EDISON

Tungsten

H121 results and outlook

Foundations for growth in place

Financial services

Tungsten's H121 results in December showed resilience in a difficult period and the group is making progress in implementing its strategy. New products are gaining traction, a reshaped salesforce is building a promising pipeline and partnerships are in place or under discussion to provide complementary services, broaden the reach of the network and create new channels to market. COVID-19 causes uncertainty over prospective transaction-related revenues, but may also act as a prompt for potential customers to digitise their invoice handling.

Year end	Revenue (£m)	EBITDA* (£m)	EPS (p)	EV/Revenue (x)	EV/EBITDA (x)	Net cash (£m)
04/19	36.0	0.6	(3.1)	1.1	62.5	2.8
04/20	36.8	2.7	(20.6)	1.0	13.8	3.2
04/21e	36.8	3.3	(23.9)	1.0	11.6	1.0
04/22e	40.1	5.7	0.4	0.9	6.6	2.3

Note: *EBITDA is adjusted, before share-based payments and other items; EPS reported. Tungsten does not currently pay a dividend.

H121 results

Although COVID-19 effects caused transaction volume to fall by 6% in H121 versus H120, the stability of recurring revenue meant group revenue of £18m was down just 1%. Adjusted EBITDA at £0.8m was down £0.2m with the absence of a prior year bad debt recovery, higher commission costs and new customer set-up costs partly offset by cost reductions. A further non-cash goodwill impairment (£26.2m) has been taken against the core Tungsten Network business, reflecting the negative effect of the pandemic both on trading and the time taken to sign up new customers. This resulted in pre-tax loss of £30.5m (versus £2.4m). Period-end net cash stood at £1m (£1m) with £2m available on a rolling credit facility.

Current uncertainty but large e-invoicing opportunity

Transaction-related revenues account for c 30% of the group total but the diversity of the customer mix and presence of over 50% of subscription and software maintenance revenues is supportive. So far in FY21 six new contracts have been added, a partnership with a large US bank has been secured and the trade finance partnership with Orbian, which signed an agreement with a UK retailer to access its supplier base, is now generating income. For FY21 management guides to maintained revenues and adjusted EBITDA of at least £3.2m. Longer term, the benefits of adopting e-invoicing provide an underlying driver of growth while the fact that on average Tungsten only processes 30% of its customers' invoices points to significant scope for increased penetration both for existing and potential customers.

Valuation: Significantly below peers on EV/revenue

Tungsten trades on an enterprise to sales multiple of 1.0x compared with peers ranging between 1.7x and 51.6x (see valuation section). The valuation is likely to appear increasingly conservative as Tungsten provides further evidence of delivery of its strategy.

11 February 2021

Price	**30.9p**
Market cap	**£39m**

Net cash (£m) end October 2020	1.0
Shares in issue	126.1m
Free float	100%
Code	TUNG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(2.8)	(9.8)	(21.1)
Rel (local)	1.3	(14.2)	(12.2)
52-week high/low		43.5p	20.0p

Business description

Tungsten Corporation operates a transaction platform with services including e-invoicing, e-billing and purchase order handling. Adjacent services such as spending analysis, invoice data capture and, through a partnership, supply chain finance are also offered, providing additional benefits to customers.

Next events

9M21 trading update	March 2021 (est)

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Edison profile page

Tungsten Corporation is a research client of Edison Investment Research Limited

Addressing the e-invoicing opportunity

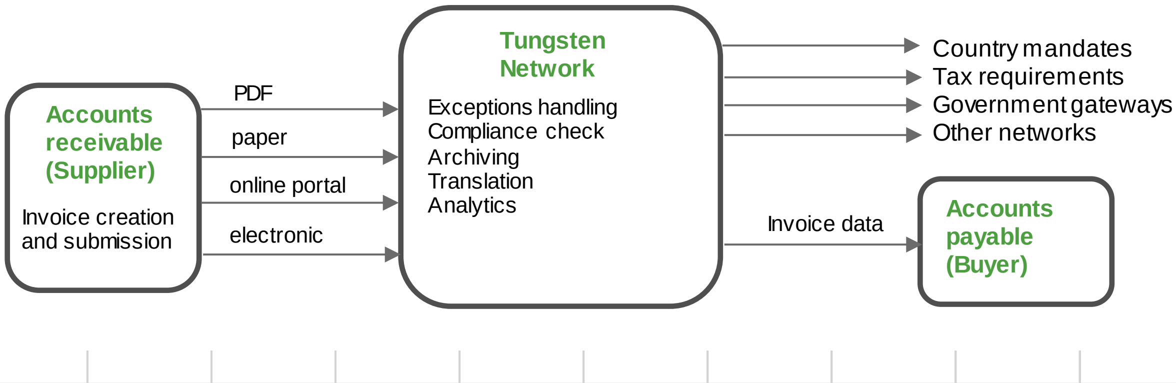
Background, service offering and revenue generation

Established in 2012, Tungsten Corporation was listed on AIM in 2013. At flotation it had agreed the acquisition of an e-invoicing business, OB10, itself founded in 2000, and a bank. The group aimed to develop the multinational e-invoicing business network established by OB10 and to offer additional services such as data analytics and, through the bank, invoice financing to buyers or suppliers on the network. The e-invoicing activity developed and remains the core of the business while the costs associated with the bank proved onerous and in FY17 Tungsten sold it, releasing cash of nearly £30m. The trade finance offering to customers continued, initially through Tungsten Network Finance (TNF) and from this financial year through a partnership with Orbian (a well-established international supply chain finance provider), which made an initial contribution to revenue in H121.

