15 September 2023

Instem plc
("Instem", the "Company" or the "Group")

Half Year Report

Instem plc (AIM: INS.L), a leading provider of IT solutions to the global life sciences market, announces its unaudited half year results for the six months ended 30 June 2023 (or "the Period").

Financial Summary

- Overall performance for the Period broadly in line with the Board's expectations
- Total Group revenues increased by 10.2% to £29.7m (H1 2022: £27.0m*)
    - Recurring revenue (annual support and SaaS) increased 27.3% to £19.6m (H1 2022: £15.4m*) with SaaS revenues increasing 29.3% to £7.5m (H1 2022: £5.8m*), in total representing 66% (H1 2022: 57%*) of total revenues
    - Constant currency revenue growth was 6.0%
    - Annual Recurring Revenue ("ARR") increased 28.1%to £41.1m at 1 July 2023 (01 July 2022: £32.0m)
- Adjusted EBITDA** decreased 10.4% to £4.0m (H1 2022: £4.5m), representing 13.6% of revenue (H1 2022: 16.7%) due to inflationary pressures and investment
    - Constant currency Adjusted EBITDA decline of 13%
    - Excluding the impact of Toxhub, like-for-like underlying Adjusted EBITDA of £4.7m
    - Toxhub investment costs were less than expected at £0.7m offsetting some of the impact of delayed revenues associated with the opportunity
- Loss before tax of £0.07m (H1 2022: profit £2.0m*)
- Adjusted profit before tax*** of £2.9m (H1 2022: £3.2m*)
- Basic and diluted loss/earnings per share of (0.1)p (H1 2022: 5.9p*) and (0.1)p (H1 2022: 5.7p*)
- Adjusted basic and diluted earnings per share*** of 12.8p (H1 2022: 11.5p*) and 12.3p (H1 2022: 11.0p*)
- Net cash generated from operations of £2.1m (H1 2022: £1.8m)
- Gross cash balance as at 30 June 2023 of £8.4m (H1 2022: £10.3m) – after £5.8m of deferred and contingent consideration paid in H1 2023 in relation to certain of the Company's previous acquisitions

**Restated for the disposal of Samarind Limited in March 2023 classified as a discontinued operation in these results*
***Earnings before interest, tax, depreciation, amortisation and non-recurring items (non recurring items are acquisition/disposal costs, transitional services, legal costs, increased settlement provision relating to an historical contract dispute plus acquisition costs)*
**** After adjusting for the effect of foreign currency exchange and the unwinding of the finance liability included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions*

Operational summary

- Increased focus on *in silico* and Artificial Intelligence ("AI") solutions as part of a blended growth strategy
- Transfer of the Toxhub Platform (the "Platform") and rebranding of Centrus
    - Received the first SaaS subscription order for the Platform from Bayer AG, one of 13 international life science companies involved in the eTRANSAFE consortium
    - Two further SaaS subscription orders were received post-period end
    - Ongoing dialogue to bring other consortium partners onto the Platform
- Renewal of long-standing agreement with the National Toxicology Program ("NTP")

Post-period end summary

- Signed a three-year subscription order with Altasciences worth $3.1m in total
- Recommended cash offer by Ichor Management Limited at 833p per Instem share, announced 30 August 2023

Current trading and outlook

- Instem continues to perform well and is growing, with constant currency revenue growth of 6% compared to the same period in the prior year

- ARR has grown strongly to £41.1m and continues to improve visibility over future revenues
- Group transitioning to next phase of growth - with increased focus and investment on AI opportunities which have an increased cost and longer-term returns profile
- Rate of revenue growth and underlying operating performance expected to be impacted by wider softening market in the near term
- Early Toxhub progress, with three clients having been converted onto the platform, but customer wins are taking longer than initially expected
- Adjusted EBITDA for the current year is now expected to be no greater than £11.1m*

**This statement constitutes a profit forecast for the purposes of Rule 28 of the City Code on Takeovers and Mergers ("the Takeover Code"). Please see further disclosures in note 16 to this announcement.*

Recommended Cash Offer by Ichor Management Limited
On 30 August 2023 the Company announced that it had reached an agreement on the terms of a recommended cash offer for the entire issued and to be issued ordinary share capital of Instem (the "Acquisition"). It is intended that the Acquisition will be implemented by way of a scheme of arrangement under Part 26 of the Companies Act. Under the terms of the Acquisition, each Instem Shareholder will be entitled to receive 833 pence in cash per Instem Share. The Acquisition values the entire issued and to be issued ordinary share capital of Instem at approximately £203 million.

Phil Reason, CEO, commented: "*We have achieved further progress during the Period, reinforcing our position within the sector, growing our touchpoints and deepening relationships with existing and new clients. However, revenue growth has not been as robust as during previous periods due to a softening in market conditions in the consulting as well as SEND and Target Safety Assessment outsourced services segments of the business. With the added impact of inflationary pressures, Adjusted EBITDA for the current year is now expected to be no greater than £11.1m.*

"While this market weakness has impacted the Company's performance for the Period, and is expected to be reflected further in the full-year performance, management believes that the long-term prospects remain strong – with the Company's high levels of recurring revenues underpinning confidence as well as the relatively untapped upside from the growing AI opportunities yet to be factored in - especially as Toxhub is derisked."

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About Instem
Instem is a leading IT solutions & services provider to the life sciences market, radically reducing the cost and time taken for drugs to come to market across the discovery and development lifecycle. Its workflow software and data solutions are targeted at increasing life science R&D efficiency, and are currently used by over 700 customers worldwide, including the largest 25 pharmaceutical companies.

Instem provides a compelling set of solutions – with more than 50% of global preclinical drug safety data collected over the past 20 years using its software. The Company is focused on increasing touchpoints across the drug development lifecycle - from discovery and non-clinical testing through to launch and post-marketing and is positioning itself at the forefront of broader market trends – with the aim of monetising growing demand for data insight that leverages artificial intelligence (“AI”) and in silico-based solutions.

Its AI solutions include predictive data analytics, simulation and modelling, with a current total addressable market of over £600m, a serviceable addressable market of c.£150m and multiple opportunities to grow. The Group’s broader portfolio helps clients collect, analyse, report and submit data to regulatory agencies with confidence and to reveal new insights from public and proprietary data with a total addressable market worth close to £2.0bn.

It has an established client based and is well positioned to grow revenues from existing and new clients. Its blended growth strategy will build on strong relationships and fundamentals with growing levels of high margin SaaS revenues underpinning continued profitable growth.

To learn more about Instem solutions and its mission, please visit www.instem.com

About eTRANSAFE
The "Enhancing TRANslational SAFEty Assessment through Integrative Knowledge Management (eTRANSAFE)" project developed an integrative data infrastructure and innovative computational methods and tools that aimed to drastically improve the feasibility and reliability of translational safety assessment during the drug development process. This infrastructure was underpinned by development of open standards and robust policies widely accepted by stakeholders, including regulatory agencies and international organisations.

The eTRANSAFE was a 5.5-year project that started on 1st September of 2017, and was funded by the Innovative Medicines Initiative 2 Joint Undertaking (IMI 2) together with the pharmaceutical industry, that aimed to develop an advanced data integration infrastructure together with innovative computational methods to improve the security in drug development process.

This announcement contains inside information for the purposes of the retained UK version of the EU Market Abuse Regulation (EU) 596/2014 ("UK MAR").

Chairman's Statement

As I stated in the 2022 Annual Report, we have recently completed a strategic review of our operations and opportunities with regard to positioning ourselves for the next phase of the development of the business, focused on growing our capabilities in modelling and simulation solutions. As a result we decided that, building on our portfolio of 'world leading life science workflow and data solutions', we would concentrate on the development of three market focused groups, 'Study Management', In Silico & Translational Science (ISTS) and Clinical Trial Analytics (CTA), with our product range offering solutions across the drug discovery and development spectrum.

Clearly each of these groups is at a different point in their lifecycle, with Study Management being the most mature and ISTS, which we believe provides the most long-term upside, being at an early stage in its life cycle, development and investment profile. We believe that this structure is the most appropriate to continue the medium and long term development of our business.

During this last period this new and simplified structure has been implemented by a number of organisational changes. Further we successfully divested the Group of the Samarind, Regulatory Information Management ("RIM") business, which no longer matched our long term vision.

A brief review of the activities of our three market focused groups during the Period is set out below:

- Study Management, which provides a solid and dependable platform, recorded 14% revenue growth (before adjusting for foreign exchange gains) in the Period. We were pleased to announce the renewal of our long standing agreement with the National Toxicology Platform (NTP) in the USA and, overall, the business unit performed in line with our plan over the Period. Nevertheless, the outlook deteriorated as the Period progressed, with some softness in the market for SEND services. Whilst this presents some challenges in the shorter-term, we have significant market share in this area and increasing SaaS content will improve both the quality and visibility of future revenues.

