

TERN

SOFTWARE AND COMPUTER SERVICES

12 February 2024

TERN.L

2.3p

Market Cap: £9.4m

SHARE PRICE (p)



12m high/low

8.5p/2.1p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£0.7m (at 30/06/23)
Enterprise value	£8.7m
Index/market	AIM
Next news	Prelims, February
Shares in issue (m)	409.7
Chairman	Ian Ritchie
CEO	Albert E Sisto
CFO	Colin Nunn

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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Talking Medicines...and revenue potential

Tern's portfolio company Talking Medicines, the data science/AI specialist, has raised a total of £440k via the issue of unsecured convertible loan notes (CLNs). The raise will provide funding for the next stage of development and expansion in the US. Talking Medicines is on a positive trajectory with significant momentum, and we see huge potential in the next phase of growth. Already at the forefront of AI, Talking Medicines is well placed to take advantage of Large Language Models (LLMs) following the media attention given to Open AI's Chat GPT. This was highlighted with the recent launch of the company's Drug-GPT, which stands apart as a specialised 'Curated Large Language Model'. In our view, Talking Medicines has evolved quickly to address the marketing-driven reality of US Big Pharma and has built relationships that could become very lucrative in short order.

- **Tern is delivering value from its portfolio and reducing dependence on Tern for future funding.** In Talking Medicines' fundraise, Tern subscribed for £100k of CLNs, with existing shareholders, including Boston-based life-science investor Thairm Bio, Scottish Enterprise and Social Investment Scotland Ventures, the remainder. Tern invested in Talking Medicines in 2020 and holds 23.8%, with a book value of £1.8m as at 30 June 2023.
- **Talking Medicines is becoming a jewel in the crown in the Tern portfolio,** gaining traction using its curated-AI model to source feedback from patients, healthcare professionals and opinion leaders from conversational data. The subscription base is expanding for its SaaS on-demand product, with its Drug-GPT interface recently launched, which is a revolutionary ChatGPT counterpart specifically for the drug development industry.
- **Talking Medicines is accelerating its 'land and expand' strategy,** becoming the 'go to' AI partner for healthcare marketing agencies to extract conversational intelligence, leveraging the Drug-GPT interface. There is strong interest from leading healthcare agencies to big pharmaceutical players, and customers secured to date have a combined turnover of \$13bn out of an estimated \$30bn Total Addressable Market.
- **The roll-out has continued for its data science platform,** which provides a systematic measure of patient and healthcare professional experience by medicine. Becoming an 'AI partner of choice' should translate into significant revenue in 2024, in our view. The raise will provide funding for the next stage of development and continued expansion in the US.

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	8.3x	1.7x	N/A

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.

Talking Medicines

Revolutionising patient intelligence generation with AI

Key drivers:

