Instem

Information Solutions For Life™

# ANNUAL REPORT 2021

700

## More than 700 clients

Instem has over 700 customers with its blue chip customer base consisting of the leading pharmaceutical, medical device, chemical and contract research organisations as well as academic, government and privately funded research institutions across many sites worldwide. These include all of the top 25 pharmaceutical and biotech companies such as GlaxoSmithKline and AstraZeneca.

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*We estimate that approximately half of the world's preclinical drug safety data has been collected over the last 20 years using Instem software.*

Information Solutions For Life™

Powerful Solutions • Unique Perspective • Global Coverage

Instem is a leading provider of IT solutions & services to the life sciences market delivering compelling solutions for Study Management and Data Collection; Regulatory Solutions for Submissions and Compliance; and Informatics-based Insight Generation.

Instem solutions are in use by over 700 customers worldwide, including all the largest 25 pharmaceutical companies, enabling clients to bring life enhancing products to market faster. Instem's portfolio of software solutions and services increases client productivity by automating study-related processes while offering the unique ability to generate new knowledge through the extraction and harmonisation of actionable scientific information.

Instem products and services now address aspects of the entire drug development value chain, from discovery through to market launch. Management estimate that over 50% of all drugs on the market have been through some part of Instem's platform at some stage of their development. To learn more about Instem solutions and its mission, please visit instem.com.

# HIGHLIGHTS

*The recent acquisitions of The Edge, d-wise and PDS highlight our ability to add scale and leverage existing customer relationships with a view to further enhancing earnings, while providing a strong platform for continued growth.*

## FINANCIAL HIGHLIGHTS

- Revenues increased 63% to £46.0m (2020: £28.2m)
    - Recurring revenue (annual support and SaaS) increased 43% to £24.1m (2020: £16.9m) with SaaS revenues increasing 21% to £9.7m (2020: £8.0m)
    - Organic revenue growth of 7% to £30.1m (2020: £28.2m)
    - Organic constant currency revenue growth was 12%
    - SaaS Annual Recurring Revenue ("ARR") of £11.5m at 1 January 2022
- Adjusted EBITDA* of £8.3m (2020: £5.9m)
- Reported profit before tax of £3.0m (2020: profit of £2.5m)
- Adjusted profit before tax** of £5.0m (2020: £4.0m)
- Fully diluted earnings per share of 7.4p (2020: 11.6p earnings per share)
- Adjusted fully diluted earnings per share** of 16.3p (2020: 19.1p)
- Cash balance as at 31 December 2021 of £15.0m (2020: £26.7m, reflecting the equity raise in July 2020 to fund the 2021 acquisitions).

For an explanation of the alternative performance measures in the report, please refer to page 20

*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 amortisation of intangibles on acquisitions.

## OPERATIONAL HIGHLIGHTS

- Strong organic growth with little impact of COVID-19
- New business revenue came from both new and existing clients
- Further expansion of footprint in the Asia-Pacific region
- Continued transition to the SaaS model further increased recurring revenue and earnings visibility
- Transformed the scale and reach of the business through acquisitions of:
    - The Edge Software Consultancy ("The Edge")
    - d-wise Technologies Inc ("d-wise")
    - PDS Pathology Data Systems Ltd ("PDS")

## POST PERIOD-END HIGHLIGHTS

- New banking facility finalised with HSBC of up to £20m, £10m of which is committed
- Earn outs met in full for d-wise and The Edge (PDS has no earn out provision)
- No known exposure to Russia or Ukraine

*"The performance during the year highlighted our resilience - especially given the COVID-19 backdrop, and I would like to thank all of our staff for their continued efforts and hard work. Our proven model continues to generate strong cash flows while the combination of increasing demand for regulatory-backed solutions and a growing demand for artificial intelligence and in silico solutions in the drug R&D process underpins our confidence in further leveraging our software and service portfolio. As such, we now have the platform in place to capitalise on the various opportunities ahead of us and we look forward to reporting further progress as we continue to execute our growth strategy.*

*In common with other businesses, we have seen wage inflation in recent months and, accordingly, we are moderating our profit expectations for the current year ahead of price rises on contract renewals flowing through positively to revenue. Importantly, we already have good visibility for the current year with growing recurring SaaS and Annual Support revenues and a strong pipeline.*

*The recent acquisitions of The Edge, d-wise and PDS highlight our ability to add scale and leverage existing customer relationships with a view to further enhancing earnings, while providing a strong platform for continued growth. We look forward to advancing further acquisition opportunities after consolidating the 2021 additions."*

**P J Reason**
Chief Executive

*"...the Company is now closer to becoming a one-stop shop for life sciences companies looking for long term partnerships to assist them over the drug discovery and development landscape."*

**D Gare**
Non-Executive Chairman

Chairman's Statement

The achievements of the Company in the year have been outstanding. Not only has our operational performance been exceptional but the business has also accomplished a fundamental strategic shift in its scale and reach as a result of the completion of three important acquisitions. As a consequence, our standing within the wider industry has been significantly enhanced.

In July 2020 we raised funds to acquire businesses that we believed would be transformational to the company by extending our 'footprint' in the life sciences R&D space, providing a stronger platform for long term growth. I believe that we can say that this has been achieved. The acquisitions of d-wise and The Edge have significantly extended our product and service portfolio, whilst the acquisition of PDS ensures that our position in the preclinical space is unrivalled.

Whilst the integration of the acquired businesses is ongoing, we have already seen the benefits of their skillsets and teams operating within the enlarged Group, providing a significant contribution to our overall financial performance in the year.

## OPERATIONS

The Company's strong infrastructure and ability to operate remotely provided essential resilience in our business operations as the pandemic continued. We are delighted with and thankful for the team's efforts throughout this challenging period.

We have made notable progress on a number of key metrics during the Period. In particular:

- Continued growth in SaaS-based revenues (increased 21% to £9.7m) both through new business wins and via the ongoing conversion of existing clients
- Total Group revenues increased 63% - including the partial year impact of the acquisitions completed during the period
- Adjusted EBITDA increased 39%
- Net cash generated from operations of £10.3m

## CORPORATE ENHANCEMENT

We were delighted to welcome Mr Riaz Bandali to the Board in December 2021. Riaz has spent his entire career in the healthcare and life sciences industries in a variety of strategic, commercial and operational roles at senior level, also including exposure to fundraising and M&A activity and, as such, brings a wealth of relevant experience and contacts in the North American and wider life sciences industry. We are also continuing with our efforts to identify a further suitable Independent NED candidate and look forward to updating shareholders in due course.

We were also delighted to appoint Stifel Nicolaus Europe Ltd as Joint broker with Singer Capital Markets to enhance our presence, primarily within the North American investor market.

## LOOKING FORWARD

In the short term, we are confident that we can continue to execute our growth plans for the Group. That said, labour cost inflation, in particular, has significantly increased in recent times. As a result, although anticipating material improvement over 2021, we are prudently moderating our profit expectations for the current year, whilst planning to regain ground in the following year, as justifiable price increases flow through to revenue.

The three acquisitions, completed in the year, have extended our reach from discovery to clinical trials across the drug discovery and development lifecycle. As a result, the Company is now closer to becoming a one-stop shop for life sciences companies looking for long term partnerships to assist them over the drug discovery and development landscape.

Whilst our near-term focus remains on completing the successful integration of the recently acquired businesses, the Board believes that this new platform will create substantial opportunities for further development of the business. These include:

- Organic revenue growth from additional market penetration, cross-selling and the introduction of new products and services
- Margin improvement through conversion to SaaS deployment and leveraging our global infrastructure
- Accretive M&A and strategic partnerships in existing markets, as well as entry into related adjacent areas.

In summary, we believe that the momentum and platform we now have in place ensures that the Company is well positioned for continued success over the longer term.

**D Gare**
Non-Executive Chairman

## STRATEGIC DEVELOPMENT

During 2021, the Group materially advanced its ability to pursue its strategic thesis of providing data driven, "*in silico*" alternatives to traditional client experimental processes with the aim of radically reducing the cost and time of life sciences R&D. The strategy is based on leveraging trusted client and regulatory relationships and our intimate understanding of complex scientific data, established by providing a broad portfolio of market leading IT solutions that optimise today's life sciences R&D processes, from early discovery to late-stage clinical trials. The acquisition of The Edge has strengthened our position in discovery and d-wise adds a well-respected market leader in the analysis and de-identification of clinical trial data. Instem's already strong market presence in non-clinical development was enhanced by the acquisition of long-term competitor PDS and we are now well positioned to provide innovative solutions across the entire R&D continuum.

Organic growth remained strong, with retention of recurring SaaS and Annual Support revenue once again ahead of our 98% key performance indicator and new business win rates confirming our market leadership across our broad portfolio. Although the increasing rate of SaaS deployment, for existing and new clients, moderated short term revenue growth, due to the switch from perpetual license revenue recognition to longer term subscription rentals, overall organic revenue growth remained strong.

## MARKET REVIEW

The market backdrop continues to be favourable for the Group given 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, underpinning a strong pipeline for Instem. The market dynamics were highlighted further by the ongoing COVID-19 pandemic, which presented a number of new opportunities as R&D increased with all the major companies focusing on developing vaccines or therapies.

In the pharmaceutical industry, which represents the largest proportion of Instem's revenue, we refer again to the Pharma R&D Annual Review, the 2022 version of which was released by Pharma Intelligence in March this year. This report shows that the industry grew strongly in the last 12 months with an 8.2% increase (2020: 4.8%) 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. Most relevant to Instem are the increase in the number of drugs at the preclinical (or non-clinical) phase of drug development of 11.0% (2020: 6.0%) and clinical phases 1-3 where there was an 8.3% increase (2020: 3.6%), as these areas account for much of our business.

The constant development of the drug discovery pipeline continues to drive demand for Instem's solutions – which enable companies to provide faster and cheaper routes to market for their life changing products. Importantly, the regulatory-backed Standard for the Exchange of Non-clinical Data ("SEND") continues to underpin longer term opportunity and visibility in the non-clinical segment. Similar regulatory standards help with demand for our clinical trial analysis solutions and mandatory provision of de-identified clinical trial data for European and Canadian regulatory authority approved drugs enhances demand for our clinical trial transparency software and services.

## BUSINESS PERFORMANCE

### STUDY MANAGEMENT AND DATA COLLECTION

Performance here was very pleasing, with revenue growth compared to the prior period of 34%, with 17% organic growth and 17% from acquisitions, including 10 months contribution from The Edge and 4 months from PDS.

The 11% increase in the number of drugs in the non-clinical stage of development has supported significant growth for the contract research organisations (CROs) specialising in this area and they in turn have been purchasing additional users for our products, additional product modules that they had not yet licensed and services to support their successful deployment and use of our solutions.

The majority of the revenue associated with orders in excess of £2.7m, announced for one of our largest CRO clients on 15 December 2020 and in our 14 January 2021 Trading Update, was recognised in 2021 and we continue to collaborate extensively with this customer as they look for competitive advantage through technology investment. Most of this additional revenue was study management related but also included new SEND related capabilities, much of which will benefit the wider SEND community.

The acquisition of The Edge has broadened Instem's reach into the Discovery Study Management market, providing scope for increased cross-selling particularly in the Drug Metabolism & Pharmacokinetics (DMPK) field. The Edge extends the Company's reach within existing and new clients and enhances our technology offering. Provided predominantly on a subscription basis, The Edge has helped to expand our recurring revenue.

## *IN SILICO* SOLUTIONS

Following a slow H1 2021 as a result of the pandemic, demand picked up during H2. This is an area where we have historically generated significant market awareness and sales pipeline at scientific conferences, as both Instem staff and reference clients present a new, "disruptive" approach to the established method of assessing the potential safety issues of modulating a biological target thought to offer therapeutic benefit. We were eagerly awaiting the post COVID-19 return to in person conferences, which were further delayed by the Delta and Omicron variants. Post period end in late March 2022 we attended the largest event of this type, the "Society of Toxicology" annual meeting and were extremely encouraged by the strong interest in our *In Silico* solutions.

In November 2021 the Company announced the release of the latest edition of its Leadscope Model Applier computational toxicology software solution. This release included a comprehensive package of new and updated models to meet the growing market demand for in silico solutions, which are often heavily encouraged and supported by the global regulatory authorities.

## REGULATORY SOLUTIONS

Every drug company is required to submit non-clinical data in the SEND format to the FDA (Food and Drug Administration) as part of the processes for testing and getting approval for a new drug. The combination of the industry's focus on addressing a continuing backlog of SEND conversion work, in addition to the standard being extended to new study types, provides a solid platform for continued growth.

Instem's technology creates, manages and visualises SEND datasets while the Group also provides technology-enabled outsourced services, enabling customers to make FDA submissions with confidence.

The industry is increasingly looking to unlock silos of information and importantly, customers are starting to contemplate Instem's SEND solutions as a consistent approach to leveraging their valuable historic studies for more efficient and effective research. This is providing a growing source of revenue for the Group, highlighted through a £0.7m top-30 pharmaceutical company contract for conversion of historical studies to the SEND format, and subsequently the data warehouse and exploration technology platform to house this data, both won during the Period.

The acquisition of competitor PDS allows for greater industry standardisation on Instem's SEND technology platform and has brought a further 17 US-based SEND consultants to an outsourced services team of 72 people, 38 or whom are based in India. Instem's expertise, capacity, and business in this area in unrivalled.

## CLINICAL TRIAL ACCELERATION

The acquisition of d-wise on 1 April 2021 led to the creation of a fourth business unit, Clinical Trial Acceleration, which pleasingly met its EBITDA-based earn out target for the financial year ended 31 December 2021.

Solid progress was made in all areas of the business, with material contribution during the period from two statistical computing environment (SCE) solution lines of business:

- the productised integration of leading technology tools, hosted by Instem for small to mid-sized pharmaceutical companies and CROs
- large custom projects for bigger clients

Focus and investment increased during the year on Aspire, a next generation clinical analytics framework of flexible components that can be leveraged in both the productised or custom approaches to building and deploying SCE solutions. Aspire is expected to significantly speed up the time to deployment of a new SCE solution, to provide recurring SaaS revenue and, ultimately, to result in higher project margins.

With some COVID-related relaxation by the European and Canadian regulatory authorities of the requirement for submission of anonymised clinical trial data for each approved new drug, we experienced lower than expected demand for our clinical trial transparency products and outsourced services, however this remains a promising regulatory mandated growth opportunity.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

**Position and Mission**

Instem is a leading provider of IT solutions and services to the life science market with a mission to enable our customers to bring their life enhancing products to market faster.

The Group's mission and values align with the health care provision by assisting its customers to accelerate the discovery, development and delivery of their life enhancing products while complying with the relevant regulations. Instem's suite of *In Silico* Solutions in particular helps reduce the reliance on animal-based testing, and only uses such results when alternative methods are not sufficient to assess the toxicity potential of a chemical.

**The core values underlying our approach to this mission are summarised by the acronym, "RECIPe":**

- Offer **Respect** in our dealings with each other
- **Empower** everyone to add real value at every stage
- Be **Creative** in our solutions
- Show **Integrity** in dealing with issues
- Be **Passionate** in our execution
- Leading to **enjoyment** in our working lives

The Group has made good progress this year with its initial ESG targets and it is committed to developing a comprehensive ESG strategy over the forthcoming years, which will include key risks and opportunities of the Group.

In 2021, the Group received its first external ESG rating from Gaïa Research which placed the Group above the national benchmarks for its sector and turnover category.

### ENVIRONMENT

**Our Environmental impact**

At Instem, we understand our responsibility to ensure that we are acting responsibly for the environment. For this reason, in 2021 we implemented a new Environmental Strategy across the group, with the objective of ensuring Instem minimises its impact on the environment as part of its business activities.

The environmental strategy is implemented through an Environmental Management System, taking into account the requirements of Streamlined Energy and Carbon Reporting (SECR) and the Task Force on Climate Related Financial Disclosures (TCFD). We intend to improve the overall environmental performance of the Group, considering both our organisational profile and the local laws and regulations in which Instem offices are located. The Group has reviewed the requirements of the Environmental Reporting guidelines, for each Company in the Group that qualifies as large their total energy consumption is below 40MWh and therefore the Group and Company is not required to prepare an Energy and Carbon Report. Instem will meet the statutory reporting requirements of SECR, with the first results due to be included in the Annual Report for the year ending 31 December 2022.

An Environmental Management Group oversees our environmental management system, including representatives from Human Resources, Information Services and Governance, Risk Management and Compliance.

**IT Equipment Waste Management**

We already ensure that, as a Group, we are participating in a programme to recycle or re-purpose the highest amount possible of all information technology equipment used internally.

In addition to the above requirement, one company within the group, which is defined as a manufacturer, submitted its annual Waste Electrical and Electronic Equipment (WEEE) return disclosing a minimal amount of 8.5kgs in the year ended 31 December 2021.

**Impact of Greenhouse Gas Emission:**

As per our mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the Group has reviewed the requirements of the Environmental Reporting guidelines. For each Company in the group that is qualified as large, their total energy consumption is below 40MWh and therefore the Group and Company are not required to prepare an Energy and Carbon Report to be included within this Annual Report.

**Task Force for Climate- related Financial Disclosures (TCFD)**

The TCFD was established by the Financial Stability Board to assist companies to assess climate-related financial risks. The TCFD has developed a series of recommendations on the disclosures, which organisations should include in their annual report, covering:

- Governance
- Strategy

- Risk Management
- Metrics and targets

As part of our responsibility to manage our contribution to long-term climate change, we have included the recommendations from the TCFD as part of our new Environmental Strategy. This will assist in informing our stakeholders of our climate-related financial risks and how we manage them.

Currently Instem is not required to report under the TFCD due to its size. Metrics will be published in the 2023 annual report should Instem meet the required criteria.

## SOCIAL

**Employment Practices**

Instem's staff are a key component in the success of the business and in respect of this Instem has a dedicated Human Resources team that has implemented policies to support staff during their employment.

**Ethical Practices and Human Rights**

Instem places high emphasis on conducting its business with honesty and integrity and this forms part of our core values. The highest ethical standards are expected of management and employees alike and we continuously strive to create a corporate culture of honesty, integrity and trust.

As a vendor of software and associated services, Instem operates in the highly regulated and ethically minded life sciences industry where there is not a prevalence of human rights issues.

Internally, Instem has implemented policies such as Anti-Corruption, Anti-Bribery and Corporate Criminal Offences with the HR policy and culture handbooks ensuring staff understand their responsibilities in relation to ethical matters. Ethics and Code of Conduct training is also mandatory training for all staff. We operate a global staff handbook, which consolidates all the above policies.

Our Human Resources Policy and Culture handbooks, together with our procurement practices, require Instem and third-party staff to be treated fairly and employed in accordance with all relevant laws and regulations for the locations in which they are based.

**Ensuring that equal opportunities exist for all**

The Group is fully committed to offering equal employment opportunities to all and its policies are designed to attract, retain and motivate staff, who can demonstrate that they have the necessary skills and capabilities, regardless of protected characteristics, or any other conditions not relevant to the performance of the job. The Group gives proper consideration to applications for employment when these are received from persons with disabilities, taking account of any reasonable adjustments that may be required for candidates with a disability. The Group's policies are consistent with the requirements of the Universal Declaration on Human Rights and the spirit of the International Labour Organisation core labour standards.

**Employee's diversity**

Instem has a diverse global workforce with staff located across the UK, Europe, North America and Asia. As of 31 December 2021, 66% (2020: 59%) of employees were located outside of the UK.

The Group recognises the importance of gender diversity on its Board and within senior management and whilst this is a consideration, future appointment will ultimately be based on merit.

As the Group has less than 250 employees in the United Kingdom, it is not a reporting requirement to publish a gender pay gap report. However, the Group's internal processes ensure that salary levels and salary increases are fair and comparable across its staff in all regions.

**Engagement with the workforce**

Annual staff surveys, incorporating both Gallup Q12 and Great Place to Work® concepts, are undertaken by the Human Resources team to ensure our staff have an opportunity to express views on a wide range of employment and social issues. Regular staff reviews offer additional opportunities for such communications as well as to guide training and skills development. The results of the 2021 staff survey demonstrated that 90% (2020: 82%) of employees regard Instem as a great place to work.

During the year the Group expanded its range of employee engagement activities ensuring that the views and opinions of employees are heard and that its corporate values are upheld. During the year ended 31 December 2021 these activities included:

- quarterly company performance meetings for all staff and interactive forums to raise questions, topics of interest, provide feedback or listen to others
- acquisition integration forum meetings, which provides the opportunity to ask questions about the integration process
- trading updates and monthly management reports are shared with all staff
- highlighting mental health issues and raising awareness through mental health panel interviews with staff, resilience and stress management webinars and mental wellness workshops introducing the "Wellbeing Wheel" to support staff mental health.

Health and well-being for staff was promoted through employee communication channels and subsidised healthcare provision.

An internal Kudos Award programme has been implemented across the whole Group where staff and managers are able to recognise exceptional individual staff and team performance.

Due to the impact of COVID-19, new working practices have been implemented in 2021 including a new homeworking policy, with 48% staff choosing to be hybrid, 50% staff remote and 2% office based. This homeworking policy along with a series of flexible working and holiday policies have supported the workforce through the difficulties of balancing childcare with work commitments. Regular staff surveys were also conducted and provided staff with an opportunity to provide feedback on any issues they were facing, in order for Instem to provide support as appropriate.

**Customer Issues**

Instem has a clear strategic objective of meeting customer needs and expectations in the products and services that are supplied. The following processes help Instem achieve this aim:

### Software Development and Deployment

Instem has a comprehensive Software Development Lifecycle and robust testing processes that are overseen by Instem's ISO9001:2015 certified Quality Management System.

SaaS deployment of Instem solutions has enabled our customers to reduce their own IT infrastructure. 100% network availability was achieved for SaaS customers during 2021.

### Customer Support

Instem offers various support services to help our customers use Instem solutions efficiently and effectively. These include installation and technical configuration support, training, validation, consultancy and a global helpdesk.

Instem also strives to meet customers' needs and expectations by regularly enhancing our software through new functionality and software changes.

### Data Protection

Instem has a Group wide data protection policy and document framework that sets out processes and the legal conditions that must be satisfied in relation to the obtaining, handling, processing, storage, transferring and destruction of personal information in relation to the laws and regulations of countries and regions in which Instem operates.

### Information Security and Business Continuity

At Instem, Information Security is embedded into all aspects of our business and we use a combination of technical, administrative and procedural controls to protect IT and information from being compromised. Instem's security controls are managed according to our ISO 27001:2013 certified information security management system (ISMS) and implemented through a combination of people, technology and processes.

Instem's Business Continuity, Disaster Recovery and Information Security policies, procedures and assessments are designed to protect sensitive information and enable effective response to cyber or security threats. Our programs are designed to create a resilient operating environment with pre-planned response and recovery strategies in the event of business disruption. These strategies focus on safeguarding our people, assets, information and clients. Comprehensive cyber insurance is in place across the entire Instem organisation.

Instem maintains programs with frameworks and methodologies designed to effectively manage business continuity risk. Established emergency and crisis management activities and protocols have been interwoven into the Business Continuity Process. The Business Continuity Management Policy and Standards outline the mandates and minimum requirements that the business must follow to plan for and respond to disruptive events. Methods the Group has used are based on a proven, certifiable discipline (ISO 22301), although it should be noted that Instem is not certified to this standard.

**Community Involvement and Development**

With employees around the globe, we believe it is important to consider how our presence can benefit the local communities in which we operate. We also consider common cultural threads that unite us as a global organisation, whilst meeting the needs of our employees in every region, elements of this include:

- Supporting a number of Charities including matched-funding of employee fundraising events such as Breast Cancer Now and Oxfam.
- Partnering with the INSPIRE Safety Pharmacology Horizon 2020 project which includes funding two PhD students.

- Plans to extend the Group's graduate recruitment scheme and establish a graduate apprenticeship centre of excellence.
- Raising funds for building a pre- and primary school in Tanzania.
- Nature photography and children's nature drawing competitions which involved the sponsoring of an endangered animal at a zoo, or issuing vouchers for an environmentally friendly shop.
- Sponsoring of a local bee colony near the Stone, UK office

## GOVERNANCE

### Organisational Governance

At Instem, the Executive management team, under the direction of the Board of Directors, strives to attend to the interests of all its stakeholders. Shareholders' interests are also aligned with the long-term incentive plans provided to senior management, achievement of which is based on increasing the value of the company through an increasing Instem share price. Instem's Board of Directors is committed to an appropriate composition of the Board and considers ways of achieving this by soliciting institutional shareholders views. In December 2021, an additional independent non-executive director was appointed.

Instem is committed to having effective governance practices to support the pursuit of its corporate objectives, using appropriate management processes and systems to deliver the highest standards of ethical business conduct and corporate governance.

To further support these goals, a Governance, Risk Management and Compliance (GRC) department has been established, with the aim of providing Instem with a collection of capabilities that allows the business to reliably manage governance, identify and manage risks and to provide an independent, internal quality audit function to ensure the business remains in compliance.

The Board of Directors is responsible for oversight of risks and ESG matters facing the Group (such as social, ethical, environmental, legal and regulatory compliance, business model resilience). These matters are routinely included at each Group board meeting.

## SECTION 172 STATEMENT

In accordance with section 172 of the Companies Act 2006 the Directors, collectively and individually, confirm that during the year ended 31 December 2021 they acted in good faith and have upheld their 'duty to promote the success of the Group' to the benefit of its stakeholder groups. This includes the three corporate acquisitions that were made during the year that bring scale, profitability and new opportunities to the Instem group, whilst acknowledging that they also bring additional challenges as they go through an integration process.

Directors acknowledge the importance of forming and retaining a constructive relationship with all stakeholder groups. Effective engagement with stakeholders enables the Board to ensure stakeholder interests are considered when making decisions and is crucial for achieving the long-term success of the Group.

Instem identifies six key stakeholder groups associated with our business:

- Employees
- Clients
- Shareholders
- Partners
- Communities in which we operate
- Suppliers

### Employees

We recognise that our employees are critical to the success of our business and we focus considerable attention on their positive engagement. This commences from their initial induction into the Group where new joiners are introduced to our Group Values and our Culture Handbook, which provide a framework for ensuring an alignment between Group and employee interests. There is frequent and open communication with employees, who are encouraged to share their opinions, informally and through regular surveys, both attributable and anonymously. We have consistently used the Gallup Q12 engagement questions in our surveys to identify trends and our survey questions have been expanded over recent years to align with those used by the Great Place to Work® organisation. Employee-led, location specific Action Groups propose and implement changes to address employee identified opportunities for improvement. Proposals are considered by the Executive management team and actioned accordingly.

### Clients

We are fortunate to operate in an industry that has a highly collaborative culture with many businesses and scientific related societies and organisations. Instem participates widely in these groups, networking closely with our clients and prospects, often taking a leadership role based on the considerable expertise of our staff and the broad experience we gain from working with many clients. In addition, Instem organises multiple client engagement forums related to sectors of our market, specific products and common industry practices or regulation. These Special Interest Groups provide input to strategy and operations, allowing us to ensure that our products and services meet the needs of the entire client (and prospect) community.

We survey our clients annually and, more regularly, at the completion of each project and as we address each client support call. These surveys also help us to plan and prioritise changes to our products, services and the broader engagement we have with clients across our business.

Our client Strategic Advisory Board ("SAB"), comprises senior individuals with a broad industry perspective, from a variety of client organisations. The SAB, which meets twice per year, is tasked with informing/validating Instem's business, product and service strategy. It provides guidance to ensure Instem is successful in its mission to enable its clients to bring their life enhancing products to market faster.

**Shareholders**

With the professional guidance of our joint broker and nominated adviser, Singer Capital Markets, joint broker Stifel Nicolaus Europe Limited and our financial public relations advisers, Walbrook PR, the Group engages with shareholders through multiple channels, aiming to provide clear and informative updates. Regulated News Service releases are provided regularly, both those required as an AIM-listed business and additional releases to keep shareholders, and the wider market, informed about interesting business developments. We undertake multi-day institutional investor roadshows following the announcement of interim and full-year results, which provide an opportunity to also engage with a wider group of financial analysts and media. We typically organise, or attend, retail investor events, to ensure all shareholders have access to executive management on a regular basis.

As broker research is typically not available to all shareholders, we engage Progressive Equity Research to produce additional analyst research, which is freely available from the Instem Investor Centre website and through other investor channels. We have recently appointed Stifel Nicolaus Europe (Stifel) as joint broker with Singer Capital Markets and we anticipate that they will be initiating research on Instem following publication of these 2021 results. In addition, we subscribe for services from Proactive Investor who make a range of Instem video and audio interviews available for shareholder and wider investor consumption, aggregated with their own financial journalist coverage of Instem news.

Our annual general meeting provides a formal avenue to receive shareholder feedback and an opportunity for us to consider the implications should resolutions not pass unanimously. We also take note of feedback from shareholder representative groups, who typically provide structured feedback ahead of annual general meetings. We ensure that shareholders are treated equally and fairly, regardless of the size of their shareholding or their status as a private or institutional shareholder. The Group provides clear and timely communications to all shareholders in their chosen communication medium, as well as via the Group's website and via Regulatory News Service.

**Partners**

Instem has a number of strategic partners, with whom we actively engage to enhance our portfolio of world-leading products and services. Formal agreements govern these relationships and nominated Instem employees are responsible for maintaining a regular and open dialogue to ensure ongoing alignment of interests. We frequently engage our partners in the wide variety of methods of client engagement described above to ensure they have a direct two-way line of communication with the end-users.

**Communities**

Instem has several offices around the world and many employees who work from home. We recognise our role as responsible employers and community representatives and encourage and support our staff in this regard, regularly providing matching funding for charitable activities. There are regular staff organised fund raising events and other activities to support local causes that occur within our offices. Clearly this has been harder to accomplish during COVID-related office lockdowns, but we have done so wherever possible, for example we continued to pay our office cleaning staff despite offices being closed.

With only office (and home) based activities, our environmental impact is generally quite modest, although we do encourage efficient energy usage and recycling in office locations. We also consider energy usage with our external data centre partners as our clients increasingly adopt our SaaS solutions increasing our data centre footprint. Through investment in technology, staff in the right places and changing business practices, we are also striving to reduce the amount of air travel for staff between our international offices and to our globally dispersed client-base.

Significantly, from a global community perspective, we also recognise the considerable role we play in helping our clients to provide their life enhancing products across the world. We continually assess how we can optimise what we do to accelerate the availability of safe and effective drugs, vaccines and medical devices, as well as safer and more effective agrochemicals, that help to increase production to feed an ever-growing world population.

The Board ensures that decisions made are responsible and ethical by taking into consideration the wider society external to the organisation. The Group is committed to contributing towards the community in which it operates.

**Suppliers**

The Group engages closely with its suppliers and has internal procedures to ensure that appropriate due diligence is undertaken on these firms when they are engaged. Engagement with any new suppliers is subject to a formal process and requires final approval from Instem's Governance, Risk management and Compliance (GRC) department.

