



# Questions & Answers

August 2020



# Introduction

Please find a number of answers to a selection of questions posed by shareholders over recent months.

We hope you find this both helpful and informative.



# Why does Tern use NAV as the key determinant of investee companies and what are the circumstances under which NAV is amended?

Net asset value is the only credible financial metric recognised by the accounting, auditing, and investment industries. NAV is adjusted in line with accounting standards to reflect changes in fair value as and when they occur.

# Why is Tern not providing more financial information about its investee companies?

Our portfolio companies are young growing private enterprises that seek to establish customer and market success, generally against other private companies.

We protect their ability to compete, by maintaining strict control of their specific financial details. Of even greater importance, we protect our ability to syndicate our position in a portfolio company with other professional investors who prefer business performance metrics to be kept confidential.

Furthermore, early stage technology companies operate in a highly competitive market and many such companies want to protect their competitive advantage by not providing their competitors with financial or contract information which could be used against them.

For Tern to insist such companies disclose their financial information would reduce the desirability of having Tern as an investor and harm Tern's ability to attract the right type of companies in which to invest in and securing syndication partners.

# Does Tern intend to enable existing shareholders to participate in future fundraises?

Tern always considers the impact on all its shareholders when a fundraising is undertaken.

Enabling existing shareholders to participate will be considered if not detrimental to the fundraising process or prohibitive in terms of cost.

The company seeks the advice from its advisory group when it seeks to raise funds at a particular point in time, with a view to assessing all the various strengths and weaknesses of the different methods for obtaining additional capital. Possible routes to achieve this could be an open offer or raising funds via PrimaryBid, which Tern has done in the past.

# Does Tern intend to increase its portfolio and potentially raise additional funds in advance of an investee company exit?

Tern is an investment company seeking great companies and management teams to provide balance in its portfolio and as a result, de-risk its position in the market.

As we have learned from Covid, external events outside of our control can change the business ecosystems in which we operate overnight. We have also learned from the pandemic that having a synergistic group of portfolio companies has enabled us and them to navigate through the current situation by using the combined experiences, resources, customers and partner networks to create force multipliers in each business.

We have previously announced that it is our intention to add at least one new company into our portfolio in 2020. We believe this to be prudent and potentially value enhancing with the right new investment of strategic value. We also believe that having sufficient firepower on our balance sheet protects our current investments and provides market credibility to ensure a place at the table for negotiating and securing new opportunities.

We invest in innovative start-up companies with disruptive technologies with a view to a minimum three-year investment horizon. Again, as we have learned from Covid, it is not prudent or possible to make commitments on limiting new funds, as that could force the company into an early sale of a portfolio company at a value that does not reflect its full potential.

As part of our investment process, the Board always considers the dilutive impact of a fundraise and weighs it against the cash requirements of the business and the potential value of our investee companies at a syndication and eventual realisation that could justify this dilution.

# How does Tern intend to distribute any proceeds of a major realisation of an investee company to its stakeholders?

The BVCA, in conjunction with PwC and Capital Dynamics, publishes the Performance Measurement Survey each year which compares private equity and venture capital's performance with other asset classes over different time periods. This summary of the industry standard in terms of returns and distribution is what will be considered as a basis for any distribution to shareholders and management.

Any prospective distribution will be in line with the financial requirements of the business, with the primary goal of minimising future dilutive capital activities. Given the constantly changing tax regulations, legal and potential accounting constraints in relation to distributions, Tern will assess the environment at that time to determine the best methods available in order for a distribution to be made.

With regards to bonuses paid on an exit to the Tern management, these are aligned with likely shareholder distributions as described above. It is also a regulatory requirement that any bonus paid to the Company's directors will be assessed by the Remuneration Committee, after consulting with our nomad and legal advisors at the time to ensure it is fair and reasonable so far as the shareholders of the Company are concerned. We therefore feel that there is a good degree of congruence between the shareholder and management rewards likely to be achieved on any successful exit.

# How does Tern evaluate which portfolio company news to announce via a Regulatory Information Service announcement / Non-regulatory announcements via the EQS Corporate News service?

We are focused on providing our shareholders and all interested stakeholders with the latest information about Tern and its principal portfolio companies. We view these announcements to be of importance, as they provide information and guidance as to the collective progress of Tern's portfolio.

There are, however, strict rules about what can and cannot be released as a Regulatory Information Service announcement and we work with our nomad to ensure we apply the rules correctly.



