

TERN

SOFTWARE AND COMPUTER SERVICES

25 September 2024

TERN.L

1.0p

Market Cap: £4.4m

SHARE PRICE (p)



12m high/low

5.9p/1.0p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£0.1m (at 30/06/24)
Enterprise value	£4.3m
Index/market	AIM
Next news	Prelims, March
Shares in issue (m)	444.2
Chairman	Ian Ritchie
CEO	Al 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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Financial flexibility reinstated

Tern announced on 23 September that it has raised £144k gross, via an open offer to existing shareholders, at an issue price of 1.25p. A general meeting (GM) was held on the same day, which passed the resolutions to disapply pre-emption rights. This gives Tern the ability to protect its commercial position by enabling additional funding possibilities and reopening its £3m facility negotiated last year, which requires the issue of warrants on drawdown. Tern's H1 results earlier in the month highlighted that, despite the difficult backdrop for technology stocks, Tern's core portfolio businesses are thriving rather than just surviving. Aggregated ARR improved 22% year on year and all other KPI metrics showed strong progress. The businesses are gaining commercial traction, with repeat licencing revenue through the SaaS models and a growing high-profile customer base. Operating costs have been cut by 42% but Tern remains focused on supporting the companies to grow. Third-party investments are critical proof-points that Tern's model is delivering. Having strategic partners (such as Ten Eleven) highlights that Tern is attracting 'intelligent growth funding' from partners with substantial experience and reach across the US.

- £144k raised via an open offer and pre-emption rights now disapplied.** The offer proceeds, coupled with the recent partial sale of Device Authority (DA), has provided funding to meet Tern's immediate needs. Although the open offer was undersubscribed, the GM result gives the flexibility to create funding opportunities via other avenues rather than placings. It also reopens Tern's ability to access its £3m loan facility, to protect its commercial position and strengthen its negotiating position.
- Half-year portfolio highlights.** DA and FundamentalVR (FVR) are syndicated with significant (c.\$10m) growth capital VCs. Talking Medicines is well established in a category of artificial intelligence (AI) achieving 50x revenue multiples. We discuss later in the note progress made in the sector with notable transactions such as the £1.5bn CyberArk/Venafi deal and an 80% value uplift in the SSV1 fund, owned by Sure Valley Ventures.
- Wyld news.** Wyld has announced that, subject to approval at its GM on 2 October, it will look to raise SEK 74.2m via a rights issue. Tern has stated that it does not intend to support the resolutions. Following the IPO in 2021, Tern lost the ability to exert its hand-on approach, exacerbated by limited financial firepower following restrictions imposed by the result of the Tern AGM in June. We expect further news in due course and note that Tern's investment in Wyld has already been written down to £0.4m.

FYE DEC (£M)	2019	2020	2021	2022	2023
Revenue	0.1	0.2	0.1	0.1	0.2
Adj EBITDA	0.0	0.0	0.0	0.0	0.0
Fully Adj PBT	-0.8	0.8	4.6	-10.4	-12.6
Fully Adj EPS (p)	-0.3	0.3	1.3	-2.9	-3.2
Net asset value	18.9	24.0	32.4	24.9	12.3
NAV/share (p)	7.5	8.3	9.2	6.4	3.2
PER (x)	N/A	3.6x	0.7x	N/A	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.

Hybrid VC model

Tern PLC is an AIM-listed provider of venture capital to exciting Internet of Things (IoT) innovators, creating value through a hybrid VC model via access to disruptive start-ups not generally available to AIM investors. This model gives all shareholders the opportunity to act as Limited Partners (LPs), akin to the capital call model in a traditional VC fund. However, Tern provides more than just funding; it proactively supports the growth of its portfolio companies, benefitting from the experience and networks of the management structure, which is even more critical as the businesses enter their revenue phases.

Open offer

Given the failure at the AGM in June 2024 to pass the resolution required to issue new ordinary shares, Tern has been forced to look at alternative ways to raise funds to invest and progress the portfolio. This resulted in a partial sale of Device Authority for a total cash consideration of £233k at no discount to the December fundraise.