Significant supplier contracts of a recurring nature require approval from the Board as a whole. These suppliers are chosen according to their ability to meet the Group's own high standards and to demonstrate values that are consistent with those of the Group.

## 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. Primary KPIs at the year end were:

| | **Year ended 31 Dec 2021 £000** | Year ended 31 Dec 2020 £000 | Change |
|---|---|---|---|
| Total revenue | **46,017** | 28,217 | 63% |
| Organic revenue[1] * | **30,052** | 28,217 | 7% |
| Recurring revenue[1] ** | **24,082** | 16,941 | 42% |
| Annual Recurring revenue[1] | **28,741** | - | - |
| Recurring revenue as a percentage of total revenue | **52%** | 60% | -800bps |
| Adjusted EBITDA[1] *** | **8,250** | 5,919 | 39% |
| Adjusted EBITDA Margin % | **17.9%** | 21.0% | -310bps |
| Cash and cash equivalents | **15,021** | 26,724 | (44%) |
| Organic customer retention rate for recurring SaaS and Annual Support revenue | **98%** | - | - |
| Operating profit after non-recurring items | **4,098** | 3,203 | 28% |

[1] For an explanation of the alternative performance measure in the report, please refer to page 20. Annual Recurring Revenue has been introduced as a KPI for the first time in 2021.

* Excluding revenue from the new acquired businesses

** Recurring revenue includes Annual support fees and SaaS subscription fees.

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

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

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 consultancy services.

Total revenues increased by 63% to £46.0m (2020: £28.2m), including revenue from The Edge, d-wise and PDS, which were acquired in March, April and September 2021 respectively. Total organic revenue increased by 7% to £30.1m (2020: £28.2m). Recurring revenue, comprising Support & Maintenance contracts and SaaS subscriptions, increased during the year by 43% to £24.1m (2020: £16.9m). Recurring revenue as a percentage of total revenue was 52% (2020: 60%). In absolute terms, recurring revenue increased over the year by £7.2m but its percentage of the total decreased due primarily to the addition of d-wise consulting revenue, which is classified as non-recurring.

Revenue from technology enabled outsourced services remained stable at £6.4m (2020: £6.2m). Operating expenses increased by 69% in the period reflecting the ongoing investment in operational teams and mainly the inclusion of The Edge, d-wise and PDS costs. Like-for-like operating costs increased by 7%.

Adjusted earnings before interest, tax, depreciation, amortisation, and non-recurring items (Adjusted EBITDA) increased by 41% to £8.3m (2020: £5.9m). For this measure of earnings, the margin as a percentage of revenue decreased in the period to 17.9% from 21% in 2020, entirely due to the impact of the lower than Instem average margins of d-wise and PDS.

Non-recurring costs in the period were £1.29m (2020: £0.6m), consisting of £0.1m for legal expenses associated with historical contract disputes, £0.17m for share based payments and £1.02m of acquisition costs. Non-recurring income of £0.8m ($1.1m) relates to US federal government COVID-19 support loans, which were forgiven during 2021, refer to note 3 for non-recurring items.

The reported profit before tax for the year was £3.0m (2020: profit of £2.5m). Adjusted profit before tax (i.e. adjusting for the effect of foreign currency exchange on the revaluation of inter-company balances included in finance income/(costs), non-recurring items and amortisation of intangibles on acquisitions) was £5.0m (2020: £4.0m).

The total income tax charge in the year of £1.3m (2020: £0.3m) is an effective tax rate of 43.8% (2020: 10.8%). The increase in the tax charge is mainly due to higher foreign tax payable, including on profits from d-wise and the impact on deferred tax of the UK corporation tax rate increase to 25% from April 2023. In the UK, the Group continues to receive additional tax relief on its research and development expenditure, which is expected to continue into future years.

The Group continues to maintain its investment in its product portfolio. Research and development costs incurred during the year were £4.9m (2020: £3.4m), of which £2.2m (2020: £1.2m) was capitalised.

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 2021 was primarily from realised US dollars transactions. In 2021, the organic revenue growth excluding the foreign exchange exposure was 12%. The foreign exchange loss recorded during 2021 was £0.04m (2020: £0.5m), which is composed of realised and unrealised gains/losses.

Basic and diluted earnings per share calculated on an adjusted basis were 17.2p and 16.3p respectively (2020: 20.4p basic and 19.1p diluted). The reported basic and diluted earnings per share were 7.8p and 7.4p respectively (2020: 12.3p basic and 11.6p diluted).

On 1 March 2021, Instem announced the acquisition of The Edge, a study management software provider based in the UK. The Edge is focused on improving the efficiency of early-stage drug R&D, improving productivity and ensuring high-quality data capture. The consideration payable is up to £8.5m, payable as £6.0m initially, satisfied by £4.0m in cash from existing reserves and £2.0m via the issuance of 391,920 new ordinary shares in Instem plc, £0.5m of deferred consideration and up to a further £2.0m payable contingent on The Edge's future trading performance, both amounts payable in cash. Since the year end, the deferred consideration has been paid and the earn-out targets have been achieved in full. In addition, an amount of £1.5m was paid in 2021 as a net cash adjustment after deducting the estimated debt at the point of the acquisition.

On 1 April 2021, Instem acquired US-based clinical trial technology and consulting leader d-wise Technologies, Inc. (d-wise). D-wise adds another market leading position to the Group in an attractive adjacent area of clinical trial analysis and submission, with good future visibility through recurring revenue streams and already contracted, high value consultancy projects. The combined strength of Instem and d-wise positions the enlarged Group as the foremost authority and driving force in generating, analysing and leveraging data from Discovery through late-stage Clinical Trials. The total consideration is up to $31.0m comprising $20m (c. £14.5m) on completion, $8.0m (c. £6.2m) of deferred consideration and up to a further $3m (c. £2.2m) which is payable contingent upon the financial performance of d-wise for the 12 months ending 31 December 2021. The initial consideration on completion was satisfied by $13m (c. £9.4m) in cash and $7m (c. £9.8m) via the issuance of 868,203 new ordinary shares of 10p each in Instem plc. The initial cash payment was funded from the Group's existing financial resources. Since the year end, $3m of deferred consideration has been paid and the earn-out and contingent consideration has been reported as having been achieved in full.

Finally, on 1 September 2021, Instem announced the acquisition of PDS Pathology Data Systems Ltd ("PDS"), a direct competitor in the life sciences space with headquarters in Switzerland and offices in the United States and Japan. The Initial Consideration was satisfied by CHF 4.7m in cash (c. £3.7m) and CHF 3.5m (c. £2.8m) via the issuance of 359,157 new ordinary shares of 10p each in Instem plc. The cash payment, loan repayments and other net liabilities payments were funded from the Group's existing financial resources. The PDS acquisition enables Instem to concentrate investment on a single line of SEND and preclinical study management products, removing unnecessary duplication in the market. The combination of technologies and highly experienced teams will enable the Group to enhance the development and delivery of existing and new solutions that provide higher value to its clients.

The financial obligations associated with these acquisitions during 2022 and 2023 are deferred and contingent consideration payments of £6.5m and £5.3m respectively, in a combination of cash and shares. The contingent consideration reflects management's estimate that the entities would achieve their profitability targets.

The period again saw strong net cash generated from operations of £10.3m (2020: £7.4m), largely due to cash inflows from the newly acquired businesses, key contracts, outsourced services and effective working capital management. The Group's cash resources were used to accelerate the Group's acquisition strategy with the acquisition of The Edge, d-wise and PDS. The net cash payment for purchasing those subsidiaries was £17.2m (net of cash acquired). The proceeds of £0.8m ($1.1m) which were part of the US federal government support for businesses during the COVID-19 pandemic have been fully forgiven during 2021. As a result of the above, and the positive organic cash generation achieved in the period, the cash balance decreased from £26.7m to £15.0m.

The latest triennial actuarial valuation of the Group's legacy defined benefit pension scheme as at 5 April 2020, was completed in July 2021. As part of the process, the Group has agreed a revised Schedule of Contributions with the Trustees of the Scheme, which are intended to clear the Scheme deficit by 30 September 2026 (see note 27).

At 31 December 2021, the IAS19 accounting pension deficit decreased by £1.9m to £2.0m (2020: £3.9m). The agreed Group cash contributions currently approximate to £0.6m per annum, payable through to September 2026. The deficit at the 2021 year-end of £2.0m (2020: £3.9m) is represented by the fair value of assets of £14.0m (2020: £12.5m) and the present value of funded obligations of £16.0m (2020: £16.4m), after applying a discount rate of 1.90% (2020: 1.40%).

**Alternative performance measures**

This Annual Report and Accounts 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:

| | **2021**<br>**£000** | 2020<br>£000 |
|---|---|---|
| Annual support fees | **14,378** | 8,917 |
| SaaS subscription and support fees | **9,704** | 8,024 |
| Recurring revenue | **24,082** | 16,941 |
| Licence fees | **4,597** | 3,477 |
| Professional services | **3,651** | 1,603 |
| Technology enabled outsourced services | **6,378** | 6,196 |
| Consultancy services | **7,309** | - |
| **Total revenue** | **46,017** | 28,217 |

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.

| | **2021**<br>**£000** | 2020<br>£000 |
|---|---|---|
| Total revenue | **46,017** | 28,217 |
| Revenue from the acquisitions | **(15,965)** | - |
| **Organic revenue** | **30,052** | 28,217 |

Organic revenue is the revenue excluding the impact of acquisitions, which highlights the Group's income generated from the primary operations.

| | **2021**<br>**£000** | 2020<br>£000 |
|---|---|---|
| Recurring Revenue | **24,082** | - |
| Annual recurring revenue adjustment | **4,659** | - |
| **Annual Recurring Revenue** | **28,741** | - |

Annual recurring revenue is the revenue that annually repeats under contractual arrangements, considering also the acquisitions which were part of the Group for 12 months. The revenue has also been adjusted for new and lost contracts.

| | 2021 £000 | 2020 £000 |
|---|---|---|
| EBITDA | **7,769** | 5,313 |
| Non recurring cost (see note 3) | 1,286 | 606 |
| Non recurring income (see note 3) | **(805)** | - |
| **Adjusted EBITDA** | **8,250** | 5,919 |

Adjusted EBITDA is EBITDA plus non-recurring items (as set out in note 3). The same adjustments are also made in determining the adjusted EBITDA margin. Items are only classified as exceptional due to their nature or size and the Board considers that this metric provides the best measure of assessing underlying trading performance.

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Profit before tax | **2,984** | 2,549 |
| Amortisation of intangibles arising on acquisition | **1,563** | 664 |
| Non recurring cost (see note 3) | **1,286** | 606 |
| Non recurring income (see note 3) | **(805)** | - |
| Intercompany foreign exchange (gain)/loss | **(18)** | 208 |
| **Adjusted profit before tax** | **5,010** | 4,027 |

Adjusted profit before tax is 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 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.

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Weighted average number of shares (000's) | **22,719** | 19,652 |
| Adjusted diluted earnings per share | **16.3p** | 19.1p |
| Cash at bank | **24,019** | 35,722 |
| Bank overdraft | **(8,998)** | (8,998) |
| **Cash balance** | **15,021** | 26,724 |

## UPDATE ON HISTORICAL CONTRACT DISPUTE

An historical contractual licence dispute, which does not affect the ongoing operations of the Group, was heard by a German court on 17 March 2022 and the official outcome is awaited. The Group has been defending the action.

Notwithstanding this, the cost provision of £0.25m made in 2017 has been maintained in the 2021 financial statements. As the potential financial outcome cannot yet be determined with any certainty the Board has concluded that the £0.25m provision was appropriate at 31 December 2021. To date all legal expenses have been expensed.

## PRINCIPAL RISKS AND UNCERTAINTIES

The directors consider that the global pharmaceutical market is likely to continue to provide growth opportunities for the business. The combination of the high level of annual support renewals and low levels of customer attrition provides revenue visibility to underpin the Group strategy on product and market development. However, the Group's products may be adversely affected if economic and market conditions are unfavourable and revenue may be affected by impact of accounting or regulatory changes.

Additionally, weak economic conditions, including the potential impact of UK's departure from the European Union ("EU"), may disrupt the Group's operations and associated revenues. The Group engages with clients based in EU countries and, prior to the COVID-19 pandemic, employees were previously able to travel freely to those countries to implement projects without the need to obtain visas or work permits. One area of mitigation for the Group is the presence of its wholly owned subsidiary, Notocord SA, which is based in the EU.

Finally, any significant inflationary increases would quickly impact the Group's cost base, with a potential delay before increased costs can be passed to clients.

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 52% 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.

**Foreign currency risk**

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 main currency giving rise to this risk is US dollars, including the newly acquired businesses. The Group mitigates the foreign currency risk by having both cash inflows and outflows in the relevant foreign currency due to local revenue generation generally offset by a local cost base that creates a natural hedge.

The Group also generates material cash reserves through its Chinese subsidiary that are not readily available to the UK Group at short notice and, as such, the Group has to maintain sufficient working capital headroom to accommodate any delays in repatriating cash from China. In managing currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's cash inflows and outflows in a foreign currency. The Group continually assesses the most appropriate approach to managing its currency exposure in line with the overall goal of achieving predictable earnings growth. Over the longer term, changes in foreign exchange could have an impact on consolidation of foreign subsidiaries earnings. A 10% decrease in the average value of Sterling against the US dollar would have resulted in an increase in the Group's profit before tax by approximately £0.6m (2020: £0.1m).

**Credit risk**

Management aims to minimise the risk of credit losses.

The Group's financial assets are bank balances and cash and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables and the Group has policies in place to ensure that sales of products and services are made to customers with appropriate creditworthiness. No customer individually amounts to more than 10% of the Group revenue. At the 2021 year end the Group had a maximum credit risk exposure of £14.9m (2020: £6.1m).

The amounts presented in the statement of financial position are net of impairment provisions.

The Group's exposure to losses from defaults on trade receivables is reduced due to contractual terms which require installation, training, annual licensing and support fees to be invoiced and paid annually in advance.

Note 18 sets out the impairment provision for credit losses on trade receivables and the ageing analysis of overdue trade receivables. There were no impairment losses recognised on other financial assets.

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial commitments as they fall due. The Group's objective is to ensure that adequate facilities are available through use of bank overdrafts and leases. The Group manages liquidity risk through regular cash flow forecasting and monitoring of cash flows, management review and regular review of working capital and costs. The Group regularly monitors its available headroom under its borrowing facilities, for further details refer to the going concern review.

The Group signed a new financing arrangement on 8 April 2022, which consists of a committed facility of £10.0m with HSBC UK Bank plc to support the Group's working capital needs and its acquisition strategy. The facility can also be extended up to £20.0m, if needed, subject to additional bank approval. The financial covenants have been considered in the cash forecast to ensure compliance.

At 31 December 2021, the Group £0.5m net bank facility was undrawn (2020: £0.5m undrawn). The Group had positive gross cash reserves of £15.0m at the end of the period, in addition to the £0.5m undrawn working capital facility, although £3.5m of the cash was held in bank accounts in China, where it has been traditionally harder to repatriate funds quickly.

**Interest rate risk**

The Group operates an interest rate policy designed to minimise interest costs and reduce volatility in reported earnings. The Group's bank facility does not allow the US Dollar cash balances to generate interest therefore the Group transfers funds from the US dollar account into the sterling account. Currency transfers have been utilised to maximise the interest gains whilst minimising foreign exchange risks. As at 31 December 2021, the indications are that the UK bank base interest rate could rise by 25 basis points to 0.75%. On the basis of the net cash position at 31 December 2021 and assuming no other changes occur (such as material changes in currency exchange rates) the change in interest rates will not have a material impact on net interest income/(expense).

**Cyber risk**

The Group handles significant amounts of data electronically and is therefore extremely aware of the risks that a cyber-attack could have on its business. It has robust standards in place for establishing and maintaining systems and processes to ensure that the highest standards of data protection are in place. This also applies to any third party who is handling data on behalf of the Group and its customers, such as third-party hosting providers. All staff are trained in identifying and responding to any perceived, or actual, cyber attacks. The Group maintains separate insurance cover to protect against the financial implications of any cyber threat.

**Technology risk**

Due to the evolving nature of technology platforms there is a risk of obsolescence. The Group's future performance depends on software development, by introducing new and enhancing existing products to meet customer demand. If the Group does not respond effectively to technological changes, changes in client requirements and regulatory industry changes then its business may be negatively affected.

The Group monitors this risk and develops strategic development plans to ensure it remains compliant with technological advances. Additionally, the Group produces roadmaps for its key software products through its close relationships with clients and partners. In addition, the Group reviews forthcoming regulations to identify any need to change existing products and to identify opportunities for developing new products and services.

**Acquisition and integration risk**

Any corporate acquisition has associated integration risk. In respect of every acquisition the Group creates an integration plan with assigned responsibilities to a team led by an appointed project manager for delivering against an agreed timetable. This is monitored closely throughout the integration process and any deviations against the plan are flagged and actioned accordingly. Acquisitions are carefully assessed by the Board to ensure alignment with the Group's acquisition strategy. The Group performs thorough due diligence, supported by the appropriate use of external advisers, to help identify any potential unexpected material adverse consequences prior to deal completion.

**Recruitment and retention risk**

As its people are the Group's major asset, it is critical to ensure that it recruits the best staff possible and that these individuals are rewarded and developed appropriately. If the Group is unable to attract and retain qualified personnel it is unlikely to meet its growth objectives and stakeholder expectations. The Group has a global HR team that manages the process of ensuring the staff benefit and reward packages are incentivising for both recruitment and retention purposes. This includes benchmarking against peers and industry norms and considering staff feedback through regular performance review. During 2020 the Group implemented an all-staff share scheme for the first time and further all-staff share awards were made in 2021.

**COVID-19**

The risk to the Group, as for any business, is that the COVID-19 pandemic impacts new and existing business activities as clients and suppliers focus on short term priorities arising from the pandemic, or struggle to remain in business.

The Group remains well placed and has seen minimal impact from COVID-19, with working from home practices implemented and the majority of business relatively unaffected.

**Conflict in Ukraine**

The Group has no clients or operations located in either Ukraine or Russia. The Board is actively monitoring the developing situation and is mindful of the potential for escalation. The Group is also assessing contingency plans should such a situation arise.

## POST PERIOD-END

For the material subsequent events refer to note 35, as these have a bearing on the understanding of the financial statements.

## OUTLOOK

The performance during the year highlighted our resilience – especially given the COVID-19 backdrop, and I would like to thank all of our staff for their continued efforts and hard work. Our proven model continues to generate strong cash flows while the combination of increasing demand for regulatory-backed solutions and a growing demand for artificial intelligence and *in silico* solutions in the drug R&D process underpins our confidence in further leveraging our software and service portfolio. As such, we now have the platform in place to capitalise on the various opportunities ahead of us and we look forward to reporting further progress as we continue to execute our growth strategy.

In common with other businesses, we have seen wage inflation in recent months and, accordingly, we are moderating our profit expectations for the current year ahead of price rises on contract renewals flowing through positively to revenue. Importantly, we already have good visibility for the current year with growing recurring SaaS and Annual Support revenues and a strong pipeline.

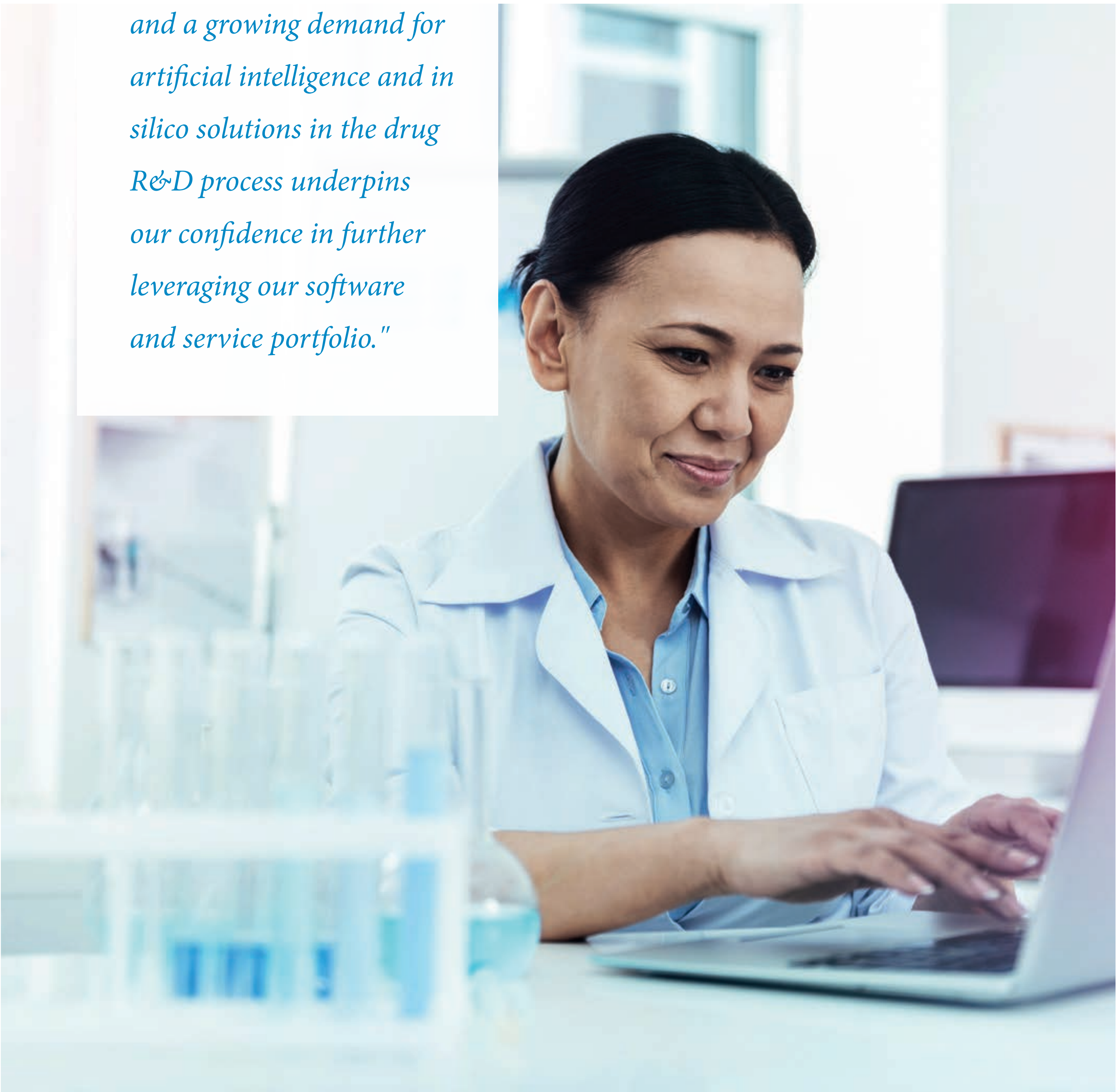
The recent acquisitions of The Edge, d-wise and PDS highlight our ability to add scale and leverage existing customer relationships with a view to further enhancing earnings, while providing a strong platform for continued growth. We look forward to advancing further acquisition opportunities after consolidating the 2021 additions.

**P J Reason**

Chief Executive

4 May 2022

*"...the combination of increasing demand for regulatory-backed solutions and a growing demand for artificial intelligence and in silico solutions in the drug R&D process underpins our confidence in further leveraging our software and service portfolio."*



Non-executive Chairman

## David Gare

David was a founder member of the Company's former parent, Instem Limited, and led the resulting businesses through most of their history. David successfully achieved a succession of strategic developments for Instem Limited, including its sale to Kratos Inc. in 1976, its MBO in 1983, its flotation on the USM in 1984, its flotation on the Official List in 1996, its public to private and demerger in 1998 and the buyout of Instem LSS Limited from Alchemy Partners in 2002. Throughout, David has concentrated on value creation through achievement of a strong market position.

Chief Executive Officer

## Phil Reason

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.

Chief Financial Officer

## Nigel Goldsmith

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 device 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.

Non-executive Director

## David Sherwin

David is a qualified Management Accountant and holds an MBA from Staffordshire University. He joined Instem Limited as a trainee accountant in 1973 and was appointed Chief Financial Officer in 1979. He has worked closely with David Gare on all of the subsequent transactions involving Instem Limited and Instem LSS Limited including participating in the management buyout of Instem Limited in 1983, the flotation on the USM in 1984, the flotation on the Official List in 1996 and the demerger of the business in 1998.

Non-executive Director

## Mike McGoun

Mike has a wealth of management experience within the IT industry. He spent 10 years at IBM prior to co-founding a successful ComputerLand franchise in 1984. In 1994, Mike moved to SkillsGroup plc as a main board director, with responsibility for corporate development and later as a non-executive director. Mike was founder and non-executive Chairman of Tikit Group plc prior to its disposal to BT plc in 2012.

Non-executive Director

## Riaz Bandali

Riaz has spent his entire career in the healthcare and life sciences industries in a variety of strategic, commercial and operational roles at senior level, also including exposure to fundraising and M&A activity. Riaz is currently President, Nordion Inc (a Sotera Health Company), the global leader in the provision of Cobalt 60 and gamma irradiation systems for medical devices, PPE, food safety, health care and oncology purposes. His previous role was as CEO of Emerald Health Therapeutics, a role he held for three years. Prior to that, Riaz was with Syneos Health for nine years, firstly leading their Early Stage Contract Research Services business then becoming Chief Innovation Officer and more recently as President, Early Phase Development and Translational Sciences, with responsibility for a team of 900 people globally.

In accordance with AIM Notice 50 issued by the London Stock Exchange, 8 March 2018, The Group has adopted the Corporate Governance Guidelines for Small and Medium Size Quoted Companies published by the Quoted Companies Alliance (the QCA Code) and aims to ensure compliance where possible. The main features of the Group's corporate governance procedures, in relation to the 10 Principles of the QCA Code, are set out in the full *QCA Code Compliance* at https://investors.instem.com/corporate/governance.php.

As noted in the Organisational Governance section of the Strategic Report above, the Board seeks to maintain a strong governance ethos throughout the Group and is actively taking steps to address any shortcomings, such as the composition of the Board. The Board recognises its overall responsibility for the Group's systems of internal control and for monitoring their effectiveness.

The main features of the Group's corporate governance procedures are as follows:

a. the Board has two independent non-executive directors who takes an active role in Board matters;

b. the Group has an Audit Committee, a Remuneration Committee and a Nomination Committee, each of which consists of the non-executive directors, and meets regularly with executive directors in attendance by invitation. The Audit Committee has unrestricted access to the Group's auditor and ensures that auditor independence has not been compromised;

c. all business activity is organised within a defined structure with formal lines of responsibility and delegation of authority, including a schedule of "matters referred to the Board"; and

d. regular monitoring of key performance indicators (KPIs) and financial results together with comparison of these against expectations. KPIs assessed are both financial and non-financial.

## AUDIT COMMITTEE

The Audit Committee comprises M F McGoun (Chairman), D Gare, D M Sherwin and R Bandali, all of whom are non-executive directors of the Group. The Board is satisfied that the Audit Committee has all the recent and relevant financial experience required to fulfil the role.

Appointments to the Audit Committee are made by the Board in consultation with the Nomination Committee and the chairman of the Audit Committee. The Audit Committee met twice during the year and may meet at any other time as required by either the chairman of the Audit Committee, the Chief Financial Officer of the Group or the external auditor of the Group. In addition, the Audit Committee shall meet with the external auditor of the Group (without any of the executives attending) at any time during the year as it deems fit.

The Audit Committee:

a. monitors the financial reporting and internal financial control principles of the Group;

b. maintains appropriate relationships with the external auditor including considering the appointment and remuneration of the external auditor and reviews and monitors the external auditor's independence and objectivity and the effectiveness of the audit process;

c. reviews all financial results of the Group and financial statements, including all announcements in respect thereof before submission of the relevant documents to the Board;

d. reviews and discusses (where necessary) any issues and recommendations of the external auditor including reviewing the external auditor's management letter and management's response;

e. considers all major findings of internal operational audit reviews and management's response to ensure co-ordination between internal and external auditor;

f. reviews the Board's statement on internal reporting systems and keeps the effectiveness of such systems under review; and

g. considers all other relevant findings and audit programmes of the Group.

The Audit Committee is authorised to:

a. investigate any activity within its terms of reference;

b. seek any information it requires from any employee of the Group; and

c. obtain, at the Group's expense, outside legal or other independent professional advice and to secure the attendance of such persons to meetings as it considers necessary and appropriate.

## ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Attendances of directors at Board and Committee meetings convened in the period, along with the number of meetings they were invited to attend, are set out below. Due to the closure of the UK head office during the pandemic, all meetings were held by remote video calls.

| | No. of meetings attended / No. of meetings invited to attend | | | |
|---|---|---|---|---|
| | Board Meetings | Audit Committee | Remuneration Committee | Nomination Committee |
| Executive Directors | | | | |
| P J Reason | 12/12 | 2/2 | 1/1 | 1/1 |
| N J Goldsmith | 12/12 | 2/2 | 1/1 | 1/1 |
| Non-Executive Directors | | | | |
| D Gare | 12/12 | 2/2 | 1/1 | 1/1 |
| D M Sherwin | 12/12 | 2/2 | 1/1 | 1/1 |
| M F McGoun | 12/12 | 2/2 | 1/1 | 1/1 |
| R Bandali | 1/1 | 1/1 | - | - |

## REMUNERATION COMMITTEE

The Remuneration Committee comprises M F McGoun (Chairman), D Gare, D M Sherwin and R Bandali, all of whom are non-executive directors of the Group.

The members of the Remuneration Committee are appointed by the Board on recommendation from the Nomination Committee, in consultation with the Chairman of the Remuneration Committee. The Chief Executive Officer of the Group is normally invited to meetings of the Remuneration Committee to discuss the performance of other executive directors but is not involved in any of the decisions. The Remuneration Committee invites any person it thinks appropriate to join the members of the Remuneration Committee at its meetings. The Remuneration Committee meets at least once a year and any other time as required by either the Chairman of the Remuneration Committee or the Chief Financial Officer of the Group.

The Remuneration Committee:

a. ensures that the executive directors are fairly rewarded for their individual contributions to the overall performance of the Group but also ensures that the Group avoids paying more than is necessary for this purpose;

b. considers the remuneration packages of the executive directors and any recommendations made by the Chief Executive Officer for changes to their remuneration packages, including in respect of bonuses (including associated performance criteria), other benefits, pension arrangements and other terms of their service contracts and any other matters relating to the remuneration of or terms of employment applicable to the executive directors that may be referred to the Remuneration Committee by the Board;

c. oversees and reviews all aspects of the Group's share option schemes including the selection of eligible directors and other employees and the terms of any options granted;

d. demonstrates to the Group's shareholders that the remuneration of the executive directors is set by an independent committee of the Board; and

e. considers and makes recommendations to the Board about the public disclosure of information about the executive directors' remuneration packages and structures in addition to those required by law, or by the London Stock Exchange.