- CTA experienced a 4.3% revenue increase in the Period (before adjusting for foreign exchange gains). The revenues associated with this business tend to be sporadic and need to be viewed over the longer term, and this revenue stream will continue to be significant. The development of the new Aspire software solution is progressing well and the lead client is expected to deploy the solution on schedule in Q4 2023.

- ISTS, which has grown by 1.2% in the period (before adjusting for foreign exchange gains), is ideally placed to generate longer-term growth, with the opportunity to take advantage of the growing importance of AI developments in the pharma market. The transfer of eTRANSAFE's Toxhub application during the period was a particularly important development and enhances our in-silico suite, now rebranded Centrus. However, ISTS currently represents our smallest proportion of revenues and some aspects of our activities in this area share the characteristics of start-up / early stage businesses, being unpredictable as to timing and costs. This is demonstrated in the slower than anticipated conversion of clients onto the Toxhub platform to date, albeit we continue to believe that this will provide the cornerstone for the significant and sustainable longer-term future growth of this business unit.

Financial Performance

All parts of the business continued to perform satisfactorily, albeit some of our activities started to be impacted by a softening in market conditions during the Period. We took steps to ensure that we are strongly positioned to take advantage of growing demand for AI solutions.

Performance in the Period (against H1 2022) for some of our key financial metrics is summarised below:

- Revenue increased 10% (6% on a constant currency basis)
- SaaS Revenue increased 29%
- Recurring Revenue increased 27%
- Adjusted EBITDA decreased 10% (13% decrease on a constant currency basis)

We continued to invest in expanding our teams with average employee numbers increasing by 6% during the Period. We were not immune to inflationary pressure which continued during the Period, with average salary costs increasing by 4.5%. This resulted in Adjusted EBITDA reducing by £0.4m over the Period, slightly behind our internal expectations. Adjusted EBITDA in these results also includes the release during the Period of a £0.2m bad debt provision made in the prior year.

The decision to focus on data science opportunities was looking to the future, with higher growth opportunities that will provide significant long term upside. While the speed of the move to data sciences opportunities has been impeded by the slower than expected transfer of Consortium members there is significant scope for growth and to exploit the €40m investment made by the eTRANSAFE consortium to date.

Looking Forward

We remain excited by the potential across our key markets and are strongly positioned across Study Management, ISTS and Clinical Trial Analytics. We continue to benefit from growing levels of SaaS-driven business, providing a higher degree of visibility over forward revenues. Whilst there is execution risk associated with some of our more recent initiatives, the fact that we continue to demonstrate our ability to help clients across the drug discovery and development landscape has positioned the Company to take advantage of organic and acquisitive growth opportunities, underpinning management's longer-term confidence in the overall business.

We recognise, however, the recent softening in market conditions. We expect these tougher conditions to continue through the remainder of 2023 and into 2024 and have modified expectations for current year profitability accordingly, reflecting the risks in transitioning the business for the next stage of development.

David Gare
Non-Executive Chairman
15 September 2023

Chief Executive's Report

Strategic Development

The Group continued to focus on helping clients to radically reduce the cost and to increase the effectiveness of life sciences research and development. Growing trends and demand for in silico solutions form a solid backbone to our strategy. We continue to transition from on-premise to SaaS contracts, which are ultimately higher margin and provide increased levels of visibility. Additionally, we have benefited from a proven acquisition strategy, which has enabled us to scale and strengthen our portfolio of solutions.

Importantly, we have strengthened our market position and recurring revenue base and have the foundations in place and ability to generate increasing revenues from higher growth segments of the drug development cycle. With growing numbers of touchpoints and cross selling opportunities, our data-centric solutions will help a growing number of clients accelerate development and reduce costs.

Toxhub

As announced in May 2023, Instem expanded its ISTS business unit via the transfer of the Toxhub Platform from the eTRANSAFE consortium, responding to a growing trend for early product safety assessment and an increased demand for in silico solutions. The Board believes that this will form a solid backbone to our strategy and will provide a means of achieving further margin growth in the longer term, following a period of start-up investment, leveraging machine learning and AI technologies.

To date we have received the first three SaaS subscription orders for the Platform from Bayer AG, a top 10 pharma company, and a mid-tier pharma, three of 13 international life science companies involved in the eTRANSAFE consortium. Although it has taken longer than previously anticipated to bring potential clients onto the platform, the Company has good ongoing dialogue with the other 10 companies within the consortium and hopes to secure additional orders in the future in order to further demonstrate proof of concept and de-risk execution of the longer-term opportunity.

We previously expected to incur ~£2.5 million of start-up costs in the first 12 months of the project and now expect this to reduce to ~£1.7m. To date, we have expensed £0.7m. Following an initial period of investment and incremental SaaS revenue growth, the Company believes there is potential for meaningful momentum from 2025 onwards.

Market Review

In the pharmaceutical industry, which represents the largest proportion of Instem's revenue, we refer again to the Pharma R&D Annual Review, the 2023 version of which was released by Pharma Intelligence in April 2023. This report shows that the industry grew in 2022 with a 5.9% increase (2021: 8.2%) in the total number of drugs in the regulatory stages of global R&D, continuing a multi-year growth trend that shows no sign of abating.

Nevertheless, Instem has in recent months been impacted by a short-term market slowdown that has affected demand for SEND and Target Safety Assessment outsourced services, consistent with other services providers, in the markets we serve. We expect the market to recover in the medium term, underpinned by the strong fundamental growth drivers that exist in the industry.

The longer-term market outlook continues to be favourable for the Group, with global population growth and life expectancy underpinning increased demand for successful innovation in life sciences. Increasing amounts of money are being invested in the biotech industry with the pharmaceuticals sector investing heavily in drug development, which creates an attractive opportunity pipeline for Instem.

Business Performance

Study Management

In line with the internal reorganisation of our activities announced in our FY2022 results, Study Management now includes our SEND software and outsourced services business.

Overall, Study Management performed well, with revenue up 14.3% in the Period. This was despite an anticipated reduction in perpetual license sales, with most new software business secured as SaaS subscriptions, increasing future revenue visibility.

Study Management has the majority of clients yet to make the transition from on-premise to SaaS deployment. Whilst the programme remains very active and is welcomed by clients, there were no material transitions in the Period.

The Company renewed its long-standing agreement with the National Toxicology Program ("NTP"), run by the US National Institute of Environmental Health Sciences ("NIEHS") during the Period for a further five years. While Provantis represents the majority of this contract, the renewal includes some additional study management solutions. The size of this extension helps to underpin increased revenue visibility.

Post period-end, the Company grew its Provantis footprint further, with Altasciences signing a three-year subscription order worth $3.1m. This follows the acquisitions of Calvert Labs and Sinclair Research by Altasciences and the subsequent decision to standardise on Provantis and to transition from on-premises deployment to Instem's cloud-based solutions, increasing its Provantis user licences from 250 to more than 600.

While SEND outsourced services revenue grew strongly in the period, compared to H1 2022, revenue was flat compared to H2 2022 as overall market demand in this area has moderated. We are not expecting growth in this area over the remainder of 2023.

In Silico and Translational Sciences

It was a busy and exciting period for our ISTS business as we absorbed the clinical trial transparency software and outsourced services business, previously in Clinical Trial Analytics, and integrated the Toxhub software platform acquired from the eTRANSAFE Consortium.

Our transparency software and outsourced services revenue was stable in the Period compared with H1 2022, but we are already seeing an increase in demand following the European Medicine Agency decision to reinstate Policy 0070 regulation that requires pharma companies to submit anonymised clinical trial data sets.

While there was slower demand for our Target Safety Assessment Services, our computational toxicology business continues to deliver double digit growth period after period. The team has been highly active in regulatory supported initiatives to introduce further *in silico* models designed to improve the science of drug and chemical development, while significantly reducing cost and elapsed time in our clients' R&D programmes.

We are actively bringing our portfolio of *In Silico* solutions together under the Centrus brand and will be leveraging multiple capabilities as we address the recently adopted International Council for Harmonization, ICH S1B(R1) guidelines for the replacement of two-year carcinogenicity studies in rats with a far quicker and less expensive *in silico* "weight of evidence" submission.

Clinical Trial Analytics

The development of our new SaaS-based statistical computing environment product, Aspire, has progressed well and we expect that the lead client will deploy the solution, as anticipated, during Q4 2023. The high-quality SaaS subscription revenue generated from Aspire implementations is eagerly awaited as we continue to see softness in the new project consultancy area of our Clinical Trial Analytics business, while enjoying good retention and growth in our recurring revenue business.

With the imminent Aspire release date, we are seeing opportunities to upgrade some of the clients on our lower cost Accel solution to the Aspire platform.

Recommended Cash Offer

On 30 August 2023 the Company announced that it had reached an agreement on the terms of a recommended cash offer for the entire issued and to be issued ordinary share capital of Instem (the "**Acquisition**"). It is intended that the Acquisition will be implemented by way of a scheme of arrangement under Part 26 of the Companies Act. Under the terms of the Acquisition, each Instem Shareholder will be entitled to receive 833 pence in cash per Instem Share. The Acquisition values the entire issued and to be issued ordinary share capital of Instem at approximately £203 million.

