

INSTEM

SOFTWARE AND COMPUTER SERVICES

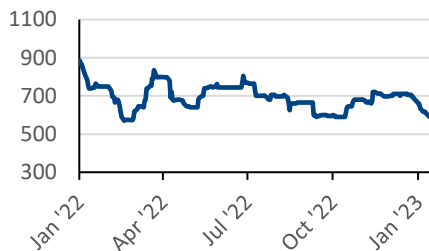
31 January 2023

INS.L

590p

Market Cap: £134m

SHARE PRICE (p)



12m high/low

835p/570p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£4.0m (at 30/06/22)
Enterprise value	£130m
Index/market	AIM
Next news	FY22 results, May '23
Shares in Issue (m)	22.7
Chairman	David Gare
Chief Executive	Phil Reason
Chief Financial Officer	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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Impressive growth in FY22

Instem has delivered a positive trading update for the year to 31 December 2022, reporting c.28% revenue growth and a £13.7m closing (gross) cash position. Profitability also saw a material improvement, with FY22 adjusted PBT expected to be in line with our £7.6m forecast (+53% YoY). The order book remains 'strong' and management commentary on the outlook is positive. We make no changes to estimates and believe the update will maintain confidence in the Instem growth story.

- Strong revenue growth.** Total revenue for FY22 is expected to be around £59m, c.28% higher than FY21. Annual recurring revenue (annual support and SaaS) grew by an impressive 40% YoY to £34m, representing 58% of group turnover (H1 22: 58%).
- Profits in-line.** FY22 adjusted PBT is expected to be materially in line with market (and our) expectations. Note, we forecast adjusted PBT of £7.6m for the year (+53% YoY). Offsetting salary inflation during 1H 22, financial performance during the year benefitted from the combined effects of 1) price rises for certain products implemented in H2 22, 2) higher-margin contract wins and 3) improved business mix via the ongoing shift to SaaS.
- Strong cash performance.** The group closed FY22 with a gross cash balance of £13.7m, representing a £3.4m improvement on H1 22 (£10.3m). Although the release contains no detail on the composition of the cash flow, it signals that the group remains cash generative.
- Benefits of strategic moves being felt.** The three major acquisitions made during 2021 significantly enhanced the group's platform, product set and reach, in our view. FY22 saw the first full-year financial contribution from all three, with each being further integrated into the broader Instem group during the year. Some initial benefits of these strategic moves came through in H2 22. Notably, Instem signed its largest ever single contract during the half. Valued at \$12m over five years, a large CRO client adopted the group's Aspire statistical computing environment. In addition, a \$1.4m CRO contract extension was also secured (Provantis).
- Positive outlook commentary.** The release confirms that the current order book is 'strong'. The market backdrop remains positive for Instem, and management is confident in the (enlarged) group's ability to deliver continued growth and margin expansion in the coming years.

FYE DEC (£M)	2020	2021	2022E	2023E	2024E
Revenue	28.2	46.0	60.5	68.2	75.1
Adj EBITDA	5.9	8.3	11.0	14.4	16.2
Fully adj PBT	4.0	5.0	7.6	10.0	12.2
Fully adj EPS (p)	19.1	18.0	26.9	35.6	43.5
EV/Sales	4.6x	2.8x	2.1x	1.9x	1.7x
EV/EBITDA	22.0x	15.8x	11.8x	9.0x	8.0x
PER	30.9x	32.8x	22.0x	16.6x	13.6x

Source: Company Information and Progressive Equity Research estimates.

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

Financial Summary: Instem

Year end: December (£m unless shown)