The Chairman of the Remuneration Committee reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Remuneration Committee produces an annual report which is included in the Group's annual report and accounts.

The Remuneration Committee is authorised to:

a. investigate any activity within its terms of reference;

b. seek any information it requires from any employee of the Group;

c. assess the remuneration paid by other UK listed companies of a similar size in any comparable industry sector and to assess whether changes to the executive directors' remuneration is appropriate for the purpose of making their remuneration competitive or otherwise comparable with the remuneration paid by such companies; and

d. obtain, at the Group's expense, outside legal or other independent professional advice, including independent remuneration consultants, when the Remuneration Committee reasonably believes it is necessary to do so and secure the attendance of such persons to meetings as it considers necessary and appropriate.

## NOMINATION COMMITTEE

The Nomination Committee comprises D Gare (Chairman), M F McGoun, D M Sherwin and R Bandali, all of whom are non-executive directors of the Group.

Appointments to the Nomination Committee are made by the Board, in consultation with the Chairman of the Nomination Committee.

The Nomination Committee may invite any person it thinks appropriate to join the members of the Nomination Committee at its meetings.

The Nomination Committee:

a. reviews the structure, size and composition (including skills, knowledge and experience) required of the Board compared to its current position and makes recommendations to the Board with regard to any changes;

b. gives full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Group, and what skills and expertise are needed on the Board in the future;

c. is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise; and

d. evaluates the balance of skills, knowledge and experience on the Board before an appointment is made and, in light of this evaluation, prepares a description of the role and capabilities required for a particular appointment.

The Chairman of the Nomination Committee reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

The Nomination Committee also makes recommendations to the Board concerning:

a. formulating plans for succession for both executive and non-executive directors and in particular the key roles of Chairman of the Board and Chief Executive Officer;

b. membership of the Audit and Remuneration Committees, in consultation with the chairmen of those committees;

c. the re-appointment of any non-executive director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;

d. the re-election by shareholders of any director under the "retirement by rotation" provisions in the Company's articles of association having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;

e. matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of the Group subject to the provisions of the law and his/her service contract; and

f. the appointment of any director to executive or other office other than to the positions of Chairman of the Board and Chief Executive Officer, the recommendation for which would be considered at a meeting of the full Board.

The Nomination Committee is authorised to:

a. investigate any activity within its terms of reference;

b. seek any information it requires from any employee;

c. obtain outside legal or other independent professional advice at the Group's expense when the Nomination Committee reasonably believes it is necessary to do so; and

d. instruct external professional advisors to attend any meeting at the Group's expense if the Nomination Committee considers this reasonably necessary and appropriate.

## INTERNAL CONTROLS

The directors are responsible for establishing and maintaining the Group's system of internal control and reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board and senior executives meet to review both the risks facing the business and the controls established to minimise those risks and their effectiveness in operation on an ongoing basis. The aim of these reviews is to provide reasonable assurance that material risks and problems are identified and appropriate action taken at an early stage. This approach is also adopted for any corporate acquisition, whereby controls, systems and processes of the target company are assessed during the due diligence phase and any areas of remediation are included in the planning of the Integration process post-acquisition.

During 2021, there was a high emphasis on understanding the existing control environment with the new acquisitions, identifying and reporting the issues to the local management and assisting on implementing the appropriate controls. There is an ongoing integration process into our certified management systems for all acquisitions and the Group target is to apply the same internal controls for the Edge, d-wise and PDS.

On behalf of the Board

**M F McGoun**

Independent Non-Executive Director

Instem plc is a company listed on AIM and it is not required to comply with Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to directors' remuneration reports or the Listing Rules. The disclosures contained within this report are, therefore, made on a voluntary basis and in keeping with the Board's commitment to best practice.

## REMUNERATION COMMITTEE

The Remuneration Committee ('the Committee') is composed entirely of non-executive directors. The Committee was formed upon the public listing of the Company on 13 October 2010. The Chairman of the Committee is M F McGoun. The terms of reference for the Committee are to determine the Group's policy on executive remuneration and to consider and approve the remuneration packages for directors and key executives of the Group, subject to ratification by the Board. During the year, the Committee met on one occasion. Full details of the elements of each director's remuneration are set out on the following page. Details of share-based payment are shown in note 9 to the financial statements.

## POLICY ON EXECUTIVE DIRECTOR REMUNERATION

The Group's current and ongoing policy aims to ensure that executive directors are rewarded fairly for their individual contributions to the Group's overall performance and is designed to attract, retain and motivate executives of the right calibre. The Committee is responsible for recommendations on all elements of executive remuneration including, in particular, basic salary, annual bonus, share options and any other incentive awards. In implementing the remuneration policy, the Committee has regard to factors specific to the Group, such as salary and other benefit arrangements within the Group and the achievement of the Group's strategic objectives. The Committee determines the Group's Policy on executive remuneration with reference to comparable companies of similar market capitalisation, location and business sector.

## BASIC SALARY

The basic salaries of executive directors are reviewed annually having regard to individual performance and position within the Group and are intended to be competitive but fair using information provided from both internal and external sources.

## PERFORMANCE RELATED ANNUAL BONUS

Executive directors are eligible for a performance related bonus based on Group performance, in particular, the achievement of profit targets. The performance related annual bonus forms a significant part of the level of remuneration considered appropriate by the Committee. In addition to the formal bonus scheme, the Committee has the discretion to recommend the payment of ad hoc awards to reflect exceptional performance. Cash bonuses amounting to £47,000 were payable to executive directors in respect of the year ended 31 December 2021 (2020: £18,000).

## PENSIONS

Company contributions are made to the executive directors' personal pension schemes up to a maximum of 16.5% of basic salary.

## BENEFITS

Benefits comprise car and fuel allowance, private healthcare and critical illness cover. No executive director receives additional remuneration or benefits in relation to being a director of the Board of the Group or any subsidiary of the Group.

## SERVICE CONTRACTS

The Executive directors have contracts with notice periods between six and twelve months.

The Board determines the Group's policy on non-executive directors' remuneration.

D Gare, D M Sherwin, M F McGoun and R Bandali each have a letter of appointment with a notice period of three months.

The emoluments paid or payable to directors in respect of the year ended 31 December 2021 were as follows:

| | Salary and Fees | Bonus | Benefits | Pension | 2021 Total | 2020 Total |
|---|---|---|---|---|---|---|
| **Executives** | | | | | | |
| P J Reason* | 204 | 33 | 21 | 21 | **279** | 276 |
| N J Goldsmith | 131 | 14 | 9 | 7 | **161** | 153 |
| **Non-executives** | | | | | | |
| D Gare | 65 | - | - | - | **65** | 65 |
| D M Sherwin | 33 | - | - | - | **33** | 33 |
| M F McGoun | 40 | - | - | - | **40** | 40 |
| R Bandali ** | 3 | - | - | - | **3** | - |
| **Total** | **476** | **47** | **30** | **28** | **581** | 567 |

* The remuneration in respect of P J Reason is payable in US Dollars and translated at the average rates as disclosed on page 63. The total remuneration paid in the year was USD 384,000 (2020: USD 355,000).

** R Bandali was appointed to the Board as an independent non executive director, effective 1 December 2021.

## DIRECTORS' AND EMPLOYEES' SHARE OPTIONS

| | Exercise price (£) | Issue date | Held at 31 Dec 2020 | Granted during year | Exercised during year | Lapsed during year | Held at 31 Dec 2021 |
|---|---|---|---|---|---|---|---|
| **P J Reason** | 0.90 | 14/01/2013 | 23,429 | | | | 23,429 |
| Ordinary shares | Nil | 22/02/2018 | 80,000 | | | | 80,000 |
| | Nil | 26/06/2020 | 76,000 | | | | 76,000 |
| | Nil | 16/04/2021 | - | 4,387 | | | 4,387 |
| | Nil | 27/09/2021 | - | 25,000 | | | 25,000 |
| | | | | | | | **208,816** |
| **N J Goldsmith** | 1.76 | 07/02/2012 | 20,000 | | | | 20,000 |
| Ordinary shares | 0.90 | 14/01/2013 | 15,000 | | | | 15,000 |
| | 0.10 | 29/07/2015 | 62,500 | | | | 62,500 |
| | Nil | 22/02/2018 | 80,000 | | | | 80,000 |
| | Nil | 26/06/2020 | 74,000 | | | | 74,000 |
| | Nil | 16/04/2021 | - | 3,031 | | | 3,031 |
| | Nil | 27/09/2021 | - | 25,000 | | | 25,000 |
| | | | | | | | **279,531** |
| **Employees** | 2.22 | 17/10/2011 | 8,667 | | (8,667) | | - |
| Ordinary shares | 0.90 | 14/01/2013 | 22,975 | | | | 22,975 |
| | 0.10 | 11/02/2015 | 40,584 | | | | 40,584 |
| | 0.10 | 29/07/2015 | 78,125 | | | | 78,125 |
| | 0.10 | 21/11/2015 | 25,258 | | | | 25,258 |
| | 0.10 | 27/05/2016 | 6,480 | | | | 6,480 |
| | 0.10 | 03/05/2017 | 22,500 | | | (15,000) | 7,500 |
| | Nil | 22/02/2018 | 240,000 | | (50,000) | | 190,000 |
| | Nil | 27/04/2020 | 116,584 | | | (10,059) | 106,525 |
| | Nil | 06/05/2020 | 24,000 | | | | 24,000 |
| | Nil | 19/05/2020 | 243,000 | | | (24,000) | 219,000 |
| | 0.10 | 22/03/2021 | - | 30,000 | (30,000) | | - |
| | Nil | 22/03/2021 | - | 55,061 | | (4,354) | 50,707 |
| | Nil | 21/09/2021 | - | 289,000 | | | 289,000 |
| | | | | | | | **1,060,154** |
| **Total** | | | **1,259,102** | **431,479** | **(88,667)** | **(53,413)** | **1,548,501** |

Approved by the Board and signed on its behalf by:

M F McGoun
Independent Non-Executive Director

The directors submit their report and the Group and Company financial statements of Instem plc for the year ended 31 December 2021.

Instem plc is a public limited company, incorporated and domiciled in England, and quoted on AIM.

## PRINCIPAL ACTIVITIES

Instem is a leading supplier of IT applications to the life sciences healthcare market, delivering compelling solutions for data collection, management and analysis across the R&D continuum. Instem applications are in use by customers worldwide, meeting the rapidly expanding needs of life science and healthcare organisations for data-driven decision making leading to safer, more effective products.

Instem's portfolio of software solutions increases client productivity by automating study-related processes while offering the unique ability to generate new knowledge through the extraction and harmonisation of actionable scientific information.

## REVIEW OF THE BUSINESS

A detailed review of the development and performance of the Group's business during the year and its position at the end of the year is set out in the Chairman's Statement and the Strategic Report on pages 9 to 24.

## STRATEGIC REPORT

The Group has chosen, in accordance with Companies Act 2006, section 414C (11), to set out in the Group's Strategic Report on pages 10 to 24 information required to be contained in the 24' Report by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7, where not already disclosed in the Directors' Report.

## BUSINESS RELATIONSHIPS WITH SUPPLIERS, CUSTOMERS AND OTHERS

The Groups' response to the requirement of the business relationship with suppliers, customers and others is included within the Section 172 Statement on page 15 to 17.

## DIRECTORS' RESPONSIBILITY UNDER SECTION 172

The Group's response to the requirements of section 172 of the Companies Act 2006 is included within the Strategic Report.

## DIRECTORS' RESPONSIBILITY UNDER GREEN HOUSE GAS EMISSIONS AND ENERGY CONSUMPTION

The Group has reviewed the requirements of the Environmental Reporting guidelines, for each Company in the Group that qualifies as large their total energy consumption is below 40MWh and therefore the Group and Company is not required to prepare an Energy and Carbon Report.

## FUTURE DEVELOPMENTS

The directors consider that the continued investment in product and market development will allow the business to grow organically in its core markets. Investment in business growth initiatives will also allow the business to move into new product and market areas. The combination of organic growth along with strategic acquisitions will support the expected growth as outlined in the Chairman's Statement and the Strategic Report.

Like most businesses worldwide, the Group continues to deal with the impact of COVID-19 and is reviewing the possible implication of the ongoing conflict between Ukraine and Russia. Whilst approximately half of the Group's revenues are generated from North America, the remaining revenues are spread across the world and so there is no dependence on one territory thus spreading the risk. The Group benefits from having no supply chain and no distribution network to rely on and has the added benefit of having systems and processes established to enable its workforce to work effectively from home across all of its sites worldwide.

The uncertainty as to the future impact on the Group of the COVID-19 outbreak and ongoing conflict between Ukraine and Russia has been considered as part of the Group's adoption of the going concern basis. Thus far we have not observed any material impact on 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.

The loan proceeds of £0.8m ($1.1m) which were part of the US federal government support for businesses during the COVID-19 pandemic were fully forgiven in 2021.

## EVENTS AFTER THE REPORTING PERIOD

The events occurred after the balance sheet date were disclosed in accordance with IAS 10, 'Events after the reporting period'. Details are provided in note 35 to the Consolidated Financial Statements.

## RESEARCH AND DEVELOPMENT ACTIVITIES

The Group continues its development programme of software for the global pharmaceutical market including the research and development of new products and enhancement to existing products. The directors consider the investment in research and development to be fundamental to the success of the business in the future.

## DIVIDENDS

The directors do not recommend the payment of a dividend.

## DIRECTORS

The following directors held office during the year:

D Gare

M F McGoun

D M Sherwin

R Bandali

P J Reason

N J Goldsmith

Details of the directors' service contracts and their respective notice terms are detailed in the Directors' Remuneration report on pages 32 to 33.

## DIRECTORS AND THEIR INTERESTS

The interests of the directors who held office at 31 December 2021 (2020: as at 12 April 2021) were as follows:

| | 2021 No. of Shares | 2020 No. of Shares |
|---|---|---|
| DG 2008 Discretionary Settlement | 538,427 | 538,427 |
| D M Sherwin | 750,000 | 750,000 |
| P J Reason | 770,714 | 730,714 |
| N J Goldsmith | 10,000 | - |

Directors' interests in share options are detailed in the Remuneration report on pages 32 to 33.

## POLITICAL DONATIONS

The Group made no political donations in 2021 or 2020.

## FINANCIAL INSTRUMENTS

The Group's objectives and policies on financial instruments are set out in note 23 to the financial statements.

## INDEMNITY OF OFFICERS AND DIRECTORS

Under the Company's Articles of Association and subject to the provisions of the Companies Act, the Group may and has indemnified all directors and other officers against liability incurred in the execution or discharge of their duties or the exercise of their powers, including but not limited to any liability for the costs of any legal proceedings. The Group has purchased and maintains appropriate insurance cover against legal action brought against directors or officers.

## ANNUAL GENERAL MEETING

The Annual General Meeting ('AGM') of the Company will be held on 9 June 2022. The resolutions to be proposed at the AGM, together with explanatory notes, appear in a separate notice of AGM which is sent to all shareholders. A proxy card for registered shareholders is distributed along with the notice.

## AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITOR

Pursuant to s489 of the Companies Act 2006, a resolution to re-appoint Grant Thornton as auditor will be put to the members at the forthcoming Annual General Meeting.

On behalf of the Board

P J Reason
Director
4 May 2022

The directors are responsible for preparing the Strategic Report and Directors' Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Accounting Standards (IAS) in conformity. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Accounting Standards (IAS) in conformity have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## OPINION

**Our opinion on the financial statements is unmodified**

We have audited the financial statements of Instem PLC (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2021, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Cash Flows, the Consolidated and Company Statements of Changes in Equity, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## CONCLUSIONS RELATING TO GOING CONCERN

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group or the parent company to cease to continue as a going concern.

A description of our evaluation of management's assessment of the ability to continue to adopt the going concern basis of accounting, and the key observations arising with respect to that evaluation is included in the Key Audit Matters section of our report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

## OVERVIEW OF OUR AUDIT APPROACH


**Overall materiality:**

Group: £356,000, which represents 0.77% of the Group's revenue.

Parent company: £253,000, which represents 0.36% of the parent company's total assets.

**Key audit matters for the Group were identified as:**

- Improper revenue recognition;
- Carrying value of goodwill;
- Going concern; and
- Acquisition accounting and valuation of related intangible assets.

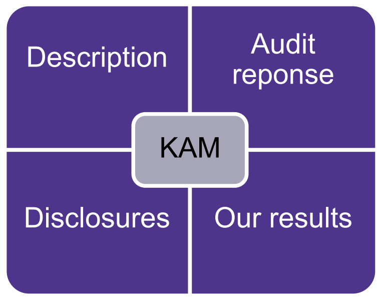
We did not identify any key audit matters relating to the audit of the financial statements of the parent company that were not already identified for the Group financial statements.

Our auditor's report for the year ended 31 December 2020 included no key audit matters that have not been reported as key audit matters in our current year's report. One new key audit matter has been identified, being acquisition accounting and valuation of related intangible assets.

**We have performed the following audit work:**

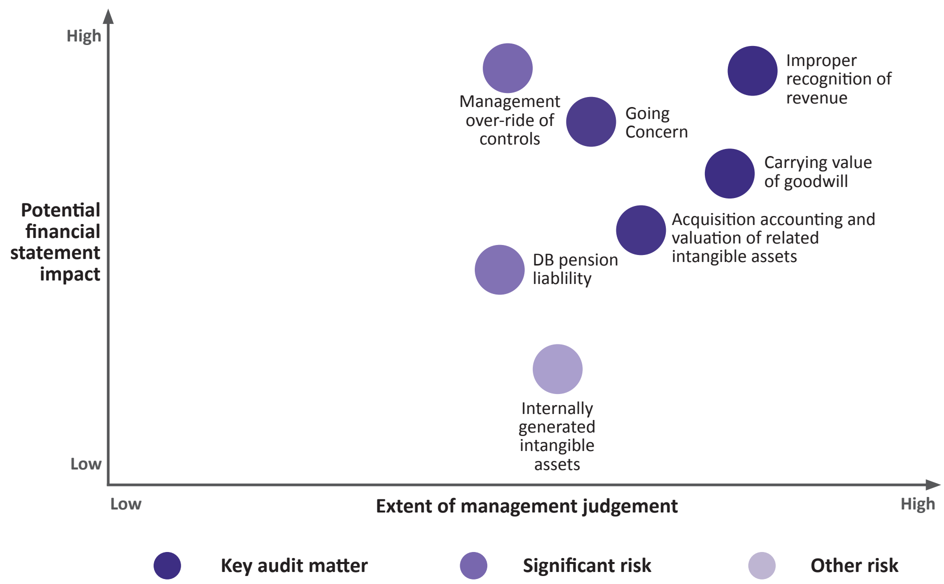
- an audit of the financial statements of the parent company and of the financial information of three of the components using component materiality (full scope audit), being Instem LSS Limited, Instem LSS NA Limited, and d-wise Inc;
- an audit of one or more account balances, classes of transactions or disclosures of the component (specified audit procedures) of four further components to gain sufficient appropriate audit evidence at the Group level; and
- analytical procedures at Group level for the remaining fifteen components in the Group during the year.

## KEY AUDIT MATTERS




Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



## KEY AUDIT MATTER – GROUP

**Improper recognition of revenue**

We identified the improper recognition of revenue for technology enabled outsourced services and professional services and consultancy services (service revenue) as one of the most significant assessed risks of material misstatement due to fraud.

There is a risk that revenue has been misstated due to the complexity of these revenue streams which presents the possibility that revenue recognition criteria is not being properly applied.

There is management judgement involved in determining the amount of revenue that is accrued at year end for service revenue on open projects which are recognised on a percentage completion basis as they are incomplete at the year end.

There is also a significant estimate made by management with regards planned project hours for service obligations, which determine the percentage completion of service revenue contracts.

We consider the risk of overstatement to be heightened for service revenue and this has been the focus of our work. We consider this risk to be specific to the occurrence assertion.

## HOW OUR SCOPE ADDRESSED THE MATTER – GROUP

In responding to the key audit matter, we performed the following audit procedures:

- Performed an assessment of business processes and the design and implementation of the controls identified;
- Assessed the Group's revenue accounting policies to assess compliance with IFRS 15
- Identified and assessed key contracts for service revenue across the Group and considered and challenged whether revenue has been recognised correctly in accordance with IFRS 15 by considering performance obligations under each key contract;
- Assessed management's accounting papers in respect of the application and implementation of IFRS 15 to the newly acquired entities;
- Challenged significant judgements made by management in respect of service revenue recognised as per the IFRS 15 accounting policy, including the recognition of revenue over time on a percentage completion basis;
- Selected key items and tested a sample of service revenue contracts, focusing on contracts which remain open at the year end and are recognised on a percentage completion basis. We identified such contracts from the project management system. We performed recalculations of the element of service revenue to be recognised as completed, agreeing to underlying signed statements of work, contracted hourly rates and timesheets, and invoices to ensure the appropriateness of revenue recognition;
- Performed a lookback test after the year end in order to review the accuracy of budgeted hours for project completion when compared to actual hours post year end;
- Recalculated any accrued or deferred income balances at the year-end for service revenue contracts selected as part of our revenue test of detail procedures; and
- Tested cut off for service revenue by confirming the appropriate allocation of sales to the correct period.

**Relevant disclosures in the Annual report and financial statements 2021**

The Group's accounting policy on revenue recognition is shown in 'Accounting policies' within the financial statements on pages 60 to 62; and related disclosures are included in Note 1 'Revenue from contracts with customers'.

**Our results**

Our audit testing did not identify any material misstatements in relation to revenue recognition.

## KEY AUDIT MATTER – GROUP

**Carrying value of the group's goodwill**

We identified the carrying value of the Group's goodwill as one of the most significant assessed risks of material misstatement due to error. We have pinpointed the significant risk in relation to the carrying value of goodwill, with increased focus on the CGUs identified as sensitive in management's sensitivity analyses.

Under International Accounting Standard IAS 36 'Impairment of Assets', management are required to assess at the end of each reporting period whether there is any indication that an asset may be impaired and to perform an annual assessment of whether the Group's goodwill within a CGU is impaired.

The process for assessing whether an impairment exists under IAS 36 is complex. Calculating the value in use, through forecasting cash flows related to CGUs and the determination of the appropriate discount rate and other assumptions to be applied is highly judgemental and as a result of the subjectivity of selecting the assumptions, can be subject to management bias. The selection of certain inputs into the cash flow forecasts can significantly impact the results of the impairment assessment.

We identified significant management judgements in the following areas:

- The weighted average cost of capital ('WACC') for each CGU used to discount the cash flows within the Group's impairment assessment;
- The revenue growth rate used in the impairment forecasts;
- Allocation of revenue and costs across the Group in accordance with transfer pricing policy; and

## HOW OUR SCOPE ADDRESSED THE MATTER – GROUP

In responding to the key audit matter, we performed the following audit procedures:

- Understood and assessed the Group's process and relevant controls around the carrying value of goodwill;
- Assessed the mechanical accuracy of the impairment model and the methodology applied by management for consistency with the requirements of IAS 36, including their associated sensitivity analysis;
- Tested the accuracy of management's forecasting through a comparison of prior forecasts to actual data;
- Assessed whether the supporting cash flow forecasts are in accordance with Board approved forecasts;
- Challenged the CGUs identified by management with regard as to whether there is an active market for the output of each CGU;
- Challenged the appropriateness of management's assumptions and sensitivities relating to the estimated future cash flows applied to the CGUs, including the growth rate and discount rate used to assess the level of headroom;
- Engaged internal valuations specialists to inform our challenge of management to ensure that the assumptions used within the WACC calculation are reasonable and gained assurance that the assumptions used are consistent with other similar Groups; and
- Reviewed management's sensitivity analyses to understand the impact of any reasonably possible changes in assumptions (including the WACC), and evaluated the headroom available from different outcomes to assess whether goodwill could be impaired on this basis;
- Assessed revenue growth rates against historical rates used by Instem, comparable businesses in the sector, and third party market data;
- Reviewed the transfer pricing policy to assess the reasonableness of management's judgements applied, and for consistency with previous periods;
- Assessed management's allocation of revenue and costs to each CGU in the prepared forecasts in accordance with the transfer pricing policy;
- Performed sensitivities on the transfer pricing adjustments and tested management's inputs;
- Assessed whether the Group's disclosures with respect to the carrying value of the Group's goodwill are adequate and the key assumptions are disclosed.

## KEY AUDIT MATTER – GROUP

**Relevant disclosures in the Annual report and financial statements 2021**

The Group's accounting policy on goodwill is shown in 'Accounting Policies' within the financial statements on page 68 and relevant disclosures in respect of the carrying value of the Group's goodwill are presented in Note 14 'Intangible Assets'.

**Going concern**

We identified going concern as one of the most significant assessed risks of material misstatement due to fraud and error as a result of the judgment required to conclude whether there is a material uncertainty related to going concern.

As stated on page 68, the Group has undergone a period of significant change throughout FY20 and FY21, driven by the acquisitive growth strategy of the Group. The Group has adapted to changes in respect of the global pandemic COVID-19, as well as raising significant funds via equity to fund the acquisition pipeline. These events could adversely impact the future trading performance of the Group and parent company and as such increases the extent judgement and estimation uncertainty associated with management's decision to adopt the going concern basis of accounting in the preparation of the financial statements.

In undertaking their assessment of going concern for the Group, the Directors considered the impact of and adverse turn in events within their forecast future performance of the Group and anticipated cash flows.

## HOW OUR SCOPE ADDRESSED THE MATTER – GROUP

**Our results**

Our audit testing did not identify any material impairment of goodwill. We concluded that the assumptions used in management's impairment model were appropriate. We consider the disclosures with respect to the carrying value of the Group's goodwill to be in accordance with IAS 36.

In responding to the key audit matter, we performed the following audit procedures:

- Obtained and assessed management's paper and assessment of going concern, including the forecasts covering the period to 30 April 2023 and challenging the assumptions used in the cash flow forecasts, as approved by the Board;
- Analysing how the reasonableness of forecasts and related disclosures may be impacted by the inherent risk associated with uncertainties in the economic environment and how this may affect the Group's resources or ability to continue operations over the going concern period;
- Obtained management's sensitised scenario, which reflected management's assessment of uncertainties, and which management considered to be severe but plausible. We evaluated the assumptions regarding the revenue and costs during the forecast period and the proposed mitigating cost savings under this scenario;
- Considered whether assumptions are consistent with our understanding of the business obtained during the course of the audit, the impairment forecast assumptions;
- Considered the impacts of year-end provisions and contingent liabilities as disclosed in the financial statements on the Group's ability to continue as a going concern;
- Assessed the accuracy of management's forecasting through a comparison of historical data to actual results and projections for following periods to post year end management accounts;
- Assessed the adequacy of the supporting evidence for the cash flow forecast and performing arithmetical checks on the forecast; and
- Assessed the policies and disclosures in respect of going concern given in the financial statements for appropriateness.

## KEY AUDIT MATTER – GROUP

**Relevant disclosures in the Annual report and financial statements 2021**

The Group's accounting policy on going concern is shown in 'Accounting policies' within the financial statements on page 58.

**Acquisition accounting and valuation of related intangible assets**

We identified accounting for business combinations as one of the most significant assessed risks of material misstatement due to error. Considering the pervasive nature of these transactions and the level of judgement involved, this has been identified as a financial statement level risk.

The Group has made three acquisitions in the current year. Under IFRS 3, 'Business combinations' management is required to recognise, separately from goodwill, the assets acquired and liabilities assumed, and then to recognise goodwill on purchase.

Management make significant judgements to identify specific intangible assets that are acquired with a new business and make significant estimates to value these assets.

Given the nature of the entities acquired, management have recognised material software assets, customer relationships and goodwill as part of the acquisitions.

Under IFRS 10, 'Consolidated financial statements', the group is required to consolidate newly acquired subsidiaries from the date it obtains control.

## HOW OUR SCOPE ADDRESSED THE MATTER – GROUP

**Our results**

We have nothing to report in addition to that stated in the 'Conclusions relating to going concern' section of our report.