Further details on the Acquisition, including the background to and reasons for the recommendation and Archimed's strategic plans for Instem, are included in the Rule 2.7 announcement released on 30 August 2023.

The Company expects to publish a scheme document together with a notice of general meeting shortly.

Summary & Outlook

We have achieved further progress during the Period, reinforcing our position within the sector, growing our touchpoints and deepening relationships with existing and new clients. However, revenue growth has not been as robust as during previous periods due to a softening in market conditions in the consulting as well as SEND and Target Safety Assessment outsourced services segments of the business. With the added impact of inflationary pressures, Adjusted EBITDA for the current year is now expected to be no greater than £11.1m.

While this market weakness has impacted the Company's performance for the Period, and is expected to be reflected further in the full-year performance, management believes that the long-term prospects remain strong – with the Company's high levels of recurring revenues underpinning confidence as well as the relatively untapped upside from the growing AI opportunities yet to be factored in - especially as Toxhub is derisked.

Phil Reason
Chief Executive Officer
15 September 2023

Financial Review

Key Performance Indicators (KPIs)

The directors review monthly revenue and operating costs to ensure that sufficient cash resources are available for the working capital requirements of the Group.

The primary KPIs at 30 June 2023 were:

	6 months to 30 June 2023 £000	6 months to 30 June 2022 £000	% Change (H1 2022 to H1 2023)	12 months to 31 Dec 2022 £000
Total revenue	**29,742**	26,994	10.2%	57,626
Recurring revenue	**19,600**	15,428	27.3%	33,407
Recurring revenue as a percentage of total revenue	**66%**	57%	-	58%
Annual recurring revenue	**41,080**	32,124	27.9%	34,967
Adjusted EBITDA	**4,038**	4,508	-10.4%	10,784
Adjusted EBITDA margin %	**13.6%**	16.7%	-310bps	18.7%
Cash and cash equivalents (gross)	**8,442***	10,280	-17.9%	13,964
Net cash balance	**7,414**	10,280	-27.9%	13,964
Operating profit before non-recurring items	**2,153**	2,372	-9.2%	6,497
Operating profit after non-recurring items	**1,876**	1,603	17%	5,690
Adjusted profit before tax	**2,894**	3,211	-9.9%	8,179

*Cash and cash equivalents stated after £5.8m of deferred and contingent consideration paid in H1 2023 in relation to certain of the Company's previous acquisitions

In addition, certain non-financial KPIs are periodically reviewed and assessed, including customer and staff retention rates.

Profit and loss account

Revenues

Instem's revenue model consists of perpetual licence income with annual support and maintenance contracts, professional fees, technology enabled outsourced services fees, SaaS subscriptions and consulting services fees.

Total revenues in the Period increased by 10.2% to £29.7m (H1 2022: £27.0m, as restated for the disposal of Samarind during the Period classified as a discontinued operation). Constant currency revenue growth was 6.0%. Recurring revenue, derived from support & maintenance contracts and SaaS subscriptions, increased in the period by 27.3% to £19.6m (H2 2022: £15.4m, as restated). Recurring revenue as a percentage of total revenue was 66% (H1 2022: 57%, as restated). In absolute terms, recurring revenue increased over the prior year by £4.2m. Revenue from technology enabled outsourced services increased by 27% to £4.7m (H2 2022: £3.7m, as restated).

The Company now reports revenues on a segmental basis with further commentary set out in the Chairman and Chief Executive Officer statements. In summary, Study Management revenues increased by 14.3% to £19.3m (H1 2022: £16.9m), ISTS revenues increased by 1.2% to £3.1m (H1 2022: £3.1m) and CTA revenues increased by 4.3% to £7.3m (H1 2022: £7.0m). Further narrative on segmental performance is also outlined in note 3 to this announcement.

Operating expenses

Operating expenses increased by 14.3% in the Period to £25.7m (H1 2022: £22.5m). The increase was driven by two main factors:

- A 6% increase in the average number of employees, with the Group continuing to invest in the expansion of its operational and development teams; and

- Continued inflationary pressure, with salaries increasing during the Period on average by 4.75%.

Particularly notable was £0.7m of salary costs incurred during the Period in relation to Toxhub. The Board previously notified its expectation that the Group would incur £2.5m of start-up costs in the first 12 months of the project, however, it is now reducing its estimate to £1.7m.

Adjusted EBITDA

Primarily as a result of the Group's increased cost base during the Period, adjusted earnings before interest, tax, depreciation, amortisation, and non-recurring items (Adjusted EBITDA) decreased by 10.4% to £4.0m (H1 2022: £4.5m, as restated). For this measure of earnings, the margin as a percentage of revenue decreased in the Period to 13.6% from 16.7% in H1 2022. Adjusted EBITDA for the Period also includes the release of a £0.2m doubtful debt provision made in the prior year.

Other income and expenses and net profit

Non-recurring costs in the period were £1.0m (H1 2022: £0.8m), comprising disposal costs and the associated cost that Instem incurred for providing the transitional services relating to the Samarind sale, and a provision for US Sales Tax pending the outcome of a nexus study being conducted with the assistance of US Tax advisors to determine where sales tax filing responsibilities and potential exposures exist. Non-recurring costs also include acquisition costs and administrative expenses in relation to the final instalments of deferred consideration paid in H1 2023 for the 2021 corporate acquisitions. Non-recurring income of £0.1m during the period relates to the charges for transitional services that the Company has agreed to provide under the Share Purchase Agreement to the acquirer of Samarind Limited.

The reported loss before tax for the period was £0.07m (H1 2022: £2.0m, as restated). Adjusted profit before tax (i.e. after adjusting for the effect of foreign currency exchange and the unwinding of the finance liability included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions) was £2.9m (H1 2022: £3.2m, as restated).

The Group operates internationally and is exposed to foreign currency risk on transactions denominated in a currency other than the functional currency and on the translation of the statement of financial position and statement of comprehensive income of foreign operations into sterling. The currency that gave rise to this risk in 2023 was primarily from realised US dollars transactions. In 2023, the revenue growth and Adjusted EBITDA decline on a constant currency basis, excluding the foreign exchange exposure was 6% and -13% respectively. The foreign exchange loss recorded during H1 2023 was £0.96m (H1 2022: £0.94m gain, as restated), which comprises unrealised gains/losses from translation of intercompany balances. Intercompany balances are settled between the Group's entities whenever possible.

The Group continues to invest in its product portfolio. Development costs incurred in the period were £4.4m (H1 2022: £3.7m), of which £1.9m (H1 2022: £1.4m) was capitalised. No development costs associated with Toxhub were capitalised in the period. The Group has a development process in place and is committed to ensuring that its own technology continues to evolve to meet client needs.

Basic and diluted earnings per share calculated on an adjusted basis were 12.8p and 12.3p respectively (H1 2022: 11.5p basic and 11.0p diluted, as restated). The reported basic and diluted loss/earnings per share were (0.1)p and (0.1)p respectively (H1 2022: 5.9p basic and 5.7p diluted, as restated).

Cash flows

The Group generated cash from operations during the period of £2.1m (H1 2022: £1.8m), an increase from the prior year primarily due to working capital movements. Deferred and contingent consideration payments of £5.8m (H1 2022: £4.5m) which related to the 2021 corporate acquisitions accounted for the majority of the net cash used in financing activities. To part-fund the final deferred and contingent consideration payment for d-Wise of £3.6m, the Company drew down £1.0m against its HSBC revolving credit facility. £2.2m of contingent consideration was also paid during the period in relation to the acquisition of The Edge. These were the final deferred and contingent consideration payments due. The net cash used in investing activities included £1.9m (H1 2022: £1.4m) of capitalised software development costs, mainly on Aspire, Provantis and SEND. As a result of the above, the Group's gross cash balance decreased from £14.0m at 31 December 2022 to £8.4m at 30 June 2023.

Balance sheet

Goodwill, customer relationship and development costs included in intangibles assets reduced by £0.9m from June 2022 to June 2023 due to the derecognition of Samarind intangible assets, following the sale of the company. Intangible assets increased following the Company being granted the exclusive rights for the transition of the Toxhub platform from the eTRANSAFE consortium. The carrying value of the Toxhub asset in intangible assets is the inherent liability of €0.18m which the Group would be liable to pay if it decided to cancel its 3 year contract with the platform developer.

The deficit on the Group's legacy defined benefit pension scheme was £1.4m at 30 June 2023 (H1 2022: £1.3m) having improved from a deficit of £2.1m at 31 December 2022. Liabilities decreased from £10.5m at 31 December 2022 to £10.0m at 30 June 2023 and Plan Assets increased from £8.4m at 31 December 2022 to £8.6m at 30 June 2023. The scheme liabilities fell in value due to significantly higher discount rates, which reflect the rise in the yields on corporate bonds over the period, in addition to the contributions paid by the Group.