Tern has since raised £144k (gross) via an open offer to existing shareholders, with the results announced on 23 September. The offer was for up to 48,077,813 shares at an issue price of 1.25p per share, to raise up to £600k. Although the open offer was undersubscribed, Tern also held a GM on 23 September that passed resolutions to grant authority to issue new ordinary shares and disapply pre-emption rights. This gives Tern the ability to create opportunities via other avenues rather than placings. Tern has a £3m loan facility, announced in June 2023; as at 30 June 2024, the outstanding drawdown was £0.2m leaving significant headroom available. The result of the GM reopens access to this loan facility, given it requires the issue of warrants on any drawdown.

We highlight later in this note the progress made by SVV2, in which Tern holds a 5.9% stake. The investment of £6m by this fund made in the first half has been mostly additional capital to progress the investee companies. This highlights that early-stage IOT and software companies need significant ongoing investment before harvest. Tern, as an investing company, has significant requirements to provide funding to its portfolio.

H1 24 highlights

Tern reported significant progress across the portfolio in the six months to 30 June, delivering growth in its key performance metrics. Annual recurring revenues (ARR) increased 22% in H1 24, coupled with 62% growth in ARR per employee. Although challenges for early-stage technology businesses remained in H1 24, the majority of Tern's portfolio companies maintained or increased their value. However, Tern's net asset value fell to £10.7m, from £12.3m at the end of FY23, principally due to movements in the Wyld share price. Tern's valuation of Wyld has now decreased to just £0.4m (FY23: £2.4m), due to a significant reduction in the share price.

Wyld subsequently announced on 2 September that, subject to approval at the GM to be held on 2 October, it is looking to raise SEK 74.2m via a rights issue. Tern has stated that it does not currently intend to support the resolutions and is working with its advisors to investigate alternative proposals to be put to Wyld. We expect further announcements in due course. However, it is worth noting that some of Tern's largest shareholders are also shareholders in Wyld, which could potentially form a majority.

Overall, the valuation of Tern's portfolio reduced to £11.1m at H1 24, from £12.8m at the end of FY23. This reflected a £2.0m reduction in the fair value, which was offset by a £0.3m re-investment into the existing portfolio (£0.1m in Talking Medicines, £0.2m in SVV2 and a nominal investment of approximately £33k into Wyld for the exercise of 245,699 TO4 warrants). Device Authority increased to £4.5m (FY23: £4.4m) due to the exchange rate, Fundamental VR remained static at £3.6m and Talking Medicines increased to £2.1m (FY23: £2.0m) due to investment by Tern via convertible loan notes.

Total comprehensive loss for the year was £2.5m (H1 23: loss of £2.8m) due to the net negative movement in fair value. Overall operating costs decreased to £0.6m (H1 23: £1.1m). Following board and management restructuring in 2023, costs were 42% lower than in the same period last year. Tern has focused on growing the business while preserving cash. The period-end cash balance was £0.1m, and NAV per share fell to 2.5p from 3.2p at end-FY23 (using the year-end number of ordinary shares in issue of 414m).

Under the terms of the £3m loan facility, Tern was required to maintain in escrow shares in Wyld at a value of not less than 1.5 times the value of outstanding amounts drawn down and accrued interest. However, given the recent developments with Wyld, the facility provider has agreed to amend the terms to remove this condition and extend the repayment period by 12 months, in return for a fee equal to 10% of the outstanding balance currently payable.

Tern – Key performance metrics

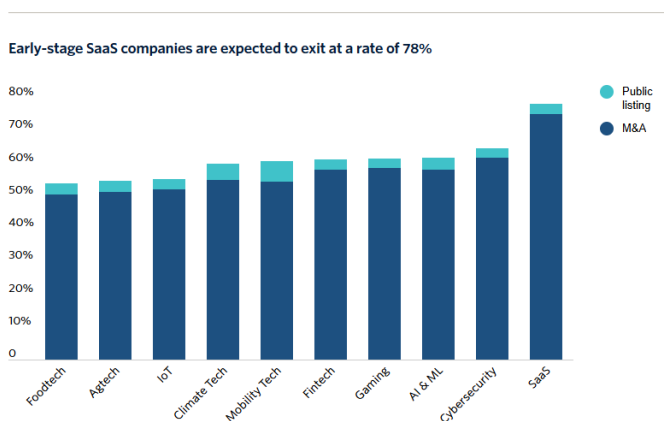
	6 months to 30 June 2024 £000	6 months to 30 June 2023 £000	12 months to 31 Dec 2023 £000
Investments	11,102	21,825	12,779
Net assets	10,708	22,209	12,302
Admin costs	595	1,023	1,712
Loss for the period	(2,475)	(2,840)	(12,608)
NAV per share	2.5p	5.7p	3.2p

Source: Company information

Early-stage SaaS has best expected exit rates for VCs

Tern is focused on driving its portfolio companies to the next level, helping them expand and grow from early seed funding rounds into significant companies in their marketplace. According to research by PitchBook, expected returns for SaaS far outpace other venture tech verticals. The analysis estimates that 75% of the 3,000 SaaS companies in the predictor dataset will successfully exit through an M&A deal, and 3% with an IPO.