Tungsten now has over 200 employees and offices in London (headquarters), the US, Bulgaria and Malaysia. Last year it processed 19 million transactions worth £195bn for customers, including 74% of the FTSE 100 index and 71% of the Fortune 500.

The core e-invoicing business has seen major technological changes since its foundation and is now a cloud-based, open network. The network service for buyers and their suppliers generates electronic invoices enabling automated straight-through processing. Exhibit 1 illustrates some of the functionality of the network service including the variety of invoice formats that may be submitted by suppliers (accounts receivable or AR) and the ability to use the digital information provided by the network to maximise the efficiency of invoice handling for buyers (accounts payable or AP) including meeting government requirements in multiple countries, where appropriate.

Exhibit 1: Tungsten Network automates invoice processing for buyers and sellers



Source: Tungsten Corporation, Edison Investment Research

E-invoicing can reduce buyer invoice processing costs by as much as 60%[1] compared with manual processing of paper while increased transparency aids management decisions; suppliers also gain in terms of efficiency and improved visibility of the status of their invoices and the expected payment date. Fraud prevention is another important benefit of adoption while governments in an increasing number of countries mandate electronic submission of invoice details to improve tax collection (Italy, Turkey and a number of countries in South America are examples, while, continuing the trend, mandatory submission went live in India in October 2020 and will have a wider scope in 2021). Tungsten enables suppliers to submit tax-compliant e-invoices in more than 50 countries.

[1] See, for example, Business case e-invoicing/e-billing, Billentis.

Exhibit 2 sets out the Tungsten Network service offering showing related customer and revenue types. An important point to highlight here is the comprehensive nature of the Total AP and Total AR services that were launched in FY20. They enable handling of all invoices rather than being limited to those companies on the Tungsten network as previously; a key feature developed following a market review undertaken for the board in 2018/19.

Exhibit 2: Tungsten Network offering

Service	Description	Customer type		Revenue type		
		Buyer	Supplier	Subscription/licence /maintenance fees	Set up fees	Transaction fees
Purchase Order	Purchase orders delivered to suppliers electronically. Suppliers can acknowledge, amend, reject and convert to e-invoices.	●	●	●	●	●
Total AP	This accounts-payable solution ensures all invoices from suppliers are automatically delivered to a buyer's accounting system in a digital and compliant form.	●	●	●	●	●
Workflow	Software that automates accounts payable processes from receipt of invoice to submission for payment; integrates with ERP systems.	●			●	
Total AR	An accounts receivable solution that delivers 100% of invoices of all formats from a supplier to its customers, both on and off the Tungsten Network.		●	●	●	●
Invoice Status	Portal where suppliers can track the status of their invoices reducing enquiries for buyers.	●	●	●	●	
Analytics	Set of analytical tools to provide insights from invoice data to inform management decisions.	●	●	●	●	
Financing	Financing for suppliers on the network, provided in partnership with Orbian.		●		●*	

Source: Tungsten Corporation, Edison Investment Research. *Note: Tungsten earns a share of financing income generated by the partnership with Orbian.

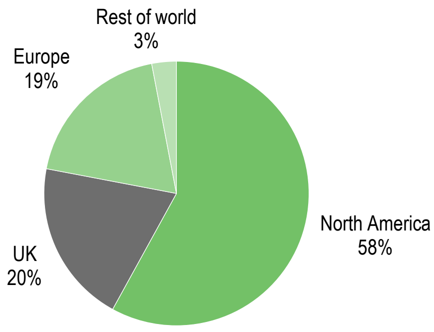
As suggested by the table above, Tungsten Network generates most of its revenues through charging initial set-up fees, subscription fees and per transaction fees. The recurring element of fees, including buyer and supplier annual fees plus Workflow (software) maintenance fees, accounted for 54% of the group's H121 revenue and this is not affected by near-term variations in transaction volumes. Repeatable revenue, comprising buyer and supplier transaction and archiving fees, provided a further 38% of revenue giving the total for recurring and repeatable revenue of 93%. To provide some context, total Tungsten Network revenue per transaction processed in FY20 was equivalent to c £1.90 or c 2bp of the average invoice value per transaction of over £10,000 and compares with total illustrative manual paper invoice handling costs for a buyer put at over £16.00 in the Billentis paper referenced earlier.