The impact of the above has been offset to some extent by lower than assumed investment returns, a small increase in long-term inflation expectations and inflation experience since the valuation date being higher than assumed.

Movements in share capital and the share premium, merger and share based payment reserves reflect the exercise of share options during the period, the fair value of share options granted being charged to the Statement of Comprehensive Income and the issue of shares paid in lieu of cash as deferred consideration for d-Wise. The share capital of Instem at 30 June 2023 was 22,889,433 ordinary shares of 10p each (note 13).

In line with previous periods and given our policy of retaining cash within the business to capitalise on available growth opportunities, the Board has not recommended the payment of a dividend.

Current trading and outlook

Following a decline in H1 23 Adjusted EBITDA against the same period in 2022 and against the Board's expectations, as in 2022, it is expected that revenue growth will be second half weighted benefitting from increased software recurring revenue, predominantly from new business already secured and the reliable renewal of contracts with current clients. As referred to elsewhere we saw a softening in market conditions during the Period and this has continued post period-end. The Board has therefore modified its expectations for the Group's full year profitability accordingly, with FY23 Adjusted EBITDA now expected to be no greater than £11.1m. The Board also notes that, excluding £1.7m of costs associated with ToxHub now expected to be incurred in FY23, the implied FY23 Adjusted EBITDA would be no greater than £12.8m, materially below the Board's expectations at the beginning of the year.*

Principal risks and uncertainties

The principal risk and uncertainties that management have made for the six months ended 30 June 2023 remained unchanged with those reported in the annual statutory financial statements for the year ended 31 December 2022.

The Group operates internationally and is exposed to foreign currency risks on transactions denominated in a currency other than the functional currency. The main currency giving rise to this risk is the US dollar. Whilst weak sterling against the US dollar is beneficial to revenue, our substantial US cost base provides a natural hedge so that a strengthening USD is only modestly beneficial to profit.

Whilst the directors are confident as to the long term prospects of Toxhub, it will require funding in the short to medium term with no guarantees of material revenues generated.

Finally, any significant inflationary increases would quickly impact the Group's cost base as experienced during the period with salary increases across the Group. The Group has taken steps to mitigate these increases with corresponding increases in sales prices wherever possible but there is a time lag before the full impact of these increases is reflected in the Group's results.

The Group seeks to mitigate exposure to all forms of risk through a combination of regular performance review and a comprehensive insurance programme. Additionally, the Group has a significant proportion of recurring revenue (circa 66% of total) from annual support & maintenance and SaaS contracts from a well-established global customer base. Consequently, the Group ensures that it maintains a diversified portfolio in terms of customers, revenue mix, geography and markets.

Subsequent events

No adjusting events have occurred between the 30 June 2023 reporting date and the date of approval of this Interim Report.

On 30 August 2023 the board of directors of Ichor Management Limited ("Bidco") and the board of directors of Instem plc ("Instem") announced that they had reached agreement on the terms of a recommended cash offer to be made by Bidco for the entire issued and to be issued ordinary share capital of Instem plc (the "Acquisition"). It is intended that the Acquisition will be implemented by way of a scheme of arrangement under Part 26 of the Companies Act.

Under the terms of the Acquisition, each Instem Shareholder will be entitled to receive 833 pence in cash per Instem share. The Acquisition values the entire issued and to be issued ordinary share capital of Instem at approximately £203 million.

**This statement constitutes a profit forecast for the purposes of the Takeover Code. Please see further disclosures in note 16 to this announcement.*

Alternative performance measures

This report contains certain financial alternative performance measures ("APMs") that are not defined or recognised under IFRS but are presented to provide readers with additional financial information that is evaluated by management and investors in assessing the performance of the Group. This additional information presented is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other companies.

The table below provides the data for certain performance measures mentioned above:

	30 Jun 2023 £000	30 Jun 2022 £000 (as restated)	30 Jun 2022 £000 (as initially reported)	31 Dec 2022 £000 (as restated)	31 Dec 2022 £000 (as initially reported)
Annual support fees	**12,090**	9,600	9,716	20,576	20,815
SaaS subscription and support fees	**7,510**	5,828	6,257	12,831	13,658
Recurring revenue	**19,600**	15,428	15,973	33,407	34,473
Licence fees	**1,640**	2,789	2,803	6,012	6,049
Professional services	**1,456**	1,435	1,486	3,078	3,229
Technology enabled outsourced services	**4,681**	3,738	3,738	8,496	8,496
Consultancy services	**2,365**	3,604	3,604	6,633	6,633
Total revenue	**29,742**	26,994	27,604	57,626	58,880

As Samarind Limited was sold on 31 March 2023 and was reported in the financial statements for the half-year ended 30 June 2023 as a discontinued operation, the 2022 comparatives have been restated in line with the requirements of IFRS 5 (note 5).

Recurring revenue is the revenue that repeats annually under contractual arrangements. It highlights how much of the Group's total revenue is secured and anticipated to repeat in future periods, providing a measure of the financial strength of the business.

	30 Jun 2023 £000	30 Jun 2022 £000 (as restated)	30 Jun 2022 £000 (as initially reported)	31 Dec 2022 £000 (as restated)	31 Dec 2022 £000 (as initially reported)
Annual Recurring Revenue	**41,080**	-	32,124	-	34,967

Annual Recurring Revenue is the revenue that the Group is currently contracted to recognise, for the next 12 months, for software Annual Support fees and SaaS Subscription fees. The revenue is also adjusted with new or terminated contracts that have taken place in the period.

	30 Jun 2023 £000	30 Jun 2022 £000 (as restated)	30 Jun 2022 £000 (as initially reported)	31 Dec 2022 £000 (as restated)	31 Dec 2022 £000 (as initially reported)
EBITDA (before non-recurring items)	**3,106**	3,739	3,731	9,977	10,056
Non-recurring cost (see note 7)	**1,042**	769	769	1,208	1,208
Non-recurring income (see note 7)	**(110)**	-	-	(401)	(401)
Adjusted EBITDA	**4,038**	4,508	4,500	10,784	4,500

Adjusted EBITDA is EBITDA plus non-recurring items (as set out in note 7). The same adjustments are also made in determining the Adjusted EBITDA margin. Items are only classified as non-recurring or exceptional due to their nature or size and the Board considers that this metric provides the best measure of assessing underlying trading performance.

	30 Jun 2023 £000	30 Jun 2022 £000 (as restated)	30 Jun 2022 £000 (as initially reported)	31 Dec 2022 £000 (as restated)	31 Dec 2022 £000 (as initially reported)
(Loss)/Profit before tax	**(66)**	1,961	1,918	5,571	5,473
Amortisation of intangibles arising on acquisition	**917**	977	977	1,953	1,953
Non-recurring cost (see note 7)	**1,042**	769	769	1,208	1,208
Non-recurring income (see note 7)	**(110)**	-	-	(401)	(401)
Impairment of goodwill	**-**	-	-	-	107
Foreign currency exchange (gain)/ loss	**962**	(951)	(944)	(932)	(932)
Unwinding discount on deferred consideration	**149**	455	455	771	771
Adjusted profit before tax	**2,894**	3,211	3,175	8,170	8,179

Adjusted profit before tax is after adjusting for the effect of foreign currency exchange and the unwinding of the finance liability included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions. The same adjustments are also made in determining adjusted earnings per share (“EPS”). The Board considers this adjusted measure of operating profit provides the best metric of assessing underlying performance.

	30 Jun 2023 £000	30 Jun 2022 £000 (as restated)	30 Jun 2022 £000 (as initially reported)	31 Dec 2022 £000 (as restated)	31 Dec 2022 £000 (as initially reported)

Weighted average number of shares	23,839	23,537	23,547	23,676	23,686
Adjusted diluted earnings per share	12.3p	11.0p	10.8	31.0p	31.3p

	30 Jun 2023	30 Jun 2022	31 Dec 2022
	£000	£000	£000
Cash at bank	**8,442**	10,280	13,738
Banking facility	**(1,028)**	-	-
Net cash balance	**7,414**	10,280	13,738