Exit expectations



Source: PitchBook's 2023 VC Emerging Opportunities

Flood of capital in CY24

Flat rounds and down rounds were par for the course in early-stage SaaS in 2023, with pre-money valuations falling 20.3% relative to the average. Capital invested in SaaS was down 7.9% on a relative basis last year. However, there has been a flood of capital in CY24 to early-stage software and the generative AI space, in particular.

Device Authority partner CyberArk signed a definitive agreement in May 2024 to acquire Venafi from Thoma Bravo for an enterprise value of approximately \$1.54bn in a combination of cash and CyberArk shares (c.\$1bn in cash and c.\$540m in shares). The Boards of Directors of both CyberArk and Venafi have approved the transaction. This combines Venafi's best-in-class machine identity management with CyberArk's security capabilities to provide for end-to-end machine identity security at scale. Venafi acquired a stake in DA in 2021.

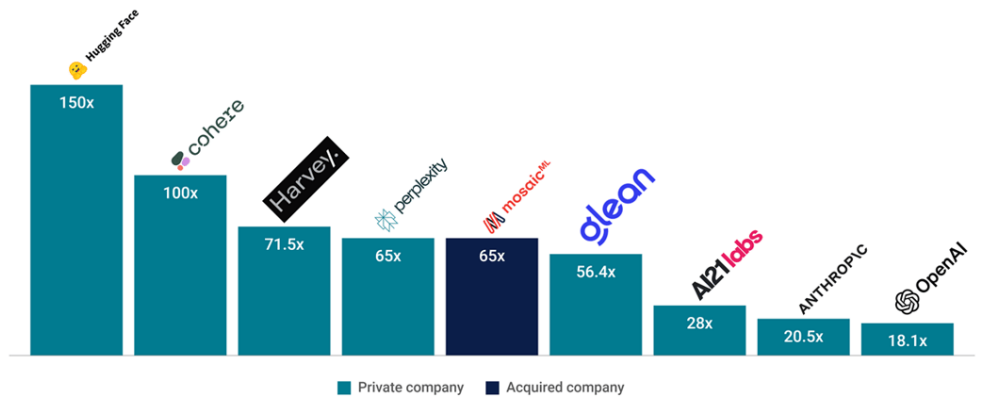
Also, there has been positive news from Sure Valley Ventures (SVV) in the recent update. Tern has a c.5% stake in the British Business Bank backed Enterprise Capital Fund (SSVUK), owned by SVV. However, the Sure Valley Ventures Fund (SSV1), also owned by SVV, which has a more mature and developed portfolio of companies, recorded an 85% uplift in NAV following the sale of an investee, Landvault, for \$450m in July 2024.

Generative AI valuations averaging 50x

Research by CB Insights highlights that some generative AI start-ups have been achieving valuations more than 100x their forward-looking revenue, with generative AI companies averaging around 50x, highlighting the potential exit multiples that could be achieved at the appropriate time for harvest

Generative AI companies by revenue multiple

Generative AI companies by revenue multiple



Source: CB Insights. Data as of 3/22/2024. Figures represent valuation divided by forward-looking revenue (in the same year where applicable) based on media reports.



Source: CB Insights

Portfolio highlights

Device Authority

Valuation of holding: £4.5m. Holding: 31.7% (reducing to 30.0% post period-end).

Device Authority (DA) has sustained strong business momentum in the first half of the year, with new blue-chip customers coming on board as well as a number of proof of concept and pilot projects from recognised Enterprise companies.

The KeyScaler platform and KeyScaler Edge deliver end-to-end security lifecycle management, from Edge to Enterprise, for leading IoT cloud platforms such as Microsoft Azure, Avnet IoTConnect, AWS, PTC ThingWorx and Google

DA enables ‘zero trust’ security for IoT, at scale and has been selected by several major enterprises. We see strong demand driven by the recent White House Executive Order, which defines elements of the Software Bill of Materials (SBOM) to improve security.

