

TERN

SOFTWARE AND COMPUTER SERVICES

7 August 2023

TERN.L

8.5p

Market Cap: £33m

SHARE PRICE (p)



12m high/low

12.5p/3.5p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£1.0m (at 31/12/22)
Enterprise value	£32m
Index/market	AIM
Next news	Interims, August
Shares in issue (m)	388.6
Chairman	Ian Ritchie
CEO	Albert E Sisto
CFO	Sarah Payne

COMPANY DESCRIPTION

Tern operates a hybrid venture capital model, providing access to disruptive IoT start-ups with proven technology.

www.ternplc.com

TERN IS A RESEARCH CLIENT OF PROGRESSIVE

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Wyld collaboration with SpaceX

Tern's portfolio company Wyld Networks has signed a potentially transformational deal with SpaceX to explore areas of collaboration, initially looking at offering remote connectivity in North, Central and South America. This builds on Wyld's success following the commercial launch of its product in December 2022; as at mid-May 2023, it had built a significant order backlog of SEK 92m (\$8.7m). We believe that this high-profile deal reinforces Tern's strategy to take advantage of Wyld's success as a standalone company and to make use of phased access to capital, as highlighted by the recent £3m funding facility (see our [note](#)). In our view, this deal should be seen as a huge positive for Wyld, while underpinning Tern's hybrid VC model.

- We expect an uplift to Wyld's market cap and hence Tern's NAV.** Wyld started trading on NASDAQ First North in July 2021 following a successful IPO, which represents a phased exit from the business for Tern, currently holding a 27% stake. As at year-end FY22, Tern's holding in Wyld was valued at £6.0m, down from £8.7m the previous year, due in part to the sell-off in global technology stocks.
- Deal reinforces Tern's strategy to take advantage of Wyld's success** as a standalone company. Tern's management will look to crystallise upside at appropriate stages to provide capital for investment elsewhere and to self-finance. Tern realised £42.3k from sales of its holding in Wyld in FY22. We expect a re-rating for Wyld on the back of this news, providing Tern with access to additional capital.
- Collaboration with one of the key satellite players.** SpaceX offers connectivity for broadband through Starlink (the largest satellite constellation using a low Earth orbit) and for IoT through Swarm. Wyld is already in partnership with Eutelsat Communications, TrakAssure and Senet. Wyld also plans to add 5G NB-IoT to its current LoRaWAN satellite IoT capability, which is estimated to increase Wyld's addressable market from \$670m to \$1.3bn by 2025.
- Tern's 'hands on' model has built value** and management is committed to providing access to returns through full or partial exits when shareholder value is maximised. In our view, Tern's funding-to-exit model requires patience as it navigates economic difficulties: we see the strong ARR growth attracting additional strategic interest and look forward to further positive newsflow.

FYE DEC (£M)	2018	2019	2020	2021	2022
Revenue	0.1	0.1	0.2	0.1	0.1
Adj EBITDA	0.0	0.0	0.0	0.0	0.0
Fully Adj PBT	-0.3	-0.8	0.8	4.6	-10.4
Fully Adj EPS (p)	-0.1	-0.3	0.3	1.3	-2.9
Net asset value	16.8	18.9	24.0	32.4	24.9
NAV/share (p)	7.7	7.5	8.3	9.2	6.4
PER (x)	N/A	N/A	30.7x	6.4x	N/A

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)

