

TERN

SOFTWARE AND COMPUTER SERVICES

25 April 2023

TERN.L

5.0p

Market Cap: £19.4m

SHARE PRICE (p)



12m high/low

16.8p/5.0p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£0.3m (at 30/06/22)
Enterprise value	£19.1m
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.

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TERN IS A RESEARCH CLIENT OF PROGRESSIVE

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Supporting investee despite tough markets

Tern's portfolio company Konektio (formerly InVMA) has announced a small but successful £0.3m equity fundraise. Tern invested just £0.1m in this round, alongside the conversion of £0.5m in loan notes. Tern's holding in Konektio's equity has risen slightly to 39.9% but with a book value now of £1.0m, representing a 55% decline on the previous valuation of the investment. Clearly this down-round is disappointing but in tough conditions, and with a challenging macro backdrop, the pressure is perhaps unsurprising. We note Tern's hands-on management of the business (with the recent secondment of a Tern director) and hope that future developments will trend positively with this additional focus.

- Details of the £0.3m raise.** Tern has invested £0.1m in the fundraise, with the remainder from Konektio's existing institutional investors Mercia and Foresight. Konektio has also simplified its capital structure, with Tern converting £0.5m of loan notes into equity at a 10%-20% discount to the fundraise price. Tern's holding has therefore risen to 39.9% with a book value of £1.0m, a 55% decline on the latest book value of £2.2m, as at 30 June 2022. Tern has invested approximately £2.2m in Konektio to date, with Konektio valued at c.£3m on a post-money basis.
- Challenging backdrop.** Clearly, valuations across the tech landscape have been challenged for several quarters, for reasons relating to inflation, interest rates, risk appetite and long-term value expectations. A number of quoted private equity players are trading at material (and increasing) discounts to their historical book values, and we are seeing down-rounds being reported.
- Continued support of significant institutional investors.** Despite the challenging environment, it is pleasing to see Foresight and Mercia work alongside Tern to fund the next phase of Konektio's growth. We also note that Tern seconded director Mathew Scherba to the Konektio business in early 2023, for what is now an indefinite timeframe – suggesting a clear stepping-in to assist the investee, in line with Tern's stated strategy.
- Expectations cautious.** While we do not expect any near-term rebound in sentiment or valuations, Tern remains well placed to help its investees through this phase of more-difficult conditions. We hope that the group and its portfolio will emerge stronger and with increased market shares, as others are less capable of weathering these storms. We await further news on Konektio and more broadly across the Tern portfolio.

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	18.1x	3.7x

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

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)	195.3	180.3	153.3	126.2	299.9
EV/EBITDA (x)	N/A	N/A	N/A	N/A	N/A
EV/NOPAT (x)	N/A	N/A	N/A	23.8	4.2
PER (x)	N/A	N/A	N/A	18.1	3.7
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(25.1%)	(39.7%)	(30.4%)	(21.0%)	(23.5%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

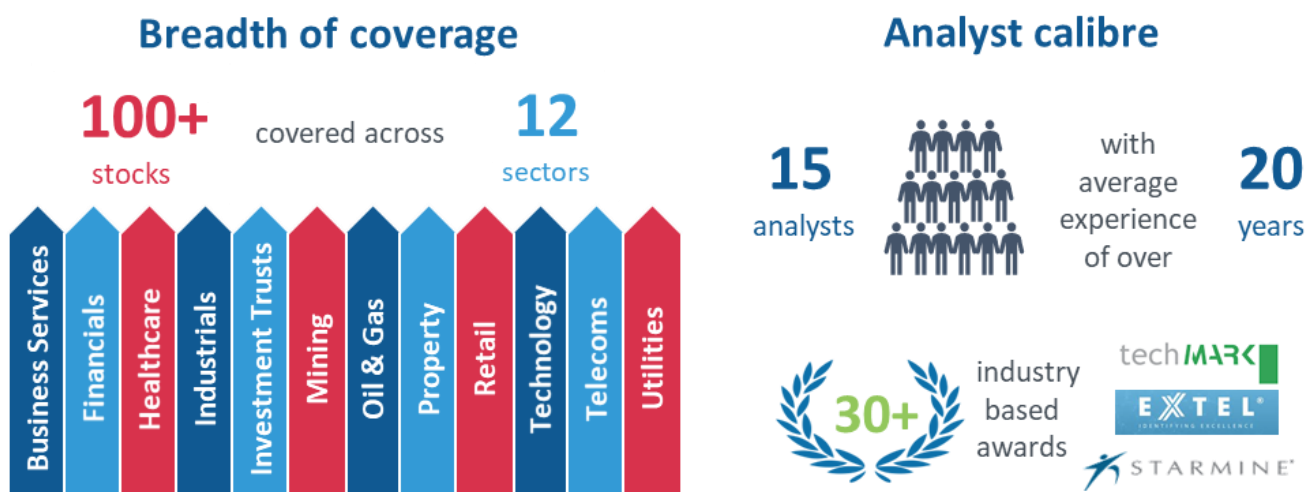
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