DA remains focused on expanding its partner ecosystem, recently launching new partnerships with PlaxidityX (formerly Argus) and CyberArk. The collaboration with Microsoft is also strengthening, with the company named by Microsoft as part of its next-generation automotive and mobility security solution.

As discussed, CyberArk recently acquired Venafi for \$1.5bn from Thoma Bravo to combine Venafi’s best-in-class machine identity management with CyberArk’s security capabilities to provide end-to-end machine identity security at enterprise scale. Venafi acquired a stake in DA in December 2021.

Device Authority – Vendor agnostic

Foundational Technology for Zero Trust in IoT - Full Device Identity Lifecycle Management
Any Device, Any CA, Any Cloud Platform

Background	Team	Details
<div style="text-align: center; margin-bottom: 5px;"></div> <p>Device Authority is a UK Limited Company</p> <ul style="list-style-type: none"> • Device Authority Inc., acquired April 2016 by London-based Private VC • Launched KeyScaler 2018, 11 Patents • KSaaS launched October 2022 	<div style="text-align: center; margin-bottom: 5px;"></div> <p>30 strong team</p> <p>Locations:</p> <ul style="list-style-type: none"> • Reading, UK • Boston, US • Bangalore, India 	<div style="text-align: center; margin-bottom: 5px;"></div> <ul style="list-style-type: none"> • Rich Ecosystem of Strategic Partners • Recognized by independent analysts as leader in IoT device security and data encryption • Proven success with top global companies in Automotive, Medical, & Industrial IoT sectors <div style="text-align: right; margin-top: 10px;"> </div>







Investors

Source: Device Authority, Tern Plc

Strong strategic investors and partnerships

In late December 2023, DA received a US\$7m strategic investment from Ten Eleven, a global leader in cybersecurity with a strong foothold in automotive and medical devices. The next step to accelerate growth for KeyScaler is to expand the sales footprint, particularly in the US. Device Authority has a strong customer base, with industry leaders in Cloud and PKI technologies looking to partner in order to solve Enterprise IoT business problems for their customers (Microsoft, Entrust, CyberArk, PTC).

Device Authority – Partnerships

- | | |
|---|--|
|  | <p>1. Microsoft – Mobility and Manufacturing Industry team driving reference architecture for automotive/mobility security with Device Authority, CyberArk, and Argus Security.</p> |
|  | <p>2. CyberArk – Finalizing our Secure Asset Transfer integration with the CyberArk PAM/PSM platform; Joint GTM planned, CyberArk will publish a solution brief to customer base; DA speaking on partner panel at CyberArk Impact in May.</p> |
|  | <p>3. Entrust – Establishing a 3-pronged integration approach to create the business case for Cosell/ OEM arrangement: 1) PKIaaS with PQ support, 2) CodeSigning as a Service, and 3) Integration with C-level compliance dashboard for IoT visibility.</p> |
|  | <p>4. Argus – Working on integration to Linux-based automotive devices (e.g. ECU/TCU) for which Argus provides intrusion detection using their cloud VSOC/VSIEM. KeyScaler will secure V2C (vehicle to cloud) communications; introduced to first Argus customer - Idneo.</p> |
|  | <p>5. VIPC – Year 3 DHS funding imminent for PoC exercise at multiple Govt and Civilian Critical Infrastructure sectors:</p> <ul style="list-style-type: none"> • Capital One Arena – FEMA - Commonwealth (Virginia) Data Sharing |
|  | <p>6. PTC – Continued discussions to expand on Fujifilm joint win. Working with Kepware product team on a GTM for their connected factory customer base.</p> |
|  | <p>7. Venafi – Customer referral at BRP opening further discussion with field sales team on GTM opportunities and Retail joint Targeted sector</p> |

Source: Device Authority, Tern Plc

As at 30 June 2024, the unaudited fair value of Tern’s shareholding in DA increased to £4.5m (31 December 2023: £4.4m), due to a £0.1m fair value increase caused by foreign exchange movement on the sterling value of DA, which is valued in US dollars.

Post-period Tern sold a modest proportion of its holding in DA, at no discount to the value at which DA raised funds in December 2023. Announced on 9 August 2024, this provided a further £233k to Tern’s overall cash resources. The sale was driven by the failure to pass the resolution required to issue new ordinary shares, disapplying statutory pre-emption rights at the AGM in June 2024. This has required Tern to look at alternative ways to raise funds to protect Tern’s position and to help progress the portfolio.

