

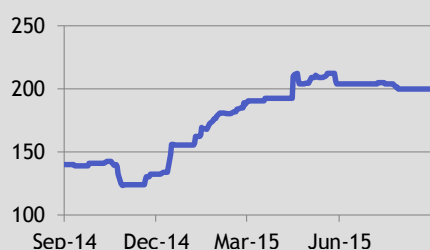
INSTEM

SOFTWARE AND COMPUTER SERVICES

INS.L

200p

Market Cap: £25.1m

SHARE PRICE


12m high/low

213p/124p

Source: LSE Data

KEY INFORMATION

Enterprise value	£23.8m
Index/market	FTSE AIM
Next news	Trading Update Jan '16
Gearing	n.a.
Interest cover	n.a.

 INSTEM IS A RESEARCH CLIENT OF
 PROGRESSIVE

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Strong interims, confident outlook

Instem has delivered a strong set of interim results. Revenues grew by 31% YoY, with EBITDA showing a £0.8m improvement to £0.9m. The company continues to benefit from strengthening R&D pipelines in the pharma industry, with strong demand in both the pre-clinical and clinical segments. The Provantis and ALPHADAS products are performing well, with solid growth seen in the submit pipeline. Following today's announcement, we increase FY15 revenue forecasts, and introduce FY16 and FY17 estimates.

- Strong interim results:** Interim results saw impressive growth in the key metrics. Revenues were up by 31% over H1 2014, with a £0.8m improvement in EBITDA to £0.9m. Adjusted EPS of 5.1p compares with a 1.2p loss in H1 14.
- Industry backdrop remains favourable:** Instem continues to benefit from a number of favourable trends. Industry sources report the size of the global drug pipeline grew by a record 8.8% in 2014, with a staggering 27% increase in the number of active substances. Compliance requirements are also evolving, as regulatory bodies move increasingly towards electronic capture, storage and transfer of data for new submissions. The overall impact is strengthening R&D pipelines, with increased demand for the specialist IT platforms, software and services provided by the likes of Instem.
- Broad commercial traction:** All US-based SaaS clients have been upgraded to the the latest version of Provantis, delivering cost savings from data centre optimisation. In the clinical segment, ALPHADAS is also performing well, with three significant orders announced in May, involving nine additional clinics in Europe and the Americas. The new business pipeline for submit continues to report strong month-on-month growth, with the product continuing to secure the bulk of business Instem sees being placed in the SEND market.
- FY15E revenues increased; FY16 & FY17 introduced.** Following today's announcement, our FY15 revenue forecasts are raised by 9%, largely reflecting the strong order backlog. In addition, we introduce FY16 and FY17 estimates for the first time.

Overall, the interims demonstrate that Instem has made a strong start to 2015. With positive commentary in the outlook statement on the solid order backlog, high levels of customer retention and a growing pipeline, Instem seems well set to deliver future growth.

FYE DEC	2013	2014	2015E	2016E	2017E
Revenue	11.4	13.4	15.3	16.2	17.0
Adjusted EBITDA	1.8	1.9	2.3	2.8	3.2
Adjusted PBT	1.2	1.1	1.8	2.1	2.4
Adjusted EPS (p)	8.6	8.3	10.1	12.0	13.5
EV/Sales	2.1x	1.8x	1.6x	1.5x	1.4x
EV/EBITDA	13.4x	12.8x	10.5x	8.4x	7.5x
P/E	23.2x	24.2x	19.9x	16.6x	14.8x

Source: Company Information and Progressive Equity Research estimates

Instem – Financial forecasts

Year ended December	FY-11A	FY-12A	FY-13A	FY-14	FY-15E	FY-16E	FY-17E
£m unless stated							
Profit & Loss							
Revenue	10.8	10.7	11.4	13.4	15.3	16.2	17.0
Adj EBITDA	2.0	1.7	1.8	1.9	2.3	2.8	3.2
Adj EBIT	1.6	1.2	1.1	1.1	1.4	1.7	1.9
Reported PBT	1.5	1.3	0.7	0.2	1.1	1.4	1.9
PBT before exceptionals and AAG	1.8	1.6	1.2	0.9	1.8	2.1	2.7
Fully adj PBT	1.6	1.1	1.2	1.1	1.8	2.1	2.4
NOPAT	1.1	1.0	0.8	0.8	1.0	1.2	1.3
Reported EPS (p)	8.5	8.9	4.5	1.2	5.7	7.2	10.0
EPS before exceptionals and AAG (p)	10.3	11.0	7.3	4.9	10.0	12.0	15.3
Fully adj EPS (p)	8.9	7.8	8.6	8.3	10.1	12.0	13.5
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow & Balance sheet							
Operating cash flow	1.3	0.4	2.4	1.3	1.8	3.2	2.9
Free Cash flow £m	0.4	(0.6)	1.9	0.9	0.9	2.0	2.5
FCF per share p	3.0	(5.1)	15.7	7.2	7.4	16.0	19.9
Acquisitions	(0.1)	(0.1)	(1.6)	(0.3)	(1.3)	(0.4)	(0.4)
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	0.4	(0.7)	0.3	0.6	(0.4)	1.6	2.1
Overdrafts / borrowings / other	(0.5)	(0.3)	0.0	0.0	0.0	0.0	0.0
Cash & equivalents	3.4	2.5	2.1	1.7	1.3	2.9	4.9
Net (Debt)/Cash	2.9	2.2	2.1	1.7	1.3	2.9	4.9
NAV and returns							
Net asset value	5.4	5.0	5.0	5.4	6.1	7.0	8.3
NAV/share (p)	0.5	0.4	0.4	0.5	0.5	0.6	0.7
Net Tangible Asset Value	(2.7)	(3.0)	(7.9)	(7.0)	(5.3)	(3.3)	(2.0)
NTAV/share (p)	(0.2)	(0.3)	(0.7)	(0.6)	(0.4)	(0.3)	(0.2)
Average equity		5.2	5.0	5.2	5.8	6.6	7.6
Post-tax ROE (%)		20.1%	10.6%	2.9%	12.3%	13.5%	16.2%
Metrics							
	FY-11A	FY-12A	FY-13A	FY-14	FY-15E	FY-16E	FY-17E
Adj EBIT growth		-26.8%	-2.5%	-4.6%	29.0%	19.1%	12.6%
Adj PBT growth		-27.8%	5.0%	-9.7%	66.3%	19.6%	12.3%
Adj EPS growth		-12.3%	10.1%	-4.3%	21.8%	19.6%	12.3%
Dividend growth		n/a	n/a	n/a	n/a	n/a	n/a
Adj EBIT margins		11.0%	10.1%	8.1%	9.2%	10.3%	11.1%
Valuation							
	FY-11A	FY-12A	FY-13A	FY-14	FY-15E	FY-16E	FY-17E
EV/Sales	2.2	2.2	2.1	1.7	1.5	1.4	1.4
EV/EBITDA	11.7	14.1	13.4	12.8	10.5	8.4	7.5
EV/NOPAT	21.6	24.5	29.3	30.7	23.8	20.0	17.7
PER	22.4	25.5	23.2	24.2	19.9	16.6	14.8
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	1.5%	-2.5%	7.9%	3.6%	3.7%	8.0%	9.9%

Source: Company data and Progressive Equity Research estimates

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