	2018	2019	2020	2021	2022
PROFIT & LOSS					
Revenue	0.1	0.1	0.2	0.1	0.1
Adj EBITDA	0.0	0.0	0.0	0.0	0.0
Adj EBIT	0.0	0.0	0.6	4.4	(10.5)
Reported PBT	(0.3)	(0.8)	0.8	4.6	(10.4)
Fully Adj PBT	(0.3)	(0.8)	0.8	4.6	(10.4)
NOPAT	(0.3)	(0.8)	0.8	4.6	(10.4)
Reported EPS (p)	(0.1)	(0.3)	0.3	1.3	(2.9)
Fully Adj EPS (p)	(0.1)	(0.3)	0.3	1.3	(2.9)
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(0.8)	(1.3)	(1.2)	(1.5)	(2.1)
Free Cash flow	(4.3)	(3.8)	(3.1)	(4.0)	(3.8)
FCF per share (p)	(2.0)	(1.5)	(1.0)	(1.2)	(1.1)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	5.9	2.9	4.2	3.8	2.8
Net cash flow	1.6	(0.9)	1.1	(0.2)	(1.0)
Overdrafts / borrowings	0.0	0.0	0.0	0.0	0.0
Cash & equivalents	1.9	1.0	2.1	2.0	0.9
Net (Debt)/Cash	1.9	1.0	2.1	2.0	0.9
NAV AND RETURNS					
Net asset value	16.8	18.9	24.0	32.4	24.9
NAV/share (p)	7.7	7.5	8.3	9.2	6.4
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	13.7	17.8	21.5	28.2	28.6
Post-tax ROE (%)	(2.3%)	(4.4%)	3.7%	16.2%	(36.5%)
METRICS					
Revenue growth	N/A	17.6%	21.5%	(57.9%)	3.5%
Adj EBITDA growth		N/A	N/A	N/A	N/A
Adj EBIT growth		N/A	N/A	638.0%	(338.9%)
Adj PBT growth		149.8%	(203.0%)	469.5%	(328.2%)
Adj EPS growth		119.2%	(189.2%)	382.8%	(319.0%)
Net asset value growth	N/A	12.9%	26.9%	35.1%	(23.3%)
NAV/share growth	N/A	(2.7%)	10.0%	11.6%	(30.6%)
VALUATION					
EV/Sales (x)	301.8	256.7	211.3	502.1	485.2
EV/EBITDA (x)	N/A	N/A	N/A	N/A	N/A
EV/NOPAT (x)	N/A	N/A	39.8	7.0	N/A
PER (x)	N/A	N/A	30.7	6.4	N/A
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(23.3%)	(17.9%)	(12.3%)	(13.8%)	(12.4%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

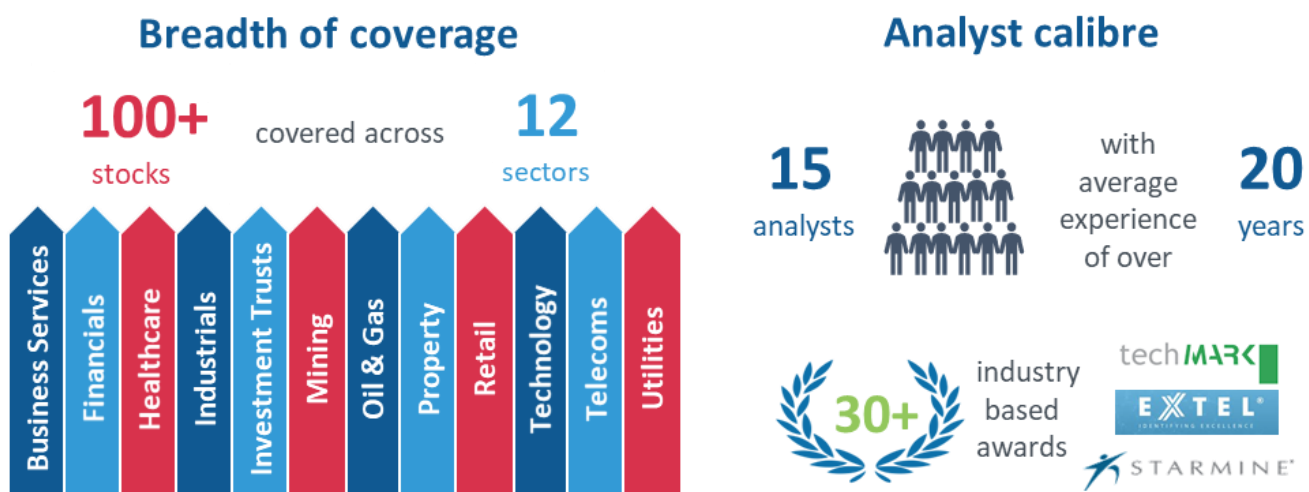
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