

INSTEM

SOFTWARE AND COMPUTER SERVICES

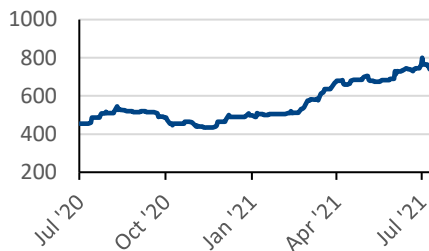
19 July 2021

INS.L

740p

Market Cap: £161.2m

SHARE PRICE (p)



12m high/low 800p/434p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£25.3m (at 31/12/20)
Enterprise value	£135.9m
Index/market	AIM
Next news	Interims, Sep-21
Shares in Issue (m)	21.8
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.

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INSTEM IS A RESEARCH CLIENT OF PROGRESSIVE

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H1 21 trading: strength across the board

Instem's update for the six months to 30 June 2021 (H1 21E) confirms that trading was in line with the Board's expectations during the period and that the group continues to perform well across all areas of the business. Financial performance is benefitting from favourable market conditions, and the ongoing move to SaaS delivery. The group reported double-digit organic revenue growth on a constant currency basis and strong operational cash generation. Management commentary on the outlook is positive, and we make no changes to earnings estimates following the announcement.

- H1 21E trading in line, strong revenue growth and cash generation:** The release confirms that H1 21E trading was in line with the Board's expectation. Revenue growth of c45% includes a four-month contribution from The Edge and a three-month contribution from d-wise. Like-for-Like revenue growth (excl. acquisitions) was 8% for the half, equating to 15% on a constant-currency basis. Operational cash generation was once again strong, with the group reporting a closing gross cash balance of £17.9m as at 30 June 2021. Note, this figure is post payment of the initial acquisition consideration for The Edge and d-wise transactions and represents a c£3.9m improvement on the £14m balance disclosed subsequent to the two transactions.
- All four business areas continue to perform well:** Today's announcement confirms that Instem performed well across all areas of the business, and highlights that all divisions delivered strong organic growth. Similar commentary has been a feature of previous announcements from Instem, so the H1 21E trading update maintains a positive trend. With COVID continuing to impact the ongoing global macro-economic situation, in our view this also demonstrates the inherent defensiveness of the Instem business, clearly this is underpinned by the group's £17.9m cash balance.
- Positive outlook commentary:** The release confirms that current trading remains in-line with the Board's expectations and that The Edge and d-wise acquisitions have improved the group's ability to deliver growth. The release also signals management's willingness to take advantage of further acquisition opportunities that may arise. Noting that the group has made eight acquisitions over the past ten years, we continue to believe that Instem has a strong track record in successful M&A.

FYE DEC (£M)	2019	2020	2021E	2022E	2023E
Revenue	25.7	28.2	46.0	56.4	60.9
Adj EBITDA	4.9	5.9	8.6	11.3	13.5
Fully adj PBT	3.7	4.4	5.7	7.9	9.7
Fully adj EPS (p)	18.4	19.1	21.0	28.5	34.8
EV/Sales	5.3x	4.8x	3.0x	2.4x	2.2x
EV/EBITDA	27.9x	23.0x	15.7x	12.0x	10.1x
PER	40.2x	38.8x	35.2x	26.0x	21.2x