In responding to the key audit matter, we performed the following audit procedures on business combinations:

- assessed whether the Group's accounting policy for the valuation of goodwill and other intangible assets is in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006, and checking that fair value measurements are accounted for in accordance with the stated accounting policy;
- obtained the acquisition date balance sheet of each acquired subsidiary and performing audit procedures in respect of the material assets and liabilities acquired;
- considered whether assets and liabilities transferred have been recognised at fair value, per the requirements of IFRS 3;
- obtained the details of the consideration paid, and agreeing these to relevant source documents, such as sale and purchase agreements;
- obtained management's purchase price allocation used to value specific acquired intangibles and assessing the appropriateness and reasonableness of key assumptions made in the calculations, such as growth rates, customer attrition rates and discount rates, and engaging our internal valuation specialists as auditor's experts to assess the reasonableness of such models and assumptions, and thus inform our challenge;
- engaged our internal valuation specialists as auditor's experts to perform shadow calculations used to develop an auditor's range for the value for certain intangibles acquired which was used to compare management's point estimate;
- challenged management's assessment of the identifiable intangible assets acquired by the Group, and whether any further intangible assets, such as brands or trademarks, should be identified; and
- assessed whether the requirements of control as defined under IFRS 10, 'Consolidated financial statements' had been achieved.

| KEY AUDIT MATTER – GROUP | HOW OUR SCOPE ADDRESSED THE MATTER – GROUP |
|---|---|
| **Relevant disclosures in the Annual Report and Accounts 2021**<br>The Group's accounting policies on goodwill, intangible assets and the basis of consolidation are shown in note 2 to the Group financial statements and related disclosures are included in notes 11 through 13. | **Our results**<br>We have nothing to report in addition to that stated in the 'Conclusions relating to going concern' section of our report. |

## OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

**Materiality was determined as follows:**

| Materiality measure | Group | Parent company |
|---|---|---|
| Materiality for financial statements as a whole | We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing, and extent of our audit work. | |
| Materiality threshold | £356,000, which is 0.77% of the Group's revenue. | £253,000, which is 0.36% of the parent company's total assets. |
| Significant judgements made by auditor in determining the materiality | We determine revenue to be the most appropriate benchmark due to this having importance in both external financial reporting and internal management reporting. This is a key driver of business activity and is a measure on which growth is monitored.<br>Materiality for the current year is higher than the level that we determined for the year ended 31 December 2020 to reflect the year on year revenue growth. | We determine net assets to be the most appropriate benchmark because the parent company does not trade and largely holds investments in subsidiary undertakings.<br>Materiality for the current year is higher than the level that we determined for the year ended 31 December 2020 to reflect the higher level of total assets in the parent company at the year end. |
| Performance materiality used to drive the extent of our testing | We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. | |
| Performance materiality threshold | £249,200, which is 70% of financial statement materiality. | £177,100, which is 70% of financial statement materiality. |
| Significant judgements made by auditor in determining the performance materiality | In determining performance materiality, we made the following significant judgements:<br>• assessment of the control environment in acquired entities;<br>• whether there were any significant adjustments made to the Group's financial statements in prior years; and<br>• assessment for any significant changes in business objectives and strategy of the Group. | In determining performance materiality, we made the following significant judgements:<br>• whether there were any significant adjustments made to the parent company's financial statements in prior years; and<br>• assessment for any significant changes in business objectives and strategy of the parent company. |

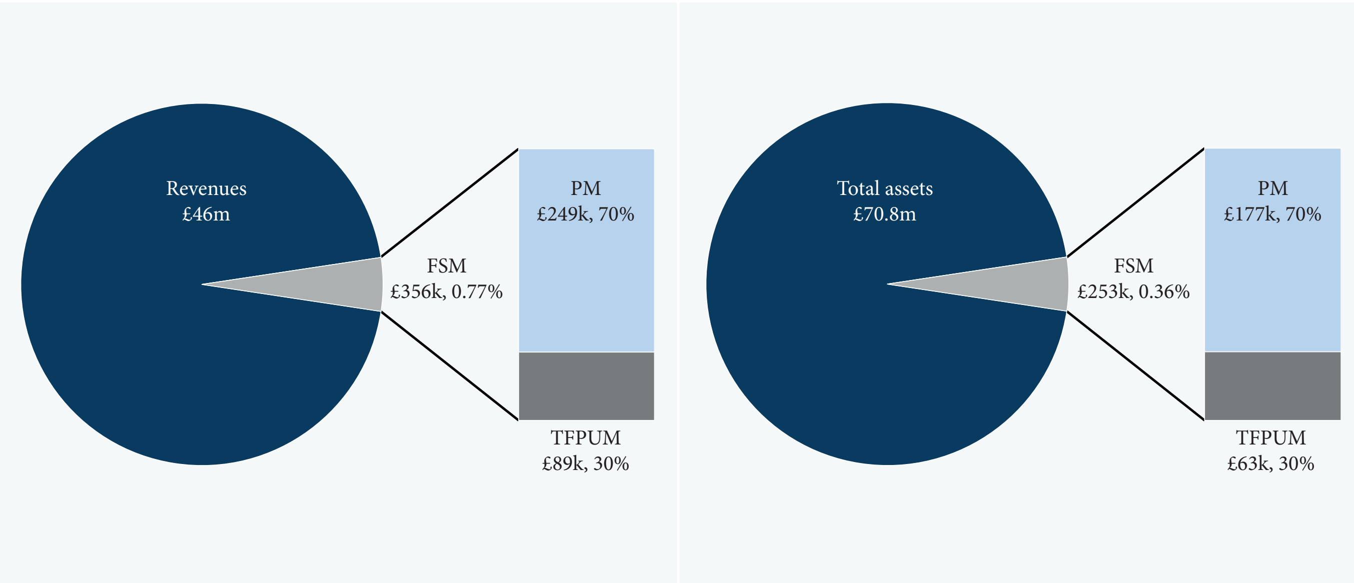
## OUR APPLICATION OF MATERIALITY (CONTINUED)

**Materiality was determined as follows:**

| Materiality measure | Group | Parent company |
|---|---|---|
| Specific materiality | We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. | |
| Specific materiality | We determined a lower level of specific materiality for related party transactions and directors' remuneration. | We determined a lower level of specific materiality for related party transactions and directors' remuneration. |
| Communication of misstatements to the audit committee | We determine a threshold for reporting unadjusted differences to the audit committee. | |
| Threshold for communication | £17,800 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. | £12,600 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. |

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

**Overall materiality – Group** | **Overall materiality – Parent company**




FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

## AN OVERVIEW OF THE SCOPE OF OUR AUDIT

We performed a risk-based audit that requires an understanding of the group and the parent company's business, and in particular matters related to:

**Understanding the group, its components and their environments, including group-wide controls**

- The engagement team obtained an understanding of the Group and its environment, including Group-wide controls, and assessed the risks of material misstatement at the Group level; and
- considered the structure of the Group, including Group-wide processes and controls, and used this to inform our assessment of risk, for example if the Group financial reporting system is centralised, and use of service organisations including shared service centres.

**Identifying significant components**

- In order to address the risks identified, the engagement team performed an evaluation of identified components to assess the significant components and to determine the planned audit response based on a measure of materiality, calculated by considering the component's significance as a percentage of the Group's total assets, revenue, and profit before taxation.

**Type of work to be performed on financial information of parent and other components (including how it addressed the key audit matters)**

- Of the Group's twenty eight components, we identified three in addition to the parent company which, in our view, required an audit of their financial information (full scope audit), either due to their size or their risk characteristics. As a result of this, we performed an audit of the financial statements of the parent company and of the financial information of three of the components using component materiality;
- We identified improper recognition of revenue, the carrying value of the Group's goodwill and going concern as key audit matters and the audit procedures performed in respect of these have been included in the key audit matters section of our report;

**Performance of our audit**

- We performed specified audit procedures over certain balances and transactions of nine components to give appropriate coverage of balances. Together, the components subject to full-scope audits and specified audit procedures were responsible for 80% of the Group's revenue, 76% of the Group's profit before tax and 85.6% of the Group's total assets; and
- We performed analytical procedures at Group level over the remaining components. These procedures, together with the additional procedures outlined above, performed at the Group level gave us the audit evidence we needed for our opinion on the Group financial statements as a whole. Changes in approach from previous period.
- All work including component work was performed by the Group audit team.

**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

- We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the parent company and the Group and the industry in which they operate. We determined that the most significant laws and regulations are: UK-adopted international accounting standards, Companies Act 2006, the AIM Rules, Quoted Companies Alliance (QCA) Corporate Governance Code, HIPAA laws in the United States, and taxation laws;
- We obtained an understanding of how the parent company and the Group are complying with those legal and regulatory frameworks by making inquiries of management, those responsible for legal and compliance procedures and the company secretary. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee;
- We assessed the susceptibility of the parent company's and Group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the Group engagement team included:
  - Assessing the design and implementation of controls management has in place to prevent and detect fraud;
  - Obtaining an understanding of how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
  - Challenging assumptions and judgments made by management in its significant accounting estimates;
  - Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations;
  - Engaging with our internal tax specialist to address the risk of non-compliance of tax legislation;
  - Assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item; and
  - Making inquiries, in respect of fraud, of those outside the finance team, including key management and the project management team.
- The engagement team's discussions in respect of potential non-compliance with laws and regulations and fraud included the risk of fraud in revenue recognition. We identified improper revenue recognition as a key audit matter. The key audit matters section of our audit report explains the matter in more detail and also describes the specific procedures we performed in response to the key audit matter.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery, or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it; and
- The assessment of the appropriateness of the collective competence and capabilities of the Group engagement team included consideration of the Group engagement team's knowledge of the industry in which the client operates, and the understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.

## USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael Frankish
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
4 May 2022

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

| | Note | **Year ended 31 December 2021 £000** | Year ended 31 December 2020 £000 |
|---|---|---|---|
| REVENUE | 1 | **46,017** | 28,217 |
| Employee benefits expense | 2 | **(26,918)** | (16,508) |
| Other expenses | 2 | **(10,491)** | (5,790) |
| Net impairment loss on financial assets | 18 | **(358)** | - |
| EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING ITEMS (ADJUSTED EBITDA) | | **8,250** | 5,919 |
| Depreciation | 16 | **(312)** | (138) |
| Amortisation of intangibles arising on acquisitions | 14 | **(1,563)** | (664) |
| Amortisation of internally generated intangibles | 14 | **(851)** | (736) |
| Depreciation of right of use assets | 8 | **(945)** | (572) |
| OPERATING PROFIT BEFORE NON-RECURRING ITEMS | | **4,579** | 3,809 |
| Non-recurring costs | 3 | **(1,286)** | (606) |
| Non-recurring income | 3 | **805** | - |
| OPERATING PROFIT AFTER NON-RECURRING ITEMS | | **4,098** | 3,203 |
| Finance income | 4 | **30** | 38 |
| Finance costs | 5 | **(1,144)** | (692) |
| PROFIT BEFORE TAXATION | | **2,984** | 2,549 |
| Taxation | 10 | **(1,306)** | (275) |
| PROFIT FOR THE YEAR | | **1,678** | 2,274 |
| OTHER COMPREHENSIVE INCOME/(EXPENSE) | | | |
| Items that will not be reclassified to profit and loss account: | | | |
| Actuarial gain/(loss) on net defined benefit liability | | **1,375** | (2,537) |
| Deferred tax on actuarial (loss)/gain | | **(140)** | 518 |
| Deferred tax on share options | | - | 322 |
| | | **1,235** | (1,697) |
| Items that may be reclassified to profit and loss account: | | | |
| Exchange differences on translating foreign operations | | **(294)** | 10 |
| OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR | | **941** | (1,687) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **2,619** | 587 |
| PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY | | **1,678** | 2,274 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY | | **2,619** | 587 |
| Earnings per share | | | |
| Basic | 30 | **7.8** | 12.3 |
| Diluted | 30 | **7.4** | 11.6 |

The notes on pages 72 to 125 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021 — Company Registration No. 07148099

| | Note | 2021 £000 | 2021 £000 | 2020 £000 | 2020 £000 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| NON-CURRENT ASSETS | | | | | |
| Intangible assets | 14 | **58,311** | | 18,023 | |
| Property, plant and equipment | 16 | **592** | | 238 | |
| Right of use assets | 8 | **2,077** | | 1,742 | |
| Finance lease receivables | 8 | **85** | | 128 | |
| TOTAL NON-CURRENT ASSETS | | | **61,065** | | 20,131 |
| CURRENT ASSETS | | | | | |
| Inventories | 17 | **64** | | 50 | |
| Trade and other receivables | 18 | **14,852** | | 6,093 | |
| Finance lease receivables | 8 | **44** | | 41 | |
| Tax receivable | 25 | **130** | | 724 | |
| Cash and cash equivalents | 19 | **15,021** | | 26,724 | |
| TOTAL CURRENT ASSETS | | | **30,111** | | 33,632 |
| TOTAL ASSETS | | | **91,176** | | 53,763 |
| LIABILITIES | | | | | |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 20 | **5,723** | | 2,958 | |
| Deferred income | 21 | **18,935** | | 9,878 | |
| Financial liabilities | 22 | **6,612** | | 268 | |
| Lease liabilities | 8 | **1,077** | | 608 | |
| TOTAL CURRENT LIABILITIES | | | **32,347** | | 13,712 |
| NON-CURRENT LIABILITIES | | | | | |
| Financial liabilities | 22 | **4,728** | | 1,131 | |
| Pension obligations | 27 | **2,014** | | 3,868 | |
| Provision for liabilities | 28 | **291** | | 250 | |
| Lease liabilities | 8 | **1,248** | | 1,476 | |
| Deferred tax liabilities | 26 | **3,247** | | 90 | |
| TOTAL NON-CURRENT LIABILITIES | | | **11,528** | | 6,815 |
| TOTAL LIABILITIES | | | **43,875** | | 20,527 |
| EQUITY | | | | | |
| Share capital | 29 | **2,219** | | 2,048 | |
| Share premium | 31 | **28,191** | | 28,172 | |
| Merger reserve | 31 | **12,104** | | 2,432 | |
| Share based payment reserve | 31 | **2,294** | | 930 | |
| Translation reserve | 31 | **(202)** | | 92 | |
| Retained earnings | 31 | **2,695** | | (438) | |
| TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT | | | **47,301** | | 33,236 |
| TOTAL EQUITY AND LIABILITIES | | | **91,176** | | 53,763 |

The financial statements on pages 72 to 125 were approved by the board of directors and authorised for issue on 4 May 2022 and are signed on its behalf by:

**P J Reason**
Director

**N J Goldsmith**
Director

# COMPANY STATEMENT OF FINANCIAL POSITION

At 31 December 2021 | Company Registration No. 07148099

| | Note | 2021 £000 | 2021 £000 | 2020 £000 | 2020 £000 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| NON-CURRENT ASSETS | | | | | |
| Intangible assets | | **17** | | 27 | |
| Investments | 15 | **47,188** | | 26,620 | |
| TOTAL NON-CURRENT ASSETS | | | **47,205** | | 26,647 |
| CURRENT ASSETS | | | | | |
| Trade and other receivables | 18 | **20,322** | | 3,330 | |
| Cash and cash equivalents | 19 | **3,294** | | 20,269 | |
| TOTAL CURRENT ASSETS | | | **23,616** | | 23,599 |
| TOTAL ASSETS | | | **70,821** | | 50,246 |
| LIABILITIES | | | | | |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 20 | **16,632** | | 8,468 | |
| Financial liabilities | 22 | **2,122** | | – | |
| TOTAL CURRENT LIABILITIES | | | **18,754** | | 8,468 |
| NON-CURRENT LIABILITIES | | | | | |
| Financial liabilities | 22 | **757** | | - | |
| TOTAL NON-CURRENT LIABILITIES | | | **757** | | - |
| TOTAL LIABILITIES | | | **19,511** | | 8,468 |
| EQUITY | | | | | |
| Share capital | 29 | **2,219** | | 2,048 | |
| Share premium | 31 | **28,191** | | 28,172 | |
| Merger reserve | 31 | **23,738** | | 14,066 | |
| Share based payment reserve | | **1,765** | | 929 | |
| Retained earnings | 31 | **(4,603)** | | (3,437) | |
| TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT | | | **51,310** | | 41,778 |
| TOTAL EQUITY AND LIABILITIES | | | **70,821** | | 50,246 |

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own statement of comprehensive income and related notes. The Company's loss for the year was £1,386,000 (2020: profit of £266,000).

The notes on pages 72 to 125 form part of these financial statements.

The financial statements on pages 50 to 125 were approved by the board of directors and authorised for issue on 4 May 2021 and are signed on its behalf by:

**P J Reason**
Director

**N J Goldsmith**
Director

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

| | Note | **2021** £000 | **2021** £000 | 2020 £000 | 2020 £000 |
|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Profit before taxation | | | **2,984** | | 2,549 |
| Adjustments for: | | | | | |
| Depreciation | 16 | | **312** | | 138 |
| Amortisation of intangibles | 14 | | **2,414** | | 1,400 |
| Depreciation of right of use assets | 8 | | **945** | | 572 |
| Share based payment charge | 2 | | **1,061** | | 427 |
| Contributions to defined benefit pension scheme | 27 | | **(530)** | | (512) |
| Government support loan forgiveness | 3 | | **(805)** | | - |
| Finance income | 4 | | **(30)** | | (38) |
| Finance costs | 5 | | **1,144** | | 692 |
| Loss on disposal of fixed assets | | | **3** | | 2 |
| CASH FLOWS FROM OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL | | | **7,498** | | 5,230 |
| Movements in working capital: | | | | | |
| Increase in inventories | | | **(14)** | | (14) |
| (Increase)/decrease in trade and other receivables | | | **(1,573)** | | 742 |
| Increase in trade, other payables and deferred income | | | **4,432** | | 1,410 |
| NET CASH GENERATED FROM OPERATIONS | | | **10,343** | | 7,368 |
| Finance income | 4 | | **6** | | 38 |
| Finance costs | | | **(276)** | | (648) |
| Income taxes | | | **(873)** | | 183 |
| NET CASH GENERATED FROM OPERATING ACTIVITIES | | | **9,200** | | 6,941 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Capitalisation of development costs and software | 14 | **(2,238)** | | (1,272) | |
| Purchase of property, plant and equipment | 16 | **(144)** | | (141) | |
| Payment of deferred consideration | | **(277)** | | (277) | |
| Purchase of subsidiary undertakings (net of cash acquired) | 11,12,13 | **(14,840)** | | - | |
| NET CASH USED IN INVESTING ACTIVITIES | | | **(17,499)** | | (1,690) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from issue of share capital | | **22** | | 16,167 | |
| Issue costs | | - | | (744) | |
| Proceeds from government support loan | | - | | 810 | |
| Repayment of lease liabilities | 24 | **(963)** | | (621) | |
| Receipts from sublease of asset | 24 | **40** | | 40 | |
| Repayment of lease capital | | - | | (15) | |
| Repayment of former PDS's shareholder loan | 24 | **(2,387)** | | - | |
| NET CASH GENERATED (USED IN)/FROM FINANCING ACTIVITIES | | | **(3,288)** | | 15,637 |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | | **(11,587)** | | 20,888 |
| Cash and cash equivalents at start of year | | | **26,724** | | 5,957 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | | **(116)** | | (121) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 19 | | **15,021** | | 26,724 |

The notes on pages 72 to 125 form part of these financial statements.

# COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

| | Note | **2021** | | 2020 | |
|---|---|---|---|---|---|
| | | **£000** | **£000** | £000 | £000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| (Loss)/Profit before taxation | | | **(1,386)** | | 266 |
| Adjustments for: | | | | | |
| Amortisation of intangibles | | | **10** | | 2 |
| Finance income | | | **(21)** | | (57) |
| Finance cost | | | **462** | | - |
| CASH FLOWS USED IN OPERATIONS BEFORE MOVEMENTS IN WORKING CAPITAL | | | **(935)** | | 211 |
| Movements in working capital: | | | | | |
| (Increase)/decrease in trade and other receivables | | | **(9,561)** | | 1,670 |
| Increase in trade and other payables | | | **8,164** | | 1,809 |
| NET CASH GENERATED FROM OPERATIONS | | | **(2,332)** | | 3,690 |
| Finance income | | | **21** | | 57 |
| Finance costs | | | **(86)** | | - |
| NET CASH GENERATED (USED IN)/ FROM OPERATING ACTIVITIES | | | **(2,397)** | | 3,747 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchase of software intangible | | - | | (29) | |
| Purchase of subsidiary undertakings (net of cash acquired) | | **(14,590)** | | - | |
| NET CASH USED IN INVESTING ACTIVITIES | | | **(14,590)** | | (29) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from issue of share capital | | **22** | | 15,423 | |
| NET CASH GENERATED FROM FINANCING ACTIVITIES | | | **22** | | 15,423 |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | | **(16,965)** | | 19,141 |
| Cash and cash equivalents at start of year | | | **20,269** | | 1,128 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | | **(10)** | | - |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 19 | | **3,294** | | 20,269 |

The notes on pages 72 to 125 form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### ATTRIBUTABLE TO OWNERS OF THE COMPANY

| | Note | Share capital £000 | Share premium £000 | Merger reserve £000 | Share based payment reserve issued £000 | Translation reserve £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2020** | | **1,662** | **13,135** | **2,432** | **654** | **82** | **(1,166)** | **16,799** |
| Profit for the year | | - | - | - | - | - | 2,274 | 2,274 |
| Other comprehensive (expense)/ income for the year | | - | - | - | - | 10 | (1,697) | (1,687) |
| Total comprehensive expense | | - | - | - | - | 10 | 577 | 587 |
| Shares issued | 29 | 386 | 15,037 | - | - | - | - | 15,423 |
| Share based payment | 9 | - | - | - | 427 | - | - | 427 |
| Reserve transfer on lapse of share options | | - | - | - | (65) | - | 65 | - |
| Reserve transfer on exercise of share options | | - | - | - | (86) | - | 86 | - |
| **Balance at 31 December 2020** | | **2,048** | **28,172** | **2,432** | **930** | **92** | **(438)** | **33,236** |
| Profit for the year | | - | - | - | - | - | 1,678 | 1,678 |
| Other comprehensive income/ (expense) for the year | | - | - | - | - | (294) | 1,235 | 941 |
| Total comprehensive (expense)/ income | | - | - | - | - | (294) | 2,913 | 2,619 |
| Shares issued | 29 | 171 | 19 | 9,672 | - | - | - | 9,862 |
| Share based payment | 9 | - | - | - | 1,061 | - | - | 1,061 |
| Deferred tax on share options | | - | - | - | 528 | - | - | 528 |
| Nil cost option charge | | - | - | - | (5) | - | - | (5) |
| Reserve transfer on lapse of share options | | - | - | - | (25) | - | 25 | - |
| Reserve transfer on exercise of share options | | - | - | - | (195) | - | 195 | - |
| **Balance as at 31 December 2021** | | **2,219** | **28,191** | **12,104** | **2,294** | **(202)** | **2,695** | **47,301** |

The notes on pages 72 to 125 form part of these financial statements.

# COMPANY STATEMENT OF CHANGES IN EQUITY

## ATTRIBUTABLE TO OWNERS OF THE COMPANY

| | Note | Share capital £000 | Share premium £000 | Merger reserve £000 | Share based payment reserve issued £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2020** | | **1,662** | **13,135** | **14,066** | **654** | **(3,855)** | **25,662** |
| Profit for the year | | - | - | - | - | 266 | 266 |
| Shares issued | 29 | 386 | 15,037 | - | - | - | 15,423 |
| Share based payment | 9 | - | - | - | 427 | - | 427 |
| Reserve transfer on lapse of share options | | - | - | - | (66) | 66 | - |
| Reserve transfer on exercise of share options | | - | - | - | (86) | 86 | - |
| **Balance as at 31 December 2020** | | **2,048** | **28,172** | **14,066** | **929** | **(3,437)** | **41,778** |
| Loss for the year | | - | - | - | - | (1,386) | (1,386) |
| Shares issued | 29 | 171 | 19 | 9,672 | - | - | 9,862 |
| Share based payment | 9 | - | - | - | 1,061 | - | 1,061 |
| Nil cost option charge | | - | - | - | (5) | - | (5) |
| Reserve transfer on lapse of share options | | - | - | - | (25) | 25 | - |
| Reserve transfer on exercise of share options | | - | - | - | (195) | 195 | - |
| **Balance as at 31 December 2021** | | **2,219** | **28,191** | **23,738** | **1,765** | **(4,603)** | **51,310** |

The notes on pages 72 to 125 form part of these financial statements.

## 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.

## STATEMENT OF COMPLIANCE

The financial statements of the Group and Company have been prepared in accordance with UK-adopted international accounting standards.

## BASIS OF PREPARATION

The Group's accounting reference date is 31 December.

The consolidated financial statements have been prepared on a going concern basis and prepared on the historical cost basis. Refer to the Going Concern note for further details.

The Group has taken advantage of the audit exemption for eleven of its subsidiaries, Instem Life Science Systems Limited (company number 04339129), Instem Scientific Solutions Limited (company number 03598020), Instem Clinical Holdings Limited (company number 05840032), Instem Clinical Limited (company number 06959053), Instem LSS (North America) Limited (company number 02126697), Instem LSS Limited (company number 03548215), Instem Scientific Limited (company number 03861669), Perceptive Instruments Limited (company number 02498351), Samarind Limited (company number 02105894), The Edge Software Consultancy Limited (company number 05400315), d-wise Technologies UK Limited (company number 07352898) by virtue of s479A of Companies Act 2006. The Company has provided parent guarantees to these subsidiaries which have taken advantage of the exemption from audit.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these consolidated financial statements.

## ADOPTION OF IFRS

The Group and Company financial statements have been prepared in accordance with IFRS, IAS and International Financial Reporting Interpretations Committee (IFRICs) effective as at 31 December 2021. The Group and Company have chosen not to adopt any amendments or revised standards early.

## IFRSs ADOPTED IN THE YEAR

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB which are all effective from 1 January 2021. The most significant of these are as follows:

- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Those standards, amendments to standards, and interpretations have been adopted and did not have a material impact on the accounting policies of the Group.

## IFRSs ISSUED BUT NOT YET EFFECTIVE

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these are as follows, which are all effective for the period beginning 1 January 2022:

- Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities
- Amendments to IAS12 'Deferred tax' on deferred tax related to assets and liabilities arising from a single transaction
- IFRS 3 'Business combination', reference to the Conceptual Framework and IAS 37, 'Provisions', on onerous contracts
- A number of narrow-scope amendments to IFRS1, IAS 8, IAS16 and IAS17
- A number of annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16

These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## BASIS OF CONSOLIDATION

The consolidated financial statements incorporate those of the parent company, Instem plc, and its subsidiary undertakings made up to 31 December 2021 and 31 December 2020.

In preparing the consolidated financial statements, any intra-group balances, unrealised gains and losses or income and expenses arising from intra-group trading are eliminated. Where accounting policies used in individual financial statements of a subsidiary company differ from Group policies, adjustments are made to bring these policies in line with Group policies.

**Subsidiaries**

Subsidiaries are entities in which the Group has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group up until the date that control ceases.

All subsidiary companies within the Group have a financial year end date of 31 December, with the exception of Instem India Pvt Limited which has a financial year end date of 31 March, in line with Government of India regulations.

## BUSINESS COMBINATIONS

The Group applies the acquisition method in accounting for business combinations. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 'Income taxes'.

Consideration may consist of deferred consideration and contingent consideration. Deferred consideration is not based on any performance related conditions and is payable on an agreed future date. Contingent consideration is based on certain performance related conditions and payable on an agreed future date, if those conditions are met.

Deferred consideration and contingent consideration is measured at their acquisition-date fair value and are taken into account in the determination of goodwill. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified.

In the interim results announcement on 27 September 2021 an element of deferred consideration relating to the d-Wise acquisition was recognised as employee remuneration through the Statement of Comprehensive Income.

As part of the procedures performed for the year end release of results on 26 April 2022 this was reassessed and it was concluded that no substantive employment link existed. Appropriate adjustments have been made to the current year annual report to include the deferred consideration as part of the cost of business combination. Any employment remuneration expense recognised in the interim results announcement on 27 September 2021 has been reversed.

This does not represent a prior period error in accordance with IAS 8 for the purpose of the annual report on 4 May 2022, however, it will be appropriately addressed in the next interim results release on September 2022.

Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates with the corresponding gain or loss being recognised in statement of comprehensive income.

## GOING CONCERN

The financial position of the Group, its cash flows and liquidity position are set out in the primary statements within these financial statements.

**Background**

The Directors have adopted the going concern basis in preparing these financial statements after careful assessment of identified principal risks and the possible adverse impact on financial performance. The Directors have assessed the financial position and liquidity at the end of the reporting period and for the forecast period up to 30 April 2023, including sensitivity analysis. The going concern period covers the 12 months from the date of signing the financial statements. The process and key judgments in coming to this conclusion are set out below.

The Group's activities, including the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Strategic report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review.

**Current trading and liquidity**

The Group's trading performance for the year ended 31 December 2021 has been strong with Revenues of £46.0m and Adjusted EBITDA of £8.3m. Instem is fully operational, with all staff in all territories working from home in accordance with governmental guidelines, no staff have been furloughed and there is no intention of curtailing any business activities. The company has continued to recruit staff across its geographic footprint.

The Group signed a new financing arrangement on 8 April 2022, which consists of a committed facility of £10.0m with HSBC UK Bank plc to support the Group's working capital needs and its acquisition strategy, which can be extended up to £20.0m if needed, subject to further bank approval. The financial covenants have been considered in the forecast to ensure compliance. However as of 31 December 2021, the Group had a net overdraft facility of £0.5m and a gross facility of £9.0m with NatWest Bank plc. As of 31 December 2021, the net overdraft facility with NatWest Bank plc was undrawn (2020: undrawn).

Instem undertook an oversubscribed equity fund raise in July 2020, raising £15.0m net of expenses. The fund raise placed the Group in a strong cash position which helped to accelerate the Group's acquisition strategy with the acquisitions of the Edge, d-wise and PDS. The cash payment for purchasing those subsidiaries was £17.2m (net of cash acquired).

The period 2021 saw again strong net cash generated from operations of £10.3m (2020: £7.4m), largely due to operating cash inflows from the newly acquired businesses, key contracts, outsourced services and effective working capital management.

The loan proceeds of £0.8m ($1.1m) which were part of the US federal government support for businesses during the COVID-19 pandemic were fully forgiven in 2021. As a result of the above and the positive organic cash generation achieved in the period, the cash balance decreased from £26.7m to £15.0m.

The Group acquired the earnings enhancing, cash generative business of Leadscope Inc, The Edge, d-wise, and PDS between November 2019 and September 2021, which have been steadily integrated within the Group during 2021.

The financial cash obligations associated with these acquisitions during 2022 are deferred and contingent consideration payments of £3.6m and £2.5m respectively. The contingent consideration reflects management's estimate of a 100% probability that the entities target profitability will be achieved. The amount of £1.1m payable to d-wise in relation to its contingent consideration could be a combination of cash and shares of Instem plc at the discretion of the Group.

**Sensitivity Analysis**

The Company has considered two scenarios which are also linked to the company's risks when modelling the forecast results and cash flow. The sensitivity assessment includes the trading performance and cash flows of the three acquisitions occurred in 2023.

**(a) Base Case Scenario**

The Group's detailed forecasts and projections, taking account of potential risks and uncertainties in the business, market and liquidity through sensitivity analysis, show that the Group has adequate resources to enable it to continue in operation through the forecast period ending 30 April 2023 from the approval date of these Consolidated Financial Statements. Accordingly, the Group continues to adopt the going concern basis in preparing its Consolidated Financial Statements.

The uncertainty as to the future impact on the Group of the ongoing conflict between Russia and Ukraine has been considered as part of the sensitivity analysis and as part of Group's adoption of the going concern basis. We have no customers, suppliers or staff in either territory. Thus far we have not observed any material impact on 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.

The Group has a significant proportion of recurring revenue (circa 52% of total) from annual support & maintenance and SaaS contracts from a well-established global customer base. Revenue is supported by a largely fixed cost base comprising staff and offices.

**(b) Sensitised Scenario**

Further stress testing has been carried out to ensure that the Group has sufficient cash resources to continue its operations until at least 30 April 2023. In preparing this analysis the following key risks were included causing a 35% loss of new business for the next twelve months and the risk effect of foreign exchange movements, particularly between the USD and GBP. Despite the negative impact of these sensitivities the model demonstrated that the Group remained viable however, the cash balance was reduced over the going concern period to April 2023.

In a worse scenario where many of the identified risks occurred, the Group would take remedial action to counter the reduction in profit and cash through a cost cutting and fund-raising exercise that would include staff redundancies, general cost control measures. These further downside scenarios are considered unlikely.

**Conclusion and Going Concern Statement**

After considering the uncertainties described above, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing this annual report and accounts.

## REVENUE RECOGNITION

The Group generates revenue from the provision of software licences, annual support, SaaS subscriptions, subscription and support, professional services, technology enabled outsourced services and consultancy services.

At contract inception, an assessment is completed to identify the performance obligations in each contract. Performance obligations in a contract are either goods or services that are distinct or part of a series of goods or services that are substantially the same and have the same pattern of transfer to the customer. Promises that are not distinct are combined with other promised goods or services in the contract, until a performance obligation is satisfied.

At contract inception, the transaction price is determined, being the amount that the Group expects to receive for transferring the promised goods or services. The transaction price is allocated to the performance obligations in the contract based on their relative standalone selling prices. The Group has determined that the contractually stated price represents the standalone selling price for each performance obligation.

Revenue is recognised when a performance obligation has been satisfied by transferring the promised product or service to the customer.