Nigel Goldsmith
Chief Financial Officer
15 September 2023

Instem plc
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2023

	Note	**Unaudited Six months ended 30 June 2023 £000**	Unaudited Six months ended 30 June 2022 £000 (as restated)	Audited Year ended 31 December 2022 £000 (as restated)
REVENUE	4	**29,742**	26,994	57,626
Employee benefits expense		**(18,196)**	(14,414)	(33,934)
Other expenses		**(7,716)**	(8,072)	(13,104)
Net impairment gain on financial assets		**208**	-	196
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING COSTS (ADJUSTED EBITDA)		**4,038**	4,508	10,784
Depreciation		**(124)**	(167)	(338)
Amortisation of intangibles arising on acquisition		**(917)**	(977)	(1,953)
Amortisation of internally generated intangibles		**(464)**	(456)	(1,055)
Amortisation of right of use assets		**(380)**	(536)	(941)
OPERATING PROFIT BEFORE NON-RECURRING COSTS		**2,153**	2,372	6,497
Non-recurring income	7	**110**	-	401
Non-recurring costs	7	**(1,042)**	(769)	(1,208)
OPERATING PROFIT AFTER NON-RECURRING ITEMS		**1,221**	1,603	5,690
Finance income	8	**2**	1,030	1,023
Finance costs	9	**(1,289)**	(672)	(1,142)
(LOSS)/ PROFIT BEFORE TAXATION		**(66)**	1,961	5,571
Taxation		**35**	(631)	(821)
(LOSS)/ PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**(31)**	1,330	4,750
Profit / (Loss) from discontinued operations	5	10	(43)	(53)
(LOSS)/ PROFIT FOR THE PERIOD		**(21)**	**1,287**	**4,697**
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit and loss account				
Actuarial gain on retirement benefit obligations		**234**	382	(561)
Deferred tax on actuarial gain & loss		**(59)**	(96)	140
		175	286	(421)
Items that may be reclassified to profit and loss account:				
Exchange differences on translating foreign operations		**573**	(1,216)	(1,596)
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD		**748**	(930)	(2,017)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**727**	357	2,680

(LOSS)/ PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**(21)**	1,287	4,697
TOTAL COMPREHENSIVE (LOSS)/ INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY		**727**	357	2,680

	Note	**Unaudited Six months ended 30 June 2023 £000**	Unaudited Six months ended 30 June 2022 £000	Audited Year ended 31 December 2022 £000
EARNINGS PER SHARE FOR PROFIT FROM CONTINUING OPERATIONS ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY				
- Basic	6	**(0.1)p**	5.9p	21.0p
- Diluted	6	**(0.1)p**	5.7p	20.1p
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY				
- Basic	6	**(0.1)p**	5.7p	20.8p
- Diluted	6	**(0.1)p**	5.5p	19.8p

Instem plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Note	**Unaudited 30 June 2023 £000**	Unaudited 30 June 2022 £000	Audited 31 December 2022 £000
ASSETS				
NON-CURRENT ASSETS				
Intangible assets		**58,017**	58,381	58,341
Property, plant and equipment		**702**	552	768
Right of use assets		**749**	1,542	1,120
Finance lease receivables		**14**	69	42
TOTAL NON-CURRENT ASSETS		**59,482**	60,544	60,271
CURRENT ASSETS				
Inventories		**91**	99	76
Trade and other receivables		**15,353**	15,224	18,345
Finance lease receivables		**53**	51	53
Financial asset at fair value through profit or loss	5	**231**	-	-
Tax receivable		**-**	15	-
Cash and cash equivalents	10	**8,442**	10,280	13,964
TOTAL CURRENT ASSETS		**24,170**	25,669	32,438
TOTAL ASSETS		**83,652**	86,213	92,709
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables		**4,591**	4,905	5,327
Deferred income		**18,861**	17,672	22,745
Current tax payable		**474**	-	251
Provision for liabilities and charges		**-**	885	-
Financial liabilities	12	**-**	6,235	5,765
Banking facility	11	**1,028**	-	-
Lease liabilities		**547**	935	814
TOTAL CURRENT LIABILITIES		**25,501**	30,632	34,902
NON-CURRENT LIABILITIES				
Financial liabilities	12	**155**	-	-
Retirement benefit obligations		**1,375**	1,303	2,013
Provision for liabilities and charges		**44**	43	45
Lease liabilities		**322**	858	491
Deferred tax liabilities		**1,614**	2,977	1,901
TOTAL NON-CURRENT LIABILITIES		**3,510**	5,181	4,450
TOTAL LIABILITIES		**29,011**	35,813	39,352
EQUITY				
Share capital	13	**2,289**	2,268	2,270
Share premium		**28,273**	28,224	28,224
Merger reserve		**14,013**	14,013	14,013
Share based payment reserve		**3,430**	3,045	3,570
Translation reserve		**(1,225)**	(1,418)	(1,798)
Retained earnings		**7,861**	4,268	7,078
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**54,641**	50,400	53,357
TOTAL EQUITY AND LIABILITIES		**83,652**	86,213	92,709

Instem plc

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Note	**Unaudited Six months ended 30 June 2023**	Unaudited Six months ended 30 June 2022	Audited Year ended 31 December 2022
CASH FLOWS FROM OPERATING ACTIVITIES		**£000**	£000	£000
(Loss)/Profit before taxation on continuing operations		**(66)**	1,961	5,571
Loss before tax on discontinued operations		**(58)**	(43)	(98)
Adjustments for:				
Depreciation		**124**	168	340
Amortisation of intangibles		**1,381**	1,446	3,049
Amortisation of right of use assets		**380**	549	967
Share based payment charge		**725**	751	1,377
Retirement benefit obligations		**(448)**	(398)	(598)
Profit from discontinued operations		**(10)**	-	-
Finance income	8	**(2)**	(1,030)	(1,023)
Finance costs	9	**1,289**	680	1,143
Impairment on goodwill		**-**	-	107
Provision for US sales tax	7	**655**	-	-
(Gain)/Loss on disposal		**3**	-	(4)
CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL		**3,973**	4,084	10,831
Movements in working capital:				
(Increase) in inventories		**(15)**	(35)	(12)
Decrease/ (Increase) in trade and other receivables		**1,445**	140	(2,866)
(Decrease)/ Increase in trade, other payables and deferred income		**(3,260)**	(2,995)	2,185
Increase/ (decrease) in provisions		**-**	637	(281)
NET CASH GENERATED FROM OPERATIONS		**2,143**	1,831	9,857
Finance income		**2**	86	91
Finance costs		**(84)**	(116)	(266)
Income taxes		**(643)**	(936)	(1,810)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**1,418**	865	7,872
CASH FLOWS FROM INVESTING ACTIVITIES				
Capitalisation of development costs		**(1,888)**	(1,465)	(3,036)
Purchase of property, plant and equipment		**(59)**	(122)	(478)
Net proceeds from Samarind disposal		**710**	-	-
NET CASH USED IN INVESTING ACTIVITIES		**(1,237)**	(1,587)	(3,514)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital		**56**	35	36
Payment of deferred consideration		**(3,596)**	(3,061)	(3,891)
Payment of contingent consideration		**(2,213)**	(1,412)	(1,463)
Payment of lease liabilities		**(469)**	(587)	(1,096)
Receipts from sublease of asset		**27**	16	53
Utilisation of banking facility		**1,000**	-	-
NET CASH (USED) FROM FINANCING ACTIVITIES		**(5,195)**	(5,009)	(6,361)
NET (DECREASE) /INCREASE IN CASH AND CASH EQUIVALENTS		**(5,014)**	(5,731)	(2,003)
Cash and cash equivalents at start of period		**13,964**	15,021	15,021
Effect of exchange rate changes on the balance of cash held in foreign currencies		**(508)**	990	946
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**8,442**	10,280	13,964

Instem plc
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2023

	Share capital £000	Share premium £000	Merger reserve £000	Share based payment reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance as at 31 December 2021 – (Audited)	**2,219**	**28,191**	**12,104**	**2,294**	**(202)**	**2,695**	**47,301**
Profit for the period	-	-	-	-	-	1,287	1,287
Other comprehensive income	-	-	-	-	(1,216)	286	(930)
Total comprehensive income	-	-	-	-	(1,216)	1,573	357
Shares issued	49	33	1,909	-	-	-	1,991
Share based payment	-	-	-	751	-	-	751
Balance as at 30 June 2022 (Unaudited)	**2,268**	**28,224**	**14,013**	**3,045**	**(1,418)**	**4,268**	**50,400**
Profit for the period	-	-	-	-	-	3,410	3,410
Other comprehensive (expense)/income	-	-	-	-	(380)	(707)	(1,087)
Total comprehensive expense	-	-	-	-	(380)	2,703	2,323
Shares issued	2	-	-	-	-	-	2
Share based payment	-	-	-	626	-	-	626
Deferred tax on share options	-	-	-	20	-	-	20
Nil cost option charge	-	-	-	(14)	-	-	(14)
Reserve transfer on lapse of share options	-	-	-	-	-	-	-
Reserve transfer on exercise of share options	-	-	-	(107)	-	107	-
Balance as at 31 December 2022 (Audited)	**2,270**	**28,224**	**14,013**	**3,570**	**(1,798)**	**7,078**	**53,357**
Loss for the period	-	-	-	-	-	(21)	(21)
Other comprehensive income					573	175	748
Total comprehensive income	-	-	-	-	573	154	727
Shares issued	7	49	-	-	-	-	56
Share based payment	-	-	-	725	-	-	725
Deferred tax on share options	-	-	-	(231)	-	-	(231)
Deferred tax on share options on exercise	-	-	-	(5)	-	5	-
Nil cost option charge	12	-	-	(12)	-	-	-
Reserve transfer on lapse of share options	-	-	-	-	-	-	-

Reserve transfer on exercise of share options	-	-	-	(617)	-	624	7
Balance as at 30 June 2023 (Unaudited)	**2,289**	**28,273**	**14,013**	**3,430**	**(1,225)**	**7,861**	**54,641**

NOTES TO THE FINANCIAL INFORMATION

For the six months ended 30 June 2023

1. General information

The principal activity and nature of operations of the Group is the provision of world class IT solutions to the life sciences market. Instem's solutions for data collection, management and analysis are used by customers worldwide to meet the needs of life science and healthcare organisations for data-driven decision making leading to safer, more effective products. Instem plc is a public limited company, listed on AIM, and incorporated in England and Wales under the Companies Act 2006 and domiciled in England and Wales. The registered office is Diamond Way, Stone Business Park, Stone, Staffordshire, ST15 0SD, UK.