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	46.0	56.4	60.9
Adj EBITDA	4.9	5.9	8.6	11.3	13.5
Adj EBIT	4.0	5.0	6.0	8.2	9.9
Reported PBT	(0.9)	2.5	3.4	6.7	8.5
Fully adj PBT	3.7	4.4	5.7	7.9	9.7
NOPAT	3.4	4.1	4.8	6.5	7.9
Reported EPS (p)	(5.4)	11.6	12.5	24.1	30.5
Fully adj EPS (p)	18.4	19.1	21.0	28.5	34.8
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	6.5	8.5	12.8
Free Cash flow	4.1	5.8	4.2	6.5	8.6
FCF per share (p)	23.8	29.7	19.3	29.1	38.3
Acquisitions	(1.3)	(0.3)	(14.8)	(5.2)	(5.0)
Disposals	0.0	0.0	0.0	0.0	0.0
Capex	(1.4)	(1.4)	(2.3)	(2.4)	(2.4)
Shares issued	0.6	15.4	0.0	0.0	0.0
Net cash flow	2.4	20.8	(11.3)	0.9	3.6
Cash & equivalents	6.0	26.7	15.4	16.3	19.9
Net (Debt)/Cash	5.1	25.3	5.7	11.5	15.6
NAV AND RETURNS					
Net asset value	16.8	33.2	34.9	40.3	47.1
NAV/share	106.1	162.3	163.7	186.1	217.5
Net Tangible Asset Value	(1.3)	15.2	20.6	25.8	32.0
NTAV/share	(8.3)	74.3	96.3	119.1	147.5
Average equity	16.6	25.0	34.1	37.6	43.7
Post-tax ROE (%)	(5.6%)	9.1%	8.0%	14.3%	15.6%
METRICS					
Revenue growth		9.7%	63.0%	22.6%	8.0%
Adj EBITDA growth		21.7%	46.0%	30.9%	19.5%
Adj EBIT growth		27.6%	19.1%	36.1%	20.8%
Adj PBT growth		18.5%	30.5%	38.6%	22.7%
Adj EPS growth		N/A	10.0%	35.8%	22.3%
Dividend growth		N/A	N/A	N/A	N/A
Adj EBIT margins		17.9%	13.1%	14.5%	16.2%
VALUATION					
EV/Sales	5.3	4.8	3.0	2.4	2.2
EV/EBITDA	27.9	23.0	15.7	12.0	10.1
EV/NOPAT	39.5	32.8	28.3	20.8	17.2
PER	40.2	38.8	35.2	26.0	21.2
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	3.2%	4.0%	2.6%	3.9%	5.2%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

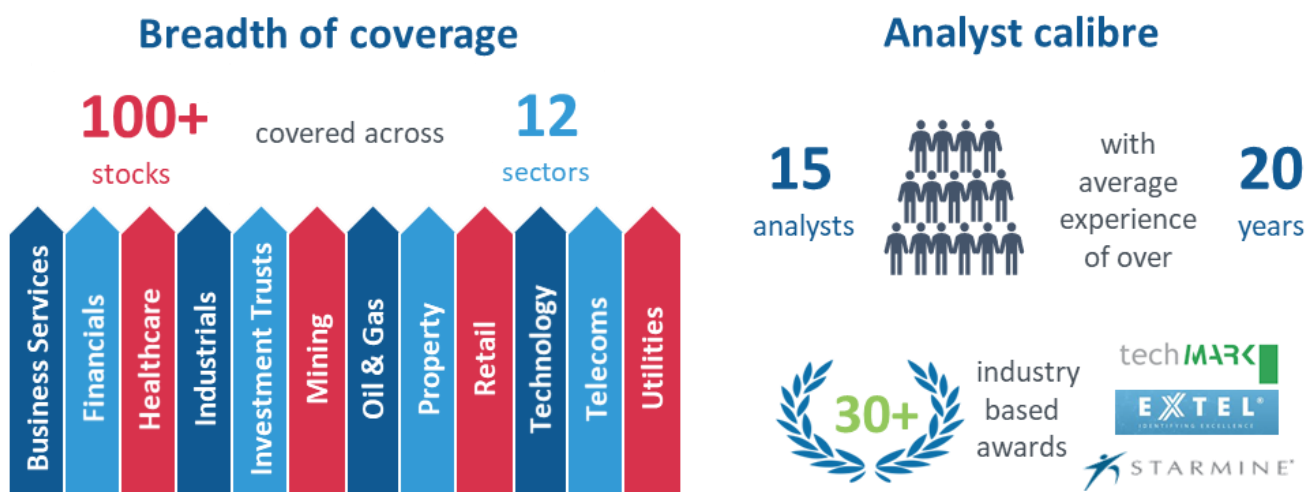
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