**Software licences**

Licence revenue comprises the sale of software licences across the Group and the sale of compound credits by Leadscope and resale of complementary products. The revenue from software licences is recognised when the customer takes possession of the software which is usually when the licence key is provided to the customer. This is because the software is functional at the time the licence transfers to the customer and the Group is not required or expected to undertake activities that significantly affect the utility of the intellectual property by the customer. The revenue from compound credits is recognised at the point in time when the actual credits have been exercised, as the promises in these contracts are a single performance obligation.

**Annual support**

Customers typically enter into a support contract for a period of twelve months. This contract provides the customer with access to technical support and software upgrades. Customers pay a fixed amount in exchange for the use of a cloud based statistical computing environment, along with access to maintenance and support. The promises in these contracts constitute a single performance obligation, which is satisfied over time as the customer consumes the benefits of the service consistently over the contract term. Revenue in respect of the single performance obligation is recognised evenly over the contract term.

**SaaS subscription and support**

Customers typically enter into a SaaS contract for a period of twelve months and pay a fixed amount in exchange for the usage of software on a hosted server over a specified period of time along with access to maintenance and support. Initial SaaS contracts may also include some installation or customisation of the software and training for staff. The promises in this contract are considered to be a single performance obligation as the subscription and support are highly interdependent on one another given that the customers are required to take the full package of both the software and support services i.e. Instem would not be able to provide the support services without the provision of the software nor provide the software without the support services.

The revenue is recognised over the period of the contract on a straight-line basis as the customer simultaneously receives and consumes the benefits of the software and services provided by the Group consistently over the contract term.

**Subscription and support**

Customers typically enter into a Subscription contract for an agreed period, could be more than twelve months and pay a fixed amount in exchange for the usage of software on a hosted server, computer based version or customer server version (in customer premises) over a specified period of time along with access to maintenance and support. In some cases the initial subscription contracts may also include some installation services.

The promises in these contracts are considered to be a single performance obligation as the subscription and support are highly interdependent on one another given that the customers are required to take the full package of both the software and support services i.e. Instem would not be able to provide the support services without the provision of the software nor provide the software without the support services.

The revenue is recognised over the period of the contract on a straight-line basis as the customer simultaneously receives and consumes the benefits of the software and services provided by the Group consistently over the contract term.

**Professional services and technology enabled outsourced services**

Customers typically enter into a service contract to provide distinct service work based on clear statements of work. Service work includes, but is not limited to, implementation services, training and outsourced services work relating to SEND, KnowledgeScan and Blur. The promises in this contract are considered to be a single performance obligation given the services are interdependent and the revenue is recognised on a percentage completion basis for fixed price contracts or as services are provided in respect of time and materials contracts. The Group has elected to take the practical expedient to apply this policy to its portfolio distinct service contracts given the similar characteristics in these types of contracts.

Professional services include the revenue from funded development projects where customers typically enter into a service contract to accelerate product development. Revenue for funded development work is recognised on a percentage completed basis. The percentage completed is determined with reference to time required to complete the development.

**Consultancy services**

Customers typically enter into a service contract to provide distinct service work based on clear statements of work which include consulting services for clinical trial applications. The consultancy services are contracted for on either a time and materials or fixed priced basis. Time and materials consultancy is recognised in the period in which it is performed. Fixed price work is recognised on a percentage completion basis of the remaining unbilled milestones. The percentage completed is determined with reference to time incurred to date and time required to complete the development or consultancy.

**Bundled contracts**

Software licences, professional services, cloud based statisitical computing environment - and annual support are often bundled together in a contract.

Where the contract assessment identifies that the sale does not meet the criteria to be a distinct performance obligation, due to a lack of interdependence between performance obligations, promises that are not distinct are combined with other promised goods or services in the contract, until a performance obligation is satisfied. Revenue in respect of this bundled performance obligation is recognised over the period of the contracted obligation on a straight-line basis.

**Amounts recoverable on contracts and deferred income**

In most cases, customers are invoiced and payment is received in advance of revenue being recognised in the income statement. Amounts recoverable on contracts and deferred income is the difference between amounts invoiced to customers and revenue recognised under the policy described above.

For professional services, technology enabled outsourced services and consultancy services the group will raise an invoice to the customer only if the performance obligation based on the agreement would be met.

Consequently, if the amount of revenue recognised exceeds the amounts invoiced the excess amount is included within amounts recoverable on contracts.

In comparison if customers are invoiced and payment is received in advance of revenue being recognised in the income statement then deferred income is recognised.

**Contract fulfilment asset**

Contract fulfilment assets are amortised over the expected contract period on a systematic basis representing the pattern in which control of the associated service is transferred to the customer.

**Practical exemptions**

The Group has taken advantage of the following practical exemptions:

- not to account for significant financing components where the time difference between receiving consideration and transferring control of goods (or services) to its customer is one year or less;

- expense the incremental costs of obtaining a contract when the amortisation period of the asset otherwise recognised would have been one year or less; and
- to not disclose information relating to performance obligations for contracts that had an original expected duration of one year or less or where the right to consideration from a customer is an amount that corresponds directly with the value of the completed performance obligations.

## ADJUSTED EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION, AMORTISATION AND NON-RECURRING ITEMS (EBITDA)

Adjusted EBITDA is profit/(loss) arising from the Group's normal trading activities stated before interest, tax, depreciation, amortisation and non-recurring items.

It is shown in this way to provide a clearer measure of underlying operating performance.

## SEGMENTAL DISCLOSURES

During the Period, year the business was divided into four operating segments to better manage and report revenues; Study Management, Regulatory Solutions, *In Silico* Solutions and Clinical Trial Acceleration (CTA), see note 1. The fourth segment was established following the acquisition of d-wise in April 2021.

There has been an internal project to enhance the quality of management information following the implementation of a new finance system in 2019. During 2020 this system enabled more centrally recorded costs to be allocated to the individual segments and that process was further developed during 2021. The operations of the Group are managed centrally with group-wide functions including sales, marketing, software development, information technology, customer support, human resources and finance & administration. The CTA segment already bears the majority of its costs directly and as such reports a lower direct contribution margin to central overheads than the other three segments.

The expectation in future years is to be able to allocate more centrally held operational costs to the individual segments as internal reporting systems evolve, thereby, assisting the Board to use the segmental cost information for meaningful decision making.

The operations of the Group are managed centrally with group-wide functions including sales, marketing, software development, customer support, IT, human resources and finance & administration.

## FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the date the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the reporting date. The revenue and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions, or otherwise at the exchange rate ruling at the date of each transaction.

Exchange differences arising from the translation of foreign operations are taken directly to the translation reserve. They are released into profit or loss upon disposal of the foreign operation.

The exchange rates used to translate the financial statements into Sterling (GBP) are as follows:

| | US Dollar (USD) | Euro (EUR) | Swiss Franc (CHF) | Chinese Renminbi (RMB) | Indian Rupee (INR) | Japanese Yen (JPY) |
|---|---|---|---|---|---|---|
| Average rate for year ended 31 December 2020 | 1.2852 | 1.1283 | 1.2025 | 8.8974 | 95.4317 | 137.1411 |
| Closing rate at 31 December 2020 | 1.3659 | 1.1124 | 1.2038 | 8.9346 | 100.1070 | 140.7079 |
| Average rate for year ended 31 December 2021 | 1.3744 | 1.1583 | 1.2570 | 8.8570 | 101.6019 | 150.6447 |
| Closing rate at 31 December 2021 | 1.3497 | 1.1918 | 1.2315 | 8.5684 | 100.2861 | 155.3695 |

The consolidated financial statements are presented in Sterling (GBP), which is also the functional currency of the Parent Company. The functional currencies of each of the companies in the Group are as follows:

| | |
|---|---|
| Instem plc | Sterling (GBP) |
| Instem Life Science Systems Limited | Sterling (GBP) |
| Instem LSS Limited | Sterling (GBP) |
| Instem LSS (North America) Limited | US Dollars (USD) |
| Instem LSS Asia Limited | Hong Kong Dollars (HKD) |
| Instem Information Systems (Shanghai) Limited | Renminbi (RMB) |
| Instem Scientific Limited | Sterling (GBP) |
| Instem Scientific Solutions Limited | Sterling (GBP) |
| Instem Scientific Inc | US Dollars (USD) |
| Instem India Pvt Limited | Indian Rupees (INR) |
| Instem Clinical Holdings Limited | Sterling (GBP) |
| Instem Clinical Limited | Sterling (GBP) |
| Instem Clinical Inc | US Dollars (USD) |
| Perceptive Instruments Limited | Sterling (GBP) |
| Instem Japan K.K | Japanese Yen (JPY) |
| Samarind Limited | Sterling (GBP) |
| Notocord Systems S.A. | Euro (EUR) |
| Notocord Inc. | US Dollars (USD) |
| Leadscope Inc. | US Dollars (USD) |
| The Edge Software Consultancy Limited | Sterling (GBP) |
| d-wise Technologies UK Limited | Sterling (GBP) |
| Instem Inc. | US Dollars (USD) |
| d-wise Technologies Inc. | US Dollars (USD) |
| d-wise Technologies Inc Morrisville succursale de Geneve Branch | Swiss Franc (CHF) |
| d-wise Technologies Deutshland GmbH | Euro (EUR) |
| Pathology Data Systems AG | Swiss Franc (CHF) |
| Pathology Data Systems Inc. | US Dollars (USD) |
| Pathology Data Systems Limited Japan Branch | Japanese Yen (JPY) |

## NON RECURRING ITEMS

Non recurring items are gains or losses which are infrequent or abnormal and are not part of the ongoing operations of the business. Non recurring items may include restructuring costs, legal fees, M&A costs and other unusual gains or losses.

## GRANT

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with the appropriate conditions.

## FINANCE INCOME

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Finance income includes exchange gains (including exchange gains on the translation of intra-group funding balances).

## FINANCE COSTS

Net finance costs include interest payable, arrangement and service fees, exchange losses (including exchange losses on the translation of inter-company funding balances), unwinding discount from future deferred consideration payments, finance charges on leases and net interest on pension scheme liabilities. Interest payable is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

## SHARE-BASED PAYMENT TRANSACTIONS

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. Fair values are measured by use of the Binomial, Monte Carlo or Black Scholes models. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Non-vesting and market vesting conditions are taken into account when estimating the fair value of the option at grant date. Service and non-market vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date. Market vesting conditions are linked to the Group's share price performance. Non-market vesting conditions are linked to trading performance and service over defined time periods.

Cancelled or settled options are accounted for as an acceleration of vesting. The unrecognised grant date fair value is recognised in profit or loss in the year that the options are cancelled or settled. Where the terms of the options are modified and the modification increases the fair value or number of equity instruments granted, measured immediately before and after the modification, the incremental fair value is spread over the remaining vesting period.

Options over the Company's shares granted to employees of subsidiaries are recognised as a capital contribution in the subsidiaries and added to the cost of investment within Instem plc.

## TAXATION

Taxation expense includes the amount of current income tax payable and the charge for the year in respect of deferred taxation.

The income tax payable is based on an estimation of the amount due on the taxable profit for the year. Taxable profit is different from profit before tax as reported in the statement of comprehensive income because it excludes items of income or expenditure which are not taxable or deductible in the year as a result of either the nature of the item or the fact that it is taxable or deductible in another year. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

Income tax credits for research and development activities are recognised on a cash basis or when their receipt is reasonably certain.

Deferred tax is accounted for on the basis of temporary differences arising from the differences between the tax base and accounting base of assets and liabilities.

Deferred tax is recognised for all taxable temporary differences, except to the extent where it arises from the initial recognition of an asset or liability in a transaction that is not a business combination. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax is recognised on income or expenses from subsidiaries that will be assessed or allow for tax in future periods except where the Group is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future.

Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case it is dealt with within equity. It is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

## INTANGIBLE ASSETS

Intangible assets purchased separately from a business are capitalised at their cost.

**Intellectual Property, Customer Relationships, Brand Names and Patents**

The Group makes an assessment of the fair value of intangible assets arising on acquisitions. These include Intellectual Property, Customer Relationships, Brand Names and Patents. An intangible asset will be recognised as long as the asset is identifiable and its fair value can be measured reliably. An intangible asset is identifiable if it is separable or if it was obtained through contractual or legal rights. Amortisation is provided on the fair value of the asset and is calculated on a straight-line basis over its useful life. The useful life for Intellectual Property, Customer Relationships, Brand Names and Patents is between five and fifteen years. Amortisation is recognised within the statement of comprehensive income. All intangible assets except Goodwill are amortised and are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

**Goodwill**

Goodwill on acquisitions, being the excess of the fair value of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities acquired, is capitalised and tested for impairment on an annual basis. Goodwill is carried at cost less accumulated impairment losses.

Any impairment is recognised immediately in profit or loss and is not subsequently reversed. For the purpose of impairment testing goodwill is allocated to cash generating units of Instem plc, which represent the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

**Computer Software**

Computer software is carried at cost less accumulated amortisation and any impairment loss. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of three years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 "Intangible Assets" are met. When the software is available for its use, these costs are amortised over the estimated useful life of the software.

**Internally generated intangible assets**

Expenditure on research activities is recognised in the statement of comprehensive income as incurred.

Expenditure arising from the Group's development of software for sale to third parties is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the Group has the intention to complete the asset and the ability and intention to use or sell it;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Capitalised development costs are those which are directly attributable to the development activity and include employee costs, overheads and direct third party costs.

Where the criteria have not been achieved, development expenditure is recognised in profit or loss in the period in which it is incurred.

Internally-generated intangible assets are amortised, once the product is available for use, on a straight-line basis over their useful lives (five to eight years) and are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Any capitalised internally developed software that is not yet complete is not amortised but is subject to impairment testing.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

## PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and provision for impairments.

Depreciation is provided on all assets so as to write off the cost less estimated residual value on a straight-line basis as follows:

- Short leasehold property - Over term of lease
- IT hardware and software - 25% - 33% per annum

The expected useful lives and residual values of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

## LEASING

**The Group as a lessee**

The Group makes use of leasing arrangements principally for the provision of office space and IT equipment. The Group does not enter into sale and leaseback arrangements. All the leases are negotiated on an individual basis and contain a wide variety of different terms and conditions such as purchase options and escalation clauses.

The Group assesses whether a contract is a lease or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

Some lease contracts contain both lease and non-lease components. These non-lease components are usually associated with facilities management services at offices. The Group has elected to not separate its leases for offices into lease and non-lease components and instead accounts for these contracts as a single lease component.

**Measurement and recognition of leases as a lessee**

All leases are accounted for by recognising a right of use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, discounted using the Group's incremental borrowing rate because as the lease contracts are negotiated with third parties it is not possible to determine the interest rate that is implicit in the lease. The incremental borrowing rate is the estimated rate that the Group could have to pay to borrow the same amount over a similar term and with similar security to obtain an asset of equivalent value. This rate is adjusted should the lessee entity have a different risk profile to that of the Group.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed) and variable payments based on an index or rate.

In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right of use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the revised discount rate at the date of re-assessment or effective date of a lease modification is used. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. The lease liability is remeasured only when the adjustment to lease payments takes effect and the revised contractual payments for the remainder of the lease term are discounted using an unchanged discount rate. In both cases an equivalent adjustment is made to the carrying value of the right of use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using

the discount rate applicable on the modification date, with the right of use asset being adjusted by the same amount

- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right of use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right of use asset is adjusted by the same amount.

In determining the lease term, the Group assesses whether it is reasonably certain to exercise, or not to exercise, options to extend or terminate a lease. This assessment is made at the start of the lease and is re-assessed if significant events or changes in circumstances occur that are within the lessee's control.

The Group has elected to account for short-term leases assets using practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The Group applies judgement in determining whether individual leases can be accounted for as a portfolio. The judgements include an assessment of whether the leases share similar characteristics and whether the financial statements would be materially different if each lease was accounted for individually. The Group leases a number of properties in the jurisdictions from which it operates. In these jurisdictions the periodic rent is fixed over the lease term, with inflationary increases incorporated into the fixed payments stipulated in the lease agreements. Where rental agreements include market rate escalations, the lease liability is re-measured when the change in cash payments takes affect. The Group also leases certain vehicles. Leases of vehicles comprise only fixed payments over the lease terms.

**The Group as a lessor**

The Group acts as a lessor in relation to a sublease of part of one of the properties it leases. As a lessor the Group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

As the lease term is for the major part of the economic life of the underlying right of use asset this has been treated as a finance lease. The right of use asset has therefore been derecognised and a net investment in the lease recognised instead. Interest income is recognised on the lease receivable.

## IMPAIRMENT OF ASSETS EXCLUDING GOODWILL

The carrying value of property, plant and equipment and intangible assets (excluding goodwill) is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

At each reporting date the Group reviews the carrying value of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets the Group estimates the recoverable amount of the cash generating unit ('CGU') to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

## IMPAIRMENT TESTING OF GOODWILL

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually.

An impairment loss is recognised for the amount by which CGU's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use.

To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate (WACC) in order to calculate the present value of those cash flows.

The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. The budgeted unallocated departmental costs are assigned to each CGU's using an approach agreed by the board.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

## INVENTORY

Inventory is stated at the lower of cost and net realisable value. The cost of work in progress comprises direct labour and other direct costs and includes billable employee expenses.

Provision is made where necessary for obsolete and slow-moving inventory.

## PROVISION FOR LIABILITIES

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation and where the amount can be reliably estimated.

## FINANCIAL INSTRUMENTS

**Financial assets**

The Group classifies its financial assets at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

**Financial assets at amortised cost**

These assets arise principally from the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost, less provision for impairment.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

**Trade receivables**

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer) they are classified as current assets, if not, they are presented as non-current assets.

Trade and other receivables are measured at the transaction price in accordance with IFRS 15.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 5 years before 31 December 2021 (2020: 31 December 2020) and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The contract assets relate to unbilled revenue, which have performance obligations to be completed. Other than performance risk, the contract assets have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

At each reporting date management assesses whether any events have occurred which have had a detrimental effect on the estimated future cash flows of the asset causing a financial asset to become credit-impaired. If the credit risk is significant a provision is posted based on the recoverable amount the Group is expected to receive per management's assessment. Specific provisions of this nature are excluded from the simplified credit loss calculation using the provision matrix.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and cash deposits which are readily convertible to a known amount of cash. Cash and cash equivalents in the statement of financial position include bank overdrafts. An offset position is reported as the Group has a legal right to offset and any settlement would be on a net basis. For the purposes of the cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand and are an integral part of Group cash management.

**Investments**

Investments in subsidiaries are recorded at cost in the statement of financial position. They are tested for impairment when there is objective evidence of impairment. Any impairment losses are recognised in the statement of comprehensive income in the period they occur.

**Intercompany receivables**

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised. The amount of any provision is recognised in the income statement within other operating costs.

**Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Interest-bearing government loans are recorded initially at their fair value, net of direct transaction costs. Such loans are subsequently carried at their amortised cost and finance charges are recognised in the statement of comprehensive income over the term of the instrument using an effective rate of interest.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

**Bank borrowings and loan notes**

Interest-bearing loan notes and bank overdrafts are recorded initially at their fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortised cost and finance charges are recognised in the statement of comprehensive income over the term of the instrument using an effective rate of interest.

Finance charges are accounted for on an accruals basis to the statement of comprehensive income. Overdrafts are offset against cash and cash equivalents when the Group has a legal right of off-set.

**Trade and other payables**

Trade and other payables are not interest bearing and are initially recognised at fair value and subsequently at amortised cost.

**Ordinary share capital**

For ordinary share capital, the par value is recognised in share capital and the premium in the share premium reserve.

## POST-EMPLOYMENT BENEFITS

**Defined contribution schemes**

A defined contribution scheme is a pension plan under which the Group pays a fixed contribution to a scheme with an external provider. The amount charged to the statement of comprehensive income in respect of pension costs and other post-employment benefits is the total of contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either other payables or other receivables in the statement of financial position. The Group has no further payment obligations once the contributions have been paid.

**Defined benefit scheme**

A defined benefit scheme is a pension plan under which the Group pays contributions in order to fund a defined amount of pension that the employees under the scheme will receive on retirement. The cost of providing the benefits is determined using the projected unit credit method with actuarial valuations being carried out regularly.

An asset or liability is recognised equal to the present value of the defined benefit obligation, adjusted for unrecognised past service costs and reduced by the fair value of plan assets.

Actuarial gains and losses are recognised in the statement of other comprehensive income in the year in which they occur, whilst expected returns on plan assets, servicing costs and financing costs are recognised in the statement of comprehensive income.

The rate used to discount the benefit obligations is based on market yields for high quality corporate bonds with terms and currencies consistent with those of the benefit obligations.

## SIGNIFICANT JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, which are described above, management have made judgements and estimations about the future that have the most significant effect on the amounts recognised in the financial statements. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

**Significant judgements**

The following judgments have the most significant effect on the financial statements.

**Revenue Recognition**

The Group generates revenue from the provision of software licences, annual support, SaaS subscriptions, subscription and support, professional services, technology enabled outsourced services and consultancy services. Software licences, professional services and annual support are often bundled together in a contract which do not meet the criteria to be distinct performance obligation.

Even though, the promise to transfer services to the customer are separately identifiable, the nature in the context of the contract, is to transfer combined services. The goods or services are highly interdependent, interrelated and the Group would not be able to fulfil its promise by transferring each of the goods or services independently.

Judgement is applied in determining how many performance obligations there are within each contract and the period in which these obligations will be fulfilled and recognised as revenue, based on the Group's accounting policies. For SaaS subscription, subscription and support and annual support, the Group determines for each contract whether the promise is considered to be a single performance obligation as the subscription and support are highly interdependent on one another given that the customers are required to take the full package of both the software and support services i.e Instem would not be able to provide the support services without the provision of the software nor provide the software without the support services.

**Impairment of goodwill**

In 2021, the CGUs are identified by the fact they are separate legal entities and so have their own intangible and tangible assets, other current assets and generate cash from their products and services that are separately identifiable from one another. The judgements were made in respect of the WACC, the revenue growth rate applied and the allocation of costs across the CGUs.

The carrying value of goodwill must be assessed for impairment annually. This requires a value in use estimate which is dependent on estimation of future cashflows and the use of an appropriate discount rate to discount those cash flows to their present value. The carrying value of goodwill as at 31 December 2021 was £34.6m (2020: £10.2m). Refer to note 14 for further detail.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and any risks specific to the CGUs. The rates used to discount the future cashflows are based on the Business Unit pre-tax weighted average cost of capital. Where a CGU operates in multiple operating segments an average of the relevant WACCs has been used.

The revenue growth rates and margins are based on current Board-approved budgets and forecasts covering a period of five years. Management estimates are considering business growth rates, payroll and other cost base increases further details are provided in note 14.

The data used for impairment testing procedures are directly linked to the Group's latest budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements.

**Development Costs**

The Group invests on a continual basis in the development of software for sale to third parties. There is a continual process of enhancements to and expansion of the software with judgement required in assessing whether the development costs meet the criteria for capitalisation. These judgements have been applied consistently year on year. In making this judgement, the Group evaluates, amongst other factors, whether there are future economic benefits beyond the current period, the stage at which technical feasibility has been achieved, management's intention to complete and use or sell the product, the likelihood of success, availability of technical and financial resources to complete the development phase and management's ability to measure reliably the expenditure attributable to the project. Judgement is therefore required in determining the practice for capitalising development costs.

**Estimation uncertainty**

Information about estimations and assumptions that may have the most significant affect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

**Contingent consideration**

Where acquisition consideration includes consideration contingent on performance outcomes being met, the consideration is valued at the acquisition date based on performance forecasts available at the time. Those forecasts are reviewed at the reporting date and the consideration revised where materially different (note 22).

**Pension scheme**

As stated above the Group operates a defined benefit pension scheme. At the end of each six monthly reporting period the Group seeks external expert actuarial advice on the assumptions to apply to the calculation of the scheme's liabilities. The Group then engages a separate, independent firm of pension advisors to calculate the scheme surplus or deficit at the reporting date for accounting purposes. The scheme deficit at 31 December 2021 was £2.0m (2020: £3.9m).

**Revenue Recognition**

For Professional services and technology enabled outsourced services revenue recognition there is a significant estimation of the planned project hours, which determines the percentage of completion of service revenue contracts. Before the project is started, the project manager estimates the budgeted hours needed for the agreed services. If the project is expected to overrun then the project manager will amend the expected budgeted hours in accordance with the new available information which also mitigates the risk of early revenue recognition.

## 1. REVENUE FROM CONTRACTS WITH CUSTOMERS

### a. 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) is its chief executive and he monitors the performance of these operating segments as well as deciding on the allocation of resources to them alongside with the executive management team.

Historically the Group's finance systems have recorded costs centrally and have managed costs in this way. 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 after following the acquisition of d-wise.

During 2020 this system enabled more centrally recorded costs to be allocated to the individual segments and that process was further developed during 2021. The operations of the Group are managed centrally with group-wide functions including sales, marketing, software development, information technology, customer support, human resources and finance & administration. The CTA segment already bears the majority of its costs directly and as such reports a lower direct contribution margin to central overheads than the other three segments. The expectation in future years is to be able to allocate more centrally held operational costs to the individual segments as internal reporting systems evolve, thereby assisting the Board to use the segmental cost information for meaningful decision making.

The operations of the Group are managed centrally with group-wide functions including sales, marketing, software development, IT, customer support, human resources and finance & administration.

The analysis provided below reflects costs directly attributable to the respective segments in 2021 and 2020, which are primarily third party costs of sale and costs of allocated employees. The remaining indirect operational costs are accounted for centrally and are not allocated to specific segments.

## 1. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

| SEGMENTAL REPORTING **2021** | **Study Management £000** | **Regulatory Solutions £000** | **In Silico Solutions £000** | **Clinical Trial Acceleration £000** | **Total £000** |
|---|---|---|---|---|---|
| Total revenue | **20,259** | **10,010** | **3,042** | **12,706** | **46,017** |
| Direct attributable costs | **(10,388)** | **(6,016)** | **(1,681)** | **(11,308)** | **(29,393)** |
| Contribution to indirect overheads | **9,871** | **3,994** | **1,361** | **1,398** | **16,624** |
| *Contribution to indirect overheads %* | *49%* | *40%* | *45%* | *11%* | |
| Central unallocated indirect costs | | | | | **(8,374)** |
| **Adjusted EBITDA** | | | | | **8,250** |
| Depreciation | | | | | **(312)** |
| Amortisation of intangibles arising on acquisitions | | | | | **(1,563)** |
| Amortisation of internally generated intangibles | | | | | **(851)** |
| Depreciation of right of use assets | | | | | **(945)** |
| **OPERATING PROFIT BEFORE NON-RECURRING ITEMS** | | | | | **4,579** |
| Non-recurring costs | | | | | **(1,286)** |
| Non-recurring income | | | | | **805** |
| **OPERATING PROFIT AFTER NON-RECURRING ITEMS** | | | | | **4,098** |
| Finance income | | | | | **30** |
| Finance costs | | | | | **(1,144)** |
| **PROFIT BEFORE TAXATION** | | | | | **2,984** |

| SEGMENTAL REPORTING **2020** | **Study Management £000** | **Regulatory Solutions £000** | **In Silico Solutions £000** | **Clinical Trial Acceleration £000** | **Total £000** |
|---|---|---|---|---|---|
| Total revenue | 15,054 | 9,839 | 3,324 | - | 28,217 |
| Direct attributable costs | (3,516) | (2,046) | (1,630) | - | (7,192) |
| Contribution to indirect overheads | 11,538 | 7,793 | 1,694 | - | 21,025 |
| *Contribution to indirect overheads %* | *77%* | *79%* | *51%* | - | |
| Central unallocated indirect costs | | | | | (15,106) |
| **Adjusted EBITDA** | | | | | 5,919 |
| Depreciation | | | | | (138) |
| Amortisation of intangibles arising on acquisitions | | | | | (664) |
| Amortisation of internally generated intangibles | | | | | (736) |
| Depreciation of right of use assets | | | | | (572) |
| **OPERATING PROFIT BEFORE NON-RECURRING ITEMS** | | | | | 3,809 |
| Non-recurring costs | | | | | (606) |
| **OPERATING PROFIT AFTER NON-RECURRING ITEMS** | | | | | 3,203 |
| Finance income | | | | | 38 |
| Finance costs | | | | | (692) |
| **PROFIT BEFORE TAXATION** | | | | | 2,549 |

## 1. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

| REVENUE BY PRODUCT TYPE | **2021 £000** | 2020 £000 |
|---|---|---|
| Licence fees | **4,597** | 3,477 |
| Annual support fees | **14,378** | 8,917 |
| SaaS subscription and support fees | **9,704** | 8,024 |
| Professional services | **3,651** | 1,603 |
| Technology enabled outsourced services | **6,378** | 6,196 |
| Consultancy services | **7,309** | - |
| | **46,017** | 28,217 |

| REVENUE BY GEOGRAPHICAL LOCATION | **2021 £000** | 2020 £000 |
|---|---|---|
| UK | **3,540** | 2,740 |
| Europe | **7,477** | 5,656 |
| USA | **26,831** | 13,050 |
| Rest of World | **8,169** | 6,771 |
| | **46,017** | 28,217 |

| NON-CURRENT ASSETS EXCLUDING DEFERRED TAXATION BY GEOGRAPHICAL LOCATION | **2021 £000** | 2020 £000 |
|---|---|---|
| UK | **56,925** | 17,549 |
| Europe | **1,895** | 1,436 |
| USA | **1,812** | 524 |
| Rest of World | **433** | 622 |
| | **61,065** | 20,131 |

There were no customers which represented more than 10% of the Group's revenue in 2021 (2020: none).

## 1. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

### b. Contract Balances

| | 2021 | | 2020 | |
|---|---|---|---|---|
| £000 | **Amounts recoverable on contracts** | **Deferred income** | Amounts recoverable on contracts | Deferred income |
| At 1 January | **1,826** | **(9,878)** | 1,395 | (8,942) |
| Transfer in the period from amounts recoverable on contracts to trade receivables | **(1,826)** | - | (1,395) | - |
| Amounts included in deferred income that was recognised as revenue during the period | - | **9,878** | - | 8,942 |
| Deferred income on acquisition of the Edge | - | **(555)** | - | - |
| Deferred income on acquisition of d-wise | - | **(4,230)** | - | - |
| Deferred income on acquisition of PDS | - | **(708)** | - | - |
| Amounts recoverable on contracts on acquisition of d-wise | **551** | - | - | - |
| Amounts recoverable on contracts on acquisition of PDS | **9** | - | - | - |
| Cash received in advance of performance and not recognised as revenue during the period | - | **(13,442)** | - | (9,878) |
| Excess of revenue recognised over cash being recognised during the period | **1,480** | - | 1,826 | - |
| At 31 December | **2,040** | **(18,935)** | 1,826 | (9,878) |

Amounts recoverable on contracts and deferred income are included within “trade and other receivables” and “deferred income” respectively on the face of the statement of financial position.

Amounts recoverable on contracts predominately relate to fulfilled obligations on service contracts where billing is in arrears. At the point where completed work is invoiced, a corresponding receivable is recognised.