2. Basis of preparation and accounting policies

Basis of preparation

The Group's half-yearly financial information, which is unaudited, consolidates the results of Instem plc and its subsidiary undertakings made up to 30 June 2023. The Group's accounting reference date is 31 December.

The consolidated financial information is presented in Pounds Sterling (£) which is also the functional currency of the parent.

The financial information contained in this half year financial report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. It does not therefore include all of the information and disclosures required in the annual financial statements.

The financial information presented for the six months ended 30 June 2023 and 30 June 2022 is unaudited.

Instem plc's consolidated statutory accounts for the year ended 31 December 2022, prepared under IFRS, have been delivered to the Registrar of Companies. The report of the auditors on these accounts was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

Significant accounting policies

The accounting policies used in the preparation of the financial information for the six months ended 30 June 2023 are in accordance with the recognition and measurement criteria of international accounting standards and are consistent with those that will be adopted in the annual statutory financial statements for the year ending 31 December 2023.

While the financial information included has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), these financial statements do not contain sufficient information to comply with IFRS's.

Instem plc and its subsidiaries have not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK AIM listed groups, in the preparation of this half-yearly financial report.

Significant judgement and estimates

The judgements and estimations that management have made for the six months ended 30 June 2023 are consistent with those reported in the annual statutory financial statements for the year ended 31 December 2022.

- *Discontinued operation*

  On 31 March 2023, Instem completed the disposal of Samarind Limited with consideration receivable up to £1.0m, of which £0.8m was satisfied by cash receipt on completion, plus or minus estimated net cash, and the remaining balance of £0.2m payable contingent on Samarind's future performance that will be payable in cash.

The Samarind Limited disposal was reported in the financial statements for the half-year ended 30 June 2023 as a discontinued operation. The comparatives have been restated in line with IFRS 5 requirements (note 5).

- *Potential indicator of impairment of goodwill*
  The carrying value of goodwill must be assessed for impairment annually and whenever there is an indicator of impairment. The Group did not achieve the Board's expected forecast cash flow for the period ended 30 June 2023 which is an indicator of potential impairment. However, the current cash offer, recommended by the directors, supports a fair value of the Group that is a multiple of the carrying amount of net assets, thus there is no impairment.

Going concern

The Directors continue to adopt the going concern basis of accounting in preparing these financial statements, which the Directors believe is appropriate given the Group's trading performance and financial liquidity. At 30 June 2023, the Group had cash balances of £8.4m together with a £10.0m committed revolving credit banking facility, of which £1.0m was drawn during H1 2023.

The Group signed a new financing arrangement on 8 April 2022, which consisted of a committed facility of £10.0m with HSBC UK Bank plc to support the Group's working capital needs and its acquisition strategy, that can be extended up to £20.0m if needed, subject to further bank approval. The financial covenants have been considered in the Group cash forecast to ensure compliance. During the first half of 2023, the Group drew down £1.0m to support the d-Wise final consideration pay out.

The Group has considered a downside scenario which is also linked to the company's risks when modelling the forecast results and cash flow. However, in considering the downside scenario there is uncertainty how the Group's cash flow could be impacted from the wage inflation in the sector and slowing collection of receivables.

In the period to 30 June 2023, we have not observed any material detriment to our overall existing business or in the level of new business opportunities that are being presented to us in the markets in which we operate and as such the Group continues to operate as a going concern.

Cash and cash equivalents
Cash and cash equivalents for the purposes of the Statement of Cash Flows comprise the net of cash and overdraft balances that are shown in the Statement of Financial Position in Cash and Cash Equivalents.

3. Segmental Reporting

The Group has disaggregated revenue into various categories in the following tables which are intended to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The Group's Chief Operating Decision Maker (CODM) has been identified as the Board of Directors. The Board is responsible for monitoring the performance of these operating segments as well as deciding on the allocation of resources to them.

Over recent years the Group has expanded both organically and through acquisition, increasing the number of products and services offered and in 2020 the Group reported through three operating segments, Study Management, Regulatory Solutions and In Silico Solutions. During 2021 the fourth segment, Clinical Trial Acceleration (CTA), was established following the acquisition of d-Wise.

However, as part of integration process and our ongoing development of the One Instem, the group announced further organisational changes at the end of 2022 to integrate our enlarged business.

In 2023, the CODM managed the Group by monitoring its revenue streams and considered the cost base as a whole. After the announcement of the organisational changes and the Samarind Limited disposal on 31 March 2023, which was part of the Regulatory Solutions segment, the Group is now operating and reporting as one business segment but sharing revenue breakdown by our each of our three business units; Study Management, In Silico and Translational Services (ISTS) and Clinical Trial Analytics (CTA).

The Group's finance system records all costs centrally as the CODM considers any allocation would be arbitrary and sensitive. Therefore, the CODM concluded that the Group should report as one operating segment.

Comparative figures will also be updated to conform with changes in the presentation for the current year. This information is provided to aid comparability and not as a restatement of prior year disclosures therefore we do not need to comply with IAS8 criteria.

Samarind's RIM product is disclosed as a discontinued operation as it was sold with effect from 31 March 2023. The comparative figures have been restated in compliance with IFRS 5. Information about this discontinued operation is provided in Note 5.

SEGMENTAL REPORTING	**Jun-23**	**Jun-22**	**Dec-22**
	Total	**Total**	**Total**
		(as restated)	(as restated)
	£000	**£000**	**£000**
Study Management	19,296	16,888	36,426
ISTS	3,135	3,098	6,373
CTA	7,311	7,008	14,827
Total revenue	29,742	26,994	57,626
Central unallocated costs	(25,704)	(22,486)	(46,842)
Adjusted EBITDA	4,038	4,508	10,784
Depreciation	(124)	(167)	(338)
Amortisation of intangibles arising on acquisitions	(917)	(977)	(1,953)
Amortisation of internally generated intangibles	(464)	(456)	(1,055)
Depreciation of right of use assets	(380)	(536)	(941)
OPERATING PROFIT BEFORE NON-RECURRING ITEMS ON CONTINUNG OPERATIONS	2,153	2,372	6,497
Non-recurring costs	(1,042)	(769)	(1,208)
Non-recurring income	110	-	401
OPERATING PROFIT AFTER NON-RECURRING ITEMS FROM CONTINUING OPERATIONS	1,221	1,603	5,690
Finance income	2	1,030	1,023
Finance costs	(1,289)	(672)	(1,142)
(LOSS)/ PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS	**(66)**	1,961	5,571
Profit/(Loss) from discontinued Operations	**10**	(43)	(53)

Sales between business units and Group legal entities are carried out at arm's length and eliminated on consolidation. The business unit revenues reported to the Board of Directors are measured in a manner consistent with that of the financial statements.

4. Key performance measures

	Unaudited Six months ended 30 June 2023 £000	Unaudited Six months ended 30 June 2022 £000 (as restated)	Audited Year ended 31 December 2022 £000 (as restated)

a) Recurring revenue

Annual support fees	**12,090**	9,600	20,576
SaaS subscriptions and support fees	**7,510**	5,828	12,831
Recurring revenue	**19,600**	15,428	33,407
Licence fees	**1,640**	2,789	6,012
Professional services	**1,456**	1,435	3,078
Technology enabled outsourced services	**4,681**	3,738	8,496
Consulting services	**2,365**	3,604	6,633
Total revenue from continuing operations	**29,742**	26,994	57,626

b) Adjusted EBITDA

EBITDA	**3,106**	3,739	9,977
Non-recurring items (see note 7)	**932**	769	807
Adjusted EBITDA	**4,038**	4,508	10,784

Adjusted profit after tax and bank balance performance measures are detailed in notes 6 and 10.

5. Discontinued operations

On 31 March 2023, Instem plc completed the disposal of Samarind limited which was the provider of Regulatory Information Management software "RIM" and services to the Life Science sector. Samarind Limited is an active business incorporated in England and Wales under the Companies Act 2006 and domiciled in England and Wales.

As of 31 December 2022, the Group did not classify Samarind Limited as an Asset Held For Sale (AHFS) as management concluded that completion of the disposal was not highly probable in accordance with the requirements of IFRS 5 and based on the available information as of 31 December 2022.

