

TERN

SOFTWARE AND COMPUTER SERVICES

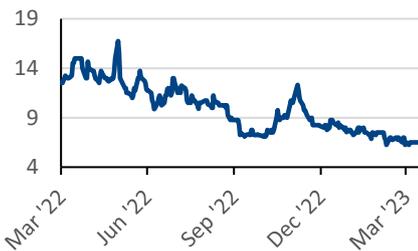
18 April 2023

TERN.L

6.5p

Market Cap: £25.3m

SHARE PRICE (p)



12m high/low

16.8p/6.3p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£0.3m (at 30/06/22)
Enterprise value	£25m
Index/market	AIM
Next news	FY results, May
Shares in Issue (m)	388.6
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.

www.ternplc.com

TERN IS A RESEARCH CLIENT OF PROGRESSIVE

ANALYSTS

Gareth Evans

+44 (0) 20 7781 5301

gevans@progressive-research.com



Tessa Starmer

+44 (0) 20 7781 5303

tstarmer@progressive-research.com



www.progressive-research.com

Strong KPIs point to portfolio growth

In today's short trading update, Tern's KPIs point to further significant growth in FY22, supporting our view that the portfolio is gaining commercial traction and turning configuration work into repeat revenue. Uncertainty in the technology sector caused by the rising cost of capital is likely to lead to valuation headwinds, but Tern sees its portfolio as well placed to show resilience in any 'flight to quality'. We take comfort from the performance across the portfolio, with revenues growing, headcount increasing and new customers wins. Management has also signalled that it does not intend to pursue an OTC listing in the US given advice relating to its investment status. We look forward to further updates at the investor presentation on 27 April, prior to full-year results expected in late May.

- Strong KPIs and new customer wins.** Aggregate annual recurring revenue (ARR) grew 97% year on year, reflecting the transition to repeat revenue across the portfolio, which is the primary indicator of valuation growth. Employees rose in aggregate by 66% to 219 in 2022 and annual recurring revenue per employee increased by 19%. Management notes that the portfolio is not yet at breakeven and will require continued support from Tern and co-investors, in line with its strategy of value creation and well-timed exits that maximise value 'when market conditions are right'.
- Positive momentum throughout the portfolio.** Device Authority is making rapid progress with multi-year contract wins following the launch of KeyScaler 7.0. Konektio is seeing strong growth for its AssetMinder platform and is structuring the business to increase its operational scale. Talking Medicines is expanding the subscription base for PatientMetRx and has been engaging with a number of global advertising agencies.
- Management is looking to take advantage of Wyld's success** as a standalone company, following its IPO on NASDAQ First North in 2021. Wyld has built a SEK 76m order backlog since the commercial launch. Tern's management will look to crystallise upside at appropriate stages to provide capital for investment elsewhere. Tern has realised £370k to date and its holding in Wyld is currently valued at 2.5 times the invested capital.
- The first Series B growth equity financing round** was completed in August 2022. This was for FundamentalVR to support global deployment of its surgical training platform Fundamental Surgery. Overall, Tern remains committed to its long-term strategy to provide shareholders with access to returns as liquidity events are achieved, through full or partial exits at the appropriate time.

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	23.5x	4.9x

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

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)	254.8	235.2	200.0	164.6	391.3
EV/EBITDA (x)	N/A	N/A	N/A	N/A	N/A
EV/NOPAT (x)	N/A	N/A	N/A	31.0	5.5
PER (x)	N/A	N/A	N/A	23.5	4.9
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(19.3%)	(30.5%)	(23.4%)	(16.1%)	(18.0%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

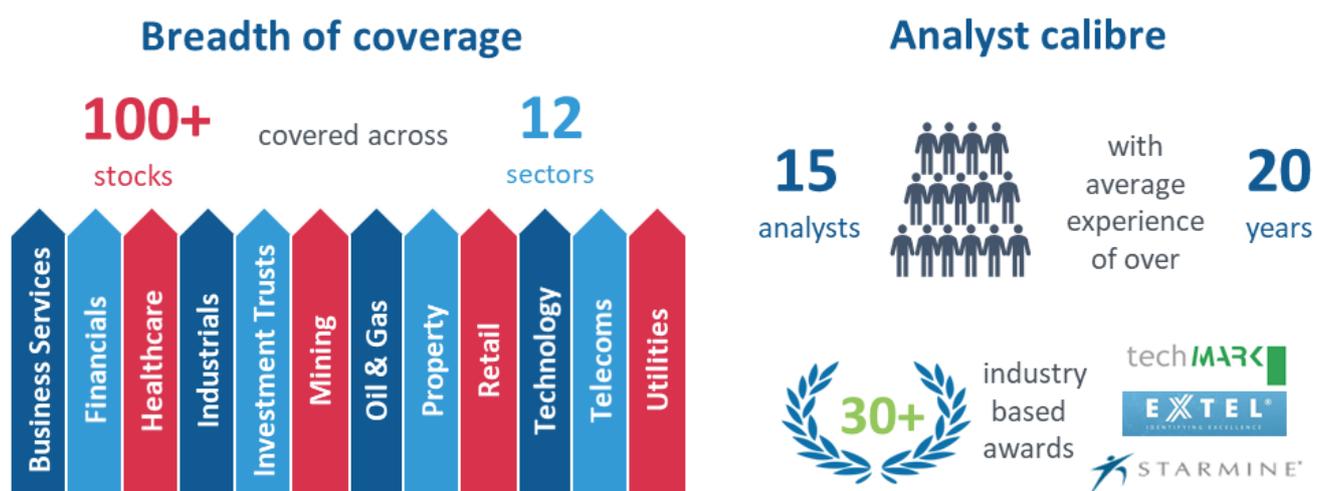
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To arrange a meeting with the management team, or for further information about Progressive, please contact us at:
+44 (0) 20 7781 5300
info@progressive-research.com