

# Growth & Innovation Forum 2017

Phil Reason, CEO



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# Growth & Innovations Forum Agenda

- ➡ Introduction to Instem
- ➡ Investment Case
- ➡ Market Environment and Industry Landscape
- ➡ Products, Solutions & Services
- ➡ Financial Overview
- ➡ Summary - Strategic focus

# A global provider of leading IT solutions & services to life sciences R&D

Helping our clients bring life enhancing products to market faster

Pharmaceuticals



Agrochemicals



Medical Devices



Through the capture, management and interpretation  
of data



# Investment Case

- ➡ Drug discovery activity displaying consistent and accelerating growth
- ➡ Growing demand for Instem solutions - strong regulatory drivers
- ➡ Market leading products which improve our clients' pipeline efficiency
- ➡ Client retention 98%, with high levels of recurring revenue
- ➡ SEND a major opportunity with compliance now mandated
- ➡ Significant technology-enabled outsourced services potential for regulatory submissions and knowledge insight
- ➡ Further complementary consolidation opportunities identified
- ➡ Highly experienced management team
- ➡ Profitable and cash generative

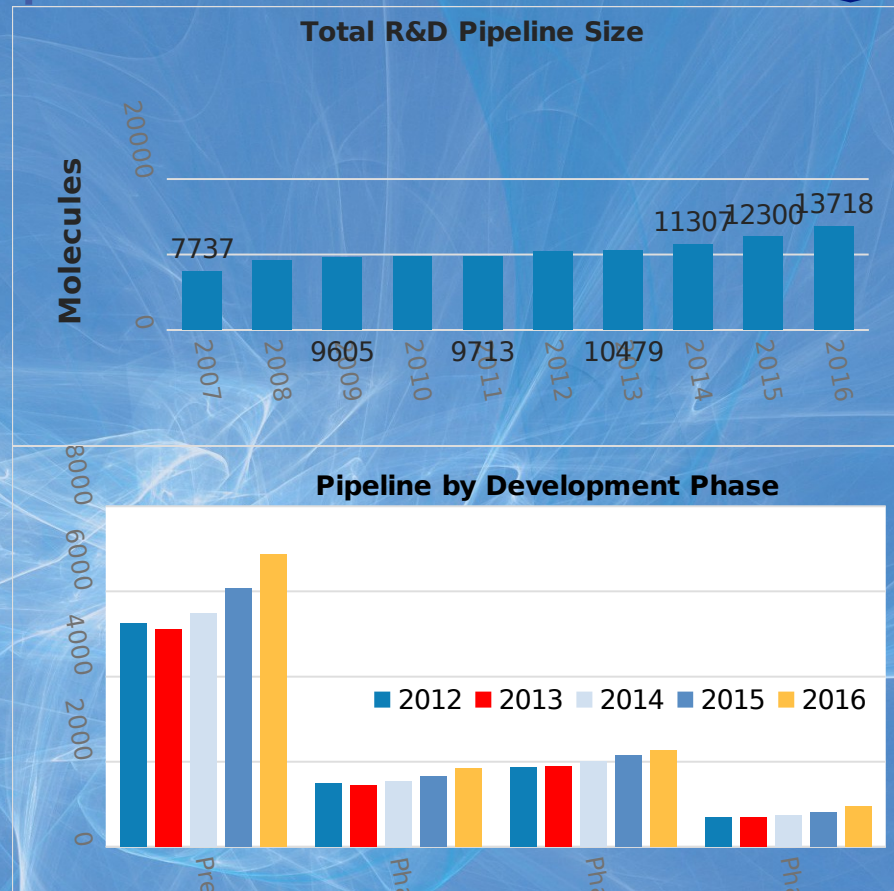
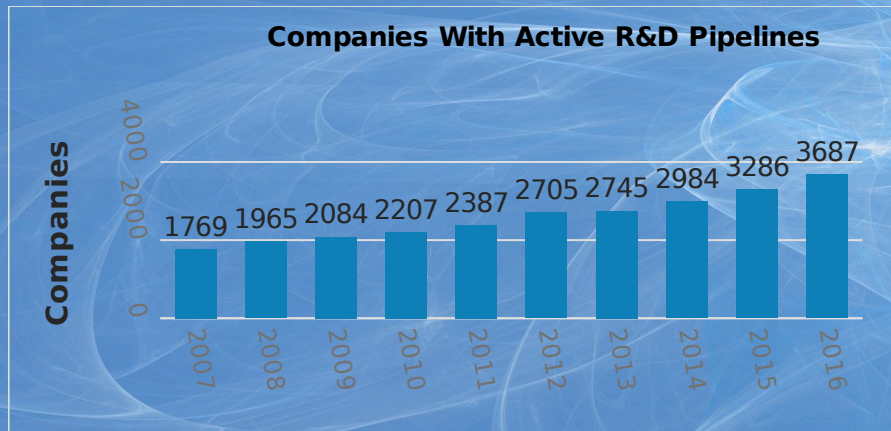