Samarind Limited was acquired in May 2016 without the view of resale but the decision to sell this unit was concluded when the Group reviewed and assessed their future strategic plans. As the IFRS 5 criteria were not met as of 31 December 2022, Samarind's Limited disposal is disclosed as a non-adjusting subsequent event in 2023.

Samarind Limited was sold on 31 March 2023 and was reported in the financial statements for the half-year ended 30 June 2023 as a discontinued operation. The comparatives have been restated in line with the IFRS 5 requirements.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

Financial performance and cash flow information

The financial performance and cash flow information presented reflects the operations of Samarind Limited for the three months ended 31 March 2023.

	Three months ended 31 March 2023 £000	Six months ended 30 June 2022 £000	Year ended 31 December 2022 £000
REVENUE	**243**	610	1,254
Intercompany revenue	**165**	491	967
Expenses	**(304)**	(645)	(1,244)

Intercompany cost	**(165)**	(491)	(967)
Other gains/(losses)	**3**	(8)	(1)
Impairment of goodwill	**-**	-	(107)
Profit before tax	**(58)**	(43)	(98)
Tax	**(4)**	-	45
Profit after tax on discontinued operation	**(62)**	(43)	(53)
Gain on sale of subsidiary after tax	**72**	-	-
Profit/(Loss) from discontinued operation	**10**	(43)	(53)
Net cash inflow/ (outflow) from operating	**199**	(102)	75
Net cash (outflow) from investing activities	**(1)**	-	(3)
Net cash (outflow) from financing activities	**(4)**	(7)	(14)
Net increase in cash generated by subsidiary	**194**	**(109)**	**58**
Basic earnings per share from discontinued operations	**0.0p**	0.2p	0.2p
Diluted earnings per share from discontinued operations	**0.0p**	0.2p	0.3p

Details of the sale of the subsidiary

In the event the operations of the subsidiary achieve certain performance criteria during the period ending 31 December 2023 as specified in an ‘earn out’ clause in the sale agreement, additional cash consideration of up to £0.20m will be receivable in addition to the working capital adjustment. At the time of the sale the fair value of the consideration was determined at £0.23m and it has been recognised as a financial asset at fair value through profit or loss.

	£000
Consideration received or receivable	
Cash	710
Fair value of contingent consideration	230
Total disposal consideration	940
Carrying amount of net assets sold	(867)
Gain on sale before income tax and reclassification of foreign currency translation reserve	**72**
Income tax	-
Gain on sale after income tax	**72**

The carrying amounts of assets and liabilities as at the date of sale (31 March 2023) were:

	31 March 2023 £000
ASSETS	
NON-CURRENT ASSETS	
Intangible assets	**919**
Property, plant and equipment	**4**
Right of use assets	**6**
Deferred tax asset	**4**
TOTAL NON-CURRENT ASSETS	**933**
CURRENT ASSETS	

Trade and other receivables	**132**
Cash and cash equivalents	**420**
TOTAL CURRENT ASSETS	**552**
TOTAL ASSETS	**1,485**
LIABILITIES	
CURRENT LIABILITIES	
Trade and other payables	**48**
Deferred income	**570**
TOTAL CURRENT LIABILITIES	**618**
TOTAL LIABILITIES	**618**
EQUITY	
Share capital	**-**
Retained earnings	**867**
TOTAL EQUITY	**867**
TOTAL EQUITY AND LIABILITIES	**1,485**

6. *Earnings per share*

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential shares arising from the share option scheme.

The dilutive impact of the share options is calculated by determining the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) minus the issue price. The number of ordinary shares that could have been acquired at their average market price during the period is ignored. However, the shares that would generate no proceeds and would not have any effect on profit or loss attributable to ordinary shares outstanding are included.

The basic and diluted earnings per shares have been calculated:

- for continued operations attributable to the ordinary equity holder and
- for total earning per share attributable to the ordinary equity holder

a) Basic earnings per share

FROM CONTINUED OPERATIONS ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY	**Unaudited Six months ended 30 June 2023**	Unaudited Six months ended 30 June 2022	Audited Year ended 31 December 2022
(Loss)/Profit after tax (£000)	**(31)**	1,330	4,750
Weighted average number of shares (000's)	**22,795**	22,464	22,577
Basic earnings per share	**(0.1)p**	5.9p	21.0p

TOTAL BASIC EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY	**Unaudited Six months ended 30 June 2023**	Unaudited Six months ended 30 June 2022	Audited Year ended 31 December 2022
(Loss)/Profit after tax (£000)	**(21)**	1,287	4,697

Weighted average number of shares (000's)	**22,795**	22,464	22,577
Basic earnings per share	**(0.1)p**	5.7p	20.8p

b) *Diluted earnings per share*

FROM CONTINUED OPERATIONS ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY	Unaudited Six months ended 30 June 2023	Unaudited Six months ended 30 June 2022	Audited Year ended 31 December 2022
(Loss)/Profit after tax (£000)	**(31)**	1,330	4,750
Weighted average number of shares (000's)	**22,795**	22,464	22,577
Potentially dilutive shares (000's)	**1,044**	1,073	1,099
Adjusted weighted average number of shares (000's)	**23,839**	23,537	23,676
Diluted earnings per share	**(0.1)p**	5.7p	20.1p

TOTAL BASIC EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY	Unaudited Six months ended 30 June 2023	Unaudited Six months ended 30 June 2022	Audited Year ended 31 December 2022
(Loss)/Profit after tax (£000)	**(21)**	1,287	4,697
Weighted average number of shares (000's)	**22,795**	22,464	22,577
Potentially dilutive shares (000's)	**1,044**	1,083	1,109
Adjusted weighted average number of shares (000's)	**23,839**	23,547	23,686
Diluted earnings per share	**(0.1)p**	5.5p	19.8p

c) Adjusted earnings per share

Adjusted earnings per share is calculated after adjusting for the effect of foreign currency exchange and the unwinding of the finance liability included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions.

The adjusted profit after tax has been amended in 2023 to ensure that the foreign exchange movements and exceptional business expenses do not impact and distort the earnings per share calculation.

Diluted adjusted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential shares arising from the share option scheme. The dilutive impact of the share options is calculated by determining the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

The adjusted earnings per shares have been calculated:

- for continued operations attributable to the ordinary equity holder and
- for total earning per share attributable to the ordinary equity holder

FROM CONTINUED OPERATIONS ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY	**Unaudited Six months ended 30 June 2023**	Unaudited Six months ended 30 June 2022	Audited Year ended 31 December 2022
(Loss)/Profit after tax (£000)	**(31)**	1,330	4,750
Non-recurring costs	**1,042**	769	1,208
Non- recurring income	**(110)**	-	(401)
Amortisation of acquired intangibles	**917**	977	1,953
Foreign currency exchange (gain)/loss	**962**	(951)	(932)
Finance cost on deferred and contingent consideration	**149**	455	771
Adjusted profit after tax (£000)	**2,929**	2,580	7,349
Weighted average number of shares (000's)	**22,795**	22,464	22,577
Potentially dilutive shares (000's)	**1,044**	1,073	1,099
Adjusted weighted average number of shares (000's)	**23,839**	23,537	23,676
Adjusted basic earnings per share	**12.8p**	11.5p	32.6p
Adjusted diluted earnings per share	**12.3p**	11.0p	31.0p

TOTAL BASIC EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY	**Unaudited Six months ended 30 June 2023**	Unaudited Six months ended 30 June 2022	Audited Year ended 31 December 2022
(Loss)/Profit after tax (£000)	**(21)**	1,287	4,697
Non-recurring costs	**1,042**	769	1,208
Non- recurring income	**(110)**	-	(401)
Amortisation of acquired intangibles	**917**	977	1,953
Foreign currency exchange (gain)/loss	**962**	(944)	(932)
Finance cost on deferred and contingent consideration	**149**	455	771
Adjusted profit after tax (£000)	**2,939**	2,544	7,403
Weighted average number of shares (000's)	**22,795**	22,464	22,577
Potentially dilutive shares (000's)	**1,044**	1,083	1,109
Adjusted weighted average number of shares (000's)	**23,839**	23,547	23,686
Adjusted basic earnings per share	**12.9p**	11.3p	32.8p
Adjusted diluted earnings per share	**12.3p**	10.8p	31.3p

7. *Non-recurring items*

	Unaudited Six months ended 30 June 2023	Unaudited Six months ended 30 June 2022	Audited Year ended 31 December 2022
Non-recurring cost	**£000**	£000	£000
Legal cost relating to historical contract dispute	**-**	698	1,129
Acquisition and disposal costs	**310**	71	79
Associated cost for the Samarind transitional services	**77**	-	-
Provision for US sales tax	**655**	-	-
	1,042	769	1,208

	Unaudited Six months ended 30 June 2023	Unaudited Six months ended 30 June 2022	Audited Year ended 31 December 2022
Non-recurring income	**£000**	£000	£000
Insurance proceeds relating to historical contract dispute	**-**	-	(401)
Transitional services related to the Samarind disposal	**110**	-	-
	110	-	(401)

The non-recurring income of £0.1m included in 2023 relates to the transitional services that Instem plc has agreed under the Share Purchase Agreement to provide to the acquirer of Samarind Limited.

