

# INSTEM

## SOFTWARE AND COMPUTER SERVICES

15 August 2023

INS.L

620p

Market Cap: £142m

### SHARE PRICE (p)



12m high/low

720p/590p

Source: LSE Data (priced as at prior close)

### KEY DATA

Net (debt)/cash	£6.9m (at 31/12/22)
Enterprise value	£135.1m
Index/market	AIM
Next news	Interims, September
Shares in issue (m)	22.9
Chairman	David Gare
CEO	Phil Reason
CFO	Nigel Goldsmith

### COMPANY DESCRIPTION

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

[www.instem.com](http://www.instem.com)

INSTEM IS A RESEARCH CLIENT OF PROGRESSIVE

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## H1 23 – another strong trading performance

Instem's update for the six months to 30 June (H1 23) confirms that the business continues to trade strongly, with the group reporting double-digit (organic) revenue growth. Furthermore, growth is being accompanied by improved visibility, with recurring revenue reaching a record level during the period. The group's financial position remains robust, and commentary on the outlook for H2 23E is positive. We make no changes to earnings estimates following the announcement.

- H1 23 – strong trading.** H1 23 revenue is expected to be c.£29.7m (+10.2% YoY). The growth is all organic and revenue excludes Samarind Ltd, which was sold on 1 April. Revenue of £29.7m in H1 23 represents c.46% of our FY23E estimate, consistent with the historical interim average.
- Record recurring revenue.** With Annual Recurring Revenue (ARR) rising to a record c.£41m (+28% YoY) as at 1 July, the group is improving revenue quality alongside delivering growth. Note, the £41m compares with £35m as at 1 January and represents c.63% of our FY23E revenue forecast.
- Solid operational progress.** Instem recorded a number of operational advances during the period, including assuming ownership of the ToxHub platform and launch of the translational science platform Centrus. Instem also renewed its long-standing agreement with the US National Toxicology Program during the period, and post period end signed a \$3.1m subscription order with Canadian CRO Altasciences for the Provantis suite. We understand that Altasciences, by virtue of two acquisitions, is a major client of Instem's competitor Xybion, so this deal represents a welcome competitive replacement for Provantis.
- Robust financial position, M&A opportunities signalled.** Instem had a gross cash balance of £8.4m as of 30 June (FY22A: £14.0m). Note, this includes £5.8m of deferred consideration payments made during the half. The group also retains largely undrawn credit facilities (with HSBC) of £10.0m. The board is currently appraising a healthy pipeline of M&A opportunities progressed to various stages, and we believe that the group's financial headroom positions it strongly to capitalise on them.
- Positive outlook commentary.** The release signals that, as in previous years, revenue will be second-half weighted, reflecting growth in recurring software revenue and reliable contract renewals with existing clients. Management is confident that FY23 group performance will be broadly in line with the board's expectations.

FYE DEC (€M)	2021	2022	2023E	2024E	2025E
Revenue	46.0	58.9	65.0	73.4	81.0
Adj EBITDA	8.3	10.9	12.0	14.6	17.5
Fully adj PBT	5.9	8.2	8.7	11.1	13.9
Fully adj EPS (p)	20.4	31.3	30.9	39.5	49.5
EV/Sales	2.9x	2.3x	2.1x	1.8x	1.7x
EV/EBITDA	16.4x	12.4x	11.2x	9.3x	7.7x
PER	30.4x	19.8x	20.1x	15.7x	12.5x

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)

