

INSTEM

SOFTWARE AND COMPUTER SERVICES

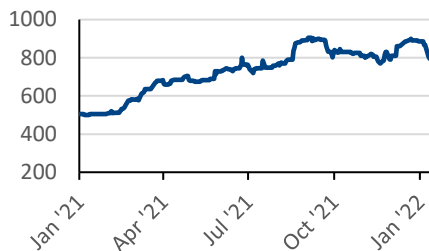
26 January 2022

INS.L

795p

Market Cap: £176.4m

SHARE PRICE (p)



12m high/low

905p/500p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£10.1m (at 30/06/21)
Enterprise value	£166.3m
Index/market	AIM
Next news	FY21 results, Apr-22
Shares in Issue (m)	22.2
Chairman	David Gare
Chief Executive	Phil Reason
Finance Director	Nigel Goldsmith

COMPANY DESCRIPTION

Instem is a leading provider of IT solutions & services to the life sciences market.

www.instem.com

INSTEM IS A RESEARCH CLIENT OF PROGRESSIVE

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Trading in-line, all key metrics improving

Instem has delivered a positive trading update for the year to 31 December 2021, reporting like-for-like (LFL) revenue growth of over 10% on a constant currency basis and a £15.1m closing (gross) cash position. FY21 was a period of material operational progress for the group, and the release signals that, alongside the strong organic performance, the three transformational acquisitions completed during the year are integrating well. Management commentary on the outlook is positive and we make no changes to earnings estimates following the announcement. Overall, we believe the update will give confidence in Instem's continuing ability to deliver both organic and acquisition-driven growth.

- Strong revenue growth and operational cash performance.** The update confirms that FY21 trading was in line with management's expectations. The period saw headline +6.4% LFL revenue growth YoY, an improvement of over 10% on a constant currency basis. Organic performance benefitted from both increased cross-selling and additional new client wins. Total revenue for the period was £46.1m, +64% YoY, in line with our £46.7m forecast. The release contains no detail on profitability but highlights that margin expansion was underpinned by the ongoing transition to SaaS (Software as a Service) delivery. Operating cash performance was also "strong", with a closing (gross) cash balance of £15.1m. Following the announcement, we leave our estimates unchanged ahead of full-year results due in April. However, noting the commentary on the trading performance (in-line) and margins (up), we believe the update gives confidence in the group's ability to deliver our £8.0m FY21E EBITDA forecast.
- 2021 acquisitions integrating well.** Instem completed three material acquisitions during 2021 (The Edge, d-Wise and PDS), which have transformed the group's scale and reach, as well as strengthening client relationships. The update signals that all three are integrating well and management expects each to be earnings enhancing in FY21.
- Positive outlook commentary, further potential for M&A.** The update heralds that Instem exited 2021 "stronger than ever" and that the group continued to improve all key metrics within existing operations. The market backdrop remains positive, and management is confident that the group will continue to build on recent momentum. The release also signals that management continues to evaluate further M&A opportunities in existing and adjacent market areas.

FYE DEC (£M)	2019	2020	2021E	2022E	2023E
Revenue	25.7	28.2	46.7	61.5	66.3
Adj EBITDA	4.9	5.9	8.0	12.2	14.9
Fully adj PBT	3.7	4.4	5.0	8.4	10.8
Fully adj EPS (p)	18.4	19.1	18.3	29.7	38.3
EV/Sales	6.5x	5.9x	3.6x	2.7x	2.5x
EV/EBITDA	34.2x	28.1x	20.7x	13.6x	11.2x
PER	43.2x	41.6x	43.5x	26.8x	20.7x

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

Please refer to important disclosures at the end of the document.