FundamentalVR

Valuation of holding: £3.6m. Holding: 12.1% (reducing to 10.3% post period-end)

FundamentalVR (FVR) has strengthened its market position through partnerships and developments such as the newly released Apple Vision Pro, as well as Logitech’s Stylus MX INK. The platform leverages widely available virtual reality (VR) devices, such as Meta’s Oculus Quest. FVR has a healthy pipeline of customers and new clients looking to deploy Fundamental Surgery, the surgical training platform that utilises its patented HapticVR technology to allow competency at scale, while being hardware agnostic.

Large blue-chip customer base

At the company presentation in April, FVR shared some of its existing clients, which included some large blue-chip names and high-profile investors, notably EQT Life Sciences, the Mayo Clinic and Sana.

FVR – Business model

Business model



Long term recurring revenue:

1. Annual license fee for platform access
2. Annual per-seat deployment fee

- Annual Recurring Revenue contract
- Rising ARR per simulation
- Expected avg sales/simulation volume per customer = 5

Source: FVR, Tern Plc

FVR has significant traction and ‘stickiness’ with its clients. Meta is also showcasing FVR and its work with Orbis on eye surgery training.

FVR – Meta/Orbis showcase



Source: FVR, Tern Plc

FVR is the first of Tern’s portfolio companies to achieve a series B funding round, raising £7m in 2022. This was followed by an additional £5m tranche of the Series B in early Q3 22. As at 30 June 2024, the unaudited fair value of Tern’s shareholding in FVR remained steady at £3.6m (31 December 2023: £3.6m).

Wyld Networks

Valuation of holding: £0.4m. Holding: 19.9%

The Wyld model provides technology solutions that enable affordable connectivity, addresses the lack of mobile network coverage and targets the 85% of the globe that has no or limited internet connectivity. The revenue model is similar to that of a mobile phone operator, selling sensors, IOT terminals, its Wyld Fusion SaaS platform and finally Wyld network data.

Wyld was floated on the NASDAQ First North Growth Market in Stockholm in 2021, at which point Tern became an investor in a quoted company with no further involvement in the running of the business. The IPO has provided Tern with staged access to additional capital.

Q2 2024 results

Wyld announced its Q2 results on 29 August with operating income for Q2 24 more than double the prior year. Year-to-date operating income as at 30 June was up 66% yoy.

Wyld Networks raised SEK 6.4m (approximately £0.5m) in May 2024 from the exercise of its TO4 warrant subscription. Post period, Wyld also received a cash payment of approximately SEK 6.1m from the UK Government for R&D activities in 2023.

However, Wyld announced on 2 September that, subject to approval at its GM on 2 October, it is looking to raise SEK 74.2m via a rights issue. As flagged earlier in the note, Tern has stated that it does not currently intend to support the resolutions. Tern's investment in Wyld has already been written down to £0.4m. We await further news in due course.