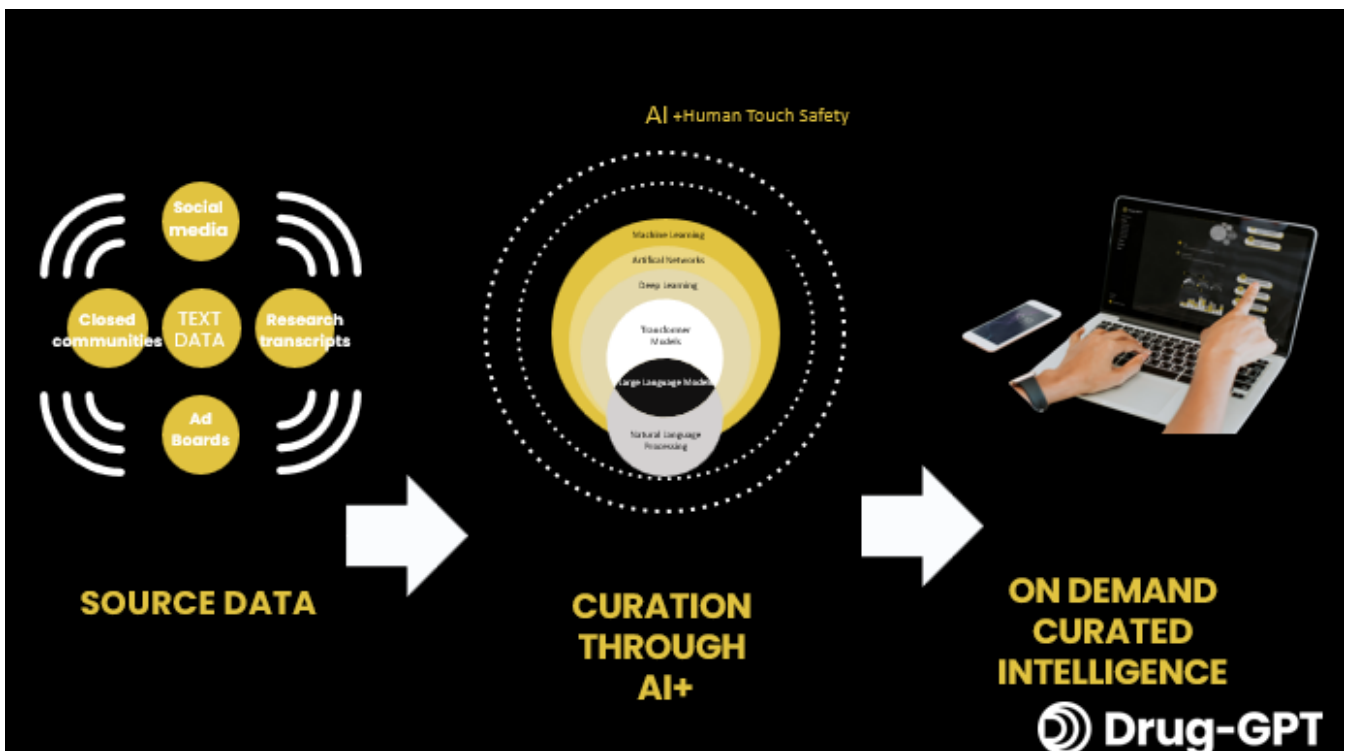
- Poor medication adherence costs pharmaceutical companies \$250bn per annum in the US alone, according to research by HealthPrize (US consumer health engagement platform provider) and Capgemini (IT consultancy).
- Pharma can access real-world data about patients and physicians, but not curate it.
- It is less costly for pharma companies to keep an existing customer than to acquire a new one.

Talking Medicines is rapidly gaining traction using its healthcare-centric curated-AI models to source patient and healthcare professional feedback, revolutionising healthcare marketing by unlocking strategic intelligence within conversational data. It garners information from customer data and use of open and closed patient, healthcare professional and influencer communities to provide intelligence about the ways in which real-life consumers and healthcare professionals are interacting with and discussing medications for better patient outcomes.

By positioning itself as a strategic AI partner to healthcare marketing agencies, Talking Medicines acts as a catalyst for agencies to grow revenue and higher margins.

The proprietary AI models are protected by two pending patents, with a growing evidence base on the success of its platform, including recent scientific publications that compare AI models and analyse Drug-GPT and ChatGPT LLMs for healthcare insights.

Talking Medicines AI+ – unlocking strategic intelligence within data through analysis and measurement