**Attractive organic growth complemented with a proven acquisition strategy**

# Market Environment and Industry Landscape

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- Global population growth demands successful innovation in the life sciences
- New drug approvals moderated in 2016 but filings remain at historic levels
- Capital inflows to the biotech industry leave it well funded for several years
- Focus has returned to the earlier stages of R&D where Instem specialises



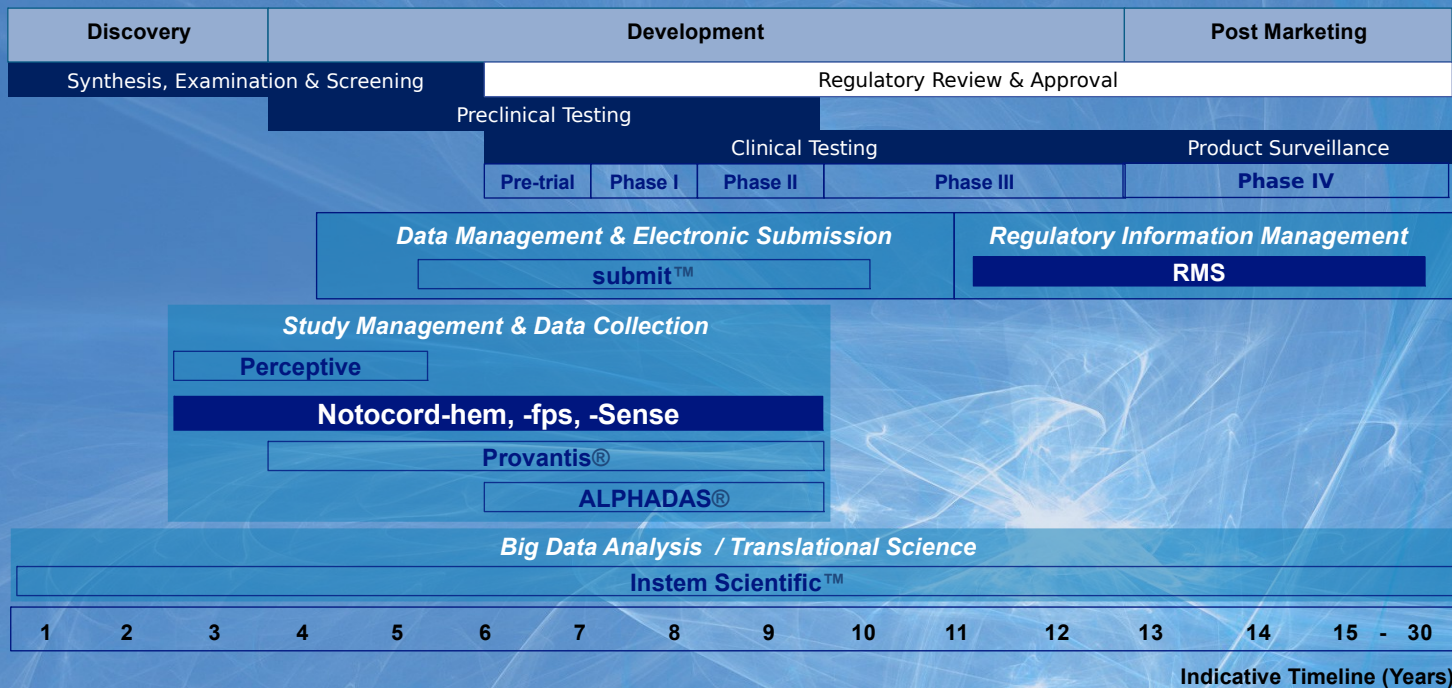
Early drug development activity displaying consistent/accelerating growth

Source: Citeline Pharma R&D Annual Review 2016



# Solutions Across the R&D / Product Lifecycle

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- It takes ~12 years and costs \$2.56Bn to bring a drug from patent registration to marketing approval
- Revenue loss the year after drug patent expiry is frequently >50%
- 1 day earlier to market adds >\$2m patent protected revenue for a >\$750m / year revenue drug

## ➡ Provide IT systems and services that

- Collect, analyse & report complex scientific data
- Generate insights from large volumes of information
- Improve quality, consistency, integrity and efficiency
- Comply with FDA, EPA & similar regulatory demands