The income receivable by Instem for providing those transitional services is not arising in the course of the Group's ordinary activities and therefore has been classified as non-recurring income.

Non-recurring costs include disposal costs and the associated cost that Instem incurred for providing the transitional services relating to the Samarind sale and provision for US sales tax while awaiting the outcome of the study to establish whether potential exposure exists.

In 2022 non-recurring items includes the additional provision of €1.2m (£1.02m) for the full and final settlement regarding a historical contractual licence dispute that arose in 2017. As previously announced Instem had already created provision of £0.25m in respect of this dispute in the previous years. In October 2022, Instem paid €1.48m (£1.3m), of which its insurer agreed to contribute €0.45m (£0.4m) resulting in a net payment due of approx. €1.0m (£0.9m). The insurance contribution of €0.45m (£0.4m) was included in non-recurring income

8. *Finance income*

	Unaudited Six months ended 30 June 2023 £000	Unaudited Six months ended 30 June 2022 £000	Audited Year ended 31 December 2022 £000
Foreign exchange gains	**-**	945	932
Right of use interest income	**2**	2	5
Other interest	**-**	83	86
	2	1,030	1,023

9. *Finance costs*

	Unaudited Six months ended 30 June 2023 £000	Unaudited Six months ended 30 June 2022 £000	Audited Year ended 31 December 2022 £000
Bank loans and overdrafts	**112**	116	266
Unwinding discount on deferred consideration	**149**	455	771
Net charge on pension scheme	**44**	69	36
Right of use asset interest cost	**22**	40	69
Foreign exchange losses/(gains)	**962**	(8)	-
	1,289	672	1,142

10. *Cash and cash equivalents*

	Unaudited 30 June 2023 £000	Unaudited 30 June 2022 £000	Audited 31 December 2022 £000
Cash at bank	**8,442**	10,280	13,964
Bank balance	**8,442**	10,280	13,964

11. *Banking facility*

	Unaudited 30 June 2023 £000	Unaudited 30 June 2022 £000	Audited 31 December 2022 £000
Bank overdraft	**1,028**	-	-

The Group signed a new financing arrangement with HSBC UK Bank plc in April 2022, which consists of a committed facility of £10.0m for general corporate purposes, which can be extended up to £20.0m if needed, subject to further bank approval. During 2023, the Group drew £1.0m to support the d-Wise final consideration pay out and the banking facility is not presented net with cash and cash equivalents. The balance includes interest and the relevant bank fees for the period ended 30 June 2023.

12. Financial liabilities

An analysis of financial liabilities as presented in the statement of financial position is as follows:

Current liability	**Unaudited 30 June 2023 £000**	Unaudited 30 June 2022 £000	Audited 31 December 2022 £000
Deferred consideration	**-**	4,271	3,605
Contingent consideration	**-**	1,964	2,160
At end of period Current liability	**-**	6,235	5,765

Non-current liability	**Unaudited 30 June 2023 £000**	Unaudited 30 June 2022 £000	Audited 31 December 2022 £000
Toxhub deferred liability	**155**	-	-
At end of period Non-current liability	**155**	-	-

On 15 May 2023, the Group launched Centrus, incorporating all of our existing In Silico Solutions and the Toxhub assets acquired or licensed from the eTRANSAFE consortium. The Group has taken responsibility for the management of the Toxhub database and software platform. The value of the Toxhub asset would be the inherent liability of €0.18m which the Group would be liable to pay if it decided to cancel its 3-year contract with the platform developer.

13. *Share Capital*

The share capital of Instem plc consists of fully paid ordinary shares with a nominal value of 10p per share.

	30 June 2023	30 June 2022	31 December 2022
	No. of shares	No. of shares	No. of shares
Shares issued:			
Beginning of the period	22,704,308	22,189,856	22,189,856
Issued on exercise of employee share options	87,884	190,000	217,500
Issued on exercise of employee share options through Employee Benefit Trust	97,241	-	-
Share issue on acquisition of d-Wise	-	296,952	296,952
Total shares issued and fully paid at end of period	**22,889,433**	22,676,808	22,704,308

Additional shares were issued during 2023 relating to share-based payments.

On 24 February 2023, Instem Plc group established an Employee Benefit Trust (EBT) for the employees' nil cost share options awards.

All issued shares are fully paid. At 30 June 2023 the Instem plc Group Employee Benefit Trust held nil shares in the Company. During the year the Employee Benefit Trust acquired 97,241 shares, representing 0.4% of the issued share capital of the Company, for total consideration of £nil. During the year the Employee Benefit Trust disposed of 71,892 shares, representing 0.3% of the issued share capital of the Company, for total consideration of £443,515. The maximum number of shares held by the Employee Benefit Trust during the year was 97,241, representing 0.4% of the issued share capital of the Company.

Share premium

Proceeds received in addition to the nominal value of the shares issued during the year have been included in share premium, less fees, commissions and disbursements. Costs of new shares charged to equity amounted to £nil.

Share premium has also been recorded in respect of the issue of share capital related to the employee share-based payment.

Merger reserve

The merger reserve represents

- the difference between the consideration payable at the date of acquisition, net of merger relief, and the share capital and share premium of Instem Life Science Systems Limited and
- the difference between the nominal value and share issue price of shares issued as consideration in the purchase of Leadscope Inc, The Edge Software Consultancy Ltd, d-Wise Technologies, Inc and PDS Pathology Data Systems.

14. Subsequent Events

No adjusting events have occurred between the 30 June 2023 reporting date and the date of approval of this Interim Report.

On 30 August 2023 the board of directors of Ichor Management Limited ("Bidco") and the board of directors of Instem plc ("Instem") announced that they had reached agreement on the terms of a recommended cash offer to be made by Bidco for the entire issued and to be issued ordinary share capital of Instem (the "Acquisition"). It is intended that the Acquisition will be implemented by way of a scheme of arrangement under Part 26 of the Companies Act.

Under the terms of the Acquisition, each Instem Shareholder will be entitled to receive 833 pence in cash per Instem Share. The Acquisition values the entire issued and to be issued ordinary share capital of Instem at approximately £203 million.

15. Availability of this Interim Announcement

Copies of the 2023 Interim Report for Instem plc will be available from the Group's website at www.instem.com.

16. Profit Forecasts

The following statements (together "the Profit Forecasts") included in these unaudited half year results for the six months ended 30 June 2023 constitute ordinary course profit forecasts for the purposes of Rule 28 of the City Code on Takeovers and Mergers ("the Takeover Code"):

> *"Adjusted EBITDA for the current year is now expected to be no greater than £11.1m."*
>
> *"The Board also notes that, excluding £1.7m of costs associated with Toxhub now expected to be incurred in FY23, the implied FY23 Adjusted EBITDA would be no greater than £12.8m, materially below the Board's expectations at the beginning of the year."*

As required by Rule 28 of the Takeover Code, the Board confirms that, as at the date of this announcement, the Profit Forecasts remain valid and that they have been properly compiled on the basis of the assumptions stated below and that the basis of accounting used is consistent with Instem's accounting policies which are in accordance with International Financial Reporting Standards and those that Instem applied in preparing its financial statements for the year ended 31 December 2022.

Further information on the basis of preparation of the Profit Forecasts, including the principal assumptions on which they are based, is set out below.

Basis of preparation and principal assumptions

The Profit Forecasts are based on the assumptions listed below.

Factors outside the influence or control of the Board

- There will be no material changes to existing prevailing macroeconomic or political conditions in the markets and regions in which Instem operates.
- There will be no material changes in market conditions in relation to either customer demand or the overall competitive environment.

- The interest, inflation and tax rates in the markets and regions in which Instem operates will remain materially unchanged from the prevailing rates.
- There will be no material adverse events that will have a significant impact on Instem's financial performance.
- There will be no business disruptions that materially affect Instem or its key customers, including, but without limitation, natural disasters, lockdowns, acts of terrorism, technological issues or supply chain disruptions.
- There will be no material changes to the prevailing foreign exchange rates that will have a significant impact on Instem's revenue or cost base.
- There will be no material changes in legislation or regulatory requirements impacting on Instem's operations or on its accounting policies.
- There will be no material litigation or contractual disputes in relation to any of Instem's operations.
- There will be no change in general sentiment towards the Group and/or its operations which has an impact on its ability to attract customers and to operate its business.

Factors within the influence or control of the Board

- There will be no material change to the present executive management of Instem.
- There will be no material change in the operational strategy of Instem.
- There will be no material adverse change in Instem's ability to maintain customer and partner relationships.
- There will be no material acquisitions or disposals.
- There will be no material strategic investments over and above those currently planned.
- There will be no material change in the dividend or capital allocation policies of Instem.
- There will be no material change in relation to Instem’s assumptions in the period covered by the Instem Profit Forecasts in relation to Instem’s ability to execute on new initiatives, including, amongst others, Toxhub.