

# TERN PLC

## SOFTWARE AND COMPUTER SERVICES

14 September 2021

### TERN.L

20.4p

Market Cap: £71.7m

#### SHARE PRICE (p)



12m high/low 30.3p/5.8p

Source: LSE Data

#### KEY DATA

Net (Debt)/Cash	£0.4m (at 30/06/21)
Enterprise value	£71.3m
Index/market	AIM
Next news	Full Year, March '22
Shares in Issue (m)	351.6
Chairman	Ian Ritchie
Chief Executive	Albert E Sisto
Finance Director	Sarah Payne

#### COMPANY DESCRIPTION

Tern predominantly invests in software companies, with proven technology, based in the UK but with global ambition.

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TERN PLC IS A RESEARCH CLIENT OF PROGRESSIVE

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## H1 2020 results highlight product demand

### Significant progress from all portfolio companies

Tern has delivered a strong set of first-half results and further positive developments post-period-end. All of Tern's principal portfolio companies delivered significant progress with overall revenue up 75% year on year, compared to 62% in the comparative period. This demonstrates both a post COVID recovery and a fundamental shift in the adoption of Internet of Things (IoT) technologies. Employee headcount at portfolio companies – another important indicator of growth – increased by 14% in the half-year, driving an increase in revenue per employee of 53%. Despite investing £0.7m in its portfolio companies in the period, Tern held £0.4m in cash at 30 June 2021, which has since been boosted by a £4m fundraise in July 2021.

- **Good growth in all investees** with aggregate turnover, up 75% year on year. Tern has created further shareholder value through the growth in portfolio company monthly/ annual recurring revenues (MRR/ARR), a key metric in valuing software as a service (SaaS) businesses. Staff growth, another key measure of growth, was up 14%. Tern reported a stable NAV per share of 7.1p in H121, (7.0p in H120), with no major liquidity events triggering portfolio valuation uplifts.
- **Positive developments period end** including the successful IPO of Wyld Networks on NASDAQ First North in July 2021. Tern's funding capacity has been increased with a £4m equity fundraise also completed in July 2021. This has significantly strengthened Tern's negotiating position, to take advantage of value-enhancing opportunities and fund investee growth.
- **Repeat business from new and existing customers** lowers the portfolio sales cycles and development costs, improving revenue per employee, up 53%. Repeat business is a key metric for the principles of its Product Lead Growth (PLG) initiative, which ultimately drives further business through both customer and product led growth strategies

Tern notes strong business momentum across all its portfolio companies, and in our view, H1 results highlight the benefits of Tern's focus on the IoT landscape. We view the current economic backdrop as favourable for Tern, with the post COVID environment encouraging an accelerated adoption of IoT technology. We look forward to further positive news-flow on the progress of portfolio companies during 2021.

#### INVESTEE COMPANIES



FUNDAMENTALVR

Wyld Networks



## Financial highlights

In H121, management focussed its efforts on accelerating the key SaaS performance metrics of the portfolio companies, and driving valuation models for future funding. Tern invested £0.7m via equity and loan note facilities, and supported Wyld Networks in its IPO. Tern had net cash of £0.4m as at 30 June 21, which has been strengthened further by the net proceeds of the £4m equity fundraise completed in July 2021. The net asset value per share of 7.1p as at 30 June 2021 was relatively stable compared to 7.0p at 30 June 2020, although this does not reflect the increase achieved with the post period fundraise priced at 18.8p.

All of Tern's principal portfolio companies delivered significant progress, with overall portfolio revenue growth of 75% year on year (62% H120). Despite the uncertainties created by COVID, the portfolio demonstrated product acceptance and growth in monthly/ annual recurring revenues (MRR/ARR). We note that MRR/ARR multiples in M&A transactions have become a key factor of valuation. Employee headcount at portfolio companies increased by 14% in the half-year, supporting an increase in revenue per employee of 53%, highlighting that employee growth was matched by higher growth in revenue. Cost management continues to be a key focus and operating costs rose by £0.2 m compared to the same period in 2020, as management salaries returned to their pre-pandemic levels (part of management salaries had been foregone during the Covid lockdowns). Other operating costs were broadly stable.