Customer mix and geography

Tungsten has a customer base that includes leading global corporations such as Nestlé, Unilever, Mondelez International, HP, Apple and, in the government sector, the US Department of Veterans Affairs. Nearly 60% of its customers are in the US (see Exhibit 3) although the international reach of these businesses means that the underlying geographical diversity is greater. There is a broad spread by industry sector (Exhibit 4) that has been helpful in mitigating the effect of COVID-19 on transaction-related revenue.

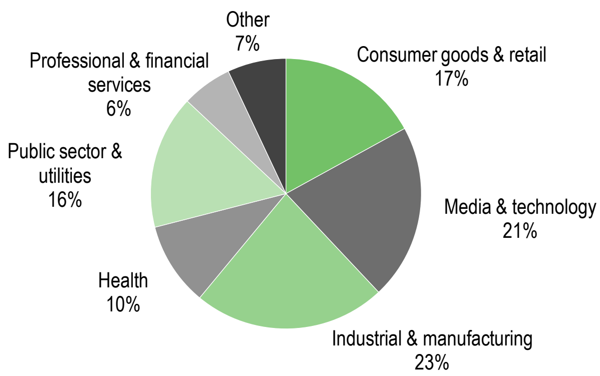
The network has c 130 buyers and over 270,000 suppliers connected to it and, through links with other networks, is able to provide the full invoice handling capability offered by the Total AR and Total AP products shown in Exhibit 2 and highlighted further below. In terms of network revenues, in H121 buyers accounted for 42% and suppliers 58% and, based on the buyer and supplier numbers indicated above, the average annual buyer revenue is c £116,000 and for suppliers c £77. This reflects the normal pattern where large companies typically have a wide range of suppliers including both large corporations and a long tail of small companies, a proportion of which may generate little or no revenue for Tungsten.

Exhibit 3: Customer location (by HQ location)



Source: Tungsten Corporation, H121

Exhibit 4: Customers by industry sector



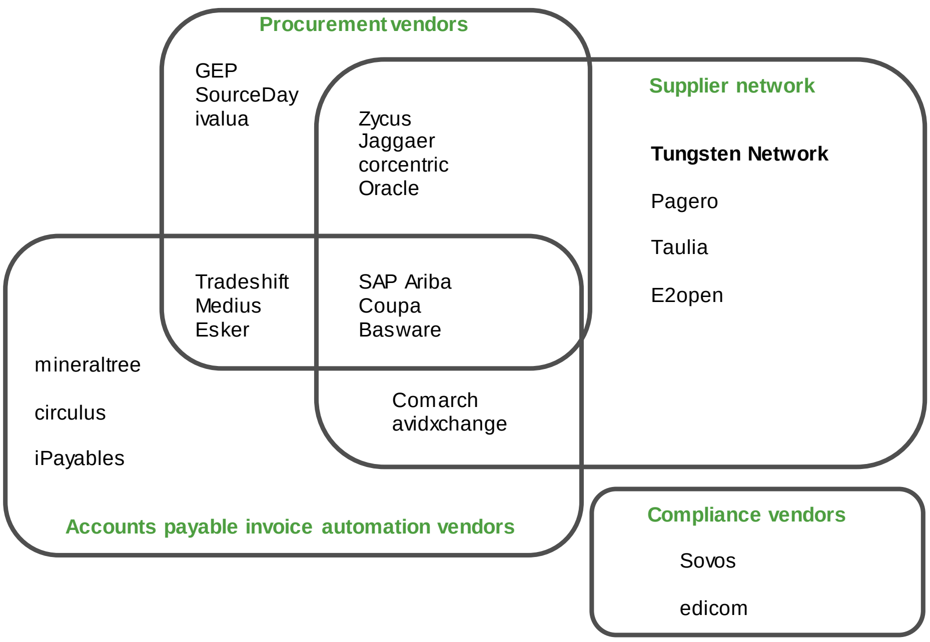
Source: Tungsten Corporation, H121

Strategy

Following a market review, the group set out a revised strategy in July 2019. The review concluded the group's key relative strength within its industry is in processing and delivering invoices between companies and a central part of Tungsten's strategy is to build on this through increasing connections with other platforms to facilitate processing more of a buyer's or supplier's invoices.

Exhibit 5 shows one analysis, from Gartner, of companies addressing the e-invoicing software market. This illustrates the different and overlapping product and service offerings of various companies and, in line with the group's strategic assessment, highlights Tungsten's specific focus on the supplier network segment which Gartner estimates has the potential for growth of 9–12% per annum: faster than other procurement sub-sectors.

