

# INSTEM

## SOFTWARE AND COMPUTER SERVICES

22 December 2022

INS.L

700p

Market Cap: £158.9m

### SHARE PRICE (p)



12m high/low

900p/570p

Source: LSE Data (priced as at prior close)

### KEY DATA

Net (Debt)/Cash £4.0m (at 30/06/22)

Enterprise value £154.9m

Index/market AIM

Next news Trading update, Jan '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.

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INSTEM IS A RESEARCH CLIENT OF PROGRESSIVE

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## Major license fee underpins full-year result

Instem has announced a major contract extension with an existing customer for its Provantis study management software. The contract extension is worth \$1.4m, of which some \$1.2m is perpetual license fees (and historical usage charges) that will be recognised immediately. We make no changes to estimates, but clearly this revenue (which will carry a very high gross margin) provides material additional comfort around, and reduces risk within, our FY22E forecasts. The win emphasises the strong market position that Provantis commands; Instem's core and long-standing software continues to deliver, and we have high hopes for the group in FY23 and beyond.

- Contract detail.** The contract is for an additional 900 users within a large existing customer of Provantis software, Instem's platform for pre-clinical (non-human) study management. The customer already had some 6,500 users licensed, but this major expansion demonstrates that it continues to see good value in the product and is prepared to dramatically increase the footprint of Provantis within the organisation.
- Financial impact.** The headline price of the expansion is \$1.4m, of which \$1.2m will be recognised immediately, being perpetual license fees for the new users and some historical (catch-up) usage charges. The balancing \$0.2m will be recognised from FY23 onwards.
- Demonstration of strength.** The Provantis product has been the mainstay of Instem's business for more than 20 years, and it is impressive that the platform can still generate such a material, high-value contract extension – testament to the ongoing investment in technology and functionality. The deal is a reminder of the large scale of Instem's customer base, and the substantial numbers of existing – and potential – users. It is reassuring that the core original product suite retains its leading market position, providing a strong bedrock on which the group can continue to evolve.
- No change to forecasts.** Despite the significant level of gross margin likely delivered by today's contract win, we make no changes to estimates. We assume that the group was aware of this deal's likely conclusion as it viewed consensus estimates in recent months, so we feel that it would be unwise to upgrade. Nevertheless, today's announcement clearly reduces risk, increases confidence in the FY22 outcome and strengthens our belief in the ability of the group to deliver on growth in FY23 and beyond.

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	5.5x	3.4x	2.6x	2.3x	2.1x
EV/EBITDA	26.2x	18.8x	14.1x	10.8x	9.6x
PER	36.7x	38.9x	26.1x	19.7x	16.1x

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)

	2020	2021	2022E	2023E	2024E
<b>PROFIT &amp; LOSS</b>					
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
<b>CASH FLOW &amp; BALANCE SHEET</b>					
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
<b>NAV AND RETURNS</b>					
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%
<b>METRICS</b>					
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%
<b>VALUATION</b>					
EV/Sales	5.5	3.4	2.6	2.3	2.1
EV/EBITDA	26.2	18.8	14.1	10.8	9.6
EV/NOPAT	37.5	27.3	28.4	19.2	15.6
PER	36.7	38.9	26.1	19.7	16.1
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	4.2%	4.2%	3.0%	6.4%	7.9%

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

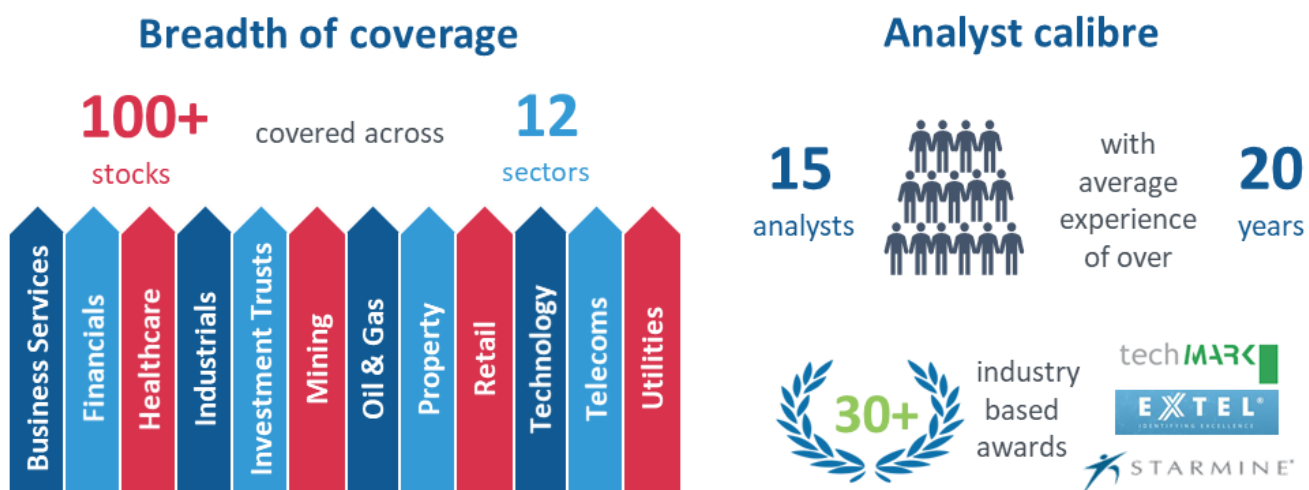
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