

TERN

SOFTWARE AND COMPUTER SERVICES

25 February 2025

TERN.L

1.25p

Market Cap: £6.6m

SHARE PRICE (p)



12m high/low 4.3p/1.0p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (debt)/cash	£0.1m (at 30/06/24)
Enterprise value	£6.5m
Index/market	AIM
Next news	Prelims, March
Shares in issue (m)	525.0
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

ANALYSTS

Gareth Evans

+44 (0) 20 7781 5301

gevans@progressive-research.com



Tessa Starmer

+44 (0) 20 7781 5303

tstarmer@progressive-research.com



www.progressive-research.com

Strength in numbers

Tern announced on 21 February that it has raised £221k gross via a placing at an issue price of 1.15p, a 10% discount to the closing price on 20 February. The proceeds will be used to contribute towards Tern's commitment to invest in Sure Valley Ventures Enterprise Capital Fund (SVV2), to invest in the existing Tern portfolio, thus strengthening its negotiating position, and for general operating and legal expenses. Tern is well placed to benefit from the increased appetite in early-stage software and the generative AI space. This fundraising underpins Tern's focus on creating shareholder value, protects its position and generates additional income opportunities. We see a strong similarity with Tern's strategy in the proactive investment style of Sure Ventures plc, now leveraging Tern's hands-on approach.

- Strong and growing relationship with Sure Ventures plc.** Tern has a 6.1% interest in SVV2 following its commitment in 2022 to invest up to £5m over the 10-year life, with a £750k value at 21 February 2025. In December 2024, Tern invested £175k in Sure Ventures plc as part of a placing, securing a 2.7% holding and providing exposure to the more mature SVV1 fund. Notably, in July 2024 SVV1 achieved an 85% uplift in NAV from selling investee company Landvault for \$450m to Infinite Reality.
- Similarity in the approach – Tern and Sure Ventures.** Both companies actively manage their investments, and Tern provides a useful addition to the skills of the Sure Valley plc with its hands-on approach to support its AI-centred businesses. Tern proactively supports growth via its sector expertise and ability to introduce highly effective marketing, leveraging access to markets, suppliers and partners to help increase market share.
- Additional fee income from SVV investments.** Further growth for Tern will require continued investment in the portfolio, requiring funding over the medium and longer term. Tern is creating alternative funding opportunities via other avenues rather than placings, and the decision to invest in SVV2 and to acquire a position in Sure Ventures plc represent additional income opportunities. Access to capital remains critical for Tern to both support and hold its position in a competitive market.
- Strength in numbers.** Tern's investment proportion has been small in recent funding rounds, demonstrating capital requirements are reducing as the portfolio becomes attractive to third-party investors and 'intelligent growth funding', with partners such as CyberArk and Ten Eleven. The investments in SVV2 and Sure Ventures plc are a low-risk way to gain exposure to potentially lucrative opportunities.

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	4.5x	0.9x	N/A	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.

Sure Ventures plc

We note similarities in the approach of Sure Ventures plc and Tern. Over the last few years, Tern has developed some of the most relevant companies in the markets that they are addressing. Tern proactively supports growth via its sector expertise and ability to introduce highly effective marketing, leveraging access to markets, suppliers and potential partners to help increase market share.

Sure Ventures Plc - More than a VC

Support Beyond Capital: The SVV Partnership

Strategic Investment and Guidance:

SVV's investment has provided critical growth capital, enabling us to scale our platform and expand market reach. Their mentorship has refined our strategy, particularly in navigating the AI and e-commerce spaces.

Unmatched Network Access:

SVV's network has opened doors to partnerships with leading e-commerce platforms and potential customers. Connections with other portfolio companies have facilitated valuable knowledge-sharing and collaboration opportunities.

Operational Support:

SVV has been instrumental in helping us establish key operational frameworks, from go-to-market strategies to scaling our tech infrastructure.

Source: Vortex IQ, Tern Plc

Sure Ventures plc is a venture capital fund that invests in early-stage software companies in the rapidly growing technology areas of artificial intelligence (AI), augmented reality (AR), virtual reality (VR) and IoT.

Sure Ventures' principal investments are a 25.9% interest in Sure Valley Ventures Fund (SVV1) and an approximate 6% interest in Sure Valley Enterprise Capital Fund (SVV2). Tern has a direct 6.1% interest in SVV2, which has a diverse portfolio of private UK software companies with an emphasis on those in the immersive technology and metaverse sectors. This includes companies specialising in augmented and virtual reality, AI and security.

SVV1

Having invested £175k in Sure Ventures plc as part of a placing in December 2024, Tern secured a 2.7% holding. This gives Tern exposure to the Sure Valley Ventures Fund (SSV1), which has a more mature and developed portfolio of companies, at different stages of development to Tern's key portfolio.

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 to Infinite Reality (iR), which then raised equity of \$3bn in January 2025.

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, vindicating the rationale of the deal at the time.

SVV2 portfolio update

As at 31 December 2024, SVV2 had drawn down £16.6m, with £65.3m undrawn commitments remaining. In the last quarter, SVV2 made follow-on investments in RETinZE Ltd (£500k), a creative tech company, and Jaid (t/a Opsmatix Ltd) (£800k), an AI-powered human communication solutions company.

Other key SVV2 portfolio holdings include Captur, Vortex IQ, and Ittybit. In Tern’s recent company update presentations in January 2025, Vortex Plc presented on its progress and market opportunity.

Vortex IQ – Large and fast-growing market

Market Opportunity



Source: Vortex IQ, Tern Plc

SVV2 expanded its portfolio with four investments in H2 2024

- July 2024 – £1m in Phinx Robotics, an AI robotics start-up.
- August 2024 – £1.5m in Purple Transform, Oxford-based monitoring firm.
- August 2024 – £500k in Stylus Education, for an AI-powered marking solution.
- December 2024 – £1m to Vizgard, a drone security company, which received an initial £500k with the option for a further £500k within six months.

