

INSTEM

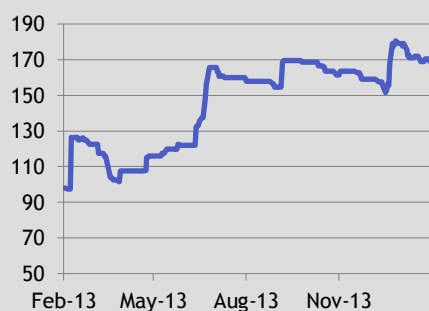
SOFTWARE & COMPUTER SERVICES

INS.L

169p

Market Cap: £20.0m

SHARE PRICE (p)



12m high/low

Source: LSE Data

KEY INFORMATION

| | |
|------------------|-----------------------|
| Enterprise value | £17.8m |
| Index/market | FTSE AIM |
| Next news | Final results Mar '14 |
| Gearing | N/A |
| Interest cover | N/A |

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SAAS CONTRACT WIN

Instem has announced a useful SaaS contract, which will see the group deliver a third-party software product into a top 10 global pharma group (unnamed). Revenues are \$200,000 per annum, and margin will be modest given the third-party nature of the product, but this represents a step forward in SaaS revenue and highlights Instem's position as chosen provider to big pharma. We make no changes to estimates but take comfort from this news.

- As highlighted in our recent note ("*Opportunities Abound*", 29 January 2014), Instem in some instances partners with third parties to deliver software solutions to its customer base. The largest partnership is with Trimetra, relating to the Logbook software platform.
- This news relates to another third-party software platform, known as ACIS (Animal Care Information System), which is used in pre-clinical research facilities (both pharma companies and CROs) to help manage regulatory reporting and operational efficiency. The deal is for three years, at an annual revenue of \$200,000, and builds on an existing UK implementation which is now being rolled out globally (for the first time) and under a SaaS delivery model.
- Despite its modest scale, this deal is positive in a number of ways:
 - it highlights the potential for Instem to extend its reach through such third-party relationships,
 - it demonstrates that Instem is a well-regarded platform through which to procure additional solutions,
 - it suggests that Instem has chosen well in terms of partners (ACIS appears to be winning market share and replacing competing systems – there could be more to come),
 - it helps further embed Instem as a provider of multiple systems within its customer base, and
 - it augments the SaaS-based revenue stream within the group (currently around \$2m per year).

We make no changes to our forecasts (shown below and overleaf) but today's news adds modestly to the degree of confidence in these estimates. More detail on the group's performance in 2013 and the 2014 outlook will be forthcoming at the results presentation on 26 March.

| FYE | 2011 | 2012 | 2013E | 2014E | 2015E |
|------------------|-------|-------|-------|-------|-------|
| Revenue | 10.8 | 10.7 | 11.0 | 13.7 | 14.5 |
| Adjusted EBITDA | 2.0 | 1.7 | 1.7 | 2.3 | 2.6 |
| Adjusted PBT | 1.6 | 1.4 | 1.3 | 2.0 | 2.3 |
| Adjusted EPS (p) | 8.9 | 10.4 | 7.2 | 11.2 | 12.8 |
| EV/Sales | 1.6x | 1.7x | 1.6x | 1.3x | 1.2x |
| EV/ Adj. EBITDA | 8.9x | 10.7x | 10.8x | 7.8x | 6.9x |
| P/E | 19.0x | 16.3x | 23.5x | 15.2x | 13.3x |

Source: Company Information and Progressive Equity Research estimates

FINANCIAL FORECASTS - INSTEM

| Year ended December | FY-11A | FY-12A | FY-13E | FY-14E | FY-15E |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| £m unless stated | | | | | |
| Profit & Loss | | | | | |
| Revenue | 10.8 | 10.7 | 11.0 | 13.7 | 14.5 |
| Adj EBITDA | 2.0 | 1.7 | 1.7 | 2.3 | 2.6 |
| Adj EBIT | 1.6 | 1.3 | 1.3 | 1.9 | 2.2 |
| Reported PBT | 1.5 | 1.3 | 1.0 | 2.0 | 2.3 |
| PBT before exceptionals and AAG | 1.8 | 1.4 | 1.3 | 2.2 | 2.5 |
| Fully adj PBT | 1.6 | 1.4 | 1.3 | 2.0 | 2.3 |
| NOPAT | 1.1 | 1.1 | 0.9 | 1.3 | 1.5 |
| Reported EPS (p) | 8.5 | 8.9 | 5.7 | 11.2 | 12.8 |
| EPS before exceptionals and AAG (p) | 10.3 | 10.3 | 7.7 | 12.5 | 14.1 |
| Fully adj EPS (p) | 8.9 | 10.4 | 7.2 | 11.2 | 12.8 |
| Dividend per share (p) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash flow & Balance sheet | | | | | |
| Operating cash flow | 1.3 | 0.5 | 1.8 | 0.9 | 2.1 |
| Free Cash flow £m | 0.4 | (0.4) | 1.5 | 0.4 | 1.5 |
| FCF per share p | 3.0 | (3.6) | 12.3 | 3.1 | 12.4 |
| Acquisitions | (0.1) | (0.1) | (1.7) | (0.5) | (0.7) |
| Disposals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Shares issued | 0.0 | 0.0 | 0.0 | 0.3 | 0.2 |
| Net cash flow | 0.4 | (0.6) | (0.2) | 0.1 | 1.0 |
| Overdrafts / borrowings / other | (0.5) | (0.3) | (0.3) | (0.3) | (0.3) |
| Cash & equivalents | 3.4 | 2.5 | 2.2 | 2.4 | 3.4 |
| Net (Debt)/Cash | 2.9 | 2.2 | 2.0 | 2.1 | 3.2 |
| NAV and returns | | | | | |
| Net asset value | 5.4 | 5.0 | 5.7 | 7.3 | 9.1 |
| NAV/share (p) | 0.5 | 0.4 | 0.5 | 0.6 | 0.8 |
| Net Tangible Asset Value | (2.7) | (3.0) | (3.1) | (1.3) | 0.5 |
| NTAV/share (p) | (0.2) | (0.3) | (0.3) | (0.1) | 0.0 |
| Average equity | | 5.2 | 5.3 | 6.5 | 8.2 |
| Post-tax ROE (%) | | 20.1% | 13.0% | 21.1% | 19.4% |
| Metrics | | | | | |
| | FY-11A | FY-12A | FY-13E | FY-14E | FY-15E |
| Adj EBIT growth | | -16.3% | -6.5% | 51.5% | 15.4% |
| Adj PBT growth | | -8.4% | -12.6% | 56.4% | 15.8% |
| Adj EPS growth | | 16.6% | -30.5% | 53.9% | 14.9% |
| Dividend growth | | n/a | n/a | n/a | n/a |
| Adj EBIT margins | | 12.6% | 11.4% | 13.9% | 15.2% |
| Valuation | | | | | |
| | FY-11A | FY-12A | FY-13E | FY-14E | FY-15E |
| EV/Sales | 1.7 | 1.7 | 1.6 | 1.3 | 1.2 |
| EV/EBITDA | 9.0 | 10.8 | 10.9 | 7.8 | 7.0 |
| EV/NOPAT | 16.6 | 15.7 | 20.5 | 13.6 | 11.7 |
| PER | 19.0 | 16.3 | 23.5 | 15.2 | 13.3 |
| Dividend yield | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| FCF yield | 1.8% | -2.1% | 7.3% | 1.9% | 7.3% |

Source: Progressive Equity Research estimates, Company information

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