## ➡ Leading global market position

- Over 500 clients, includes 24 of top 25 pharma
- Global coverage - operations in the US, UK, France, China, India and Japan increase growth opportunities

## ➡ Good revenue visibility and customer renewals

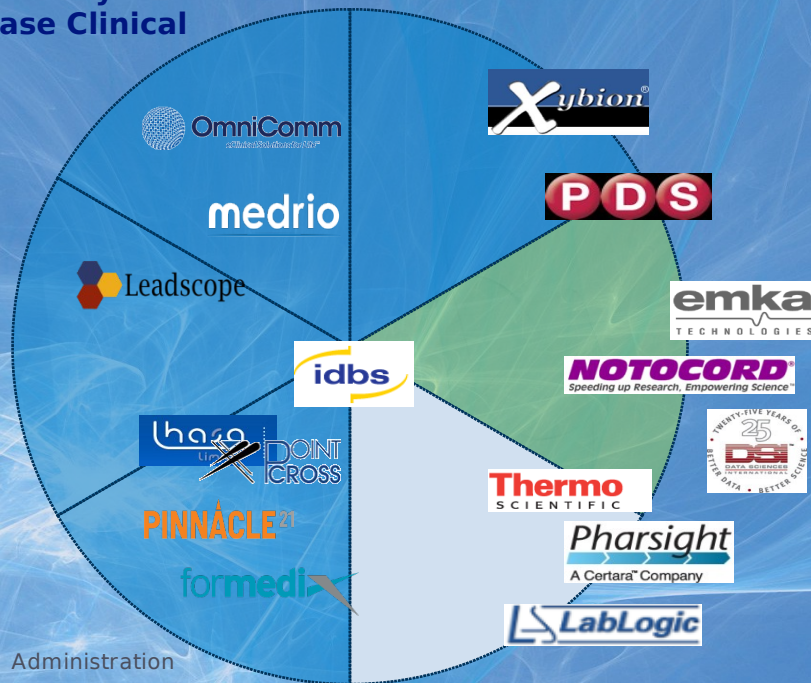
- Robust customer base
- Increasing proportion of revenues from SaaS offering
- Over 60% recurring revenue





- ➡ Consolidate the highly fragmented pharma software supplier market, emphasising:
  - Niche regulatory Study Management solutions
  - Electronic regulatory data submissions
  - Regulatory Information Management solutions/services
- ➡ Supplier consolidation encouraged by customer base
  - Reduce cost of supplier management
  - Increase effectiveness of their business processes and information aggregation
- ➡ Strategic acquisitions completed:
  - Notocord – up to €4.2m

## Early Phase Clinical



Companies in **Overlapping/Adjacent** Market Segment  
(Examples not explicit targets at this time)

£000's	H1 16	H1 15	Change	FY16 Trading Update Comments
Revenue	9,052	7,479	21%	FY16: £18.1m (11% yr-on-yr growth)
EBITDA*	1,199	894	34%	FY16: £1.2m (delays on certain profitable contracts)
Adjusted Profit before Tax**	998	703	42%	
Adjusted EPS**	6.3p	5.1p	24%	
Net Operating Cashflow	(1,525)	(995)	(53%)	
Investment Activities	(808)	(698)	(16%)	
Net Increase/(Decrease) in Cash	2,390	(1,693)	241%	
Net Cash	4,755	66		FY16: £4.1m (Notocord Acquisition)
Pension Deficit	4,511	3,952	(14%)	

\*Earnings before interest, tax, depreciation, amortisation and non-recurring items.

\*\*After adjusting for the effect of foreign currency exchange on the revaluation of inter-company balances included in finance income/(costs), non-recurring items and the amortisation of intangibles on acquisitions. Profit is adjusted in this way to provide a clearer measure of underlying operating performance.



## Organic growth through:

Cross-selling of products / services across extended client base

Introduction of new solutions through product development

Expanded service offerings leveraging our leading technology solutions

## Potential bolt-on acquisitions/partnerships to:

Provide access to adjacent markets

Extend product suite through investment and M&A

Arrange exclusive third party product licensing arrangements

## Focus will be on:

Client retention / penetration

Increasing recurring revenues

Profitable and Cash generative revenue growth

Market share for SEND solutions & services

Margin enhancement through:

- Increased SaaS deployment
- Blended on-shore / off-

Continued Revenue Growth

Increasing visibility with positive  
US\$ FX

Strong support from new and  
existing investors to raise  
£4.7million (net) in Feb.