Tern recorded a loss of £0.7 m in H121, compared to a profit of £0.1 m in H120 - the previous year was flattered by an exchange rate gain on the revaluation of the investment in Device Authority which led to a £0.7m adjustment. FY20 results were also bolstered by the revaluation of Wyld, at the time of a funding round with a £2.6m uplift in fair value. In H121 the fair value of the portfolio remained comparable to the year-end position, with a £0.3 m increase in the fair value of Wyld Networks almost entirely offset by a foreign exchange loss in Device Authority due to the strengthening of the British Pound against the US Dollar.

## Portfolio company highlights

### Device Authority (IoT Identity and Access Management)

Tern invested in Device Authority in September 2014 and holds a 56.8% equity stake.

Device Authority has continued to see increased demand for security and management integrations. Its modularised license platform, KeyScaler, is cloud-agnostic but Microsoft-centric and will support the new FIDO Device Onboard (FDO) protocol platform, enabling all customers to leverage FDO in their IoT projects. Device Authority has also continued to accelerate its annual recurring revenue growth through its subscription base aided by the increasing focus on IoT security, the launch of product enhancements, and the securing of further distribution partnerships such as Crossroads Innovation Group in the US public sector, Medigate in the healthcare sector and the FIDO Alliance.

With the increased frequency and sophistication of cyber-attacks on both the public and private sector, there has been a marked increase in new EU and US regulation, including US Cyber Security Act, passed in law in December 2020 and President Biden's June 2021 Executive Order for critical infrastructure. The recently released SPARK Matrix for IAM further reinforces Device Authority's market leadership position.

As at 30 June 2021, the value of Tern's shareholding in Device Authority has increased to £12.9 million (31 December 2020: £12.8 million), partially impacted by dollar strength.

## Wyld Networks (Wyld) (IoT and mesh connectivity)

Tern invested in Wyld Networks in June 2016 and holds a 60.7% equity stake valued at £4.7m.

Wyld Networks started trading on NASDAQ First North in July 2021 following a successful IPO and syndicated funding in January 2021. The initial offer was oversubscribed, raising SEK 25m, and Tern has maintained a majority interest. As well as highlighting value for Tern investors this has improved liquidity, access to finance, increased brand recognition and, geographical reach for Wyld Networks, which enables affordable connectivity across the globe in areas where wireless coverage is unavailable or congested.

### Wyld Connect solution

Terrestrial networks only cover an estimated 15 percent of the globe and this lack of connectivity is holding back the growth of IoT. Wyld Connect is a hybrid satellite and terrestrial solution connecting IoT devices and sensors to terrestrial networks if available, and to Low Earth Orbiting Satellites (LEO), in remote locations. Low-power networks and cheaper sensors will set the stage for the IoT market to scale up. Wyld's core focus has been the agricultural market...a recent McKinsey study titled 'Agriculture's connected future: How technology can yield new growth' highlights in this market alone connectivity could unlock more than \$500 billion in GDP by 2030. Wyld has a dual revenue model – selling the actual IoT devices but also benefiting from recurring revenues via the sale of data packages.

Despite its roots in agriculture, Wyld Connect is suitable for applications in maritime, environmental monitoring, transportation, and oil and gas, all of which are huge potential markets. It recently announced a partnership with Chevron to pilot remote sensor connectivity within Chevron's IoT infrastructure, gaining a significant foothold in the behemoth oil and gas market. In June 2021 Wyld delivered the first five test terminals to Eutelsat, its satellite partner, as part of the internal test phase of the satellite IoT solution currently in progress.

