

TERN PLC

SOFTWARE AND COMPUTER SERVICES

25 January 2023

TERN.L

8.0p

Market Cap: £28.2m

SHARE PRICE (p)



12m high/low 16.8p/7.1p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£0.3m (at 30/06/22)
Enterprise value	£27.9m
Index/market	AIM
Next news	FY results, March '23
Shares in Issue (m)	352.1
Chairman	Ian Ritchie
Chief Executive	Albert E Sisto
CFO	Sarah Payne

COMPANY DESCRIPTION

Tern predominantly invests in software companies, with proven technology, based in the UK but with global ambition.

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TERN PLC IS A RESEARCH CLIENT OF PROGRESSIVE

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Portfolio update highlights inflexion point

Tern has announced an update on its portfolio activity. Individual companies are gaining commercial traction, with configuration work turning to repeat licencing and significant year-on-year growth in recurring revenue contracts. Third-party investments and uplifts in value are critical proof points that Tern's model is delivering. The first Series B round was successfully completed in August 2022 for FundamentalVR. Tern also strengthened its own balance sheet with two fundraises in the latter part of 2022, underpinning its focus on shareholder value and protecting its position as portfolio companies increase market penetration and garner strategic interest. The IoT space is buoyant, demonstrated this week by Cognizant Technology Solutions acquiring IoT software engineering business Mobica. We see significant value creation from Tern's hybrid VC model and organic growth potential, with management looking at well-timed exits that maximise value 'when the market conditions are right'.

- Positive business momentum for Device Authority.** DA is making rapid progress in growing its revenue base through its modularised licence platform, following the revolutionary product launch of KeyScaler 7.0. This includes new contract wins in the UK, EU and US, as well as closing its first KeyScaler software as a service ('KSaaS') and 'Edge' contracts. Recent wins included a US\$1.2m five-year automotive supplier contract, and a further US\$500k contract with an energy provider, over three years.
- Commercial launch of Wyld satellite IoT network.** Launched in December 2022, Wyld has signed over 40 alliances and built a SEK 53m purchase order backlog for its IoT module and data service, expected to convert to revenue in 2023. This includes some large orders such as the recent SEK 12.6m four-year contract in the Middle East in the agriculture sector.
- FundamentalVR** was the first of Tern's investee companies to achieve a Series B growth financing round in August 2022, supporting global deployment of Fundamental Surgery, its surgical training platform.
- Konektio** is seeing strong growth for its AssetMinder software platform, releasing new AssetMinder modules in 2022 and structuring the business to expand its operational scale. Mathew Scherba, a director of Tern, also has joined the Konektio executive team to aid development.
- Talking Medicines** is expanding the subscription base for PatientMetRx. During 2022 it redefined its market strategy to focus on larger advertising agencies that work on behalf of major pharmaceutical companies. Management believes this will lead to significant revenue growth in 2023.

FYE DEC (£M)	2017	2018	2019	2020	2021
Revenue	0.1	0.1	0.1	0.2	0.1
Adj EBITDA	0.0	0.0	0.0	0.0	0.0
Fully Adj PBT	-1.7	-0.3	-0.8	0.8	4.6
Fully Adj EPS (p)	-1.4	-0.1	-0.3	0.3	1.3
Net asset value	10.6	16.8	18.9	24.0	32.4
NAV/share (p)	8.5	7.7	7.5	8.3	9.5
PER (x)	N/A	N/A	N/A	28.9x	6.0x

Source: Company Information and Progressive Equity Research estimates.

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Please refer to important disclosures at the end of the document.

Financial Summary: Tern plc

Year end: December (£m unless shown)