Acquired two businesses in 2016  
Samarind (1H16) & Notocord  
(2H16)

Won over 30 SEND-related  
contracts in 2H16 including top 10  
Pharma

Secured a long-term contract with  
Charles River Laboratories

Positive Market Dynamics



Another year of solid revenue growth

Invested funds raised in February in two acquisitions which have integrated well and will make a full 12 month contribution in FY17

Instem well positioned to benefit from 'Big Pharma' restructuring and market growth

Trading update released on 16th January - positive FY17 outlook with full 12 month contribution from completed 2016 acquisitions

# A global provider of leading IT solutions & services to life sciences R&D

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Helping our clients bring life enhancing products to market faster

## Pharmaceuticals



## Agrochemicals



## Medical Devices



Through the capture, management and interpretation of data

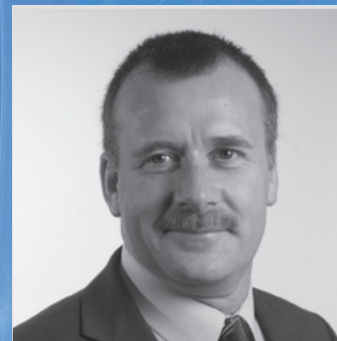


# Appendices

The background of the slide is a solid blue color. Overlaid on this are intricate, white, fractal-like patterns. These patterns consist of many thin, curved lines that swirl and intersect, creating a sense of movement and complexity. A prominent feature is a bright, star-like cluster of lines in the center-right area, from which other lines radiate outwards. The overall effect is a modern, high-tech aesthetic.

## **Phil Reason, *Chief Executive Officer***

Phil is an experienced chief executive who has developed a number of IT businesses in the life sciences and nuclear industries, both organically and through acquisition. Phil joined the former parent Company, Instem Limited in 1982 and was appointed Managing Director of the Life Sciences division in 1995 and Chief Executive Officer of Instem LSS Limited on the demerger from Instem Limited. Given the importance of the North American market to Instem's organic and acquisitive growth, Phil relocated from the UK to the US in 2003 and established a new headquarters in the Philadelphia area. Phil previously ran Instem Limited's Nuclear and Laboratory Information Management Systems integration businesses.



## **Nigel Goldsmith, *Chief Financial Officer***

Nigel, who joined Instem in November 2011, has a wealth of experience in senior financial roles, at both public and private companies within the pharmaceutical industry. After qualifying as a Chartered Accountant, Nigel spent over nine years at KPMG prior to moving into industry. Nigel was Finance Director for three years at AIM listed, pharmaceutical and medical devices company, IS Pharma plc. He also spent a seven-year tenure as CFO at Almedica International Inc, a privately held supplier of clinical trial materials to the pharmaceutical and biotech industry in Europe and the US and two years as European Controller for the sales and marketing division of laboratory equipment manufacturer, Life Sciences International plc.