	2020	2021	2022E	2023E	2024E
PROFIT & LOSS					
Revenue	28.2	46.0	60.5	68.2	75.1
Adj EBITDA	5.9	8.3	11.0	14.4	16.2
Adj EBIT	5.0	7.1	6.8	10.1	12.4
Reported PBT	2.5	3.0	5.4	8.5	10.7
Fully adj PBT	4.0	5.0	7.6	10.0	12.2
NOPAT	4.1	5.7	5.5	8.1	9.9
Reported EPS (p)	11.6	9.2	18.4	29.5	37.2
Fully adj EPS (p)	19.1	18.0	26.9	35.6	43.5
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	7.7	10.3	6.8	14.7	17.8
Free Cash flow	5.8	6.8	4.8	10.0	12.5
FCF per share (p)	29.7	29.7	21.0	44.7	55.6
Acquisitions	(0.3)	(17.5)	(6.0)	(5.0)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Capex	(1.4)	(2.4)	(2.8)	(2.8)	(2.8)
Shares issued	15.4	0.0	0.0	0.0	0.0
Net cash flow	20.8	(11.6)	(1.6)	5.1	12.5
Cash & equivalents	26.7	15.0	13.4	18.5	31.0
Net (Debt)/Cash	25.3	3.7	7.0	12.5	25.0
NAV AND RETURNS					
Net asset value	33.2	47.7	49.8	56.5	64.8
NAV/share	162.3	222.2	228.6	259.0	297.4
Net Tangible Asset Value	15.2	(10.6)	(7.4)	(0.8)	5.6
NTAV/share	74.3	(49.3)	(34.1)	(3.8)	25.5
Average equity	25.0	40.5	48.8	53.1	60.6
Post-tax ROE (%)	9.1%	5.2%	8.6%	12.5%	13.8%
METRICS					
Revenue growth		63.1%	31.5%	12.7%	10.1%
Adj EBITDA growth		39.4%	33.1%	31.2%	12.3%
Adj EBIT growth		40.5%	(3.7%)	47.9%	22.6%
Adj PBT growth		24.4%	52.5%	31.0%	22.1%
Adj EPS growth		N/A	49.3%	32.5%	22.1%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		15.4%	11.3%	14.8%	16.5%
VALUATION					
EV/Sales	4.6	2.8	2.1	1.9	1.7
EV/EBITDA	22.0	15.8	11.8	9.0	8.0
EV/NOPAT	31.4	22.9	23.8	16.1	13.1
PER	30.9	32.8	22.0	16.6	13.6
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	5.0%	5.0%	3.6%	7.6%	9.4%

Source: Company information and Progressive Equity Research estimates

Note – for comparison purposes we have left forecasts unchanged from those last presented in December 2022.

Disclaimers and Disclosures

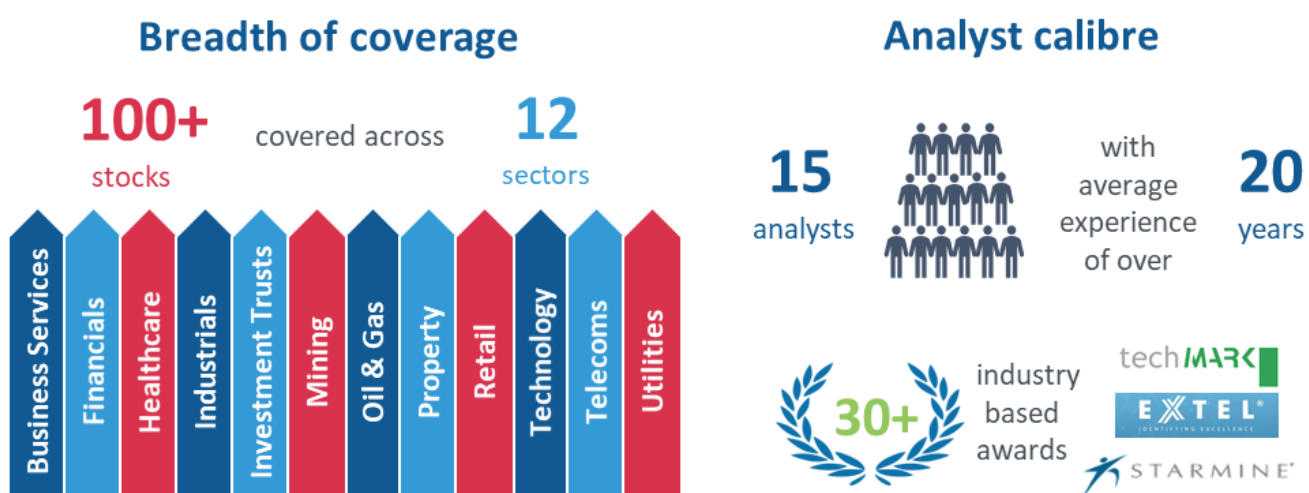
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