	2017	2018	2019	2020	2021
PROFIT & LOSS					
Revenue	0.1	0.1	0.1	0.2	0.1
Adj EBITDA	0.0	0.0	0.0	0.0	0.0
Adj EBIT	0.0	0.0	0.0	0.6	4.4
Reported PBT	(1.7)	(0.3)	(0.8)	0.8	4.6
Fully Adj PBT	(1.7)	(0.3)	(0.8)	0.8	4.6
NOPAT	(1.7)	(0.3)	(0.8)	0.8	4.6
Reported EPS (p)	(1.4)	(0.1)	(0.3)	0.3	1.3
Fully Adj EPS (p)	(1.4)	(0.1)	(0.3)	0.3	1.3
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(0.8)	(0.8)	(1.3)	(1.2)	(1.5)
Free Cash flow	(1.6)	(4.3)	(3.8)	(3.1)	(4.0)
FCF per share (p)	(1.3)	(2.0)	(1.5)	(1.0)	(1.2)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	1.1	5.9	2.9	4.2	3.8
Net cash flow	(0.5)	1.6	(0.9)	1.1	(0.2)
Overdrafts / borrowings	(0.2)	0.0	0.0	0.0	0.0
Cash & equivalents	0.3	1.9	1.0	2.1	2.0
Net (Debt)/Cash	0.1	1.9	1.0	2.1	2.0
NAV AND RETURNS					
Net asset value	10.6	16.8	18.9	24.0	32.4
NAV/share (p)	8.5	7.7	7.5	8.3	9.5
Net Tangible Asset Value	0.0	0.0	0.0	0.0	0.0
NTAV/share (p)	0.0	0.0	0.0	0.0	0.0
Average equity	10.9	13.7	17.8	21.5	28.2
Post-tax ROE (%)	(15.5%)	(2.3%)	(4.4%)	3.7%	16.2%
METRICS					
Revenue growth		8.3%	17.6%	21.5%	(57.9%)
Adj EBITDA growth		N/A	N/A	N/A	N/A
Adj EBIT growth		N/A	N/A	N/A	638.0%
Adj PBT growth		(81.5%)	149.8%	(203.0%)	469.5%
Adj EPS growth		(89.6%)	119.2%	(189.2%)	382.8%
Net asset value growth		58.3%	12.9%	26.9%	35.1%
NAV/share growth		(9.2%)	(2.7%)	10.0%	15.7%
VALUATION					
EV/Sales (x)	284.5	262.6	223.4	183.8	436.9
EV/EBITDA (x)	N/A	N/A	N/A	N/A	N/A
EV/NOPAT (x)	N/A	N/A	N/A	34.7	6.1
PER (x)	N/A	N/A	N/A	28.9	6.0
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(15.7%)	(24.8%)	(19.0%)	(13.1%)	(14.7%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

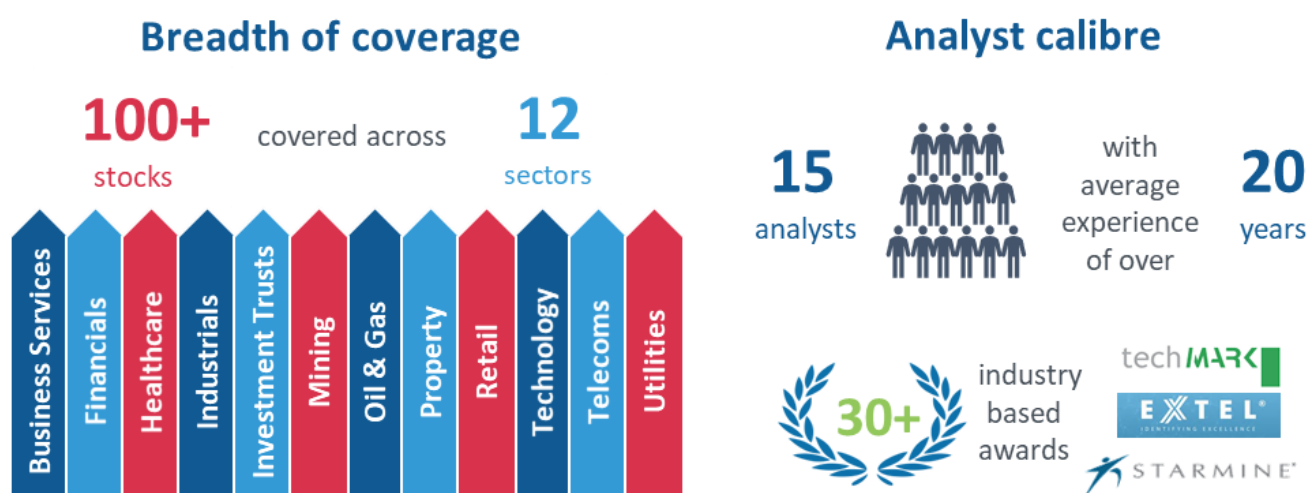
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