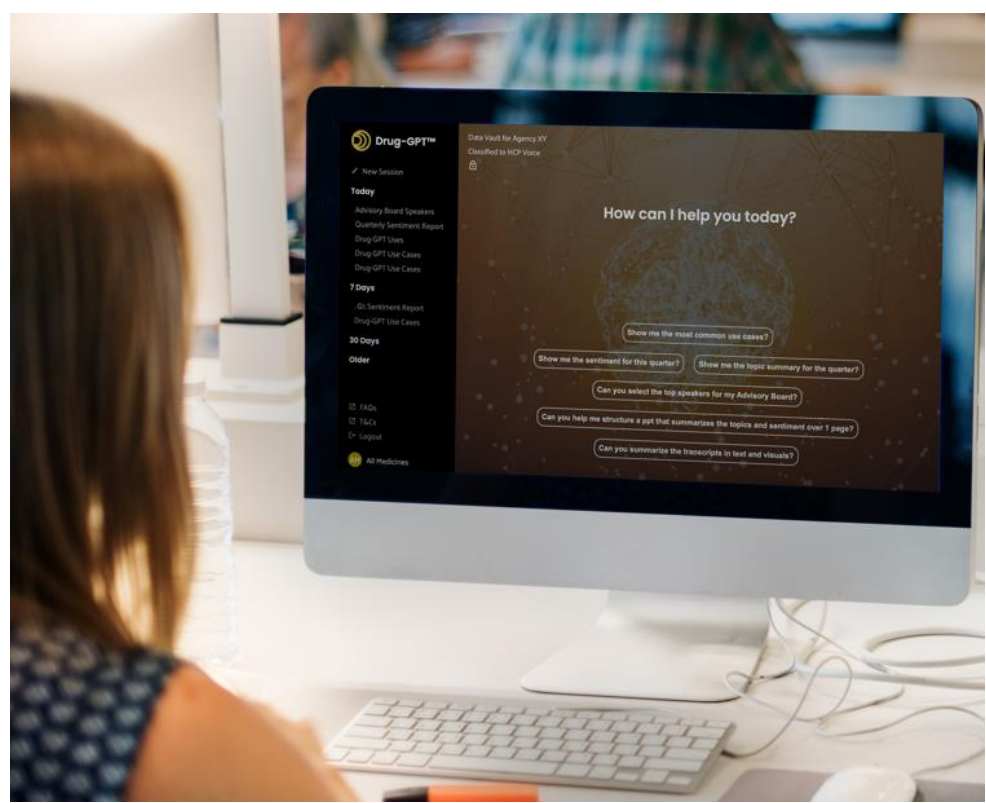
Source: Tern Plc and Talking Medicines

Drug-GPT

In 2023, Talking Medicines launched its natural language interface Drug-GPT, a specialised curated Large Language Model (LLM) that is a revolutionary ChatGPT counterpart specifically for the drug development industry. However, it must be stressed that Talking Medicines is not a new player in this market. The launch of ChatGPT last year generated mass media attention for Large Language models. However, this was Talking Medicines' area of expertise, with established IP through years of specialist life-science AI (artificial intelligence), ML (machine learning) and NLP (natural language processing) modelling and linguistics knowledge.

Drug-GPT allows the holistic curation of data sources followed by advanced data science and AI-driven analysis, resulting in the generation of actionable intelligence. Clients are able to access their own vault of data with dynamic visualisations based on behaviours, sentiment and evolving topics.