Exhibit 5: Tungsten's positioning within the e-invoicing software market (Gartner analysis)



Source: Gartner, Growth strategies for Tech CEOs of Supplier E-Invoicing Software Vendors and Forecast Analysis, Supply Chain Management 2Q20 update (cited in Tungsten H121 presentation)

Tungsten identifies three pillars for future success:

- Its **global network,** which is a competitive differentiator for the business. The benefits of this for customers can be enhanced by establishing connections with other platforms facilitating increased transaction volumes (previously something of a lagging indicator) and revenues. Tungsten has completed an interconnection project with procure-to-pay provider, Coupa, which could provide the basis for further cooperation in future. Tungsten is also talking to other partners with a view to achieving similar connections both extending the reach of its e-invoicing network and developing an indirect sales channel.
- **Innovation** is seen as key to long-term success. Examples of recent initiatives include the new Total AR and Total AP products, the Orbian partnership and the first phase of an overhaul of the Tungsten invoicing portal including features and automation that make it easier for buyers and suppliers to connect on the network. A further portal improvement due to be launched this year is an enhanced reporting tool.
- **People** are the third pillar and CEO Andrew Lemonofides has sought to introduce a more value-driven and inclusive culture, with increased internal communication and recognition of contributions made by members of the team. During 2020 he expanded his executive team. This has included a new CFO (interim CFO Ian Kelly), chief commercial officer (Eric Craig), global head of sales (David Hazard), chief products and business development officer (Marisa Teh), chief marketing officer (Miriam Weidner) and chief people officer (Jessica Oppenheimer); they join Patrick Clark (general counsel) and Martyn Arbon (chief technology officer). In addition, there has been investment in the sales team to ensure conversations with customers can be established at more senior levels than historically and back-office changes have been made to increase collaboration and improve customer outcomes. Group board membership is shown on page 11.

There are also three areas of strategic focus for management:

- **Deepen relationships with existing customers.** On average Tungsten e-invoicing only accounts for 30% of its customers' invoices so there is significant scope to increase this and, as noted earlier, increased connections with other networks and the new Total AP and Total AR products should help drive up this percentage.
- **Drive more value from the customer base.** This is to be achieved by offering more related services such as supply chain finance. Encouragingly on this front, under the partnership with Orbian, an agreement has been reached with a major UK retailer that provides access to its supplier base to offer this service. Tungsten believes that other services can be offered and that this is most likely to be achieved in a timely manner by establishing further partnerships.
- **Drive the network effect.** As for other platform businesses, the network effect is enhanced through accelerating sales growth and increasing market share. Here the combination of a strengthened sales team, new products and new focus on partnerships both internally and in the industry should be instrumental in winning new customers.

H121 results: Demonstrating resilience

Reflecting the high proportion of recurring revenue (54%), Tungsten's revenue was resilient in the face of the economic impact of COVID-19 during the six months to end October 2020; group revenue was down just 1.1% compared with H120. Excluding foreign exchange movements and the discontinued TNF activity, revenue was up 2%. Gross profit was down £0.9m or 5% reflecting the absence of a one-off bad-debt collection of £0.5m in H120 and increased commission and set-up costs in H120 related to new product sales. Adjusted expenses were 4% lower leaving adjusted EBITDA down £0.2m (18%) at £0.8m.

Exhibit 6: Profit and loss analysis

Year to end April (£m)	H120	H220	H121	H121 y-o-y % change
Recurring	9.8	9.8	9.8	0.0
Repeatable	7.0	7.4	6.9	(1.4)
Other	1.1	1.2	1.3	18.2
Tungsten Network total	**17.9**	**18.4**	**18.0**	**0.8**
Tungsten Network Finance	0.3	0.2	0	(95.3)
Total revenue	**18.2**	**18.6**	**18.0**	**(1.1)**
Cost of sales	(0.6)	(1.0)	(1.3)	116.7
Gross profit	**17.6**	**17.6**	**16.7**	**(5.1)**
Adjusted administrative expenses	(16.6)	(15.9)	(15.9)	(4.4)
Adjusted EBITDA	**1.0**	**1.7**	**0.8**	**(17.6)**
Rent adjustment*	0.5	0.5	0.5	1.5
EBITDA	**1.5**	**2.2**	**1.4**	**(10.9)**
Share based payment charges	(0.4)	(0.1)	(0.1)	
Depreciation & amortisation	(2.3)	(2.1)	(2.3)	
Intangible impairment	(0.6)	(22.4)	(26.2)	
One-off costs	(0.5)	(1.6)	(1.9)	
Other income	0.0	0.0	0.0	
Foreign exchange gain/(loss)	0.2	0.6	(0.9)	
Operating loss	**(2.1)**	**(23.4)**	**(29.9)**	
Net finance (cost)/income	(0.3)	(0.1)	(0.6)	
Profit/(Loss) before tax	**(2.4)**	**(23.5)**	**(30.5)**	
Taxation	(0.0)	0.0	(0.0)	
Profit/(loss) after tax	**(2.5)**	**(23.5)**	**(30.5)**	

Source: Tungsten Corporation, Edison Investment Research. *Note: for FY20 IFRS 16 adoption meant rent costs fell below the EBITDA line within depreciation and finance cost lines; to facilitate comparison of the adjusted EBITDA with prior periods, the rent cost is included in adjusted administrative expenses with the cost then added back to match the reported EBITDA.