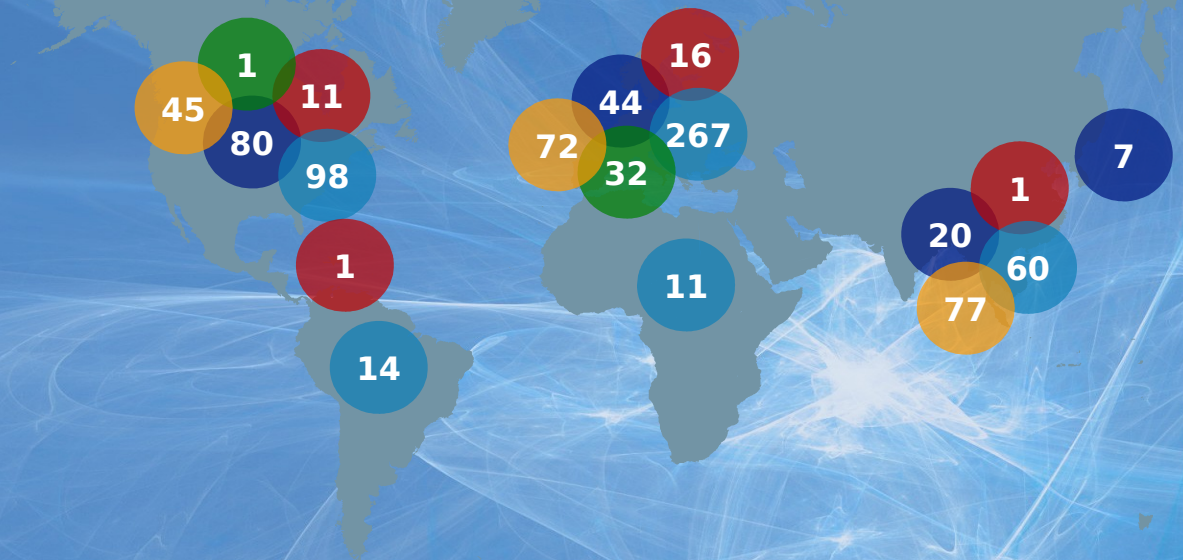




- ➡ Provider of Regulatory Information Management (RIM) software solutions
- ➡ Total consideration up to £2.5m, to be satisfied by a combination of cash and new ordinary shares
- ➡ Expected to be earnings enhancing this year and going forward
- ➡ Extends Instem's portfolio of leading data exchange and management software solutions and provides additional opportunities to provide out-sourced regulatory services
- ➡ Increased market penetration in specific functional and geographic sectors
- ➡ Samarind introduced to client base so as to deliver commercial value and regulatory power to these relationships
- ➡ Integration progressing well
- ➡ Samarind sales of £1.2m and operating profits of £0.4m (12 months to Mar16)

- ➡ Leading provider of safety pharmacology software solutions for cardiovascular, respiratory, electrophysiology and nervous system research
- ➡ Earnings enhancing immediately
- ➡ Total consideration up to €4.2m, to be satisfied in cash from existing resources
- ➡ In line with strategy to consolidate key niche software providers
- ➡ Extends market leadership in data acquisition, management, analysis and transmission of early development data
- ➡ Enhances submit solution and accelerates the integration of other key data collection sources
- ➡ Notocord will be able to capitalise on Instem's global marketing, sales service delivery and support capabilities





Provantis/Scientific sites

ALPHADAS sites

Perceptive sites

Samarind sites

NOTOCORD sites





- ➡ Secured a long-term relationship with Charles River Laboratories (CRL), by far the largest pre-clinical CRO (Contract Research Organisation) in the industry
- ➡ Instem's largest client, CRL's largest IT supplier
- ➡ Uncertainty around industry consolidation between WIL Research and CRL now clarified with a single agreement covering the provision of Instem products and services at all current WIL and CRL sites

➡ **Significant Opportunity for Growth**

- Demand for outsourced early-stage services continues to intensify
  - Large biopharma, biotech, academia
- CRL is the largest pure play, early-stage CRO
  - Most robust portfolio
  - Deep scientific expertise
  - Flexible working relationships
- CRO industry is undergoing change, with many competitors in play
- Believe this is a critical inflection point to take market share
  - Increase our importance to clients

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**Research Model Trends**

- Increased demand for research models in North America and stabilization in Europe
- Rapidly increasing demand for high-quality research models in China and other emerging markets
  - Increasing focus on funding drug research in China
  - More than offsets moderating revenue decline in Japan
- Transition from standard research models to higher value, genetically modified models of disease

**Research models remain an essential biomedical research tool**

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**Safety Assessment Business Trends**

- Capacity utilization approaching optimal levels
- Improved pricing of ~5% in 1H15
  - Pricing no longer the primary decision factor
- Winning RFPs on the basis of our expertise and quality
- Renewing agreements based on successful relationships
- Realizing efficiencies and customer gains from IT solutions
  - Re-engineering processes / enhancing quality
- Sales growth and efficiency initiatives have improved operating margin
- Maximizing capacity utilization and opening additional study rooms
  - Opened ~15 rooms in 2014 and ~30 rooms by year-end 2015

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## **Perceptive Mkt \$3-5m1**

Leader in image analysis and data management solutions for in vitro preclinical market with customers in 49 countries including top 10 pharma

- ➔ Successful cross-selling to Provantis clients
- ➔ AMES and Cyto Study Manager solutions particularly in demand

## **Provantis Mkt c.\$40m1**

The leading product for study management in the preclinical safety assessment market

- ➔ Client implementations progressing well
- ➔ Further optimisation of SaaS data centre infrastructure – all SaaS clients upgraded
- ➔ Multi-year Charles River agreement
- ➔ Provantis® v.10 released

## **ALPHADAS Mkt c.\$20m1**

Market leading, e-source data capture and site automation software suite for early phase Clinical research

- ➔ Important new ALPHADAS releases
- ➔ Focus on client implementation projects
- ➔ Disappointing performance in 2016 in a slow market
- ➔ Strong new business pipeline