Financial Summary: Instem

Year end: December (£m unless shown)

	2019	2020	2021E	2022E	2023E
PROFIT & LOSS					
Revenue	25.7	28.2	46.7	61.5	66.3
Adj EBITDA	4.9	5.9	8.0	12.2	14.9
Adj EBIT	4.0	5.0	5.2	8.4	10.8
Reported PBT	(0.9)	2.5	2.3	7.1	9.3
Fully adj PBT	3.7	4.4	5.0	8.4	10.8
NOPAT	3.4	4.1	4.2	6.7	8.7
Reported EPS (p)	(5.4)	11.6	8.3	25.0	33.2
Fully adj EPS (p)	18.4	19.1	18.3	29.7	38.3
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	5.7	7.7	8.4	9.0	14.1
Free Cash flow	4.1	5.8	6.5	7.2	9.7
FCF per share (p)	23.8	29.7	30.0	31.5	43.0
Acquisitions	(1.3)	(0.3)	(25.4)	(6.0)	(5.0)
Disposals	0.0	0.0	0.0	0.0	0.0
Capex	(1.4)	(1.4)	(2.1)	(2.5)	(2.5)
Shares issued	0.6	15.4	2.6	0.0	0.0
Net cash flow	2.4	20.8	(17.0)	0.8	4.7
Cash & equivalents	6.0	26.7	9.8	10.5	15.2
Net (Debt)/Cash	5.1	25.3	0.0	5.7	10.9
NAV AND RETURNS					
Net asset value	16.8	33.2	36.6	42.3	49.8
NAV/share	106.1	162.3	170.5	194.1	228.4
Net Tangible Asset Value	(1.3)	15.2	22.4	28.7	35.9
NTAV/share	(8.3)	74.3	104.4	131.7	164.6
Average equity	16.6	25.0	34.9	39.5	46.0
Post-tax ROE (%)	(5.6%)	9.1%	5.2%	14.4%	16.2%
METRICS					
Revenue growth		9.7%	65.5%	31.7%	7.8%
Adj EBITDA growth		21.7%	35.8%	51.9%	21.7%
Adj EBIT growth		27.6%	3.4%	60.6%	29.4%
Adj PBT growth		18.5%	13.6%	69.3%	27.6%
Adj EPS growth		N/A	(4.3%)	62.5%	29.0%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		17.9%	11.2%	13.6%	16.4%
VALUATION					
EV/Sales	6.5	5.9	3.6	2.7	2.5
EV/EBITDA	34.2	28.1	20.7	13.6	11.2
EV/NOPAT	48.3	40.2	39.8	24.8	19.2
PER	43.2	41.6	43.5	26.8	20.7
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	3.0%	3.7%	3.8%	4.0%	5.4%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

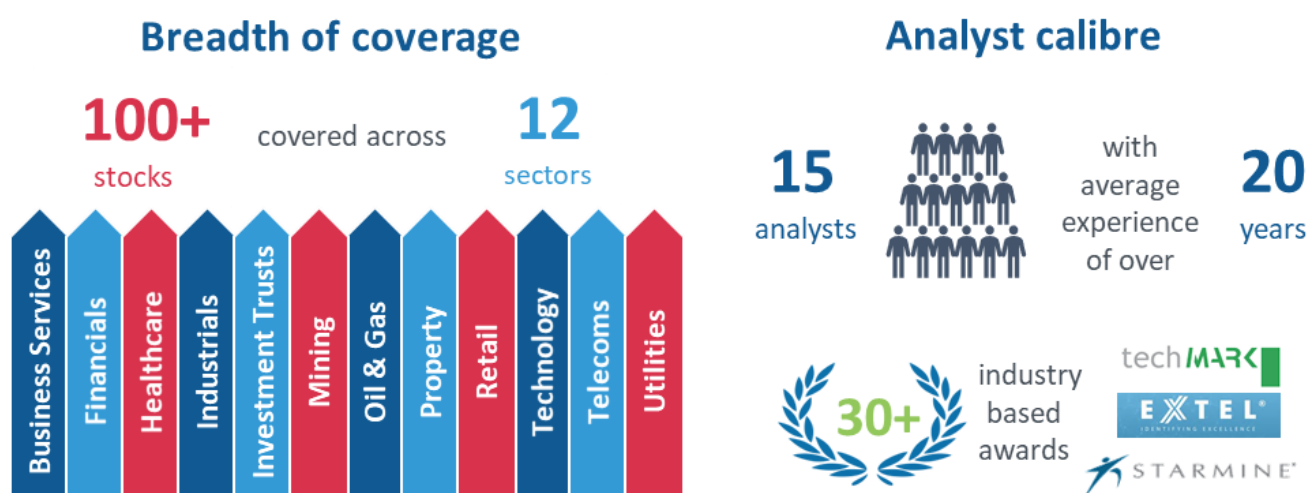
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