	2021	2022	2023E	2024E	2025E
<b>PROFIT &amp; LOSS</b>					
Revenue	46.0	58.9	65.0	73.4	81.0
Adj EBITDA	8.3	10.9	12.0	14.6	17.5
Adj EBIT	7.1	9.4	8.8	11.2	14.1
Reported PBT	3.0	5.5	6.1	8.5	11.3
Fully adj PBT	5.9	8.2	8.7	11.1	13.9
NOPAT	5.5	8.5	7.0	9.0	11.3
Reported EPS (p)	7.4	19.8	20.2	28.3	37.7
Fully adj EPS (p)	20.4	31.3	30.9	39.5	49.5
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
<b>CASH FLOW &amp; BALANCE SHEET</b>					
Operating cash flow	10.3	9.9	10.3	11.4	16.7
Free Cash flow	6.8	4.4	5.2	5.7	10.2
FCF per share (p)	30.0	18.4	23.3	25.2	45.2
Acquisitions	(17.5)	(5.4)	(5.0)	(0.2)	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Capex	(2.4)	(3.5)	(3.5)	(3.5)	(3.5)
Shares issued	0.0	0.0	0.0	0.0	0.0
Net cash flow	(11.6)	(2.0)	0.3	5.5	10.2
Cash & equivalents	15.0	14.0	14.2	19.7	29.9
Net (Debt)/Cash	3.7	6.9	12.9	18.4	28.6
<b>NAV AND RETURNS</b>					
Net asset value	47.7	53.4	56.1	70.1	86.5
NAV/share	222.2	244.8	257.5	321.8	396.6
Net Tangible Asset Value	(10.6)	(5.0)	(1.6)	9.9	23.7
NTAV/share	(49.3)	(22.9)	(7.5)	45.3	108.8
Average equity	40.5	50.5	54.7	63.1	78.3
Post-tax ROE (%)	4.1%	9.3%	8.3%	10.1%	10.8%
<b>METRICS</b>					
Revenue growth		28.0%	10.4%	12.9%	10.3%
Adj EBITDA growth		31.7%	10.6%	21.4%	20.2%
Adj EBIT growth		33.0%	(7.2%)	28.5%	25.5%
Adj PBT growth		37.7%	6.3%	27.9%	25.2%
Adj EPS growth		N/A	(1.1%)	27.9%	25.2%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		16.0%	13.5%	15.3%	17.4%
<b>VALUATION</b>					
EV/Sales	2.9	2.3	2.1	1.8	1.7
EV/EBITDA	16.4	12.4	11.2	9.3	7.7
EV/NOPAT	24.4	15.8	19.3	15.0	12.0
PER	30.4	19.8	20.1	15.7	12.5
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	4.8%	3.0%	3.8%	4.1%	7.3%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

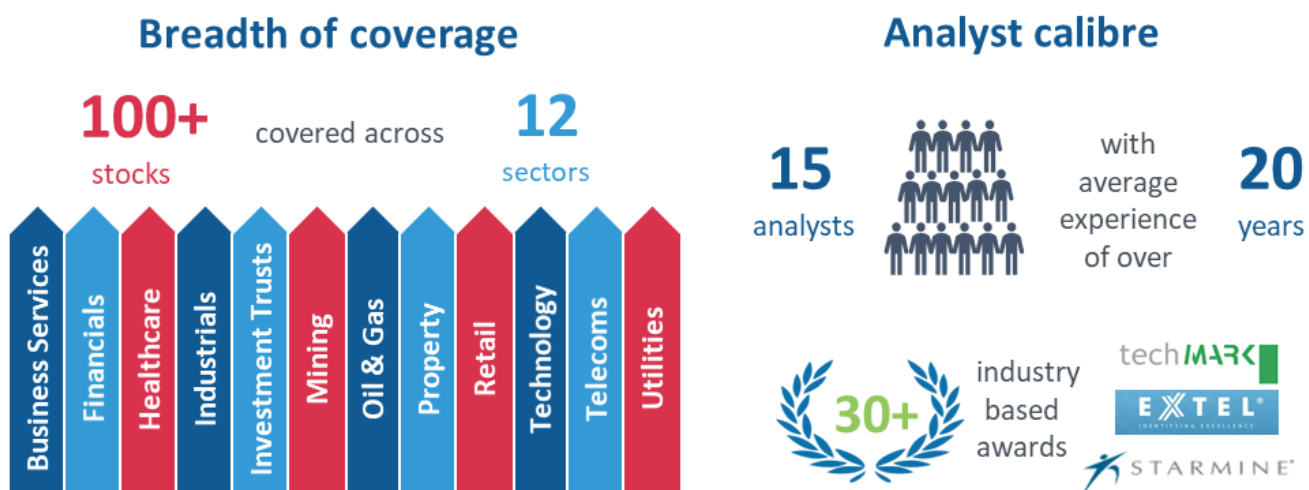
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