## **Instem Scientific Mkt >\$20m1**

- ➡ Instem Scientific products enable scientific insight from analysis of historic 'big data'
- ➡ Strategy to exploit growth in 'Big Data' through technology-enabled outsourced services leveraging our products
- ➡ Recurring product support revenue from existing clients was robust
- ➡ Ten KnowledgeScan™ Target Safety Assessment assignments won for five organisations
- ➡ Includes three of the world's leading biotechnology companies
- ➡ All projects delivered Q2-Q4 2016, client feedback very positive

## Submit™

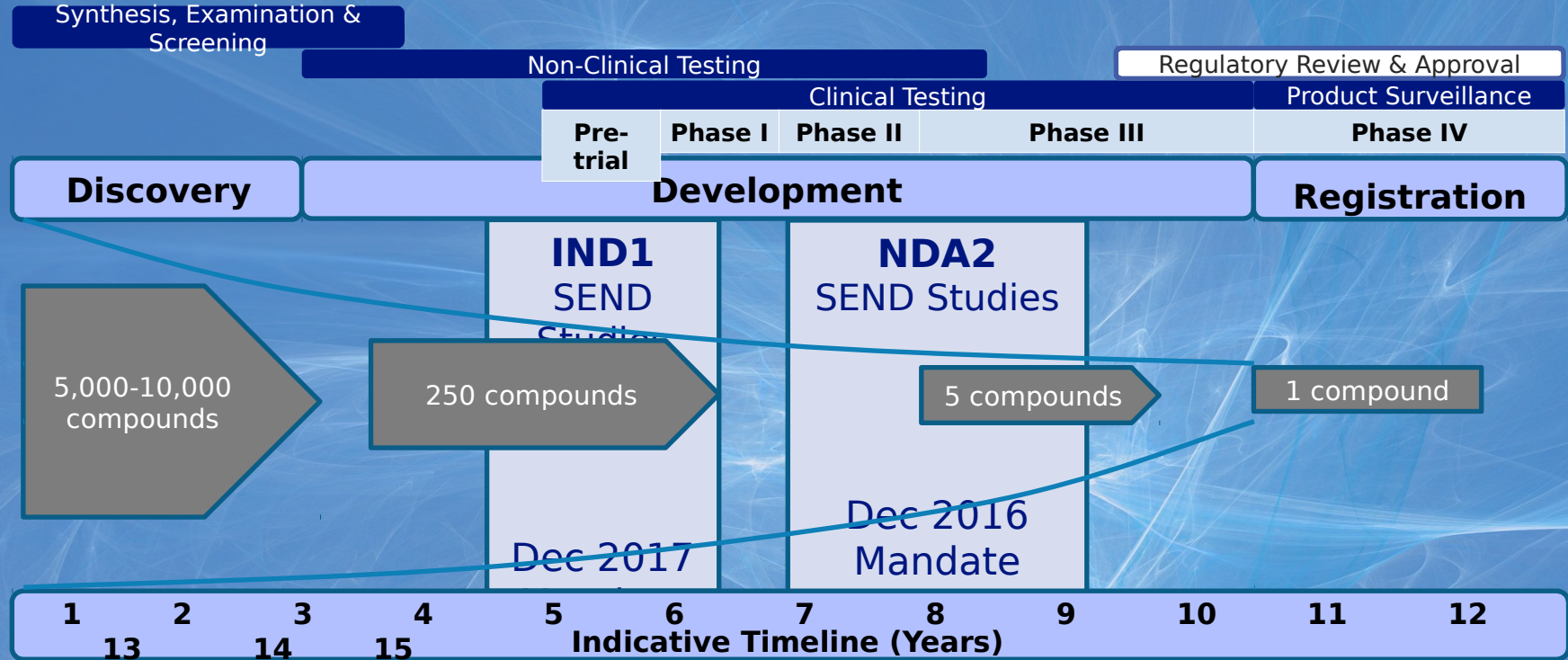
**Mkt \$5-10m1 (2019 >\$100m)**

- ➡ Submit™ tools enable aggregation, analysis and sharing of regulatory data
- ➡ Strategy for Submit is to exploit the cross-selling opportunities into the enlarged customer base, with the Standard for Exchange of Non-Clinical data (“SEND”) as the key market driver
- ➡ Exclusive distribution agreement for SEND Explorer, an advanced multi-study visualization and analytics product
- ➡ First FDA mandatory deadline for regulatory submissions using SEND was on 17th December 2016
- ➡ Over 30 SEND-related technology and services contracts won in H2 2016
- ➡ Technology-enabled outsourced SEND Conversion and Verification services business growing strongly – strategic out-sourcing partnership signed with Bozo Research Centre for the Japanese market
- ➡ Additional staff hired in US and Pune, new SEND services office opened in Indiana
- ➡ Significant growth in the sales pipeline

