

TERN

SOFTWARE AND COMPUTER SERVICES

10 August 2023

TERN.L

5.25p

Market Cap: £20.4m

SHARE PRICE (p)



12m high/low

12.3p/3.5p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£1.0m (at 31/12/22)
Enterprise value	£19.4m
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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Board and management restructure

Tern's board and management have been significantly restructured following the AGM in late June, which did not approve the reappointment of CEO Al Sisto as a director. Al Sisto remains CEO but the board will be made up of non-executive directors, comprising experienced hires from within the business who will act 'independently and in the interests of all shareholders'. Current executive management will continue its hands-on approach, proactively supporting growth via the team's experience and sector expertise. The restructuring, together with other cost-saving measures, is expected to reduce central costs by c.40% in FY24 (vs FY22).

- Role changes.** Matthew Scherba has stepped down from the board and is expected to become full-time CEO of Konektio this month. Bruce Leith has left the board but remains a member of Tern's senior management team. Sarah Payne will step down as CFO and Company Secretary on or before 30 September 2023, remaining on the board as a Non-Executive Director. A non-board, part-time CFO is expected to be appointed shortly.
- A new board of NEDs.** The board will comprise Ian Ritchie (Non-Executive Chairman), Alan Howarth (Senior Independent Non-Executive Director) and Sarah Payne (Non-Executive Director). The board will be supported by a senior executive management team comprising Al Sisto as CEO and Bruce Leith, both receiving materially reduced remuneration, and a part-time CFO.
- Other cost-saving measures are being put in place,** including moving to a lower-cost office. In total, the measures are expected to save c.40% of overall central costs in FY24 when compared with FY22. No compensation is being paid to any individual for the change in their role. Should Tern dispose of any holding in its portfolio, no more than 10% of proceeds will be available for additional remuneration. The board has also stated that it will not invest in any entities outside the existing portfolio until material value has been delivered from its current portfolio.
- 'Hands-on' approach delivering.** Recent newsflow and commercial wins from portfolio companies have been positive, most recently Wyld Networks announcing a collaboration with SpaceX and Device Authority receiving the Rising Azure Technology 2023 Microsoft Partner of the Year Award. Tern continues to help companies realise potential, increasing ARR and expanding market share in order to deliver strong exit multiples to investors though its hands-on expertise.

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	19.0x	3.9x	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)	182.8	155.5	128.0	304.2	293.9
EV/EBITDA (x)	N/A	N/A	N/A	N/A	N/A
EV/NOPAT (x)	N/A	N/A	24.1	4.2	N/A
PER (x)	N/A	N/A	19.0	3.9	N/A
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(37.8%)	(29.0%)	(20.0%)	(22.3%)	(20.1%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

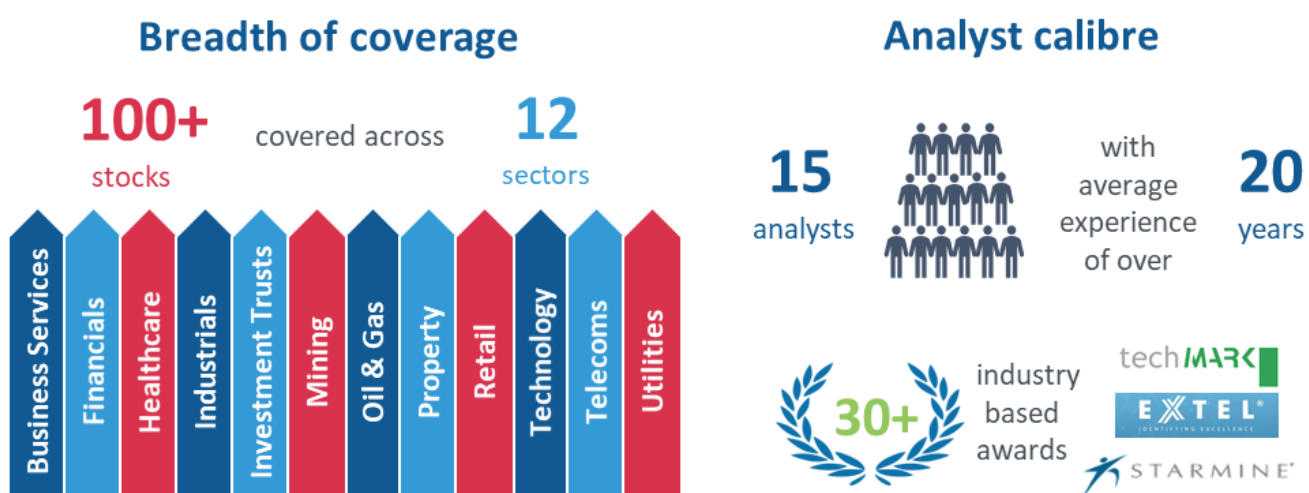
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