Deferred income relates to consideration received from customers in advance of work being completed plus maintenance and support which is invoiced in advance.

### c. Remaining performance obligations

The vast majority of the Group’s contracts are for the delivery of software and services within the next 12 months for which the practical expedient in paragraph 121(a) of IFRS 15 applies. However, certain bundled contracts have been entered into for which both the original contract was greater than 12 months and the Group’s right to consideration does not correspond directly with the performance.

The amount of revenue that will be recognised in future periods on these contracts is as follows:

| | 2022 £000 | 2023 £000 | 2024 £000 |
|---|---|---|---|
| **Revenue** | **6** | - | - |

### d. Contract Costs

It is expected that commissions paid are recoverable. These have therefore been capitalised as an asset and are amortised over the term of the contract.

As of 31 December 2021, the carrying value of costs to obtain contracts which have been capitalised is the amount of £nil (2020: £nil). Amortisation of £nil (2020: £nil) was recognised during the year.

The entity has applied the practical expedient available in paragraph 94 of IFRS 15 to recognise the incremental costs of obtaining a contract as an expense when incurred where the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

## 2. OPERATING PROFIT BEFORE NON-RECURRING ITEMS

| | | 2021 £000 | 2020 £000 |
|---|---|---|---|
| Profit from operations includes the following significant items: | | | |
| Depreciation and amounts written off property, plant and equipment - owned assets | | **312** | 138 |
| Amortisation of intangible assets | | **2,414** | 736 |
| Depreciation of right to use assets | | **945** | 572 |
| Research and development costs | i. | **2,623** | 2,177 |
| Short life lease expenses | | **159** | 95 |

i. Research and development cost – relates to internal research and development costs which were not capitalised as at 31 December 2021.

| | | 2021 £000 | 2020 £000 |
|---|---|---|---|
| Amounts payable to Grant Thornton UK LLP and their associates in respect of both audit and non-audit services: | | | |
| Fees payable to the Group's auditors: | | | |
| for the audit of the Parent Company and consolidated financial statements | | **257** | 177 |
| Non-audit services: | | | |
| Taxation services - Compliance | | **27** | 21 |
| Taxation services - Advisory | | **6** | 53 |
| | | **290** | 251 |

The following tables analyse employee benefits operating expense and other expenses:

| | 2021 £000 | 2020 £000 |
|---|---|---|
| *Employee benefits expense* | | |
| Staff costs (see note 6) | **24,759** | 15,447 |
| Share based payments | **889** | 427 |
| Health and life insurance | **1,233** | 630 |
| Other benefits | **37** | 4 |
| | **26,918** | 16,508 |
| *Other expenses* | | |
| Software maintenance charges | **1,379** | 918 |
| Licence costs | **1,716** | 1,543 |
| Third party costs | **2,076** | 1,567 |
| Other expenses (excluding net impairment (loss/gain on financial assets) | **5,320** | 1,762 |
| | **10,491** | 5,790 |

## 3. NON-RECURRING ITEMS

| NON RECURRING COST | 2021 £000 | 2020 £000 |
|---|---|---|
| Guaranteed Minimum Pension (GMP) equalisation provision | - | 5 |
| Legal costs relating to historical contract disputes | **95** | 149 |
| Acquisition costs | **1,019** | 452 |
| Share based payments | **172** | - |
| | **1,286** | 606 |

| NON RECURRING INCOME | 2021 £000 | 2020 £000 |
|---|---|---|
| US government loans forgiven | **805** | - |
| | **805** | - |

Non recurring costs in the year include acquisition costs of £1.0m relating to the acquisistions of The Edge, d-wise and PDS. The share based payments charge of £0.2m relate to options that were re-issued in 2021 and vested immediately.

The non recurring income of £0.8m ($1.1m) relates to US federal government COVID-19 support loans which were forgiven during 2021 and there are no unfulfilled conditions or contingencies related to this income.

## 4. FINANCE INCOME

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Right of use asset interest income | **6** | 7 |
| Other interest | **24** | 31 |
| | **30** | 38 |

## 5. FINANCE COSTS

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Loans and overdrafts | **85** | 38 |
| Unwinding discount on deferred consideration | **867** | 70 |
| Net interest charge on pension scheme | **51** | 34 |
| Right of use asset interest cost | **97** | 96 |
| Foreign exchange losses | **44** | 454 |
| | **1,144** | 692 |

## 6. EMPLOYEES

| *Group* | **2021 Number** | 2020 Number |
|---|---|---|
| Average monthly number (including non-executive directors) | | |
| *By role:* | | |
| Directors, administration and supervision | **55** | 39 |
| Software design, sales and customer service | **381** | 265 |
| | **436** | 304 |
| Employment costs: | | |
| Wages and salaries | **21,485** | 13,109 |
| Social security costs | **1,858** | 1,334 |
| Other pension costs | **1,416** | 1,004 |
| | **24,759** | 15,447 |

| *Company* | **2021 Number** | 2020 Number |
|---|---|---|
| Average monthly number (including non-executive directors) | | |
| *By role:* | | |
| Non-executive directors | **3** | 3 |
| Employment costs: | | |
| Wages and salaries | **141** | 138 |
| Social security costs | **15** | 15 |
| | **156** | 153 |

## 7. DIRECTORS' EMOLUMENTS

| | 2021 £000 | 2020 £000 |
|---|---|---|
| *Amounts payable by Instem plc:* | | |
| Emoluments | **141** | 138 |
| *Amounts payable by subsidiary companies:* | | |
| Emoluments | **411** | 385 |
| Defined contribution pension contributions | **29** | 44 |
| Total emoluments | **581** | 567 |

| | 2021 Number | 2020 Number |
|---|---|---|
| Number of directors to whom post-employment benefits are accruing under: | | |
| Defined contribution schemes | **2** | 2 |

The remuneration of the highest paid director during the year ended 31 December 2021 was £279,000 (2020: £276,000). Directors' remuneration analysed by director is shown on page 33.

## 8. LEASES

Lease liabilities are presented in the statement of financial position as follows:

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Current | **1,077** | 488 |
| Non current | **1,248** | 1,596 |
| | **2,325** | 2,084 |

**Nature of leasing activities in the capacity of lessee**

The Group leases a number of offices in the jurisdictions from which it operates. In these jurisdictions the periodic rent is fixed over the lease term, with inflationary increases incorporated into the fixed payments stipulated in the lease agreements. Where rental agreements include market rate escalations, the lease liability is re-measured when the change in cash payments takes effect. The Group also leases one vehicles and certain equipment. Leases of vehicle and equipment comprise only fixed payments over the lease terms. With the exception of short term leases, leases of low value underlying assets and a lease held for a telephone system, with less than twelve months remaining on the lease as at 31 December 2021, each lease is reflected on the balance sheet as a right of use asset and a lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right of use asset can only be used by the Group. Leases are either non cancellable or may only be cancelled by incurring a termination fee. Two leases that came with the acquisitions could be terminated in a subject of notice. Some leases contain an option to extend the lease for a further term. For office leases the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

## 8. LEASES (CONTINUED)

The table below describes the nature of the Groups leasing activities by type of right of use asset recognised on the balance sheet:

| **Right of use assets** | No of right of use assets leased | Average remaining lease term | No of leases with extension options | No of leases with options to purchase | No of leases with payments linked to an index | No of leases with termination options |
|---|---|---|---|---|---|---|
| Office buildings | 14 | 2.3 years | 10 | 0 | 1 | 2 |
| Vehicles | 1 | 1.9 years | 0 | 0 | 0 | 0 |
| Equipment | 1 | 0.5 years | 0 | 0 | 0 | 0 |

| *Right of use assets* | Land & buildings £000 | Motor vehicles £000 | Equipment £000 | Total £000 |
|---|---|---|---|---|
| **As at 1 January 2020** | **2,158** | **7** | **-** | **2,165** |
| Additions | 123 | 31 | - | 154 |
| Lease modification and remeasurement | 32 | - | - | 32 |
| Depreciation | (564) | (8) | - | (572) |
| Exchange adjustment | (38) | - | - | (38) |
| **As at 31 December 2020** | **1,711** | **30** | **-** | **1,741** |
| Additions | 261 | - | - | 261 |
| Acquisitions | 539 | - | 410 | 949 |
| Restoration costs | 70 | - | - | 70 |
| Depreciation | (686) | (10) | (249) | (945) |
| Exchange adjustment | (5) | - | 6 | 1 |
| **As at 31 December 2021** | **1,890** | **20** | **167** | **2,077** |

| *Lease liabilities* | Land & buildings £000 | Motor vehicles £000 | Equipment £000 | Total £000 |
|---|---|---|---|---|
| **As at 1 January 2020** | **2,563** | **6** | **-** | **2,569** |
| Additions | 123 | 31 | - | 154 |
| Lease modification and remeasurement | 32 | - | - | 32 |
| Interest expense | 95 | - | - | 95 |
| Lease payments | (710) | (6) | - | (716) |
| Exchange adjustment | (50) | - | - | (50) |
| **As at 31 December 2020** | **2,053** | **31** | **-** | **2,084** |
| Additions | 261 | - | - | 261 |
| Acquisitions | 539 | - | 410 | 949 |
| Interest expense | 84 | 1 | 11 | 96 |
| Lease payments | (795) | (11) | (253) | (1,059) |
| Exchange adjustment | (9) | - | 3 | (6) |
| **As at 31 December 2021** | **2,133** | **21** | **171** | **2,325** |

## 8. LEASES (CONTINUED)

### Reconciliation of movements of lease liabilities to cash flows

| *Cash flow changes* | Land & buildings £000 | Motor vehicles £000 | Equipment £000 | Total £000 |
|---|---|---|---|---|
| Interest expenses | 95 | - | - | 95 |
| Payment of lease liabilities | 615 | 6 | - | 621 |
| **At 31 December 2020** | **710** | **6** | - | **716** |
| Interest expenses | 83 | 1 | 12 | 96 |
| Payment of lease liabilities | 712 | 10 | 241 | 963 |
| **As at 31 December 2021** | **795** | **11** | **253** | **1,059** |

### Lease liability maturity analysis:

| **As at 31 December 2020** | **1 year or less £000** | **2 to 5 years £000** | **After five years £000** | **Total £000** |
|---|---|---|---|---|
| Lease liabilities | 488 | 1,538 | 58 | 2,084 |

| **As at 31 December 2021** | **1 year or less £000** | **2 to 5 years £000** | **After five years £000** | **Total £000** |
|---|---|---|---|---|
| Lease liabilities | 1,077 | 1,229 | 19 | 2,325 |

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The following amounts in respect of leases, where the company is a lessee, have been recognised in consolidated statement of comprehensive income:

| | **2021 £000** | 2020 £000 |
|---|---|---|
| Expenses relating to short-term leases | **159** | 45 |
| Low value lease expense | **81** | 95 |
| Interest expense | **96** | 95 |
| Amortisation of right of use assets | **945** | 572 |

The total cash outflow for leases in 2021 was £1.0m (2020: £0.7m).

## 8. LEASES (CONTINUED)

**Finance lease receivable**

**Nature of leasing activities in the capacity of lessor**

The Group also acts as a lessor in relation to a sublease of part of one of the properties rented. As the lease term is for the major part of the economic life of the underlying right of use asset this has been treated as a finance lease. The right of use asset has therefore been derecognised and a net investment in the lease recognised instead. Interest income is recognised on the lease receivable.

Movement in net investment in leases in relation to sub leases during the year ended 31 December 2021 and 31 December 2020 are as follows:

| | £000 |
|---|---|
| As at 1 January 2020 | 214 |
| Interest earned | 8 |
| Less: Rental income received | (48) |
| Exchange adjustment | (5) |
| At 31 December 2020 | 169 |
| Interest earned | 6 |
| Less: Rental income received | (46) |
| Exchange adjustment | - |
| At 31 December 2021 | 129 |

Minimum undiscounted lease payments receivable are as follows:

| | **2021 £000** | 2020 £000 |
|---|---|---|
| Within 1 year | **49** | 47 |
| Between 1 and 2 years | **50** | 48 |
| Between 2 and 3 years | **34** | 50 |
| Between 3 and 4 years | - | 33 |
| Later than 5 years | - | - |
| | **133** | 178 |

Reconciliation of minimum undiscounted lease payments to net investment in the lease:

| | **2021 £000** | 2020 £000 |
|---|---|---|
| Total minimum undiscounted lease payments receivable | **133** | 178 |
| Unearned finance income | **(4)** | (9) |
| Net investment in the lease | **129** | 169 |

## 8. LEASES (CONTINUED)

Finance lease receivable maturity analysis:

| As at 31 December 2020 | 1 year or less £000 | 2 to 5 years £000 | After five years £000 | Total £000 |
|---|---|---|---|---|
| Finance lease receivable | 41 | 128 | - | 169 |

| As at 31 December 2021 | 1 year or less £000 | 2 to 5 years £000 | After five years £000 | Total £000 |
|---|---|---|---|---|
| Finance lease receivable | 44 | 85 | - | 129 |

## 9. SHARE BASED PAYMENT

**Equity-Settled Share Option Plan**

The Remuneration Committee can grant options to employees of the Group. Options are granted with a fixed exercise price at the date of grant and the contractual life is generally ten years from the grant date. Options generally vest and become exercisable after three years where certain performance criteria have been met. Share options issued to directors and senior employees generally carry profitability (EBITDA) or market-based performance conditions.

The share options that Group awarded to all employees are only subject to continued employment, passage of time and there are no other performance conditions.

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Number** | **Weighted average exercise price (£)** | Number | Weighted average exercise price (£) |
| Outstanding at the beginning of the year | **1,259,102** | **0.11** | 983,303 | 0.60 |
| Granted | **431,479** | **0.01** | 535,728 | 0.00 |
| Lapsed | **(53,413)** | **0.03** | (21,788) | 0.09 |
| Exercised | **(88,667)** | **0.25** | (238,141) | 1.75 |
| Outstanding at end of the year | **1,548,501** | **0.07** | 1,259,102 | 0.11 |
| Exercisable at end of year | **651,851** | **0.17** | 525,518 | 0.25 |

The options outstanding at 31 December 2021 had exercise prices of £nil, £0.10, £0.90, £1.76 and £2.22) (2020: £nil, £0.10, £0.90, £1.76 and £2.22) and a weighted average remaining contractual life of 7 years 1 month (2020: 7 years 3 months).

A charge of £1.061m (2020: £0.427m) arose in respect of share based payments.

The fair value of options granted in the year was £2.6m (2020: £1.9m).

## 9. SHARE BASED PAYMENT (CONTINUED)

During the year, the average share price in respect of share options exercised was £7.90 (2020: £4.38)

New options for 431,479 shares were granted in the year. The Monte-Carlo option-pricing model has been used where option conditions are market related and Black-Scholes where option conditions are EBITDA related . The fair market value has been estimated using the following key assumptions:

| *Grant date 2021* | 22 March | 16 April | 1 September | 27 September |
|---|---|---|---|---|
| Expected life (years) | 1.8 | 2.7 | 3.0 | 3.0 |
| Share price at grant date | £5.78 | £6.63 | £8.38 | £9.00 |
| Exercise price | Nil | Nil | Nil | Nil |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Risk free rate | NA | NA | 0.2% | 0.4% |
| Volatility | NA | NA | 29% | 29% |
| Fair value of options (average) | 5.70 | 6.63 | 5.86 | 6.92 |

The fair value calculation includes an assumption regarding share price volatility of 29% for LTIP awards only. The historical volatility of the Group's share price was calculated using daily data over a 3 year period, which is commensurate with the remaining performance period.

## 10. TAXATION

| Income taxes recognised in profit or loss: | **2021 £000** | 2020 £000 |
|---|---|---|
| Current tax: | | |
| UK corporation tax in respect of previous years | **(268)** | (4) |
| Adjustments in respect of R&D tax credit | **351** | 250 |
| Foreign tax | **(1,111)** | (146) |
| Foreign tax in respect of previous years | **(54)** | 39 |
| Total current tax (charge)/credit | **(1,082)** | 139 |
| Deferred tax: | | |
| Current year charge | **(147)** | (165) |
| Adjustment in respect of previous years | **575** | (57) |
| Defined benefit liability | **(91)** | (90) |
| Impact of rate change | **(560)** | (102) |
| Total deferred tax credit/(charge) | **(223)** | (414) |
| Total income tax charge recognised in the current year | **(1,306)** | (275) |

The UK corporation tax is calculated at the prevailing rate of 19%. Foreign tax liabilities are calculated at the prevailing tax rates applying in the overseas tax jurisdictions.

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. As the proposal to increase the rate to 25% had been substantively enacted at the balance sheet date, its effects are included in these financial statements as a change from 19% to 25% on deferred tax.

## 10. TAXATION (CONTINUED)

| The income tax (expense)/credit can be reconciled to the accounting profit as follows: | **2021 £000** | 2020 £000 |
|---|---|---|
| Profit before tax | **2,984** | 2,549 |
| Profit before tax multiplied by standard rate of corporation tax in the UK 19.0% (2020: 19.0%) | **(567)** | (484) |
| Effects of: | | |
| Expenses not allowable for tax purposes | **(278)** | (59) |
| Enhanced R&D tax relief | **341** | 321 |
| Losses surrendered for R&D tax credit | **(460)** | (327) |
| R&D tax credit accrual | **408** | 390 |
| Tax losses not previously recognised | **(137)** | 105 |
| Adjustments in respect of prior years | **252** | (22) |
| Impact of change in tax rate | **(560)** | (102) |
| Double tax relief | **(36)** | (20) |
| Difference in overseas tax rates | **(269)** | (77) |
| Total income tax charge recognised in consolidated statement of comprehensive income | **(1,306)** | (275) |

## 11. ACQUISITION OF THE EDGE SOFTWARE CONSULTANCY LTD ('THE EDGE')

On 1 March 2021, Instem acquired 100% of the issued share capital of The Edge. The acquisition has increased the group's market share in the global Life Science Sector and complements the group in continuing its expansion and development in this industry.

| Company | Principal activity | Date of acquisition | Proportion of voting equity interests acquired % | Consideration £000 |
|---|---|---|---|---|
| The Edge | Provider of Discovery Technology Solutions software and services to Life Science sector | 1 March 2021 | 100 | 9,221 |

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| Consideration | £000 |
|---|---|
| Initial cash paid | 5,500 |
| Initial share consideration | 2,000 |
| Deferred consideration – cash payable March 2022 | 500 |
| Contingent consideration – cash payable by June 2022 | 1,000 |
| Contingent consideration – cash payable March 2023 | 1,000 |
| Working capital and cash adjustment – cash receivable March 2022 | (67) |
| Total consideration | 9,933 |
| Discounting of estimated future cashflows | (712) |
| Present value of consideration | **9,221** |

The initial share consideration was satisfied by the issue of 391,920 new Instem plc ordinary shares at a value of £2.0m which was based on the published share price. The premium arising on the share issue of £2.0m has been credited to the merger relief reserve.

The appropriate discounting has been applied to the debt instruments.

The deferred consideration is not based on any performance related conditions and was paid in March 2022. The contingent consideration is based on certain performance related conditions in the twelve-month period post-completion. The contingent consideration in the table above is based on the forecast estimate that the performance related conditions will be fully met and the full consideration will be payable. The contingent consideration was re-measured at the reporting date. The deferred consideration had been discounted using Instem's estimated cost of borrowing and the contingent consideration has been discounted using the company's Internal Rate of Return ('IRR').

## 11. ACQUISITION OF THE EDGE SOFTWARE CONSULTANCY LTD ('THE EDGE') (CONTINUED)

Acquisition related costs amounting to £0.2m have been recognised as an expense within non-recurring items in the Consolidated Statement of Comprehensive Income.

| Fair value of assets acquired and liabilities recognised at the date of acquisition | Fair Value £000 |
|---|---|
| **Non-Current Assets** | |
| Customer relationships | 2,550 |
| Intellectual property | 1,342 |
| Brand | 105 |
| Right of use assets | 37 |
| **Current Assets** | |
| Cash and cash equivalents | 2,570 |
| Trade and other receivables | 407 |
| Deferred tax asset | 64 |
| **Current Liabilities** | |
| Trade and other payables | (430) |
| Deferred income | (555) |
| Lease liabilities | (36) |
| **Non-Current Liabilities** | |
| Deferred tax on acquisition | (759) |
| Fair value of identifiable net assets acquired | **5,295** |

| Goodwill arising on acquisition | £000 |
|---|---|
| Consideration transferred | 9,221 |
| Less: fair value of identifiable net assets | (5,295) |
| Goodwill arising on acquisition | **3,926** |

### Goodwill

Goodwill of £3.9m primarily relates to the ability to generate growth from new customers, synergies provided by the Group and the skill and expertise of The Edge's staff.

### Identifiable net assets

A provisional fair value exercise to determine the fair value of assets and liabilities acquired has been carried out. Fair values are provisional as they are within the twelve month hindsight period to adjust fair values. No fair value adjustments have been made to the assets and labilities acquired.

## 11. ACQUISITION OF THE EDGE SOFTWARE CONSULTANCY LTD ('THE EDGE') (CONTINUED)

The fair value of intangible assets are:

- Customer relationships of £2.6m calculated using the income approach - excess earnings. Acquired customer relationships consisting of ongoing relationships with companies to which The Edge provides annual licenses, maintenance assistance and bespoke services.
- Intellectual property of £1.3m calculated using the income approach - relief from royalty. Two proprietary software packages were acquired, namely BioRails and Morphit.
- Brands of £0.1m calculated using the income approach - relief from royalty. 'The Edge' brand and sub-brands (principally BioRails and Morphit) are considered in aggregate a separable intangible asset and a driver of the overall business model.

### Acquired receivables

The fair value of acquired trade receivables is £0.079m as no loss allowance was required to be recognised on acquisition.

### Impact of acquisition on the results of the Group

The acquired business contributed revenues of £1.9m and net profit of £1.2m to the group for the period from 1 March to 31 December 2021.

If this business combination had been effected at 1 January 2021, the revenue of The Edge would have been £2.3m and the profit for the year would have been £1.4m. These values do not represent a measure of the performance of The Edge as the company's accounting policy have been changed at the acquisition date to comply with the policies of the Group.

| Purchase consideration – cash outflow | £000 |
|---|---|
| *Outflow of cash to acquire subsidiary, net of cash acquired* | |
| Initial cash consideration | 4,000 |
| Net cash adjustment (after deduction of estimated debt) | 1,500 |
| *Less: Balance acquired* | |
| Cash | (2,570) |
| Net outflow of cash – investing activities | **2,930** |

### Goodwill

Goodwill of £3.9m primarily relates to the ability to generate growth from new customers, synergies provided by the Group and the skill and expertise of The Edge's staff.

### Identifiable net assets

A provisional fair value exercise to determine the fair value of assets and liabilities acquired has been carried out. Fair values are provisional as they are within the twelve month hindsight period to adjust fair values. No fair value adjustments have been made to the assets and labilities acquired.

## 12. ACQUISITION OF D-WISE TECHNOLOGIES, INC

On 20 March 2021, Instem exchanged contracts to acquire the 100% of the issued share capital of US-based clinical trial technology & consulting leader d-wise Technologies, Inc ("d-wise"). The acquisition was completed on 1 April 2021. The acquisition has increased the group's market share in the global Life Science Sector and complements the group by entering an attractive adjacent area of clinical trial analysis and submission.

| Company | Principal activity | Date of acquisition | Proportion of voting equity interests acquired % | Consideration £000 |
|---|---|---|---|---|
| d-wise Inc | Provider of clinical trial acceleration solutions to Life Science sector | 1 April 2021 | 100 | 22,022 |

Details of the purchase consideration excluding conditional deferred consideration, the net assets acquired and goodwill are as follows:

| Consideration | $000 | £000 |
|---|---|---|
| Initial cash consideration | 13,000 | 9,437 |
| Initial share consideration | 7,000 | 5,044 |
| Deferred consideration (1 April 2022) – To be settled in cash | 3,128 | 2,271 |
| Deferred consideration (1 April 2022) – To be settled in shares | 1,042 | 756 |
| Deferred consideration (1 April 2023) – To be settled in cash | 4,347 | 3,156 |
| Contingent consideration (1 March 2022) – To be settled in cash and shares | 1,500 | 1,089 |
| Contingent consideration (1 March 2023) – To be settled in cash | 1,500 | 1,089 |
| Working capital adjustment – (Q3 2021) – Settled in cash | 5 | 4 |
| Total consideration | 31,522 | 22,846 |
| Discounting of estimated future cashflows | | (824) |
| Present value of consideration | | **22,022** |

The initial share consideration was satisfied by the issue of 868,203 new Instem plc ordinary shares at a value of $7.0m (£5.0m) which was based on the published share price. The premium arising on the share issue of £5.0m has been credited to the merger relief reserve.

The appropriate discounting has been applied to the debt instruments.

The deferred consideration is not based on any performance related conditions and is payable in two instalments in April 2022 and 2023. The contingent consideration is based on certain performance related conditions in the twelve-month period post-completion. The deferred consideration has been discounted using the interest rate as defined in the share purchase agreement and the contingent consideration has been discounted using the company's IRR.

The deferred and contingent consideration to be settled in shares should be equal to the nominal value of the deferred and contingent promissory note, divided by the average closing price of Instem Stock.

## 12. ACQUISITION OF D-WISE TECHNOLOGIES, INC (CONTINUED)

The contingent consideration in the table above is based on the forecast estimate that the performance related conditions will be fully met and the full consideration will be payable. The contingent consideration was re-measured at the reporting date.

Acquisition related costs amounting to £1.2m have been recognised as an expense within non-recurring items in the Consolidated Statement of Comprehensive Income.

| **Fair value of assets acquired and liabilities recognised at the date of acquisition** | **Fair Value £000** |
|---|---|
| **Non-Current Assets** | |
| Customer relationships | 6,094 |
| Intellectual property | 1,061 |
| Brand names | 1,134 |
| Property, plant and equipment | 491 |
| Right of use assets | 662 |
| **Current Assets** | |
| Trade and other receivables | 5,765 |
| Cash and cash equivalents | 1,800 |
| Accrued Income | 551 |
| **Current Liabilities** | |
| Trade and other payables | (1,634) |
| Deferred income | (4,230) |
| Financial Liabilities | (48) |
| Lease liability | (662) |
| **Non-Current Liabilities** | |
| Deferred tax on acquisition | (2,072) |
| Fair value of identifiable net liabilities acquired | **8,912** |

| **Goodwill arising on acquisition** | **£000** |
|---|---|
| Consideration transferred | 22,022 |
| Less: fair value of identifiable net assets | (8,912) |
| Goodwill arising on acquisition | **13,110** |

## 12. ACQUISITION OF D-WISE TECHNOLOGIES, INC (CONTINUED)

**Goodwill**

Goodwill of £13.1m primarily relates to the ability to enter an attractive adjacent area of clinical trial analysis and submission, generating growth from new customers, synergies provided by the Group and the skill and expertise of the d-wise staff.

**Identifiable net assets**

A provisional fair value exercise to determine the fair value of assets and liabilities acquired has been carried out. Fair values are provisional as they are within the twelve month hindsight period to adjust fair values. Except for the Deferred revenue no other fair value adjustments have been made to the assets and liabilities acquired.

The fair value of intangible assets are:

- Customer relationships of £6.1m calculated using the income approach - excess earnings. Acquired customer relationships consisting of ongoing relationships with companies to which d-wise provides hosting and consultancy services, support and maintenance and product licences.
- Intellectual property of £1.1m calculated using the income approach - relief from royalty. Two proprietary software products were acquired, namely Blur and Reveal.
- Brands of £1.1m calculated using the income approach - relief from royalty. The 'd-wise' brand is a separable intangible asset and a driver of the overall business model in the fair value measurement and the proportion of overall enterprise value attributed to the brand. The brand has been trading since 2003 and is well established within the pharmaceutical industry.

**Acquired receivables**

The fair value of acquired trade receivables is £5.1m as no loss allowance was required to be recognised on acquisition.

**Impact of acquisition on the results of the Group**

Profit for the year end includes a profit of £0.5m attributable to the additional business generated by d-wise from 1 April to 31 December 2021. Revenue for the year includes £12.7m in respect of d-wise.

If this business combination had been effected at 1 January 2021, the revenue of d-wise would have been £17.3m and the profit for the year would have been £1m. The directors consider these values represent an approximate measure of the performance of d-wise on a yearly basis as the fair value adjustment on the acquired deferred revenue needed to be considered for the future periods.

| **Purchase consideration – cash outflow** | **£000** |
|---|---|
| *Outflow of cash to acquire subsidiary, net of cash acquired* | |
| Initial cash consideration | 9,437 |
| Working capital adjustment – (Q3 2021) – Settled in cash | 4 |
| *Less: Balance acquired* | |
| Cash | (1,800) |
| Net outflow of cash – investing activities | **7,641** |

## 13. ACQUISITION OF PDS PATHOLOGY DATA SYSTEMS LTD

On 1 September 2021, Instem acquired the 100% of the issued share capital of PDS Pathology Data Systems Ltd ("PDS"), a life sciences software company with headquarters in Switzerland and offices in the United States and Japan. The acquisition has increased the group's market share in the global Life Science Sector and complements the group in continuing its expansion and development in this industry.

| Company | Principal activity | Date of acquisition | Proportion of voting equity interests acquired % | Consideration £000 |
|---|---|---|---|---|
| PDS | Provider of Discovery Technology Solutions for non-clinical study management and regulatory software and services | 1 September 2021 | 100 | 9,309 |

Details of the purchase consideration excluding the benefit of their former PDS's shareholders, the net assets acquired and goodwill are as follows:

| Consideration | CHF000 | £000 |
|---|---|---|
| Initial cash paid | 7,131 | 5,665 |
| Initial share consideration | 3,500 | 2,790 |
| Deferred consideration (1 September 2022) – To be settled in cash | 1,000 | 794 |
| Working capital adjustment – (Q3 2021) – Settled in cash | 99 | 79 |
| Total consideration | 11,730 | 9,328 |
| Discounting of estimated future cashflows | | (19) |
| Present value of consideration | | **9,309** |

The initial share consideration was satisfied by the issue of 359,157 new Instem plc ordinary shares at a value of CHF3.5m (£2.8m) which was based on the published share price. The premium arising on the share issue of £2.75m has been credited to the merger relief reserve.

The appropriate discounting has been applied to the debt instruments.

The deferred consideration is not based on any performance related conditions and is payable in in September 2022. The deferred consideration has been discounted using the PDS'S weighted average cost of capital (WACC).

## 13. ACQUISITION OF PDS PATHOLOGY DATA SYSTEMS LTD (CONTINUED)

Instem plc acquired also the benefit of the former PDS's shareholder loan for a consideration of CHF3.0m (£2.4m) which was excluded from the total purchase consideration and is recorded as intercompany balance between Instem plc and PDS. The above treatment will not affect the Group's cash position as the total consideration payable remains at CHF14.7m.