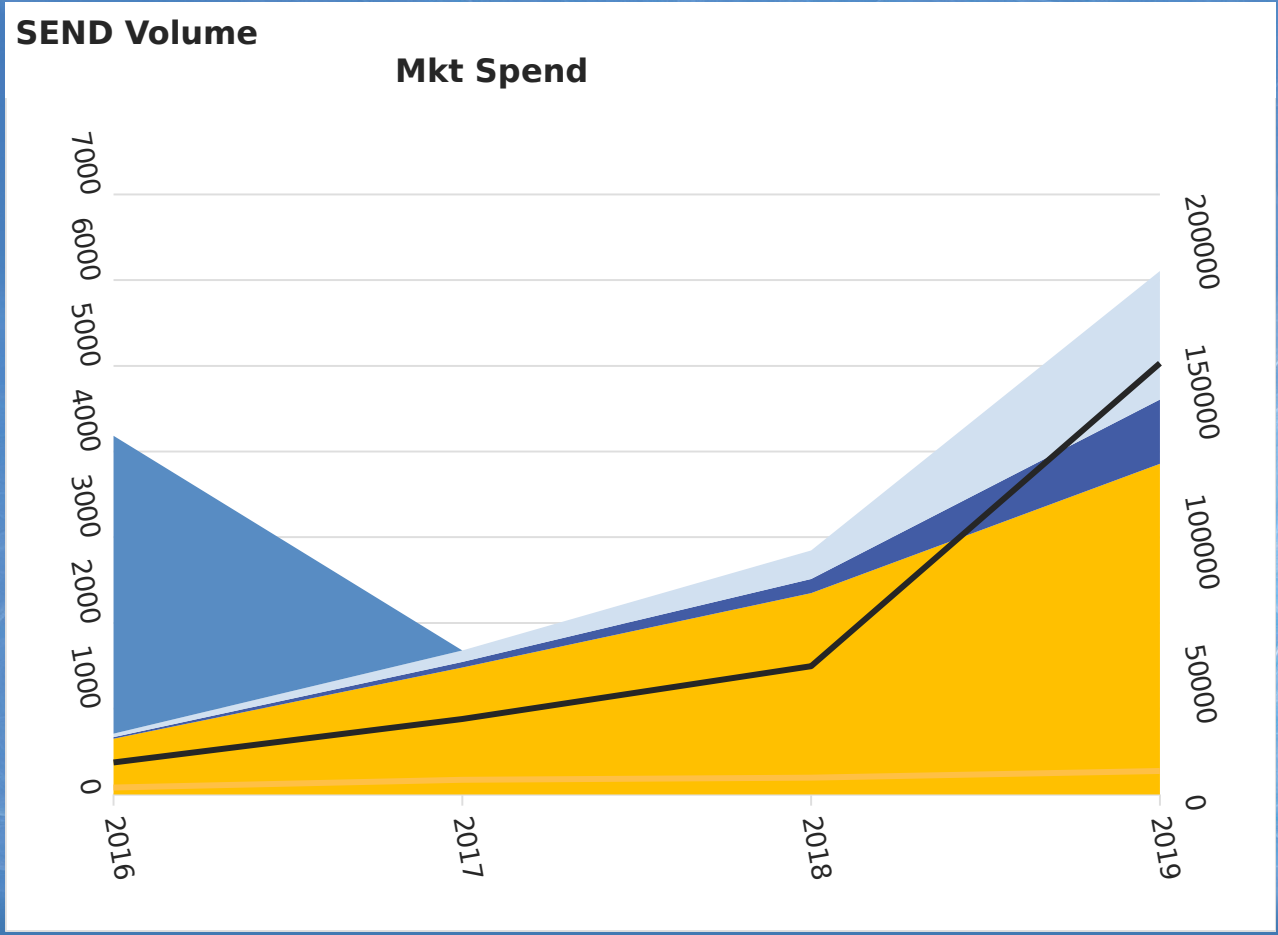


# SEND in the Drug Development Lifecycle

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# Management estimates of SEND Study Volume & Market Spend



**Volume of SEND Datasets**

- Created internally by larger pharma & CROs
- Outsourced by pharma
- Outsourced by CROs
- Study types in future SEND versions (post version 3.0)