## Regulatory Information Service announcements

Among other things, Rule 10 of the AIM Rules for Companies states: “It will be presumed that information notified to a Regulatory Information Service is required by these rules or other legal or regulatory requirement, unless otherwise designated.” Therefore the principal rule under which such an announcement could be released would be AIM Rule 11<sup>1</sup> which states: “An AIM company must issue notification without delay of any new developments which are not public knowledge which, if made public, would be likely to lead to a significant movement in the price of its AIM securities. By way of example, this may include matters concerning a change in:

- its financial condition;
- its sphere of activity;
- the performance of its business; or
- its expectation of its performance.”

The test therefore must be whether an announcement could lead to a significant movement in the share price.

The other means by which an announcement can be released by a Regulatory Information Service is if it is considered to be ‘inside information’ under the Market Abuse Regulation (MAR), in which case it is released with a heading noting that the announcement contains inside information according to MAR.

## Non-regulatory announcements

Non-regulatory announcements via the EQS Corporate News service are available as an option for non-price sensitive news, although such announcements still need to be balanced and verifiable. The Board considers all investee company news items on a case by case basis alongside Tern's regulatory considerations. Tern, as an Investment company, functions differently to operating companies and generally has fewer marketing releases which are announced as non-regulatory announcements. We do consider all investee company news and select the most strategically significant to announce as non-regulatory announcements. We do not release all investee company news as non-regulatory announcements as this risks diluting the value and impact of strategic news and we are careful in this regard to steer clear of being viewed as "over-using" the news platforms.

## Other news circulation

Any portfolio company news that is not issued as a non-regulatory announcement is circulated to all shareholders that have requested to be included in the shareholder database managed by Newgate Communications as well as a click through connection to the portfolio's website. We have also engaged the services of Progressive Equity Research to help provide analysis of our activities and to assist with explaining specific investment cases for the business. In addition, Progressive Equity Research makes selected use of the RNS Reach platform where appropriate.

<sup>1</sup> Including its guidance notes.

# How does TERN ensure it is showcasing the potential of its portfolio companies to the wider investment community?

Tern is very focused on showcasing our portfolio to the wider market.

This activity is important in providing updates to our stakeholders as well as providing a platform to attract new investors, new investee companies and syndicate partners.

We have held a Capital Markets Day, attend investor conferences, such as Mello each year. In an effort to ensure there are additional interactions with shareholders, we now use the InvestorMeetCompany platform.

We also provide a broad review of the growing IoT industry within the annual report and accounts which highlights both the opportunity and our experience of this sector.

In addition, we highlight the achievements by our investee companies' opportunities within Regulatory Information Service announcements, portfolio updates and individual non-regulatory announcements from time to time.

We will continue to do so to ensure that the opportunity and the value being created is clearly explained.

# Has Tern experienced the creation of opportunities due to Covid-19?

These are unprecedented times inflicting enormous tragedy and change, but that is also driving one of the greatest technology revolutions of all time to meet the challenges that have arisen. It has been said that “in the midst of every crisis, lies great opportunity”.

Our principal portfolio companies are well positioned with their existing customers to accelerate their digital transformation to operate in a #contactless world. From secure device life cycle management at Device Authority to the ability for medical professionals to train at home with FundamentalVR, our portfolio companies are seeing new opportunities for growth and an increase in potential from existing relationships. We believe that this momentum will continue post the pandemic.

Additionally, we have been able to leverage the synergies of our portfolio to introduce customers from one company to another. This offers our portfolio companies the ability to generate new sources for growth.

# Which areas of IoT are most exciting in terms of extending the portfolio?

We have always indicated that data analytics is an area of interest and of importance to the IoT delivering on its promise to be the next industrial revolution.

The current health crisis has clearly presented the importance of information-based decision making. It is all about data, how you collect it, curate it and harvest its value and the closer to real time the better and the more actionable the information collected is the better.

Our active participation investment model has attracted a significant number of new opportunities which would like to benefit, as FundamentalVR has, from our ability to create value and secure additional future funds at higher multiples.

This pandemic has created opportunities to invest in high growth potential companies at very attractive market values. We have and are currently progressing several new opportunities in line with our strategy to invest early in businesses which have a commercially viable solution to add strategic synergies to de-risk our invested capital and provide increased value to our portfolio.

# Is Tern likely to look to Continental Europe in the near future for investment opportunities?

The Tern board believes that IoT opportunities know no boundaries and the commercial activities of our principal portfolio companies and the development of our brand are exposing us to excellent opportunities with excellent management teams in Europe.

We see our approach to be disruptive to the existing Venture Capital models and we are carefully evaluating our ability to create accelerated value and returns from these non-UK prospects.



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