Pipeline and deal flow

Looking ahead to 2025, SVV2 expects to undertake its most active year yet, targeting 6-8 new investments, alongside follow-on rounds, with anticipated drawdowns of 15%-20% of the fund. At the time of the quarterly update, SVV2 was progressing five additional companies toward investment term sheets.

In addition, SVV2 has developed a strong investment pipeline. These opportunities have been sourced through a combination of inbound and outbound origination strategies, ensuring a steady flow of high-quality potential investments.

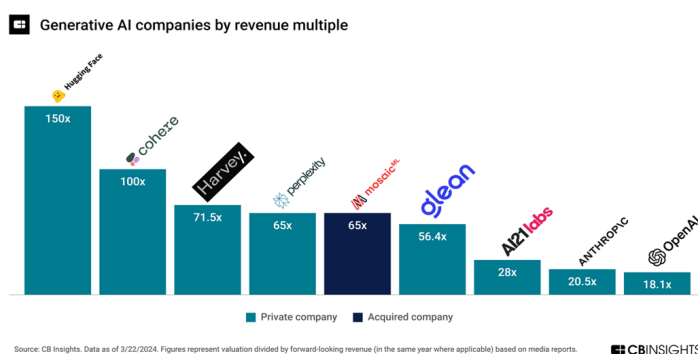
Generative AI valuations averaging 50x

Like Sure Valley Ventures Plc, the Tern portfolio has been built up around IoT and AI – generally connected devices or inter-related operations and assets. Portfolio companies deploy AI, machine learning (ML), augmented reality/virtual reality (AR/VR), natural language processing (NLP), security, and communications products and services.

Data will become an even more valuable resource, in our view, and AI will provide an opportunity to achieve more. The most effective AI models are likely to be ‘bespoke’ or ‘curated’ models, trained specifically on relevant, owned and cleansed data. This will reduce errors, and ensure the most useful and rapid results.

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.

Generative AI companies by revenue multiple



Source: CB Insights

Conclusion

We see significant potential in the next phase of growth for the Tern portfolio, building on the ‘land and expand’ strategy, working with investment partners to achieve additional recognition and scale. Tern is creating funding opportunities via other avenues rather than placings, and the decisions to invest further in SVV2 and acquire a position in Sure Ventures plc in December 2024 represent additional income opportunities.

Further growth for Tern requires continued investment in its portfolio, as highlighted by the recent placing by Tern to raise £221k, hot on the heels of the £400k placing in December 2024. We anticipate that further funding will be required over the medium and longer term as access to capital remains critical for Tern to both support and hold its position in a competitive market.

Tern is well placed to benefit from the increased appetite in early-stage software and the generative AI space, in particular. 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, and to generate significant shareholder value when the time is right to achieve an exit. We note the similarity in approach between Sure Ventures plc and Tern, supporting AI-centred businesses through a proactive, hands-on approach.

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)	51.8	42.6	101.3	97.9	32.4
EV/EBITDA (x)	N/A	N/A	N/A	N/A	N/A
EV/NOPAT (x)	N/A	8.0	1.4	N/A	N/A
PER (x)	N/A	4.5	0.9	N/A	N/A
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(121.6%)	(84.0%)	(93.8%)	(84.4%)	(21.9%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

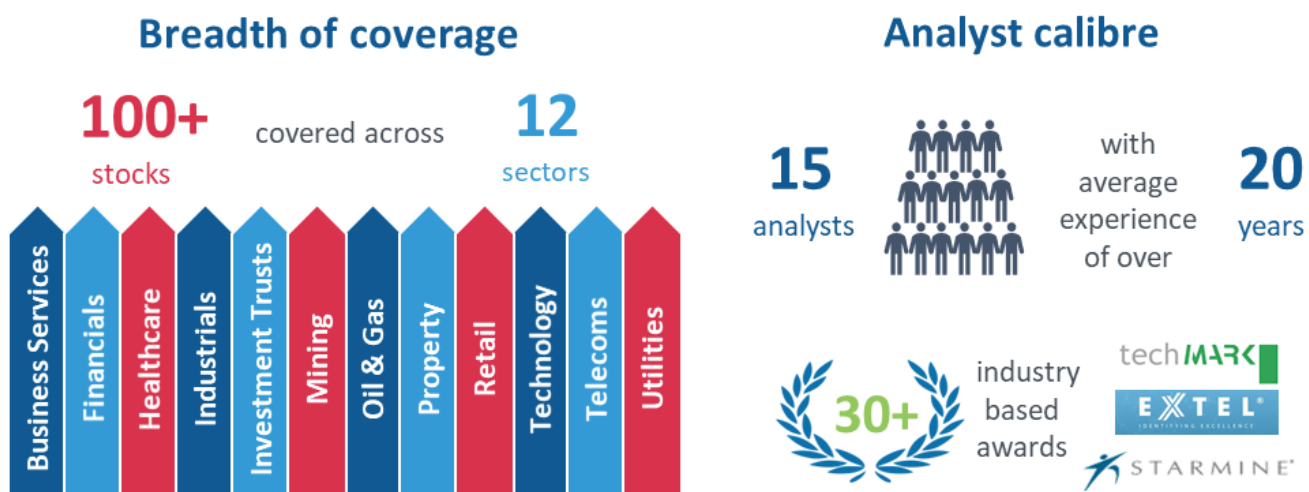
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To arrange a meeting with the management team, or for further information about Progressive, please contact us at:
+44 (0) 20 7781 5300
info@progressive-research.com