**Total Market Spend:**

- SEND creation
- SEND technology



H1 2016 Revenue

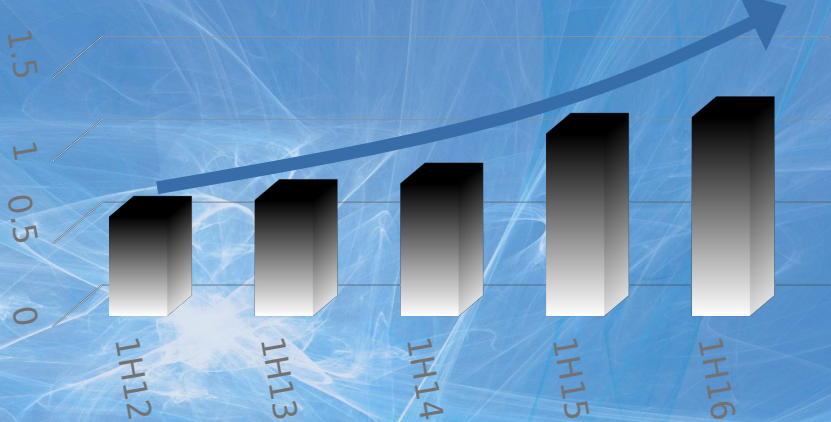


# H1 2016 Recurring Revenue Progression

Total Revenue by Type



SaaS Revenue





# INDs, NDAs and Studies - Instem's SEND Products & Services

## ➡ Submit™

- Creates SEND datasets from any electronic source
- Uniquely manages SEND dataset workflow from creation through storage, checking and onward to submission
- Protects regulatory status of experimental data

## ➡ SENDView

- Enables users to see their SEND datasets in a familiar form
- Supports dataset verification

## ➡ SEND Explorer

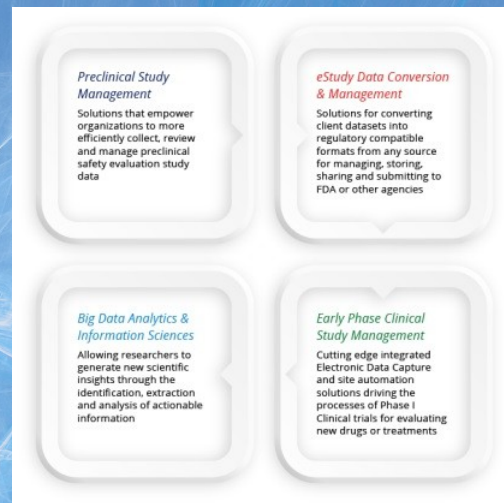
- Advanced multi-study visualization and analytics

## ➡ SEND Conversion Service

- Performs SEND creation for customers
- Majority of SEND-related market expenditure in this area by 2019

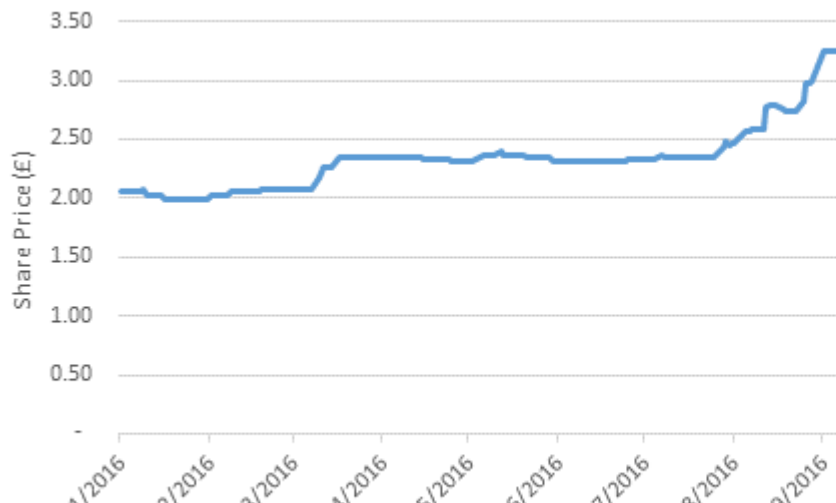
## ➡ SEND Consultancy

- Providing guidance and planning services



# Share Information - as at 24.01.17

Share Price (p)	231p
Market	AIM
Ticker	INS
Market Cap. (£m)	36.3
Ord. shares in issue (last updated 27.09.16)	15,771,398



Director	Holding	%
David Gare	1,418,427	9.0
David Sherwin	1,380,066	8.8
Phil Reason	665,287	4.2

Major Shareholders	Holding	%
Henderson	3,325,750	21.1
Liontrust	1,566,462	9.9
Hargreave Hale	900,623	5.7
Alto Invest	823,692	5.2
Adrian Gare	794,219	5.0
Deborah Walker	794,219	5.0
Legal & General	617,769	3.9