Exhibit 7 sets out a profit and loss table comparing the results for the last three half-year periods. In addition to the comments above, we highlight a number of points from the results with percentage changes being between H120 and H121, unless stated.

- The diversification of Tungsten's client base by sector and geography limiting the effect of COVID-19 related restrictions on network transaction volume in H121 to a reduction of approximately 7%. The effect of this was further mitigated by the structure of transaction fees resulting in transaction revenue down 3.5%. Archiving revenue was marginally higher because customers are retaining data for longer, which left repeatable revenue down 1.4%. Recurring revenue (subscription and maintenance) was unchanged. Other revenue (+18%) within Tungsten Network benefited from set up fees for new contracts signed in H220 and H121 and income from the Orbian partnership.
- Tungsten Network Finance revenue was immaterial in the period as its wind down was largely complete (H120 £0.3m).
- Below the EBITDA line the largest item is the £26m non-cash impairment taken against goodwill relating to the OB10 acquisition in 2013. This reflected an impairment review of the Tungsten Network cash-generating unit allowing for the effect of COVID-19 on current trading. The five-year annual revenue growth assumed in the base case of 8% is unchanged but growth rates in the downside scenarios are reduced. Cost growth is lower at 2% versus 4–6% for the base case previously. Long-term growth of 2% is unchanged as is the post-tax discount rate at 11%. The estimated probability weighted value in use for the Tungsten Network cash-generating unit stands at £73.9m compared with £101.1m at end FY20 (see note 8 in the H121 results release and note 12 in the FY20 annual report for further detail).
- One-off costs were higher at £1.9m against £0.5m, mainly reflecting costs related to restructuring and the board operating review.

- Primarily reflecting the non-cash impairment, the pre-tax loss was £30.5m (£2.4m). Operating cash flow was broadly neutral and period end net cash stood at £1m (H120, £1m; H220, £3.2m).

Positively, reflecting the work that has been done to introduce new products and reorganise the sales function **new sales billings** were £2.1m (£1.7m) with five new wins for accounts payable and accounts receivable products from four new blue-chip customers (one customer is taking both products). These contracts will add recurring revenue of £0.3m per year and have a total contract value of £1.3m. Since the end of H121, there has been a further contract win from a new customer taking the year-to-date wins to six.

During the first half an **accounts-payable partnership with a large US bank** was established, which is due to go live soon. This is indicated to have the potential to add e-invoicing volumes of up to 2.5m (compared with the FY20 Tungsten volume of 19m) from up to 28 new buyers and 40,000 new suppliers.

Outlook: Some uncertainties but promising momentum

The underlying efficiency benefits for customers of adopting e-invoicing continue to provide a favourable long-term industry background for the group. Following a year of significant change in FY20 as Tungsten began to implement its new strategy, the group has a reshaped sales team, a well-invested technology platform, new products that are gaining traction, an encouraging sales pipeline and has established a promising start in securing partnerships to accelerate its growth.

COVID-19 does create some uncertainty because transaction-related fees account for approximately 30% of total revenue and, as seen in the first half, transaction volumes have been affected by the restrictions required to contain the pandemic. The group expects transaction volumes to continue at a lower level for the rest of FY21. There has also been an effect on the time it has taken to sign potential clients once they have entered the pipeline. Normally this would be about 10 months but, understandably, with management facing unusual operational challenges, the decision cycle has lengthened. Although adverse for transaction volumes currently, COVID-19 and remote working are helping focus the attention of companies on the risks associated with paper invoices, which may be useful in generating increased sales prospects and prompting existing customers to adopt targets for much higher digitisation of invoice handling. Significantly, the average level of digitisation for Tungsten customers today is c 30%, so there is substantial potential to increase this, enhancing the value of the Tungsten service to customers and generating higher transaction-related and other revenues.

As noted above, there does appear to be promising momentum on new sales following the changes made in FY20. In addition to the six new contract wins mentioned, the sales pipeline is being more effectively managed (helped by investment in Salesforce software) and the current pipeline stands at 2x the level that would be required to generate budgeted revenues, which the group sees as encouraging given these prospects are more clearly defined than would have been the case previously.

Tungsten looks to partnerships to add adjacent services (such as trade finance with Orbian), to extend the reach of its network (as with Coupa and the US bank partnership), to enable it to participate in bids that require broader capabilities (full procure to pay solutions, for example) where the sale would be indirect through the procure to pay vendor. While the gross margin may be lower in these cases, the revenue opportunity would probably not be available otherwise and scale/market share gains without the requirement for significant investment would be attractive. Fortunately, Tungsten's heightened interest in partnerships and increasing connections for its network seems to chime with an industry trend in recent years where networks are increasingly open rather than proprietary and there is a willingness to partner with specialist providers to provide specific services. Reflecting this Tungsten is seeing a number of enquiries from companies interested in working with it and a further three significant potential partnership deals are under discussion although there is no certainty on timing or completion.