Acquisition related costs amounting to £0.3m have been recognised as an expense within non-recurring items in the Consolidated Statement of Comprehensive Income.

| Fair value of assets acquired and liabilities recognised at the date of acquisition | Fair Value £000 |
|---|---|
| **Non-Current Assets** | |
| Customer relationships | 2,047 |
| Intellectual property | 1,607 |
| Brand names | 153 |
| Property, plant and equipment | 34 |
| Right of use assets | 251 |
| **Current Assets** | |
| Trade and other receivables | 528 |
| Cash and cash equivalents | 1,475 |
| Accrued Income | 9 |
| **Current Liabilities** | |
| Trade and other payables | (249) |
| Deferred income | (708) |
| Loan from former PDS's shareholders | (2,387) |
| Lease liability | (251) |
| **Non-Current Liabilities** | |
| Deferred tax on acquisition | (568) |
| Provisions | (40) |
| Fair value of identifiable net liabilities acquired | **1,901** |

| **Goodwill arising on acquisition** | **£000** |
|---|---|
| Consideration transferred | 9,309 |
| Less: fair value of identifiable net assets | (1,901) |
| Goodwill arising on acquisition | **7,408** |

**Goodwill**

Goodwill of £7.4m primarily relates to the ability to enter an attractive adjacent area of clinical trial analysis and submission, generating growth from new customers, synergies provided by the Group and the skill and expertise of the PDS staff.

**Identifiable net assets**

A provisional fair value exercise to determine the fair value of assets and liabilities acquired has been carried out. Fair values are provisional as they are within the twelve month hindsight period to adjust fair values. Except for the Deferred revenue no other fair value adjustments have been made to the assets and liabilities acquired.

The fair value of intangible assets are:

- Customer relationships of £2.1m calculated using the income approach - excess earnings. Acquired customer relationships consisting of ongoing relationships with companies to which PDS provides provides licenses, hosting services, support and maintenance, and other services.
- Intellectual property of £1.6m calculated using the income approach - relief from royalty. Two proprietary software products were acquired, namely LIMS and TRANSEND.
- Brands of £0.2m calculated using the income approach - relief from royalty. The 'PDS' brand is a separable intangible asset and a driver of the overall business model in the fair value measurement and the proportion of overall enterprise value attributed to the brand. The brand has been trading since 1981 and is well established n the life-science industry.

**Acquired receivables**

The fair value of acquired trade receivables is £0.4m as no loss allowance was required to be recognised on acquisition.

**Impact of acquisition on the results of the Group**

Profit for the year includes a loss of £0.1m attributable to the additional business generated by PDS from 1 September to 31 December 2021. The loss was incurred due to fair value adjustment on the acquired deferred revenue of £0.1m. Revenue for the year includes £1.4m in respect of PDS.

If this business combination had been effected at 1 January 2021, the revenue of PDS would have been £4.3m and the loss for the year would have been £0.05m. The directors consider these values represent an approximate measure of the performance of PDS on a year basis as the fair value adjustment on the acquired deferred revenue needed to be considered for the future periods.

| **Purchase consideration – cash outflow** | **£000** |
|---|---|
| *Outflow of cash to acquire subsidiary, net of cash acquired* | |
| Initial cash consideration | 3,701 |
| Management participation, commission and bonus – Settled in cash | 1,964 |
| Former PDS's shareholder loan | 2,387 |
| Working capital adjustment – (Q3 2021) – Settled in cash | 79 |
| *Less: Balance acquired* | |
| Cash | (1,475) |
| Net outflow of cash – financing and investing activities | **6,656** |

The benefit of the former PDS's shareholder loan has been presented as a financing cash flow as does not form part of the consideration transferred.

# 14. INTANGIBLE ASSETS

| Group | Goodwill £000 | Software £000 | Intellectual property £000 | Customer relationships £000 | Brand Names £000 | Patents £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| At 1 January 2020 | 12,658 | 8,107 | 5,712 | 3,138 | 380 | 21 | 30,016 |
| Additions | - | 1,272 | - | - | - | - | 1,272 |
| Exchange adjustment | - | 34 | - | - | - | - | 34 |
| At 31 December 2020 | 12,658 | 9,413 | 5,712 | 3,138 | 380 | 21 | 31,322 |
| Additions | - | 2,238 | - | - | - | - | 2,238 |
| Acquisitions | 24,444 | - | 4,010 | 10,691 | 1,392 | - | 40,537 |
| Exchange adjustment | - | (71) | - | - | - | - | (71) |
| **At 31 December 2020** | **37,102** | **11,580** | **9,722** | **13,829** | **1,772** | **21** | **74,026** |
| At 1 January 2020 | 2,482 | 4,415 | 3,372 | 1,618 | - | 21 | 11,908 |
| Amortisation expense | - | 736 | 423 | 212 | 29 | - | 1,400 |
| Exchange adjustment | - | (9) | - | - | - | - | (9) |
| At 31 December 2020 | 2,482 | 5,142 | 3,795 | 1,830 | 29 | 21 | 13,299 |
| Amortisation expense | - | 851 | 663 | 777 | 123 | - | 2,414 |
| Exchange adjustment | - | 2 | - | - | - | - | 2 |
| **At 31 December 2021** | **2,482** | **5,995** | **4,458** | **2,607** | **152** | **21** | **15,715** |
| Net book value | | | | | | | |
| At 31 December 2019 | 10,176 | 3,692 | 2,340 | 1,520 | 380 | - | 18,108 |
| At 31 December 2020 | 10,176 | 4,271 | 1,917 | 1,308 | 351 | - | 18,023 |
| **At 31 December 2021** | **34,620** | **5,585** | **5,264** | **11,222** | **1,620** | **-** | **58,311** |

The gross carrying amount and accumulated amortisation within Software includes internally generated and externally acquired elements. The cost of internally generated software amounts to £10.8m (2020: £8.6m) with accumulated amortisation of £4.5m (2020: £3.7m). Software additions for the year include £2.2m relating to internal development (2020: £1.2m).

The amortisation from software is included in amortisation of internally generated intangibles and the amortisation of intangible arising on acquisition are included in amortisation of internally generated intangibles.

**Identification of the Cash Generating Units (CGUs)**

In previous years the CGUs have been based on the Group's legal structure. However, in 2021 we considered a restructure of the CGUs in response to the ongoing changes of the Group's internal and external activities which continue to develop as the Group undertakes acquisitions and integrates these entities into the Group.

The assessment has been performed at the legal entity level given the significant amount of judgement in assessing what level of the cashflows are independent of each other.

We expect that the CGU composition will move in line with the four operating segments in future years when the operations of the Group become even more integrated.

**Gross carrying amount of goodwill**

In 2021, the CGUs are identified by the fact that they are separate legal entities and so have their own intangible and tangible assets, other current assets and generate cash from their products and services that are separately identifiable from one another.

The allocation of goodwill to CGUs is as follows:

| | 2021<br>£000 | 2020<br>£000 | Acquisition date |
|---|---|---|---|
| Instem LSS Limited | **5,900** | 5,900 | 27 March 2002 |
| Instem Scientific Limited | **500** | 500 | 3 March 2011 |
| Perceptive Instruments Limited | **600** | 600 | 21 November 2013 |
| Samarind Limited | **600** | 600 | 27 May 2016 |
| Notocord SA | **500** | 500 | 2 September 2016 |
| Leadscope Inc | **2,100** | 2,100 | 15 November 2019 |
| Instem Clinical Holdings Limited | - | - | |
| The Edge Software Consultancy Ltd | **3,930** | - | 1 March 2021 |
| d-wise Technologies, Inc | **13,110** | - | 1 April 2021 |
| PDS Pathology Data Systems Ltd | **7,410** | - | 1 September 2021 |
| | **34,650** | 10,200 | |

The Goodwill related to a CGU, being Instem Clinical Holdings Limited, was fully impaired in 2019.

**Impairment testing**

The Group tests annually for impairment, or more frequently if there are indications that goodwill might be impaired.

**Key assumptions**

The recoverable amounts of the CGUs are determined from value-in-use calculations.

The key assumptions for the value in use calculations are those regarding discount rates, growth rates, margins and cashflows.

**Discount rates**

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and any risks specific to the CGUs. The rates used to discount the future cashflows are based on the operating segment pre-tax weighted average cost of capital. Where a CGU operates in multiple operating segments an average of the relevant WACCs has been used.

After performing further sensitivity analysis, management approved the use of the different pre-tax WACC across the ten CGUs:

| CGUs | Pre-tax WACC |
|---|---|
| Instem LSS Limited | **14.15%** |
| Instem Scientific Limited | **13.56%** |
| Perceptive Instruments Limited | **14.57%** |
| Samarind Limited | **14.31%** |
| Notocord SA | **14.57%** |
| Leadscope Inc | **13.56%** |
| Instem Clinical Holdings Limited | **14.57%** |
| The Edge Software Consultancy Ltd | **14.57%** |
| d-wise Technologies, Inc | **15.21%** |
| PDS Pathology Data Systems Ltd | **14.44%** |

## 14. INTANGIBLE ASSETS (CONTINUED)

**Growth rates and terminal values**

The revenue growth rates and margins are based on current Board-approved budgets and forecasts covering a period of five years. The Group produced a budget for 2022 and then forecast up to 2026 based on growth rates of each operating segment.

Where a CGU operates in multiple operating segments an average growth rate was used for the relevant CGUs. The growth rates that have been applied were 8.8% for LSS and PDS (2020: 7% growth rate for LSS), 15% for Instem Scientific and Leadscope (2020: 7%) and 7.5% for Perceptive Instruments (2020: 7%), 5% for Notocord SA (2020: 5%), 5% Instem Clinical Holdings Limited (2020: 2.5%), 10% for Samarind (2020: 2.5%) and 10% for The Edge and d-wise businesses.

For the perpetuity calculation (2026 and onwards) a 2.5%, growth rate was applied to all CGUs which management estimates as reasonable considering revenue, payroll and other cost base increases (2020: 2.5% perpetuity growth rate was applied to all CGUs) and the terminal value is calculated using the Gordon Growth Model.

**Sensitivity analysis**

Management has carried out sensitivity analyses on the key assumptions used in recoverable amount calculations.

The PDS, Instem Scientific, Notocord and Samarind CGUs were highlighted as sensitive to increases in discount rate and fall in revenue growth rates.

The carrying amount of our investments includes goodwill, other intangible assets, tangible assets and right of use assets.

The table below shows the headroom of recoverable amount over the carrying amount, sensitivities for the additional increase in the discount rate, reduction in forecast revenues and reduction in forecast revenue growth. The sensitivities below show the percentage change required in each of the assumptions to create an impairment.

| | Recoverable amount exceeds the carrying amount | Sensitivity of the CGUs on increased discount rate | Sensitivity of the CGUs on reduction in revenue | Sensitivity to a reduction in revenue growth |
|---|---|---|---|---|
| Instem LSS Limited | 421% | 41% | 11% | (48%) |
| Instem Scientific Limited | 267% | 11% | 3% | (4%) |
| Perceptive Instruments Limited | 315% | 29% | 18% | (38%) |
| Samarind Limited | 205% | 10% | 4% | (4%) |
| Notocord SA | 103% | 1% | 1% | (1%) |
| Leadscope Inc | 322% | 25% | 27% | (39%) |
| Instem Clinical Holdings Limited | - | - | - | - |
| The Edge Software Consultancy Ltd | 147% | 6% | 13% | 13% |
| d-wise Technologies, Inc | 181% | 11% | 9% | (21%) |
| PDS Pathology Data Systems Ltd | 104% | 1% | 1% | (2%) |

The Notocord, Samarind and Instem Scientific CGU had a higher forecast revenue growth than cost growth in the forecasts. This assumed that revenues would outgrow costs in a growth scenario for each CGU due to the low variable costs in production. The assumption means the CGUs are more sensitive to a reduction in the revenue growth assumption because the comparable reduction in costs is lower, causing a greater impact on the cashflows.

**Review of carrying value of goodwill**

Following the review of the carrying value of goodwill as at 31 December 2021, which has been undertaken across the Group as required by IAS 36 – Impairment of Assets, the Directors have concluded that there is no need to recognise an impairment loss in 2021. However, the CGUs below were highlighted as sensitive.

*Samarind Limited*
Samarind is sensitive to the revenue growth assumption due to the assumption that revenues will outgrow the stable cost base in the period. A 4% decrease in forecast revenue growth would create £0.1m impairment charge for the CGU.

*Notocord SA*
Notocord is sensitive to all the key assumptions in the forecasts. A 1% increase in the discount rate would create a £0.15m impairment charge. In addition, a 1% decrease in forecast revenue growth would create a £0.35m impairment charge for the CGU.

*Instem Scientific*
Instem Scientific is sensitive to the revenue growth assumption due to the assumption that revenues will outgrow the stable cost base in the forecast period. A 4% decrease in forecast revenue growth would create a £0.2m impairment charge for the CGU.

*PDS*
PDS has been highlighted as sensitive to all the key assumptions in the forecasts. A 1% increase in the discount rate would create a £0.5m impairment charge. In addition, a 2% decrease in forecast revenue growth would create £0.27m impairment charge for the CGU.

As of 31 December 2020, the recoverable amount for each of the CGUs was measured using a value-in-use calculation except for the Instem Clinical CGU and Samarind CGU where the recoverable amount was measured using the FV less cost to sell method. The key assumptions used for the value in use calculations were those regarding discount rates, growth rates, margins and cashflows. However, the key assumption for the FV less cost to sell method was the sales multiple applied, which was based on market activity at the time.

As per to IAS 36, the recoverable amount used is the higher of the fair value less cost to sell and value in use. Based on the above, management concluded that there are no indicators for impairment on the CGUs as the recoverable amount for each CGU was higher than its carrying value.

The value in use calculations are reliant on the accuracy of management's forecast and the assumptions that underly them as well as the discount rate and growth rates applied.

**Other intangible assets**

As of 31 December 2021 and 2020, there were no indications that any other intangible assets may be impaired.

## 15. INVESTMENTS IN SUBSIDIARIES

| Cost | £000 |
|---:|:---:|
| At 1 January 2020 | 29,002 |
| Additions | 420 |
| At 31 December 2020 | 29,422 |
| Additions | 20,576 |
| **At 31 December 2021** | **49,998** |

| Provisions for impairment | £000 |
|---:|:---:|
| At 1 January 2020 | 2,810 |
| Additions | (8) |
| At 31 December 2020 | 2,802 |
| Additions | 8 |
| **At 31 December 2021** | **2,810** |

| Carrying value | £000 |
|---:|:---:|
| At 31 December 2020 | 26,620 |
| **At 31 December 2021** | **47,188** |

The Group tests annually for impairment against investments held.

At 31 December 2021 the Group had ten wholly-owned subsidiaries and seventeen wholly-owned sub-subsidiaries, details of which are as follows:

| Company | Registered Address | Activity | Ownership |
|---|---|---|---|
| Instem Life Science Systems Limited<br>(company number 04339129)<br>England and Wales | Diamond Way<br>Stone Business Park<br>Stone, Staffordshire<br>ST15 0SD | Holding Company | 100% by Instem plc |
| Instem LSS Limited<br>(company number 03548215)<br>England and Wales | Diamond Way<br>Stone Business Park<br>Stone, Staffordshire<br>ST15 0SD | Software development, sales, sales support and administrative support | 100% by Instem Life Science Systems Limited |
| Instem LSS (North America) Limited<br>(company number 02126697)<br>England and Wales | Diamond Way<br>Stone Business Park<br>Stone, Staffordshire<br>ST15 0SD | Sales, sales support and administrative support | 100% by Instem LSS Limited |
| Instem LSS (Asia) Limited<br>(company number 1371107)<br>Hong Kong | Suite 1106-8<br>11/F Tai Yau Building<br>No 181 Johnston Road<br>Wanchai | Holding Company | 100% by Instem LSS Limited |
| Instem Information Systems (Shanghai) Limited<br>(company number 310115400257075)<br>Shanghai, PRC | Room 218, Building 3<br>No. 690 Bibo Road<br>Zhanjiang High Tech Park<br>Pudong District<br>Shanghai<br>201203 | Sales, sales support and service | 100% by Instem LSS (Asia) Limited |

## 15. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Company | Registered Address | Activity | Ownership |
|---|---|---|---|
| Instem Scientific Limited<br>(company number 03861669)<br>England and Wales | Diamond Way<br>Stone Business Park<br>Stone, Staffordshire<br>ST15 0SD | Leading provider of software solutions for extracting intelligence from R&D related healthcare data | 100% by Instem plc |
| Instem Scientific Solutions Limited<br>(company number 03598020)<br>England and Wales | Diamond Way<br>Stone Business Park<br>Stone, Staffordshire<br>ST15 0SD | Dormant | 100% by Instem Scientific Limited |
| Instem Scientific Inc.<br>USA | Suite 1550<br>161 Washington Street<br>8 Tower Bridge<br>Conshohocken PA 19428 | Leading provider of software solutions for extracting intelligence from R&D related healthcare data | 100% by Instem Scientific Limited |
| Instem India Pvt Limited<br>(company number U73100MH2012FTC231951)<br>India | Adisa Icon<br>Mumbai Bangalore Highway<br>Bavdhan Budruk<br>Pune 411021 | Software development | 99.9% by Instem LSS Limited<br>0.1% by Instem LSS (NA) Limited |
| Instem Clinical Holdings Limited<br>(company number 05840032)<br>England and Wales | Diamond Way<br>Stone Business Park<br>Stone, Staffordshire<br>ST15 0SD | Holding of intellectual property<br>rights and investment in group<br>companies | 100% by Instem plc |
| Instem Clinical Limited<br>(company number 06959053)<br>England and Wales | Diamond Way<br>Stone Business Park<br>Stone, Staffordshire<br>ST15 0SD | Provision of electronic data capture and clinical management solutions to the pharmaceutical industry | 100% by Instem Clinical Holdings Limited |
| Instem Clinical Inc.<br>USA | Suite 1550<br>161 Washington Street<br>8 Tower Bridge<br>Conshohocken PA 19428 | Provision of electronic data capture and clinical management solutions to the pharmaceutical industry | 100% by Instem Clinical Holdings Limited |
| Perceptive Instruments Limited<br>(company number 02498351)<br>England and Wales | Diamond Way<br>Stone Business Park<br>Stone, Staffordshire<br>ST15 0SD | Development, manufacture and supply of software and hardware products for *in vitro* study data collection and study management in the genetic toxicology, microbiology and immunology markets | 100% by Instem plc |
| Instem Japan K.K<br>(company number 0104-01-120355)<br>Japan | Shinagawa<br>Intercity Tower, A Level 28<br>2-15-1 Konan, Minato-ku<br>Tokyo 108-6028 | Sales, sales support and service | 100% by Instem LSS Limited |
| Samarind Limited<br>(company number 02105894)<br>England and Wales | Diamond Way<br>Stone Business Park<br>Stone, Staffordshire<br>ST15 0SD | Provider of regulatory information management software | 100% by Instem plc |
| Notocord Systems S.A.<br>(company number 350927349)<br>France | Parc des Grillons<br>60, route de Sartrouville<br>78230 Le Pecq<br>Paris | Software development, sales support and administrative support | 100% by Instem plc |
| Notocord Inc.<br>USA | PO Box 10188<br>Newark<br>New Jersey<br>07101-3188 | Sales, sales support and administrative support | 100% by Notocord Systems S.A. |
| Leadscope Inc.<br>USA | 1393 Dublin Road<br>Columbus<br>Ohio 43215 | Leading provider of *in-silico* safety assessment software | 100% Instem Scientific Inc |

## 15. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Company | Registered Address | Activity | Ownership |
|---|---|---|---|
| The Edge Software Consultancy Limited<br>(company number 05400315)<br>England and Wales | Diamond Way<br>Stone Business Park<br>Stone<br>Staffordshire<br>ST15 0SD | Software development, sales, sales support and consultancy activities | 100% by Instem plc |
| d-wise Technologies UK Limited<br>(company number 07352898)<br>England and Wales | Diamond Way<br>Stone Business Park<br>Stone<br>Staffordshire<br>ST15 0SD | Software development, sales, sales support and consultancy activities on clinical trial analysis | 100% by Instem plc |
| Instem Inc<br>USA | 300 Creek View Road<br>Suite 209<br>Newark<br>DE 19711 | Holding Company | 100% by Instem plc |
| d-wise Technologies Inc<br>USA | 2100 Gateway Centre Blvd.<br>Suite 150<br>Morrisville<br>NC 27560 | Software development, sales, sales support and consultancy activities on clinical trial analysis | 100% by Instem plc |
| d-wise Technologies Inc., Morrisville succursale de Genève Branch<br>Switzerland | Dryden ICS SA, Avenue Blanc, 47<br>Genève<br>1202<br>Switzerland | Software development, sales, sales support and consultancy activities on clinical trial analysis | 100% by d-wise Technologies Inc |
| d-wise Technologies Deutschland GmbH<br>(company number HRB 112147)<br>Germany | Eschersheimer Landstrasse 6<br>60322 Frankfurt am Main | Software development, sales, sales support and consultancy activities on clinical trial analysis | 100% by d-wise Technologies Inc |
| Pathology Data Systems AG<br>Switzerland | Duerrenhuebelstrasse 9<br>CH-4133 Pratteln, Basel,<br>Switzerland | Software development, sales, sales support and provider of regulatory information management software | 100% by Instem plc |
| Preclinical Data Systems, Inc.<br>USA | 100 Valley Road,<br>Suite 204<br>Mt. Arlington,<br>New Jersey<br>07856 | Software development | 100% by Pathology Data Systems AG |
| Pathology Data Systems Ltd<br>Japan Branch<br>Japan | 3-5-1 Aoihigashi<br>Naka-ku,<br>Hamamatsu – shi<br>Shizuoka Prefecture<br>433-8114<br>Japan | Software development | 100% by Pathology Data Systems AG |

## 16. PROPERTY, PLANT AND EQUIPMENT

| *Group* | Short leasehold property £000 | IT hardware & software £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| **At 1 January 2020** | **72** | **1,682** | **1,754** |
| Additions | 13 | 128 | 141 |
| Disposals | (4) | (32) | (36) |
| Exchange adjustment | 1 | (14) | (13) |
| **At 31 December 2020** | **82** | **1,764** | **1,846** |
| Additions | - | 144 | 144 |
| Disposals | - | (255) | (255) |
| Acquisition | - | 525 | 525 |
| Exchange adjustment | (2) | 35 | 33 |
| **At 31 December 2020** | **80** | **2,213** | **2,293** |
| **Depreciation** | | | |
| **At 1 January 2020** | **39** | **1,478** | **1,517** |
| Depreciation expense | 12 | 126 | 138 |
| Disposals | (2) | (32) | (34) |
| Exchange adjustment | - | (13) | (13) |
| **At 31 December 2020** | **49** | **1,559** | **1,608** |
| Depreciation expense | 13 | 299 | 312 |
| Disposals | - | (247) | (247) |
| Exchange adjustment | (1) | 29 | 28 |
| **At 31 December 2021** | **61** | **1,640** | **1,701** |
| Net book value | | | |
| At 31 December 2019 | 33 | 204 | 237 |
| At 31 December 2020 | 33 | 205 | 238 |
| **At 31 December 2021** | **19** | **573** | **592** |

## 17. INVENTORIES

| Group | 2021 £000 | 2020 £000 |
|---|---|---|
| Work in progress | **64** | 50 |
| | **64** | 50 |

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Total gross inventories | **64** | 50 |

The inventory consists of high-quality industrial-standard cameras and associated hardware for the Instem Sorcerer Colony Counter product.

In 2021, a total of £0.02m (2020: £0.02m) of inventory was included in profit and loss as an expense.

## 18. TRADE AND OTHER RECEIVABLES

| *Group* | 2021 £000 | 2020 £000 |
|---|---|---|
| Trade receivables | **11,165** | 3,441 |
| Amounts recoverable on contracts | **2,040** | 1,825 |
| Prepayments and other receivables | **1,647** | 827 |
| | **14,852** | 6,093 |
| *Company* | | |
| Amounts owed by group companies | **20,156** | 3,259 |
| Other receivables | **166** | 71 |
| | **20,322** | 3,330 |

An allowance has been made for estimated credit losses from trade receivable and amounts recoverable on contracts as per below:

| An analysis of the provision for impairment of receivables is as follows: | 2021 £000 | 2020 £000 |
|---|---|---|
| *Group* | | |
| At beginning of year | **144** | 215 |
| Increase in provision for impairment | **391** | 87 |
| Reversal of provision for impairment | **(35)** | (161) |
| Foreign exchange adjustment | **2** | 3 |
| At end of year | **502** | 144 |

The net impairment (losses)/gain on financial assets recognised in 2021 were £0.4m (2020: £0.01m)

## 18. TRADE AND OTHER RECEIVABLES (CONTINUED)

**Definition of default**

A loss allowance on all financial assets is measured by considering the probability of default.

Receivables are considered to be in default based on an assessment of past payment practices over a 5 year period prior to 31 December 2021 and the likelihood of such overdue amounts being recovered.

**Impairment of trade receivables**

The probability of default is determined at the year-end based on the ageing of the receivables and historical data about default rates. That data is adjusted if the Group determines that historical data is not reflective of expected future conditions due to changes in the nature of its customers and how they are affected by external factors such as economic and market conditions.

The calculated simplified expected credit loss of trade receivables is deemed immaterial in the current year (2020: immaterial). The directors therefore do not deem it necessary to increase the impairment provision which is in relation to specific credit-impaired receivables.

The average credit period taken on sale is 77 days (2020: 51 days). No interest has been charged on overdue receivables.

Before accepting any new significant customer, the Group obtains relevant credit references to assess the potential customer's credit quality. Credit limits are defined by customer.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

**Impairment of amounts owed by group companies**

The Company assesses the expected credit loss in respect of group receivables based on their ability to repay and recover the balance. In the absence of agreed terms this consideration is given over the expected period of repayment and any expected credit loss. As at the period end the Company has reversed a provision of £0.02m for credit impairment of amounts owed by group companies (2020: reversed a provision of £0.6m). The amount of the provision was £0.2m as of 31 December 2021 (2020: £0.2m).

The age profile of the net trade receivables for the Group at the year-end was as follows:

| | | | **Debt age** | | |
|---|---|---|---|---|---|
| *Group* **2021** | **Current** | **0-30 days** | **31-60 days** | **Over 60 days** | **Total** |
| **Trade receivables/Amounts recoverable on contracts** | | | | | |
| **Value (£000)** | **9,885** | **1,440** | **851** | **1,029** | **13,205** |
| **%** | **75** | **11** | **6** | **8** | **100** |

| | | | Debt age | | |
|---|---|---|---|---|---|
| Group 2020 | Current | 0-30 days | 31-60 days | Over 60 days | Total |
| Trade receivables/Amounts recoverable on contracts | | | | | |
| Value (£000) | 4,132 | 556 | 251 | 327 | 5,266 |
| % | 78 | 11 | 5 | 6 | 100 |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

## 19. CASH AND CASH EQUIVALENTS

| Group | 2021 £000 | 2020 £000 |
|---|---|---|
| Cash at bank | **24,019** | 35,722 |
| Bank overdraft | **(8,998)** | (8,998) |
| | **15,021** | 26,724 |
| Company | | |
| Cash at bank | **3,294** | 20,269 |

The Group's overdraft facility has a net limit of £0.5m and a gross limit of £9.0m. Interest is charged on the bank overdraft at 3.0% above base rate. The bank overdraft is secured by fixed and floating charges over certain of the Group's assets and is repayable on demand.

Cash and cash equivalents in the statement of financial position includes a bank overdraft of £9.0m (2020: £9.0m) as noted above. An offset position is reported as the Group has a legal right to offset any settlement would be on a net basis.

There is a debenture in favour of National Westminster Bank Plc, dated 13 April 2011, secured over the assets of the Group by way of fixed and floating charges, in respect of the Group's overdraft facility.

An analysis of cash and cash equivalents by currency is as follows:

| Group | 2021 £000 | 2020 £000 |
|---|---|---|
| Sterling | **1,476** | 9,312 |
| Euro | **1,188** | 1,044 |
| US Dollar | **6,515** | 12,326 |
| Renminbi | **3,535** | 2,562 |
| Swiss Franc | **1,646** | - |
| Other | **661** | 1,480 |
| | **15,021** | 26,724 |
| Company | | |
| Sterling | **3,294** | 11,197 |
| US Dollar | - | 9,072 |
| | **3,294** | 20,269 |

The carrying amount of these assets approximates to their fair value.

## 20. TRADE AND OTHER PAYABLES

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Group - Current | | |
| Trade payables | **1,522** | 466 |
| Other taxation and social security costs | **686** | 533 |
| Accruals | **3,515** | 1,959 |
| | **5,723** | 2,958 |

As at 31 December 2021, the accruals balance mainly relates to payroll taxes and statutory liabilities which has increased from 2020 due to the three acquisitions.

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Company - Current | | |
| Trade payables | **275** | 67 |
| Amounts owed to group companies | **15,921** | 7,979 |
| Accruals | **436** | 422 |
| | **16,632** | 8,468 |

The directors consider that the carrying amount of trade and other payables approximates to fair value due to their short maturities.

## 21. DEFERRED INCOME

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Consideration received from customers in advance of work being completed plus maintenance and support which is invoiced in advance | **18,935** | 9,878 |

## 22. FINANCIAL LIABILITIES

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

| Group | 2021 £000 | 2020 £000 |
|---|---|---|
| Deferred consideration | **4,276** | 268 |
| Contingent consideration | **2,336** | - |
| Current liability | **6,612** | 268 |

| | 2020 £000 | 2020 £000 |
|---|---|---|
| Non current borrowings | - | 815 |
| Deferred consideration | **3,060** | - |
| Contingent consideration | **1,668** | 316 |
| Non current liability | **4,728** | 1,131 |

| Company | 2021 £000 | 2020 £000 |
|---|---|---|
| Deferred consideration | **1,218** | - |
| Contingent consideration | **904** | - |
| Current liability | **2,122** | - |

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Contingent consideration | **757** | - |
| Non current liability | **757** | - |

The contingent consideration included in the Group is in respect of the acquisition of Leadscope Inc, The Edge and d-wise which were purchased on 15 November 2019, 1 March 2021 and 1 April 2021 respectively.

The deferred consideration above is in respect of the acquisitions of The Edge, d-wise and PDS.

