Adjusted EBITDA	2,995	1,662	4,864

Adjusted profit after tax and bank balance performance measures are detailed in notes 4 and 8.

4. *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 earnings per share

	Unaudited Six months ended 30 June 2020	Unaudited Six months ended 30 June 2019	Audited Year ended 31 December 2019
Profit/(loss) after tax (£000)	1,591	329	(923)
Weighted average number of shares (000's)	16,662	16,163	16,254
Basic earnings per share	9.5p	2.0p	(5.7p)

b) Diluted earnings per share

	Unaudited Six months ended 30 June 2020	Unaudited Six months ended 30 June 2019	Audited Year ended 31 December 2019
Profit/(loss) after tax (£000)	1,591	329	(923)
Weighted average number of shares (000's)	16,662	16,163	16,254
Potentially dilutive shares (000's)	948	820	799
Adjusted weighted average number of shares (000's)	17,610	16,983	17,053
Diluted earnings per share	9.0p	1.9p	(5.7p)

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 2020	Unaudited Six months ended 30 June 2019	Audited Year ended 31 December 2019
Profit/(loss) after tax (£000)	1,591	329	(923)
Non-recurring costs	49	84	302
Amortisation of acquired intangibles	332	262	523
Impairment of goodwill and capitalised development	-	-	3,175
Foreign exchange (gain)/loss on revaluation of intergroup balances	(181)	69	61
Adjusted profit after tax (£000)	1,791	744	3,138
Weighted average number of shares (000's)	16,662	16,163	16,254
Potentially dilutive shares (000's)	948	820	799
Adjusted weighted average number of shares (000's)	17,610	16,983	17,053
Adjusted basic earnings per share	10.7p	4.6p	19.3p
Adjusted diluted earnings per share	10.2p	4.4p	18.4p

5. Non-recurring costs

	Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Legal cost relating to historical contract disputes	49	49	106
Professional fees	-	35	-
Acquisition costs	-	-	196
	49	84	302

6. Finance income

	Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Foreign exchange gains	62	-	-
Other interest	5	11	7
	67	11	7

7. Finance costs

	Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Bank loans and overdrafts	19	17	34
Unwinding discount on deferred consideration	40	-	-
Net interest charge on pension scheme	18	32	60
Lease interest cost	-	1	2
Right of use asset interest cost	47	53	118
Foreign exchange losses	-	82	41
	124	129	255

8. Cash and cash equivalents

	Unaudited 30 June 2020 £000	Unaudited 30 June 2019 £000	Audited 31 December 2019 £000
Cash at bank	18,130	15,037	14,955
Bank overdraft	(8,998)	(8,998)	(8,998)
Bank balance	9,132	6,039	5,957

9. Provision for liabilities and charges

	Unaudited 30 June 2020 £000	Unaudited 30 June 2019 £000	Audited 31 December 2019 £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 5).

10. Availability of this Interim Announcement

Copies of the 2020 Interim Report for Instem plc will be available from the Group's website at www.instem.com.