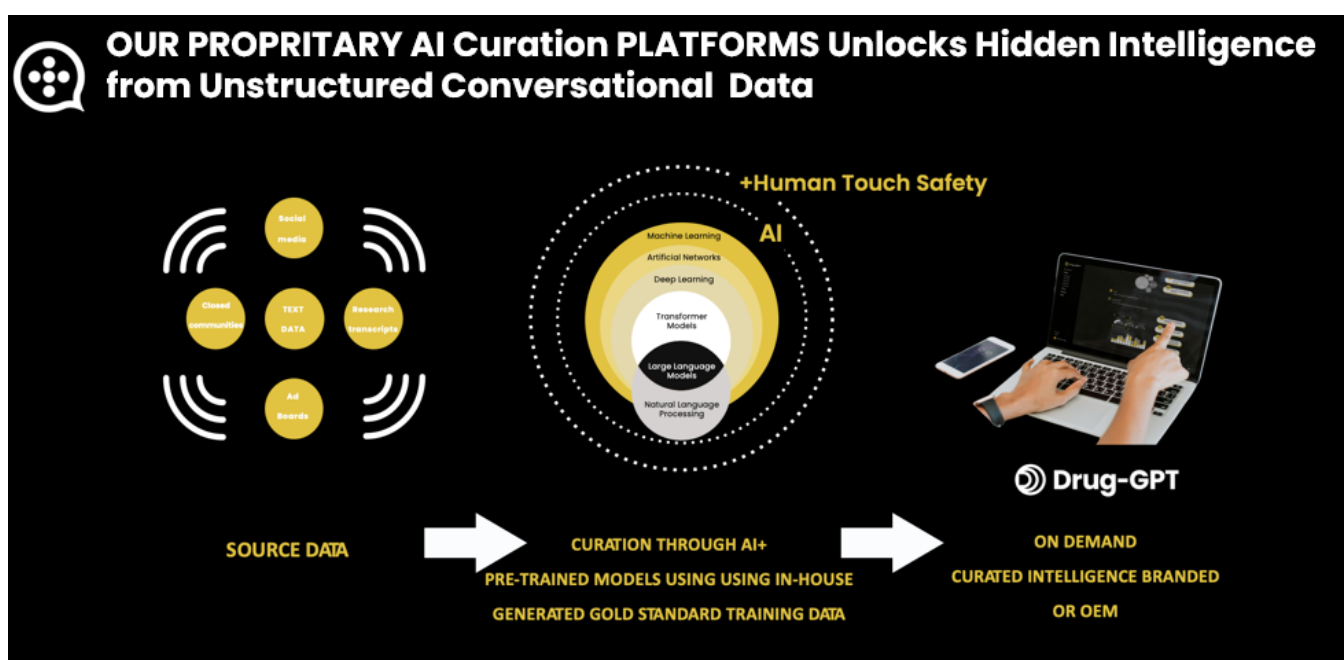
Talking Medicines

Valuation of holding: £2.1m. Holding: 23.8%. Convertible loan notes: £0.3m

Talking Medicines showed significant progress in H1 24 with record revenue bookings and significant advancement of its innovative interface, Drug-GPT, which stands apart as a specialised ‘Curated Large Language Model’. It has a growing sales presence in New Jersey, New York and Philadelphia.

Drug-GPT has garnered substantial interest and significant revenue from leading global healthcare advertising agencies, which recognise its potential to transform strategies for their pharmaceutical clients, with an estimated US\$30bn (annual) spend on US Drug Marketing. Drug-GPT offers an 80% uplift in productivity that continues to be validated by clients, enhancing the efficiency and effectiveness of intelligence gathering.

Talking Medicines – Drug-GPT



Source: Talking Medicines, Tern Plc

Commercial model

- Subscription model to Drug-GPT interface or White Label OEM interface.
- Target 1: Healthcare marketing agencies – predominantly New York based. Top-100 agencies populated with holding companies and independents. Key buyer persona is chief strategist. Use is for pitches and retained strategic pharma clients.
- Target 2: Healthcare data communities (patients, HCPs) – looking to upsell first-party data to pharma clients and agencies through AI partnership.
- \$10-20k per month aiming to move customers from first data order to subscription.

Becoming an ‘AI partner of choice’ supports Talking Medicines’ significant revenue target for 2024, in our view.




High-profile customer base

In our view, Talking Medicines has evolved quickly and has built relationships that could become very lucrative in short order, accelerating its ‘land and expand’ strategy, becoming the ‘go to’ AI partner. Among Talking Medicines’ clients are some of the world’s most prominent healthcare ad agency networks. We highlight below a real-world example of Drug-GPT being used by a leading provider of a unique physician-first online community (c.\$75m turnover), taken from a recent White Paper.

Talking Medicines – 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	Physicians
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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
 <p>63% of patient conversations were positive 36% of patient conversations were negative 1% of patient conversations were mixed</p>	 <p>Tirzepatide (Mounjaro) for the treatment of type 2 diabetes patients who are uncontrolled on oral treatment 64% positive 36% negative</p>
<p><small>SOURCE</small> Reddit (83%), diabetes.co.uk (9%), diabetesdaily.com (8%) Jul 2021-Jun 2023</p>	 <p>Semaglutide (Ozempic) for the treatment of type 2 diabetes patients who are uncontrolled on oral treatment 69% positive 31% negative</p>

Source: Talking Medicines and Sermo <https://lp.sermo.com/brand-puls>

Expanding the subscription base

The subscription base is expanding for Talking Medicines’ SaaS on-demand product. In both onboarding new clients and expanding its role with existing ones, the company has been able to grow its US-based client list, with opportunities for further expansion in the second half of 2024 into 2025.