Drug-GPT – the world's first curated patient voice GPT



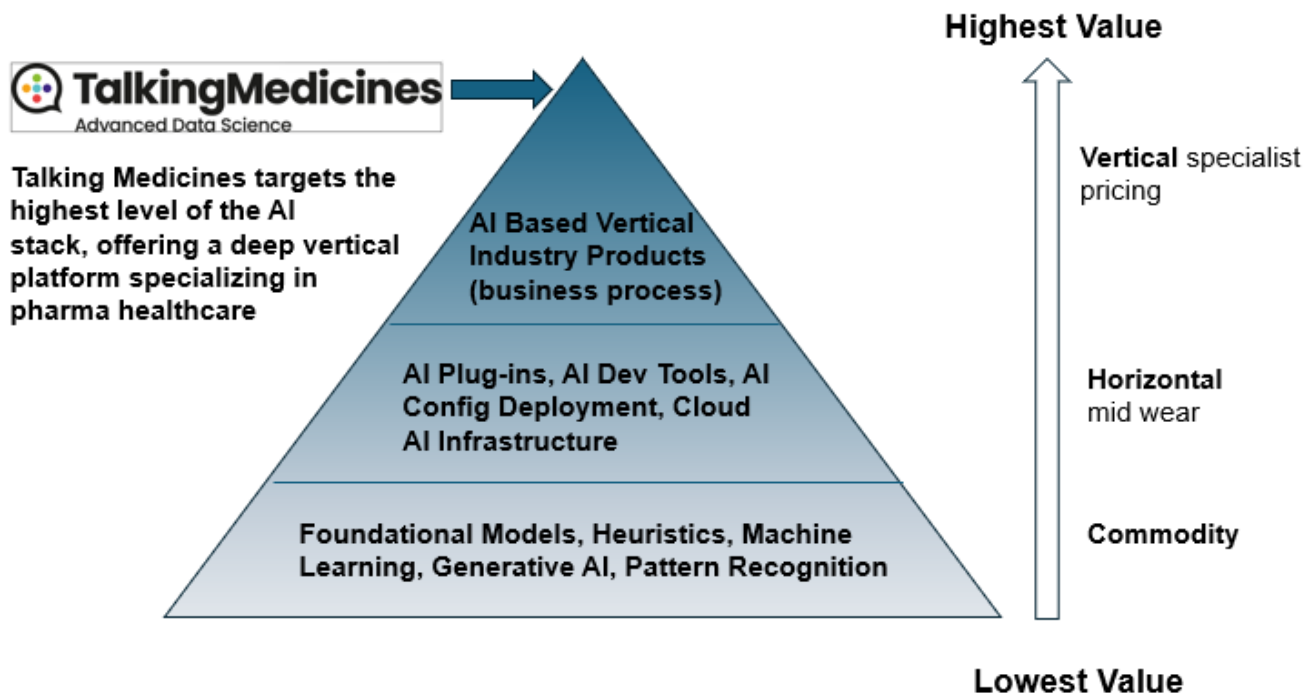
Source: Tern Plc and Talking Medicines

The models can be re-run at strategically important times, such as post-drug launch, or before/after marketing campaigns to measure conversations and emerging trends, with on-demand access to intelligence using natural language questions to access insights, visualizations and reports, which previously would have taken weeks to produce.

High-value vertical

Talking Medicines operates at the top of the pyramid in terms of value, targeting the highest level of the AI stack, offering a deep vertical platform specialising in pharma healthcare.

Talking Medicines targets the highest level of the AI stack



Source: Tern Plc and Progressive Equity Research

USP

- Specialised to healthcare and pre/post drug launch data intelligence
- Established IP through years of life-science AI/ML/NLP modelling & linguistics knowledge (patents, publications)
- Blend, intersection of voices/authors and data signals/types
- Longitudinal patterns and trends to enable measurement, benchmarking & tracking
- Automated approach to reduce bias and errors through manual processing
- Pre-trained 'ready to use' models to curate data
- Natural language interface to interrogate curated data

Building presence in the US market

The US drug market is very different to that of the UK given the overall structure of healthcare, cost and funding of medication, and therefore the direct marketing required to patients and healthcare professionals. Talking Medicines estimates that the Total Addressable Market (TAM) is around \$30bn.

Talking Medicines is gaining traction the US, having recently pivoted the business to focus on US healthcare marketing agencies rather than the pharmaceutical companies themselves. It has scaled up its US operation with an office in New Jersey to service the high presence of healthcare agencies in New York City, Philadelphia, and New Jersey. In our view, as Talking Medicines continues to build its US operations and is on the cusp of translating new client wins into significant revenue, it is too early for Tern to look for an exit at this stage, with a series A funding round targeted for Q2 2024.

Three pillars of revenue growth

Talking Medicines’ revenue is derived from two core business streams: platform sales to agencies and request for proposals (RFPs).

2024 Go To Market (GTM) – three pillars of revenue growth		
Drug-GPT Platform sales	RFPs	Strategic Customers
50% of pipeline 30-50 new Agency platform deals	25% of pipeline (booked in 2023 to be realized in 2024)	25% of pipeline with Talking Medicines Advanced Data Science as AI partner
Driven by sales function scaling US resource.	Level of unpredictability that needs to be managed through overall business mix.	Embedded rinse and repeat
Monthly /annual fee	Upside is exposure to more RFPs directly and through partners to bring in additional pipeline.	Monthly base fee
Why they will buy: Productivity gains Efficiency Effectiveness of pitches, catalyst to increase value on retained Pharma clients.	Lump sums	2-year deals
Reduce sales cycle to 45 days		

Source: Tern Plc and Progressive Equity Research

Growing evidence of being AI partner of choice for healthcare agencies

During 2023, several agencies/data communities signed service agreements (MSAs) ready for commercial uplift during 2024. Talking Medicines has secured clients with a combined turnover of \$13bn out of the estimated \$30bn Total Addressable Market (TAM), signifying considerable potential for further growth.