In line with the November 2020 trading update, with the H121 results Tungsten guided that it looks for FY21 revenue to be similar to FY20 (£36.8m), reflecting the lower transaction volumes and longer sales cycle mentioned above. Underlying adjusted EBITDA is expected to be at least £3.2m, a result of the mix of new sales and increased costs arising from the set-up of new Total AR contracts and investment in the sales team. On administrative expenses, actions were taken to reduce costs in the first half and the group expects the programme to result in annualised cost savings of £4m in FY22. The net cash position at the end of the year is expected to be similar to the H121 level of £1m, after allowing for outflows associated with restructuring exceptional costs.

Financials

We are reintroducing estimates in this note and in Exhibit 7 set out our revenue assumptions analysed by category. For FY21 we have set revenue in line with Tungsten's guidance, with transaction-related revenue modestly lower, balanced by new customer additions that should also be positive for subscription, maintenance and implementation revenues. We assume income from the Orbian partnership will provide a partial offset to the absence of Tungsten Network Finance income. FY22 is assumed to see a bounce back in transaction volumes as vaccines progressively contain the economic effect of the pandemic. We also expect to see a fuller benefit from the stronger momentum in sales and an increasing contribution from the Orbian partnership: the resulting overall revenue growth is 9%.

Exhibit 7: Revenue assumptions by category

Year to end April (£m)	2019	2020	2021e	2022e
Subscription	17.3	18.2	18.5	19.9
Maintenance	1.8	1.9	2.0	2.1
Transaction	10.9	11.6	11.0	11.9
Archiving	2.6	2.8	2.9	3.0
Implementation	1.3	0.8	1.0	1.3
Professional services	1.4	1.1	1.2	1.3
Partnership income (Orbian)			0.3	0.5
Network	**35.4**	**36.3**	**36.8**	**40.1**
Network finance	0.7	0.5	0.0	0.0
Group	**36.0**	**36.8**	**36.8**	**40.1**

Source: Tungsten Corporation, Edison Investment Research

The following table shows selected headline numbers from our estimates illustrating the expectation of further EBITDA margin improvement in FY21 and FY22, a return to cash generation in FY22 and a modestly positive net earnings result in FY22. For reference our revenue and cost growth assumptions in FY22 are similar to the base case assumptions used in the Tungsten Network cash-generating-unit value in use model cited earlier.

Exhibit 8: Headline estimates

£m unless stated, year-end April	2019	2020	2021e	2022e
Revenue	36.0	36.8	36.8	40.1
Adjusted operating expenses	(35.4)	(34.1)	(33.6)	(34.4)
Adjusted EBITDA	0.6	2.7	3.3	5.7
Net earnings	(3.9)	(26.0)	(30.2)	0.5
Revenue growth (%)	7.1	2.1	0.1	8.9
EBITDA margin %	1.7	7.5	8.9	14.3
Net cash	2.8	3.2	1.0	2.3
Transaction volume (m)	18.2	19.0	17.8	19.2

Source: Tungsten Corporation, Edison Investment Research

Historically, technology investment and trading losses have absorbed cash at Tungsten but cash flows improved markedly in FY19 and FY20, although FY20 benefited from favourable working capital movements. For H121, there was a net cash outflow of £2.2m, which reflected neutral cash flow from operational activities less capital spending of £1.7m and lease payments and other items of £0.5m. As noted, FY21 net cash is expected to be £1m implying broadly neutral cash flow in H221. Beyond this, improved profitability, broadly stable capital spending and close to neutral working capital is assumed to benefit cash flow in our estimates (see financial summary for further detail).

The group has a rolling credit facility of £4m of which £2m was drawn at the half-year end. This was renewed until December 2023 on similar terms.

Among other things, our estimates are sensitive to the progression of transaction volumes, whether the positive signs regarding sales pipeline are sustained, the level of success in reaching partnership agreements and the behaviour of competitors, some of which are parts of much larger corporations or owned by private equity investors.

Valuation

We use a DCF valuation model to give an indication of the discount rate implied by the market price at the time of writing, given our cash flow assumptions. Exhibit 9 shows the output from our DCF model, at a range of discount rates and revenue growth rate assumptions for FY22 to FY25. We have used a long-term growth rate assumption of 2%. The share price at time of writing (30.9p) is consistent with FY22–FY25 growth of 3% and a discount rate of just over 11%: relatively conservative assumptions. The central value, 59p, is consistent with the discount rate and revenue growth assumptions used in the base case valuation model for the Tungsten Network cash-generating unit at 11% and 8% respectively.