The financial liability maturity analysis is disclosed in the table below.

| **2021** | **1 year or less £000** | **1 to 2 years £000** | **2 to 5 years £000** | **Total £000** |
|---|---|---|---|---|
| **Non current borrowings** | | | | |
| **Deferred consideration** | **4,276** | **3,060** | - | **7,336** |
| **Contingent consideration** | **2,336** | **1,668** | - | **4,004** |
| | **6,612** | **4,728** | - | **11,340** |

| 2020 | 1 year or less £000 | 1 to 2 years £000 | 2 to 5 years £000 | Total £000 |
|---|---|---|---|---|
| Non current borrowings | - | 815 | - | 815 |
| Deferred consideration | 268 | - | - | 268 |
| Contingent consideration | - | 316 | - | 316 |
| | 268 | 1,131 | - | 1,399 |

## 23. FINANCIAL INSTRUMENTS

### FAIR VALUES OF FINANCIAL INSTRUMENTS

**Fair values**

The table below analyses financial instruments into a fair value hierarchy based on the valuation technique used to determine fair value.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable input).

| **2021 Group and Company** | **Carrying amount £000** | **Fair value £000** | **Level 3 £000** |
|---|---|---|---|
| **Contingent consideration** | **4,004** | **4,004** | **4,004** |

| 2020 Group and Company | Carrying amount £000 | Fair value £000 | Level 3 £000 |
|---|---|---|---|
| Contingent consideration | 316 | 316 | 316 |

**Measurement of fair value of financial instruments**

The following valuation technique is used for instruments categorised as Level 3:

**Contingent consideration (Level 3)**

The fair value of contingent consideration related to the acquisitions of Leadscope Inc, The Edge and d-wise which were acquired in November 2019, March 2021 and April 2021 respectively. The contingent considerations were estimated using a present value technique.

Leadscope's contingent consideration of £284,000 fair value was estimated in 2019 based on the approved cash flow projections and forecast discounted at 13.4% to adjust for risk. The probability weighted cash outflows before discounting are £388,000 and reflect management's estimate of a 100% probability that the Leadscope's target level of profitability will be achieved.

The Edge's contingent consideration of £1.3m fair value was estimated in 2021 based on the approved cash flow projections and forecast discounted at 30.9% to adjust for risk. The probability weighted cash outflows before discounting are £2.0m and reflect management's estimate of a 100% probability that the Edge's target level of profitability will be achieved.

Finally, d-wise's contingent consideration of £1.7m fair value was estimated in 2021 based on the approved cash flow projections and forecast discounted at 18.6% to adjust for risk. The probability weighted cash outflows before discounting are £2.1m and reflect management's estimate of a 100% probability that the d-wise's target level of profitability will be achieved.

The reconciliation of the carrying amounts of financial instruments classified as Level 3 is as follows:

| | **2021 £000** | 2020 £000 |
|---|---|---|
| Balance as at 1 January | **316** | 284 |
| Arising on business combination | **3,026** | - |
| Payment of contingent consideration | - | - |
| Unwinding discount | **658** | 52 |
| Foreign exchange | **4** | (20) |
| Balance as at 31 December | **4,004** | 316 |

## 23. FINANCIAL INSTRUMENTS (CONTINUED)

The Group is exposed to various risks in relation to financial instruments. Each of these is disclosed in the table below.

| | **Carrying amount 2021 £000** | **Fair value 2021 £000** | **Level 3 2021 £000** | Carrying amount 2020 £000 | Fair value 2020 £000 | Level 3 2020 £000 |
|---|---|---|---|---|---|---|
| *Loans and receivables* | | | | | | |
| Cash and cash equivalents | 15,021 | 15,021 | - | 26,724 | 26,724 | - |
| Trade and other receivables | 14,852 | 14,852 | - | 6,093 | 6,093 | - |
| Financial assets measured at amortised cost | 29,873 | 29,873 | - | 32,817 | 32,817 | - |
| Financial assets measured at fair value | - | - | - | - | - | - |
| **Total financial assets** | **29,873** | **29,873** | - | 32,817 | 32,817 | - |
| *Financial liabilities measured at amortised cost* | | | | | | |
| Trade payables and accruals | (5,037) | (5,037) | - | (2,425) | (2,425) | - |
| Financial liabilities measured at amortised cost | (5,037) | (5,037) | - | (2,425) | (2,425) | - |
| Deferred consideration | (7,336) | (7,336) | - | | | |
| Contingent consideration | (4,004) | (4,004) | (4,004) | (316) | (316) | (316) |
| Financial liabilities measured at fair value | (11,340) | (11,340) | (4,004) | (316) | (316) | (316) |
| **Total financial liabilities** | **(16,377)** | **(16,377)** | | (2,741) | (2,741) | |
| **Total financial instruments** | **13,496** | **13,496** | | 30,076 | 30,076 | |

### CREDIT RISK

**Financial risk management**

Management aims to minimise the risk of credit losses.

The Group's financial assets are bank balances and cash and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables and the Group has policies in place to ensure that sales of products and services are made to customers with appropriate creditworthiness. The Group generates external revenue from no customer that individually amounts to more than 10% of the Group revenue. At the 2021 year end the Group had a maximum credit risk exposure of £14.9m (2020: £6.1m).

The amounts presented in the statement of financial position are net of impairment provisions.

The Group's exposure to losses from defaults on trade receivables is reduced due to contractual terms which require installation, training, annual licensing and support fees to be invoiced and paid annually in advance. Note 18 sets out the impairment provision for credit losses on trade receivables and the ageing analysis of overdue trade receivables. There were no impairment losses recognised on other financial assets.

The Group undertakes procedures to determine whether there has been a significant increase in the credit risk of its other receivables, including group balances, since their initial recognition. Where these procedures identify a significant increase in credit risk, the loss allowance is measured based on the risk of a default occurring over the expected life of the instrument rather than considering only the default events expected within 12 months of the year-end.

The concentration of credit risk for trade receivables at the balance sheet date by geographical region was:

| | **2021 £000** | 2020 £000 |
|---|---|---|
| UK | **989** | 319 |
| Europe | **2,493** | 778 |
| USA | **6,820** | 1,823 |
| China | **194** | 386 |
| Rest of World | **669** | 135 |
| | **11,165** | 3,441 |

## LIQUIDITY RISK

### Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial commitments as they fall due.

The Group's objective is to ensure that adequate facilities are available through use of bank overdrafts and leases. The Group manages liquidity risk through regular cash flow forecasting and monitoring of cash flows, management review and regular review of working capital and costs.

The Group regularly monitors its available headroom under its borrowing facilities. At 31 December 2021, its £0.5m bank facility was undrawn (2020: £0.5m undrawn). The Group had positive cash reserves of £15.0m at the 2021 year end, in addition to the £0.5m undrawn working capital facility, although £3.5m of the cash was held in bank accounts in China, where it has been traditionally harder to repatriate funds quickly.

The following are the contractual maturities of financial liabilities.

| **2021 Non derivative financial liabilities** | **Carrying amount £000** | **Contractual cashflows £000** | **1 year or less £000** | **2 to 5 years £000** | **After 5 years £000** |
|---|---|---|---|---|---|
| Liabilities relating to right of use assets | 2,325 | 2,325 | 1,077 | 1,229 | 19 |
| Trade payables | 1,522 | 1,522 | 1,522 | - | - |
| Accruals | 4 | 4 | 4 | - | - |
| Deferred consideration | 7,336 | 7,336 | 4,276 | 3,060 | - |
| Contingent consideration | 4,004 | 4,004 | 2,336 | 1,668 | - |
| | **15,191** | **15,191** | **9,215** | **5,957** | **19** |

| 2020 Non derivative financial liabilities | Carrying amount £000 | Contractual cashflows £000 | 1 year or less £000 | 2 to 5 years £000 | After 5 years £000 |
|---|---|---|---|---|---|
| Liabilities relating to right of use assets | 2,084 | 2,084 | 488 | 1,538 | 58 |
| Non current borrowings | 815 | 815 | - | 815 | - |
| Trade payables | 466 | 466 | 466 | - | - |
| Accruals | 2 | 2 | 2 | - | - |
| Deferred consideration | 268 | 268 | 268 | - | - |
| Contingent consideration | 316 | 316 | - | 316 | - |
| | 3,951 | 3,951 | 1,224 | 2,669 | 58 |

## MARKET RISK

### Market risk - Foreign currency risk

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 currencies giving rise to this risk are primarily US dollars. The Group has both cash inflows and outflows in this currency that create a natural hedge.

In managing currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's cash inflows and outflows in a foreign currency.

Over the longer term, changes in foreign exchange could have an impact on consolidation of foreign subsidiaries earnings. A 10% decrease in the average value of Sterling against the US dollar would have resulted in an increase in the Group's profit before tax by approximately £0.6m (2020: £0.1m).

The Group's exposure to foreign currency risk is as follows.

| **2021** | **Sterling £000** | **Euro £000** | **US Dollars £000** | **Renminbi £000** | **Swiss Franc £000** | **Other £000** | **Total £000** |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 1,476 | 1,188 | 6,515 | 3,535 | 1,646 | 661 | 15,021 |
| Trade and other receivables | 3,151 | 1,295 | 9,018 | 474 | 440 | 474 | 14,852 |
| Liabilities relating to right of use assets | (367) | (231) | (1,166) | (27) | (100) | (435) | (2,325) |
| Trade payables | (841) | (23) | (651) | (1) | (6) | - | (1,522) |
| **Net exposure** | **3,419** | **2,229** | **13,716** | **3,981** | **1,980** | **700** | **26,025** |

| 2020 | Sterling £000 | Euro £000 | US Dollars £000 | Renminbi £000 | Swiss Franc £000 | Other £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 9,312 | 1,044 | 12,326 | 2,562 | - | 1,480 | 26,724 |
| Trade and other receivables | 932 | 753 | 3,320 | 679 | - | 409 | 6,093 |
| Liabilities relating to right of use assets | (519) | (289) | (646) | (1) | - | (629) | (2,084) |
| Non current borrowings | - | - | (815) | - | - | - | (815) |
| Trade payables | (191) | (56) | (223) | - | - | 4 | (466) |
| **Net exposure** | **9,534** | **1,452** | **13,962** | **3,240** | **-** | **1,264** | **29,452** |

### Interest rate risk

The Group operates an interest rate policy designed to minimise interest costs and reduce volatility in reported earnings.

The Group's bank facility does not allow the US Dollar cash balances to generate interest therefore the Group transfers funds from the US dollar account into the sterling account. Currency transfers have been utilised to maximise the interest gains whilst minimising foreign exchange risks.

As at 31 December 2021, the indications are that the UK bank base interest rate will not materially differ over the next 12 months. In February 2022, the UK bank base rate increased by 0.25 percentage points to 0.5%. On the basis of the net cash position at 31 December 2021 and assuming no other changes occur (such as material changes in currency exchange rates) a change in interest rates should not have a material impact on net interest income/(expense).

## 24. RECONCILIATION OF MOVEMENTS OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | Notes | Former PDS's shareholders £000 | Lease liability £000 | Total £000 |
|---|---|---|---|---|
| **1 January 2020** | | - | 2,569 | 2,569 |
| *Cash flows* | | | | |
| Repayment of finance cost | 8 | - | (95) | (95) |
| Repayment of lease liability | 8 | - | (621) | (621) |
| *Non-cash* | | | | |
| New leases and lease modification | 8 | - | 186 | 186 |
| Interest expense | 8 | - | 95 | 95 |
| Exchange adjustment | 8 | - | (50) | (50) |
| **As at 31 December 2020** | | - | **2,084** | **2,084** |
| **1 January 2021** | | - | 2,084 | 2,084 |
| *Cash flows* | | | | |
| Repayment of finance cost | 8 | - | (96) | (96) |
| Repayment of lease liability | 8 | - | (963) | (963) |
| Repayment of former PDS's shareholder loan | 13 | (2,387) | - | (2,387) |
| *Non-cash* | | | | |
| Intercompany balance between PDS and Instem PLC | | 2,387 | - | 2,387 |
| Acquisitions | 8 | - | 949 | 949 |
| New leases | 8 | - | 261 | 261 |
| Interest expense | 8 | - | 96 | 96 |
| Exchange adjustment | 8 | - | (6) | (6) |
| **At 31 December 2021** | | - | **2,325** | **2,325** |

## 25. CURRENT TAXATION

The Group current tax receivable is £ 0.1m, net of a payable of £0.8m (2020: receivable of £0.7m, net of a payable of £0.2m) representing the amount of income tax receivable and payable in respect of the current and prior years.

The Company current tax payable is £nil.

## 26. DEFERRED TAX BALANCES

Deferred tax liabilities as at 31 December 2021

| **Movements** | Accelerated tax depreciation £000 | Tax losses £000 | Defined benefit liability £000 | Other timing differences £000 | Total £000 |
|---|---|---|---|---|---|
| **At 1 January 2020** | **(721)** | **395** | **307** | **(487)** | **(506)** |
| Foreign exchange differences | - | - | - | (10) | (10) |
| Credit/(charge) to profit or loss for the year | 34 | (126) | (90) | (175) | (357) |
| Debit to OCI for the year | - | - | 518 | 322 | 840 |
| Adjustments in respect of prior years | (4) | (60) | - | 7 | (57) |
| **At 31 December 2020** | **(691)** | **209** | **735** | **(343)** | **(90)** |
| Foreign exchange differences | 1 | - | - | 13 | 14 |
| Credit/(charge) to profit or loss for the year | (21) | (267) | (91) | (419) | (798) |
| Debit to OCI for the year | - | - | (140) | - | (140) |
| Credit direct to equity | | | | 528 | 528 |
| Debit to goodwill arising on acquisitions during the year | (3,400) | 64 | - | - | (3,336) |
| Adjustments in respect of prior years | - | 549 | - | 26 | 575 |
| **At 31 December 2021** | **(4,111)** | **555** | **504** | **(195)** | **(3,247)** |

Other timing differences are predominantly relates to share based payment and capitalised development.

Management have recognised deferred tax assets in relation to tax losses based on forecast profitability of the Group companies concerned.

Unrecognised tax losses not included at 31 December 2021 were £3.0m (2020: £2.7m) due to uncertainty over the timing of the recoverability of these losses.

## 27. POST-EMPLOYMENT BENEFITS

The Group provides post-employment benefits through various defined contribution schemes and a closed UK defined benefit scheme.

**Defined contribution pension schemes**

The Group pays fixed contributions into independent entities in relation to several retirement plans and insurances for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that related employee services are received.

**Defined benefit pension scheme**

The Group also operates a legacy defined benefit pension arrangement called the Instem LSS Pension Scheme (the Scheme). The Scheme provides benefits based on final salary and length of service on retirement, leaving service or death. This scheme was closed to new members with effect from 8 October 2001.

The Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process, the Group must agree with the Trustees of the Scheme the contributions to be paid to meet the Statutory Funding Objective. The future contributions required to meet the Statutory Funding Objective do not currently affect the statement of financial position of the Scheme in these accounts.

The most recent comprehensive actuarial valuation of the Scheme was carried out as at 5 April 2020 and the next valuation of the Scheme is due as at 5 April 2023. In the event that the valuation reveals a larger deficit than expected the Group may be required to increase contributions above those set out in the current Schedule of Contributions. Conversely, if the position is better than expected, it is possible that contributions may be reduced.

The following Schedule of Contributions has been prepared by the Trustees of the Scheme after obtaining the advice of the Scheme Actuary appointed by the Trustees. The contributions are intended to clear the Scheme deficit by 30 September 2026 and were agreed in June 2021.

| Period ended | Total each year £000 |
|---|---|
| 31 March 2021 | **530** |
| 31 March 2022 | **548** |
| 31 March 2023 | **568** |
| 31 March 2024 | **588** |
| 31 March 2025 | **608** |
| 31 March 2026 | **629** |
| 30 September 2026 | **332** |

The Group currently expects to pay contributions of £548,000 in the year to 31 December 2022.

The Scheme is managed by a Board of Trustees appointed in part by the Group and part from elections by members of the Scheme. The Trustees have responsibility for obtaining valuations of the Scheme, administering benefit payments and investing the Scheme's assets. The Trustees delegate some of these functions to their professional advisors where appropriate.

## 27. POST-EMPLOYMENT BENEFITS (CONTINUED)

The Scheme exposes the Group to a number of risks:

- Investment risk. The Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide the real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk. The Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk. A significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging.
- Mortality risk. In the event that members live longer than assumed a deficit will emerge in the Scheme.

There were no Scheme amendments, curtailments or settlements during the year.

The employer pays the Pension Protection Fund levy each year in respect of the scheme. It is intended that all other expenses associated with the running of the Scheme will be met from the Scheme's assets.

**Risk mitigation strategies**

The investment manager has previously been instructed as to the permissible ranges for asset allocations as set out in the Scheme's current Statement of Investment Principles. Over the year, the Scheme invested in a portfolio of liability-driven assets, designed to hedge against interest rate and inflation risk.

The net interest on the net defined benefit liability was determined by considering the expected returns available on the assets underlying the current investment portfolio. Expected yields on bonds are based on gross redemption yields at the reporting date whilst the expected returns on the equity and property investments reflect the long-term real rates of return experienced in the respective markets.

## 27. POST-EMPLOYMENT BENEFITS (CONTINUED)

| | 2021 % | 2020 % |
|---|---|---|
| Discount rate (pa) | **1.90** | 1.40 |
| Inflation (RPI pa) | **3.10** | 2.70 |
| Inflation (CPI pa) | **2.40** | 1.90 |
| Pension increase (RPI pa) | **3.00** | 2.70 |
| Pension increase (CPI pa) | **2.00** | 1.80 |
| Life Expectancy assumption (number of years from the age of 65) | **Years** | Years |
| Male currently aged 45 | **24.1** | 23.8 |
| Female currently aged 45 | **26.0** | 25.0 |
| Male currently aged 65 | **23.2** | 22.8 |
| Female currently aged 65 | **24.9** | 23.7 |

| ANALYSIS OF AMOUNT CHARGED TO FINANCE COSTS | 2021 £000 | 2020 £000 |
|---|---|---|
| Interest on pension scheme assets | **177** | 266 |
| Interest on pension scheme liabilities | **(228)** | (300) |
| Net finance cost charge | **(51)** | (34) |

| ANALYSIS OF AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME/ (EXPENSE) | 2021 £000 | 2020 £000 |
|---|---|---|
| Gains on assets in excess of interest | **1,002** | - |
| Experience gains/(losses) on liabilities | **118** | (351) |
| (Losses) from changes to demographic assumptions | **(322)** | (53) |
| Gains/(losses) from changes to financial assumptions | **577** | (2,133) |
| Actuarial gains /(losses) recognised in other comprehensive income/(expense) | **1,375** | (2,537) |

## 27. POST-EMPLOYMENT BENEFITS (CONTINUED)

| CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION | **2021 £000** | 2020 £000 |
|---|---|---|
| Opening defined benefit obligation | **16,380** | 13,773 |
| Interest on liabilities | **228** | 300 |
| Past service cost and GMP reserve | **-** | 5 |
| Benefits paid | **(238)** | (235) |
| Experience (gain)/loss on liabilities | **(118)** | 351 |
| Changes to demographic assumptions | **322** | 53 |
| Changes to financial assumptions | **(577)** | 2,133 |
| Closing defined benefit obligation | **15,997** | 16,380 |

| CHANGES IN THE FAIR VALUE OF PLAN ASSETS | **2021 £000** | 2020 £000 |
|---|---|---|
| Opening plan assets | **12,512** | 11,969 |
| Interest on assets | **177** | 266 |
| Return on plan assets less interest | **1,002** | - |
| Company contributions | **530** | 512 |
| Benefits paid | **(238)** | (235) |
| Closing plan assets | **13,983** | 12,512 |

The actual return on assets was a positive return of £1,079,000 (2020: positive return £266,000).

| AMOUNT RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION | **2021 £000** | 2020 £000 |
|---|---|---|
| Present value of funded obligations | **(15,997)** | (16,380) |
| Fair value of plan assets | **13,983** | 12,512 |
| Net pension liability | **(2,014)** | (3,868) |
| Related deferred tax asset | **504** | 735 |
| Net pension liability after deferred tax | **(1,510)** | (3,133) |

## 27. POST-EMPLOYMENT BENEFITS (CONTINUED)

| RECONCILIATION OF NET DEFINED BENEFIT LIABILITY | **2021 £000** | 2020 £000 |
|---|---|---|
| **Net defined benefit liability at start** | **3,868** | 1,804 |
| Past service cost and GMP reserve | - | 5 |
| Net interest expense | 51 | 34 |
| Remeasurements | **(1,375)** | 2,537 |
| Employer contributions | **(530)** | (512) |
| **Net defined benefit liability at end** | **2,014** | 3,868 |

| ANALYSIS OF CUMULATIVE AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME/(EXPENSE) | **Cumulative 2021 £000** | Cumulative 2020 £000 |
|---|---|---|
| Actual return less expected return on assets | **3,096** | 2,094 |
| Experience losses on liabilities | **(1,861)** | (1,979) |
| Changes in demographic assumptions | **240** | 562 |
| Changes in financial assumptions | **(5,978)** | (6,555) |
| Cumulative actuarial loss recognised in the OCI | **(4,503)** | (5,878) |
| Actuarial gain/(loss) recognised in the OCI in the period | **1,375** | (2,537) |

## MAJOR CATEGORIES OF PLAN ASSETS AS A PERCENTAGE OF FAIR VALUE OF TOTAL PLAN ASSETS

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **£000** | **%** | £000 | % |
| Equities | **6,127** | **44** | 5,842 | 47 |
| Property | **638** | **5** | 717 | 6 |
| Bonds | **123** | **1** | 858 | 7 |
| Corporate Bonds | **1,698** | **12** | 2,033 | 16 |
| LDI | **3,071** | **22** | 994 | 8 |
| Cash | **137** | **1** | 122 | 1 |
| Other | **2,189** | **15** | 1,946 | 15 |
| | **13,983** | **100** | 12,512 | 100 |

## 27. POST-EMPLOYMENT BENEFITS (CONTINUED)

The five-year history of experience adjustments is as follows:

| | **2021 £000** | 2020 £000 | 2019 £000 | 2018 £000 | 2017 £000 |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | **(15,997)** | (16,380) | (13,773) | (12,655) | (14,549) |
| Fair value of plan assets | **13,983** | 12,512 | 11,969 | 10,406 | 10,799 |
| Deficit | **(2,014)** | (3,868) | (1,804) | (2,249) | (3,750) |
| Experience gains/(losses) on liabilities | **118** | (351) | - | 65 | 156 |
| Return on plan assets less interest | **1,002** | - | 1,003 | (957) | 686 |

The following sensitivities apply to the value placed on the liabilities:

| Adjustments to assumptions<br>Approximate effect on liabilities | £000 |
|---|---|
| DISCOUNT RATE | |
| + 0.50% pa | (1,239) |
| - 0.50% pa | 1,401 |
| INFLATION | |
| + 0.50% pa | 1,158 |
| - 0.50% pa | (1,038) |
| MORTALITY | |
| Life expectancy + 1 year | 423 |
| Life expectancy - 1 year | (403) |

## 28. PROVISION FOR LIABILITIES

| | **2021 £000** | 2020 £000 |
|---|---|---|
| At 1 January | **250** | 250 |
| Acquisition | **41** | - |
| Increase in provision during the year | - | - |
| At 31 December | **291** | 250 |

The Group holds a provision of £0.25m (2020: £0.25m) in respect of historical contract disputes against a maximum exposure of approximately £3.8m (2020: £4.0m). The maximum exposure includes additional claims for consequential losses. There are uncertainties around the outcome of contract disputes and any settlements may be higher or lower than the amount provided. As the potential financial outcome cannot yet be determined with any certainty the Board has concluded that the £0.25m provision was appropriate at 31 December 2021. To date all legal expenses have been expensed.

The amount of £0.04m relates to the general provision that PDS provided for warranty and remained unchanged as of 31 December 2021 based on management estimates.

## 29. SHARE CAPITAL

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

| SHARES ISSUED AND FULLY PAID: | **2021 No. of shares** | 2020 No. of shares |
|---|---|---|
| Beginning of the year | **20,481,909** | 16,623,078 |
| Issued on exercise of employee share options | **88,667** | 238,141 |
| Share issue on acquisition of The Edge | **391,920** | - |
| Share issue on acquisition of d-wise | **868,203** | - |
| Share issue on acquisition of PDS | **359,157** | - |
| Share issue, placing | - | 3,620,690 |
| Total shares issued and fully paid at 31 December | **22,189,856** | 20,481,909 |

Additional shares were issued during 2021 relating to share-based payments (see note 9 for details on the Group's share-based remuneration).

**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 (2020: £0.7m).

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

## 30. EARNINGS PER SHARE

**Basic and diluted 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 deferred and contingently issuable shares in relation to d-wise acquisition which could potentially dilute the basic EPS in the future were not included in the calculation of diluted EPS because they are antidilutive for the period of 2021.

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 the ordinary shares that could have been acquired at their average market price during the period are ignored. However, the shares that would generate no proceeds and would not have effect on profit or loss attributable to ordinary shares outstanding are included.

| | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Profit after tax (£000)** | **Weighted average number of shares (000's)** | **Profit per share (pence)** | Profit after tax (£000) | Weighted average number of shares (000's) | Profit per share (pence) |
| Earnings per share - Basic | **1,678** | **21,591** | **7.8** | 2,274 | 18,421 | 12.3 |
| Potentially dilutive shares | - | **1,128** | - | - | 1,231 | - |
| Earnings per share - Diluted | **1,678** | **22,719** | **7.4** | 2,274 | 19,652 | 11.6 |

## 30. EARNINGS PER SHARE (CONTINUED)

### Adjusted earnings per share

Adjusted earnings per share is calculated after adjusting for the effect of foreign currency exchange on the revaluation of inter-group balances included in finance income/(costs), non-recurring items, impairment of goodwill and capitalised development and amortisation of intangibles on acquisitions. 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.

| | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Adjusted profit after tax (£000)** | **Weighted average number of shares (000's)** | **Adjusted earnings per share (pence)** | Adjusted profit after tax (£000) | Weighted average number of shares (000's) | Adjusted earnings per share (pence) |
| Earnings per share - Basic | **3,704** | **21,591** | **17.2** | 3,752 | 18,421 | 20.4 |
| Potentially dilutive shares | - | **1,128** | - | - | 1,231 | - |
| Earnings per share - Diluted | **3,704** | **22,719** | **16.3** | 3,752 | 19,652 | 19.1 |

| Reconciliation of adjusted profit before tax: | **2021 £000** | 2020 £000 |
|---|---|---|
| Reported profit before tax | **2,984** | 2,549 |
| Non-recurring costs | **1,286** | 606 |
| Non-recurring income | **(805)** | - |
| Amortisation of acquired intangibles | **1,563** | 664 |
| Impairment of goodwill and capitalised development costs | - | - |
| Foreign exchange differences on revaluation of inter-group balances | **(18)** | 208 |
| Adjusted profit before tax | **5,010** | 4,027 |
| Tax | **(1,306)** | (275) |
| Adjusted profit after tax | **3,704** | 3,752 |
| Profit after tax | **1,678** | 2,274 |

## 31. CAPITAL AND RESERVES

**Share capital**

The share capital account represents the par value for all shares issued. The Company has one class of share and each share rank parri passu and carry equal rights.

**Share premium account**

The share premium account is used to record amounts received in excess of the nominal value of shares on issue of new shares less the costs of new share issues.

**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 and PDS Pathology Data Systems

**Share based payment reserve**

The share based payment reserve represents the fair value of shares options periodically awarded to employees and executive directors, which is charged to the statement of comprehensive income.

**Translation reserve**

The translation reserve incorporates the cumulative net exchange gains and losses recognised on the translation of subsidiary company financial information to the presentational currency of Sterling (£).

**Retained earnings**

The retained earnings reserve includes the accumulated profits and losses arising from the consolidated 'Statement of Comprehensive Income' and certain items from 'Other Comprehensive Income' attributable to equity shareholders net of distributions to shareholders.

**Capital management**

The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group will continue to trade profitably in the foreseeable future. The Group also aims to maximise the capital structure of debt and equity so as to minimise its cost of capital. The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates by monitoring its gearing ratio on a regular basis.

The Group considers its capital to include share capital, share premium, merger reserve, share based payment reserve, translation reserve, retained earnings and net debt as noted below.

Net debt includes short and long-term borrowings (including overdrafts and lease obligations) net of cash and cash equivalents.

The Group has not made any changes to its capital management during the year.

## 32. CAPITAL COMMITMENTS

There were no capital commitments at the end of the financial year (2020: £nil).

## 33. RELATED PARTY TRANSACTIONS

Transactions between Group companies have not been disclosed as these have all been eliminated in the preparation of the consolidated financial statements. During the year, the Group traded with subsidiary companies in its normal course of business. These transactions related to recharges and totalled in aggregate £0.4m (2020: £1.0m). The net intercompany balances due to the Company at the year-end totalled £4.4m (2020: due from £4.5m).

During the year, the Group traded in its normal course of business with shareholders and consultancy businesses in which Directors have a material interest as follows:

| KEY MANAGEMENT COMPENSATION: | **2021 £000** | 2020 £000 |
|---|---|---|
| **Group and Company** | | |
| *Fees for services provided as Non-Executive Directors* | | |
| Salaries and short-term benefits | **141** | 138 |
| Employer's national insurance & social security costs | **15** | 15 |
| | **156** | 153 |
| **Group** | | |
| *Executive Directors* | | |
| Salaries and short-term benefits | **411** | 385 |
| Post-employment retirement benefits | **29** | 44 |
| Employers' national insurance & social security costs | **29** | 34 |
| Share based payment charge | **215** | 98 |
| | **684** | 561 |
| **Group** | | |
| *Other key management* | | |
| Salaries and short-term employee benefits | **1,194** | 1,062 |
| Post-employment retirement benefits | **56** | 77 |
| Employers' national insurance & social security costs | **97** | 74 |
| Share based payment charge | **428** | 154 |
| | **1,775** | 1,367 |

The Company paid £0.10m (2020: £0.05m) to Instem Ventures Limited, a company owned by A Gare, a shareholder. The balance outstanding at the end of the year was £nil (2020: £nil).

Key management are considered to be the Directors together with the Senior Managers of the business.

## 34. CONTINGENT LIABILITIES

Instem plc has provided a guarantee to its subsidiaries which have taken advantage of the exemption from audit. Under this guarantee, the company has a contingent liability of £21.9m (2020: £16.4m).

## 35. SUBSEQUENT EVENTS

No adjusting events have occurred between the 31 December reporting date and the date of approval of these financial statements.

An historical contractual licence dispute, which does not affect the ongoing operations of the Group, was heard by a German court on 17 March 2022 and the official outcome is awaited. The Group has been defending the action. Notwithstanding this, the cost provision of £0.25m made in 2017 has been maintained in the 2021 financial statements. As the potential financial outcome cannot yet be determined with any certainty the Board has concluded that the £0.25m provision was appropriate at 31 December 2021. To date all legal expenses have been expensed.

On 8 April 2022, the Group signed a new financing arrangement which consists of a committed facility of £10.0m with HSBC UK Bank plc to support the Group's working capital needs and its acquisition strategy, which can be extended up to £20.0m if needed, subject to further bank approval. The financial covenants have been considered in the forecast to ensure compliance.

# DIRECTORS AND ADVISORS

## DIRECTORS
D Gare (Non-Executive Chairman)
M F McGoun (Independent Non-Executive)
R Bandali (Independent Non-Executive, appointed 1 December 2021)
D M Sherwin (Non-Executive)
P J Reason
N J Goldsmith

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N J Goldsmith

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