As at 30 June 2024, the unaudited fair value of Tern’s shareholding in Talking Medicines increased to £2.1m (31 December 2023: £2.0m) due to additional investments from Tern of approximately £0.1m via convertible loan notes during the period.

SVV

Valuation of holding: £0.4m. Holding: 5.9%

SVV2 is a venture capital fund that invests in a diverse portfolio of private UK software companies, with a particular emphasis on those in the immersive technology and metaverse sectors. Although Tern doesn't have a holding in the Sure Valley Ventures Fund (SSV1), which has a more mature and developed portfolio of companies, it is relevant to note that SVV1 recorded an 85% uplift in NAV following the sale of an investee Landvault for \$450m in July 2024. Pires (renamed MindFlair), the subject of the aborted takeover by Tern in FY22, has a combined direct and indirect interest in SVV1 of c.19%, which would have been an inorganic step-change in growth for Tern had the deal gone ahead, vindicating the rationale at the time.

It is also worth looking at the split of the £6m investment by SVV2 in H1, showing similarities between SVV2 and the investment required by the portfolio companies within Tern. £1m was invested in RETInIZE Limited, a creative tech company based in Belfast, made in March 2022. In June 2024, an additional £500k was allocated as follow-on capital for RETInIZE, expected to be completed in Q3. In November 2022, the Fund made its second investment of £1.05m in Jaid (trading as Opsmatix Limited), an innovative technology firm specializing in AI-powered human communication solutions. The Fund also had the option to invest an additional £350,000 within six months under the same terms, which it exercised in Q2 this year. Additionally, the Fund agreed to invest a further £1m in the form of convertible loan notes, with £300k called in June 2024 and set to be deployed in Q3 2024.

The third company in the portfolio, Captur, received a £1.5m investment in September 2023. Captur is an AI company that leverages Computer Vision for AI-powered workflow automation. Q2 2024 marked the most successful investment period to date, with three new investments closed, two follow-on rounds completed, and three additional prospective deals in the legal process.

In June 2024, SVV2 closed a £750,000 investment in Vortex IQ (formerly Saasvortex), a high-demand deal as the company recently graduated from the Techstars London Accelerator. The first Manchester-based investment occurred in June 2024, with a £650,000 investment in Ittybit, an innovative AI media optimisation platform. Finally, the Fund committed £1m to Phinx Robotics, a promising AI robotics start-up, with the funds called and deployed post period-end in July 2024.

As at 30 June 2024, the unaudited fair value of Tern's shareholding in SVV2 was £0.4m (31 December 2023: £0.3m). Tern's additional investment during the period was in part offset by fees charged by the fund.

Conclusion

We remain optimistic about the outlook for Tern. Efforts to date have propelled its core portfolio companies – Device Authority, FundamentalVR and Talking Medicines – to become technology leaders, albeit with relatively limited funding. We see great potential in the next phase of growth as portfolio companies work with investment partners to achieve additional recognition and scale.

However, this growth will require continued investment in the portfolio. Although the recent offer proceeds, coupled with the sale of DA, have provided funding to meet Tern’s immediate requirements, further funding will be required over the medium and longer term. The result of the GM gives Tern a degree of flexibility to create funding opportunities via other avenues rather than placings, to continue investment in the portfolio and generate additional income opportunities

The strategic importance of expanding sales operations is key to success, especially when competing with companies often backed by significant investment capital. Although Tern will where possible participate in fundraises to avoid dilution, its early entry at seed and seed plus allows Tern 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.

Tern is focused on driving its portfolio companies to the next level, helping them expand and grow from early seed funding rounds into significant companies in their marketplace. There has been a flood of capital in CY24 to early-stage software and the generative AI space, in particular. Tern is well placed to benefit from the increased appetite in the space, and to generate significant shareholder value when the time is right to achieve an exit.