A leading provider of a unique physician-first online community (c.\$75m annual turnover), recently published a White Paper on certain medications used for Type 2 diabetes and weight loss. This study utilised Talking Medicines’ Drug-GPT to understand perceptions, usage and attitudes to the drugs. We highlight below a real-world example of how it is being used by one of the leading global players, specialising in turning physician experience into actionable insights for the global healthcare community.

Drug-GPT in action

Bonus Insights: Just Ask Drug-GPT™

Powered by Talking Medicines

To supplement Sermo's Brand Pulse physician insights with a deeper view into physician and patient sentiment, Sermo partnered with **Talking Medicines** leveraging their Drug-GPT™ technology, here's what we found out:

Patients

- Semaglutide (Ozempic) is the only brand with higher awareness than the first line standard of care - metformin.
- Patients are not focused on the cost of the medication.



SOURCE
Reddit (83%), diabetes.co.uk (9%), diabetesdaily.com (8%)
Jul 2021-Jun 2023

Physicians

- Conversation topics are more focused on coverage issues and weight loss benefits vs type 2 diabetes management
- However, physicians have a positive perception of these molecules in the treatment of type 2 diabetes



YOU

Hey Drug-GPT™, summarize key findings among the physician and type 2 diabetes patient curated data



DRUG-GPT™

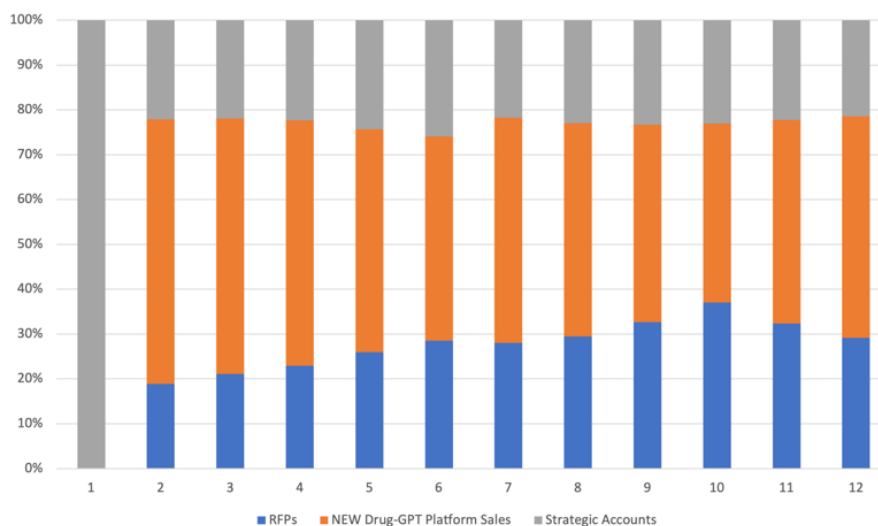
Physicians and patients view Tirzepatide (Mounjaro) and Semaglutide (Ozempic) as effective treatments for Type 2 diabetes, with strong A1C reduction, weight loss benefits, and a convenient once-weekly administration. Physicians have a stronger track record with Semaglutide (Ozempic), appreciating its cardioprotective properties, ease of use, and multiple strengths. In contrast, some professionals lack familiarity with Tirzepatide (Mounjaro) and may prefer other GLP-1 medications.

Patients have referred to Tirzepatide (Mounjaro) as a "game-changer" and "miracle drug," while those using Semaglutide (Ozempic) appreciate its once-weekly injection schedule. Shared side effects between Tirzepatide (Mounjaro) and Semaglutide (Ozempic) include gastrointestinal issues, while Semaglutide (Ozempic) users have also reported nausea and fatigue. Overall, both healthcare professionals and patients have mixed feelings towards Tirzepatide (Mounjaro) and Semaglutide (Ozempic) with the key differences being familiarity and preference.

Step change in revenue expected in 2024

Talking Medicines’ financial year 2023 ended with significant momentum, with multiple go-to-market models from a single platform. We believe that revenue will grow at a faster rate this year, with Talking Medicines expecting that new client wins will transform revenue from c.\$100k to potentially 30-40x this level in 2024 given the pipeline and client wins.