Exhibit 9: DCF output variations (value per share, p)

		FY22-FY25 revenue growth				
		0.5%	4.0%	8.0%	10.0%	12.0%
Discount rate	9.0%	22	46	77	94	111
	10.0%	19	40	67	81	96
	11.0%	17	35	59	71	85
	12.0%	16	32	53	64	75
	13.0%	14	29	47	57	68

Source: Edison Investment Research

At 30.9p Tungsten trades on an EV/revenue multiple of 1.0x. This multiple compares with quoted peers Coupa 51.6x, Esker 11.9x, E2Open 7.4x, Bottomline 4.3x, Basware 3.9x, and Proactis 1.7x. E2Open joined this list in February 2020 when it became a listed company on the New York Stock Exchange through a combination with a special purpose acquisition company. It trades on an EV/Adjusted EBITDA multiple of 23.7x based on FY21 guidance (February year-end). In November 2018, Basware reported it had received an approach from Tradeshift that might lead to an all-cash offer of €48 per share. That would have valued Basware at approximately 5x revenue but at the end of February 2019 Tradeshift withdrew on the grounds that it was unable to proceed given capital market conditions. Outside the quoted sphere, Tradeshift itself was valued at $1.1bn in a 2018 funding round giving an estimated EV/revenue of 10x.

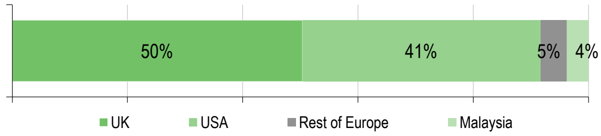
The diversity of product offerings in the industry could make finding a good fit between companies challenging, but consolidation is a possibility given the scale benefits and potential widening of product offering that a combination might provide and the revenue multiples cited above could provide an indicator subject to fit and potential synergies.

Leaving aside M&A potential, both current implied DCF assumptions and revenue multiple seem low for Tungsten. The valuation should appear increasingly conservative as Tungsten takes further steps in its strategy implementation.

Exhibit 10: Financial summary

30 April (IFRS)	£m	2016	2017	2018	2019	2020	2021e	2022e
PROFIT & LOSS								
Revenue		25.9	31.3	33.7	36.0	36.8	36.8	40.1
Operating expenses		(42.1)	(43.1)	(38.3)	(35.4)	(33.1)	(32.6)	(33.4)
EBITDA		**(16.2)**	**(11.8)**	**(4.6)**	**0.6**	**3.7**	**4.3**	**6.7**
Depreciation & amortisation		(2.5)	(2.8)	(2.8)	(4.1)	(4.5)	(4.6)	(4.5)
Share based payments		(0.5)	(0.4)	(0.6)	(0.2)	(0.5)	(0.3)	(1.2)
Other income		0.3	0.0	0.0	0.0	0.0	0.0	0.0
One-off costs				(2.4)	(3.2)	(25.2)	(28.1)	(0.4)
FX gain/(loss)		0.0	2.3	(1.5)	1.7	0.9	(0.9)	0.0
Operating Profit		**(18.9)**	**(12.6)**	**(12.1)**	**(5.2)**	**(25.5)**	**(29.6)**	**0.6**
Net finance cost		0.4	(0.0)	(0.6)	(0.1)	(0.4)	(0.6)	(0.0)
Profit Before Tax		**(18.5)**	**(12.7)**	**(12.7)**	**(5.3)**	**(26.0)**	**(30.2)**	**0.5**
Tax		0.7	0.4	0.8	1.4	(0.0)	(0.0)	0.0
Profit from continuing operations		(17.8)	(12.3)	(11.9)	(3.9)	(26.0)	(30.2)	0.5
Discontinued operations		(9.4)	(0.2)	0.0	0.0	0.0	0.0	0.0
Profit After Tax		**(27.2)**	**(12.5)**	**(11.9)**	**(3.9)**	**(26.0)**	**(30.2)**	**0.5**
Average Number of Shares Outstanding (m)		123.7	126.1	126.1	126.1	126.1	126.1	126.1
EPS - continuing operations (p)		(14.4)	(9.7)	(9.5)	(3.1)	(20.6)	(23.9)	0.4
EPS (p)		(22.0)	(9.9)	(9.5)	(3.1)	(20.6)	(23.9)	0.4
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo: Adjusted EBITDA		**(16.2)**	**(11.8)**	**(4.6)**	**0.6**	**2.7**	**3.3**	**5.7**
EBITDA Margin (%)		(62.4)	(37.7)	(13.8)	1.7	7.5	8.9	14.3
BALANCE SHEET								
Non Current Assets		**119.2**	**120.8**	**126.5**	**121.0**	**101.6**	**74.2**	**73.1**
Intangible Assets		116.8	118.5	123.4	117.7	93.8	67.5	67.5
Other		2.5	2.3	3.1	3.3	7.9	6.7	5.6
Current Assets		**18.0**	**30.6**	**16.7**	**10.7**	**11.4**	**8.8**	**10.1**
Trade and other receivables		8.7	13.1	10.3	6.9	6.2	5.8	5.8
Cash		9.3	17.5	6.4	3.8	5.2	3.0	4.3
Other		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assets held for sale		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities		**16.8**	**17.4**	**18.2**	**16.0**	**19.6**	**19.1**	**18.5**
Trade and other payables		7.5	9.5	8.9	7.7	7.8	8.5	7.9
Borrowing		0.0	0.0	0.0	1.0	2.0	2.0	2.0
Deferred income		8.3	7.9	8.6	0.0	0.0	0.0	0.0
Liabilities held for sale		1.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions				0.8	0.2	0.1	0.1	0.1
Long Term Liabilities		**3.0**	**2.6**	**3.6**	**1.8**	**6.6**	**5.8**	**5.0**
Long term borrowings		0	0	0	0	0	0	0
Other long term liabilities		3.0	2.6	3.6	1.8	6.6	5.8	5.0
Net Assets		**117.4**	**131.3**	**121.5**	**113.9**	**86.8**	**58.1**	**59.8**
CASH FLOW								
Operating Cash Flow		**(21.7)**	**(15.2)**	**(8.0)**	**(0.3)**	**4.6**	**2.1**	**5.7**
Purchase of intangibles and capex		(1.2)	(4.3)	(7.6)	(3.3)	(3.0)	(3.5)	(3.5)
Acquisitions/disposals		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing		16.7	0.0	4.3	1.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	(0.1)	(1.0)	(0.9)
Exchange adjustment		0.5	0.9	0.2	(0.0)	(0.1)	0.2	0.0
Discontinued operations			9.1	0.0	0.0	0.0	0.0	0.0
Change in cash		**(5.6)**	**(9.5)**	**(11.1)**	**(2.6)**	**1.4**	**(2.2)**	**1.3**
Opening cash		32.6	27.0	17.5	6.4	3.8	5.2	3.0
Closing cash		27.0	17.5	6.4	3.8	5.2	3.0	4.3
Debt		0.0	0.0	0.0	(1.0)	(2.0)	(2.0)	(2.0)
Net cash/(debt)		**27.0**	**17.5**	**6.4**	**2.8**	**3.2**	**1.0**	**2.3**