Financial Summary: Tern

Year end: December (£m unless shown)

	2019	2020	2021	2022	2023
PROFIT & LOSS					
Revenue	0.1	0.2	0.1	0.1	0.2
Adj EBITDA	0.0	0.0	0.0	0.0	0.0
Adj EBIT	0.0	0.6	4.4	(10.5)	(12.7)
Reported PBT	(0.8)	0.8	4.6	(10.4)	(12.6)
Fully Adj PBT	(0.8)	0.8	4.6	(10.4)	(12.6)
NOPAT	(0.8)	0.8	4.6	(10.4)	(12.6)
Reported EPS (p)	(0.3)	0.3	1.3	(2.9)	(3.2)
Fully Adj EPS (p)	(0.3)	0.3	1.3	(2.9)	(3.2)
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	(1.3)	(1.2)	(1.5)	(2.1)	(1.4)
Free Cash flow	(3.8)	(3.1)	(4.0)	(3.8)	(1.1)
FCF per share (p)	(1.5)	(1.0)	(1.2)	(1.1)	(0.3)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	2.9	4.2	3.8	2.8	0.4
Net cash flow	(0.9)	1.1	(0.2)	(1.0)	(0.6)
Overdrafts / borrowings	0.0	0.0	0.0	(0.4)	(0.4)
Cash & equivalents	1.0	2.1	2.0	0.3	0.0
Net (Debt)/Cash	1.0	2.1	2.0	(0.1)	(0.4)
NAV AND RETURNS					
Net asset value	18.9	24.0	32.4	24.9	12.3
NAV/share (p)	7.5	8.3	9.2	6.4	3.2
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	17.8	21.5	28.2	28.6	18.6
Post-tax ROE (%)	(4.4%)	3.7%	16.2%	(36.5%)	(67.9%)
METRICS					
Revenue growth	N/A	21.5%	(57.9%)	3.5%	201.8%
Adj EBITDA growth		N/A	N/A	N/A	N/A
Adj EBIT growth		N/A	638.0%	(338.9%)	N/A
Adj PBT growth		(203.0%)	469.5%	(328.2%)	20.7%
Adj EPS growth		(189.2%)	382.8%	(319.0%)	10.8%
Net asset value growth	N/A	26.9%	35.1%	(23.3%)	(50.5%)
NAV/share growth	N/A	10.0%	11.6%	(30.6%)	(50.7%)
VALUATION					
EV/Sales (x)	34.8	28.6	68.1	65.8	21.8
EV/EBITDA (x)	N/A	N/A	N/A	N/A	N/A
EV/NOPAT (x)	N/A	5.4	0.9	N/A	N/A
PER (x)	N/A	3.6	0.7	N/A	N/A
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(152.0%)	(105.0%)	(117.3%)	(105.5%)	(27.4%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

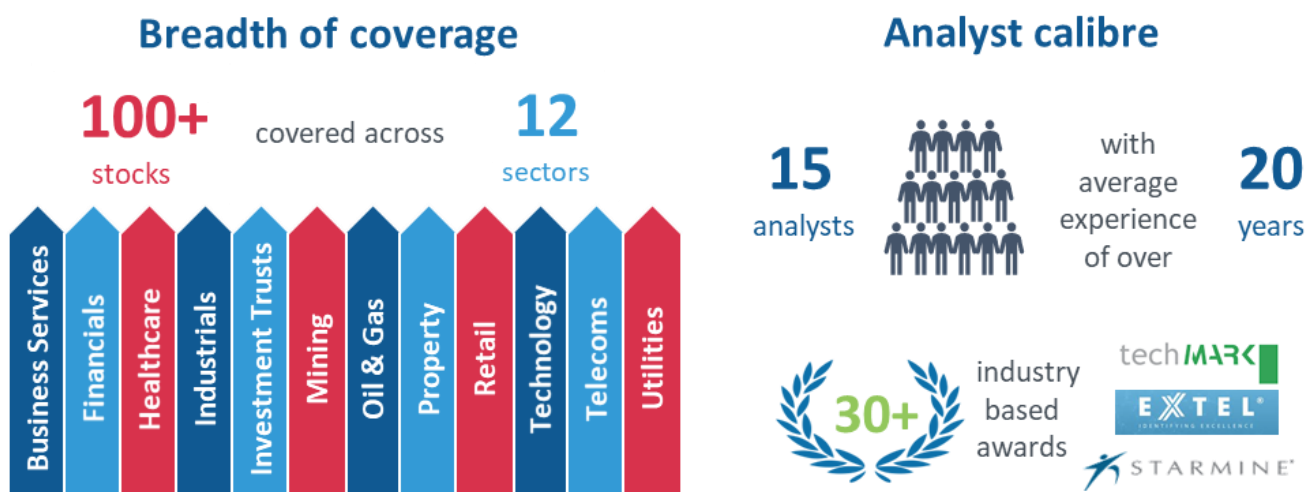
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