Talking Medicines – 2024 revenue plan driven by the three subscription models



Source: Tern Plc and Talking Medicines

Conclusion

Talking Medicines’ next step to accelerate growth is to expand its sales footprint, particularly in the US. Talking Medicines is on a positive trajectory with significant momentum, and we see huge potential in the next phase of growth as it works with investment partners to achieve additional recognition and scale, having already gained recognition through the prestigious PM360 award. Already at the forefront of AI, Talking Medicines is well placed to take advantage of Large Language Models (LLMs) with the launch of Drug-GPT, which stands apart as a specialised ‘Curated Large Language Model’. The strategic importance of expanding sales operations is key to success, especially when competing with companies often backed by significant investment capital.

We recognise that Tern’s commitment extends beyond financial support as it negotiates the best deals for shareholders during engagements with new investors, with the end goal to facilitate successful exits for all shareholders in a timely and prudent manner.

Although Tern will, where possible, participate in fundraises to avoid dilution, its early entry at seed and ‘seed plus’ stage allows it to retain a more substantial share. Tern’s investment proportion has been relatively small in the most recent rounds, demonstrating that the capital requirements are reducing as the businesses become attractive to third-party investors. For Talking Medicines, a series A funding round is targeted for Q2 2024, triggered by evidence of the business becoming an ‘AI partner of choice’ for healthcare agencies.

We believe that Talking Medicines is now positioned to gain real traction with its GTM operational. With US pharma marketing companies showing serious interest, this could translate into material revenue growth in the near term. We look forward to positive newsflow in coming quarters.

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)	82.2	69.9	57.5	136.8	132.1
EV/EBITDA (x)	N/A	N/A	N/A	N/A	N/A
EV/NOPAT (x)	N/A	N/A	10.9	1.9	N/A
PER (x)	N/A	N/A	8.3	1.7	N/A
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(86.2%)	(66.1%)	(45.6%)	(51.0%)	(45.9%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

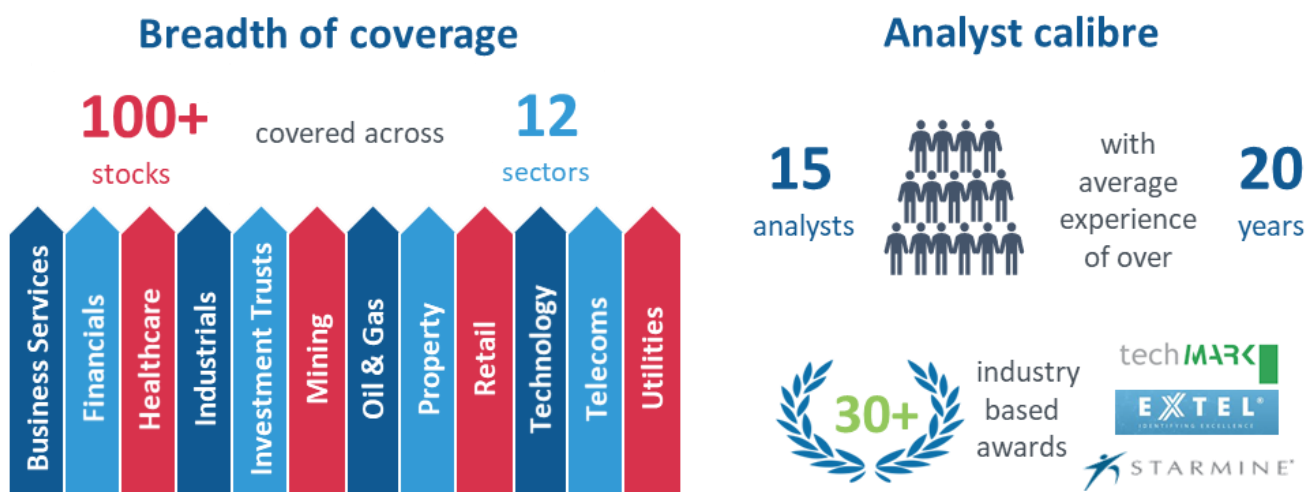
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