Source: Tungsten Corporation, Edison Investment Research. Note: FY16 net cash in the cash flow table includes cash at Tungsten Bank that was classified as an asset held for sale in the balance sheet. FY17 cash flow includes a net positive item of £11.2m relating to cash released from the sale of Tungsten Bank after deducting £20.6m cash held in the disposal group. Total cash released was nearly £30m. Tungsten Bank was treated as a discontinued operation in FY16. FY19 numbers were restated to amend the recognition of a deferred tax charge.

Contact details	Revenue by geography FY20 (location in which sale originated)
Tungsten Corporation Pountney Hill House London EC4R 0BL + 44(0) 870 1657420 www.tungsten-network.com	

Group board

Non-executive chairman: Tony Bromovsky	CEO: Andrew Lemonofides
Appointed in 2018, Tony has acted as an executive and non-executive director for a variety of companies across sectors including investment, healthcare, media, and technology. He spent the early part of his career as a commodities trader at Louis Dreyfus followed by Woodhouse Drake and Carey and Drexel Burnham Lambert.	Andrew joined Tungsten in 2019 having previously served as chief strategy and transformation officer at IWG. He has extensive experience of the technology sector, having held senior roles in global technology companies for a total of 23 years. Most recently Andrew spent 13 years at Dell Corporation in various senior finance and operations roles. His experience includes leading reengineering programmes encompassing both AR and AP systems, providing an understanding of the solutions which Tungsten offers from all customer perspectives.
Non-exective director: Andrew Doman	**Non-executive director: Vivienne Maclachlan**
Andrew was appointed in 2018. He is an experienced non-executive director, is currently chairman at Castle Trust and an NED at Target Group. Prior NED roles included OneSavings Bank and Premium Credit. He spent 22 years at McKinsey where he focused on performance improvement and turnaround strategy.	Appointed as a director in 2019, Vivienne is the CFO for ThomasLloyd (asset management and previously the CFO at Alfa Financial Software. She was a capital markets specialist at PwC for 12 years and is a member of the Institute of Chartered Accountants of Scotland.
Non-executive director: Nick Wells	
Nick was appointed to the board in 2020 bringing over 30 years experience of investment banking. He is co-head of corporate finance at Cenkos Securities and is a chartered accountant.	

Principal shareholders (including CFDs, at 30 November 2020)	(%)
Odey Asset Management	16.32
Edmund Truell	13.06
AXA Framlington Investment Management	7.88
Chelverton Asset Management	6.54
Archon Capital Management	4.19
Invesco	4.07
Majedie Asset Management	3.94
Herald Investment Management	3.14

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New Zealand

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