The business has signed the following in advance of the commercial launch of Wyld Connect:

CHEVRON CORPORATION - One of the world's largest energy companies

RIJK ZWAAN – Top 5 worldwide Dutch vegetable breeding and seed production

EASTWEST SEEDS – an Asian seed supplier in the agricultural sector

FUJITSU - A global IT organisation headquartered in Japan

CFG - An association of fruit producers in South America focused on technology

AGRISOUND - UK based IoT company, creating optimal pollination environment

AGROCOGNITIVE - South American company providing analytics for agriculture

KWS - A European company based in Germany that focuses on plant breeding

WEZEN GROUP - South American enterprise with a focus on agriculture

### Wyld Mesh solution

Congested internet connectivity negatively impacts global GDP, most notably in e-commerce. Wyld Mesh Solutions connects people to people in mobile mesh networks for location-aware social networks. Wyld is seeing increased interest in Wyld Mesh which delivers content over 4G, WiFi, and mesh networks for a range of applications in retail, venues, hospitality, transportation, and smart factories. In H121 the company has in part focused on deploying its Wyld Mesh solution in the care sector.

## **FundamentalVR (Virtual reality for medical devices)**

Tern invested in FundamentalVR in May 2018 and holds a 26.9% equity stake.

FundamentalVR is an IP company involved in immersive technology, haptics, and machine learning. It has created a platform *Fundamental Surgery* that is the market-leading medical education and training platform, accredited by leading institutions such as the Royal College of Surgeons in the UK. The core of its technology stack is HapticVR. This delivers full kinesthetic force feedback haptics into a variety of handheld devices including haptic gloves, enabling surgeons to learn true “muscle memory” as part of training on new devices.

In support of the progress being made at FundamentalVR, in July 2021 Tern invested a further £530,000 as part of a £1.16m funding in the form of convertible loan notes from its existing institutional shareholders. FundamentalVR has seen increased adoption of its virtual reality simulation solutions and continues to gain traction given post-COVID working practices and the reduction in elective surgeries. It has benefited from expanded interest in its platform from new customers and also repeat sales to its existing customer base. Bookings are running at 2x last year’s performance, including significant orders from leading Robotics companies and Gene Therapy specialists.

## **InVMA (IoT industrial real-time analytics)**

Tern invested in InVMA in September 2017, holding a 50% equity stake valued at £1.2m.

InVMA continues to enjoy growing sales and a strong pipeline driven by a post COVID recovery and industry transitioning to the contactless monitoring of machines. In July 2021, Tern provided InVMA with a £100k convertible loan note to support the development and global deployment of AssetMinder, its SaaS asset monitoring platform.

AssetMinder has been further aided by the opening of its US operation to serve the growing interest in the platform. Professional services firm DEXIS now offers AssetMinder to customers in Belgium and France, in addition to the existing UK deal. The number of DEXIS AssetMinder installations has grown, with thousands of devices now being monitored, with further European expansion anticipated later in 2021. The partnership with PTC has continued to develop, with several new joint customer opportunities. As at 30 June 2021, Tern had an outstanding convertible loan balance of £175,000 with InVMA.

## **Talking Medicines**

Tern invested in Talking Medicines in November 2020 and holds a 23.4% equity stake.

Talking Medicines has continued the roll-out of its PatientMetRx platform which provides a systematic measure of the patient experience of medicines, driven by the post-COVID way of working. A leading global pharmaceutical company has signed an agreement to start using the service, creating a key lighthouse account. To date, Talking Medicines has made significant progress with five top global Pharma companies, with good levels of traction in the US. This underpins its commercial strategy to launch PatientMetRx and seed through uptake in “top 20” Pharma companies.

In addition, the business recently entered into a strategic partnership with Closing Delta, a US digital transformation consultancy, that helps pharmaceutical companies accelerate digital transformation. This furthers the strategy to become the “gold service standard” provider of intelligence on patient experience by medicine, commercialised on a subscription basis for Pharma, launched in H121. Talking Medicines has also grown the team, particularly at the leadership level, to help accelerate the global roll out and adoption of PatientMetRx.

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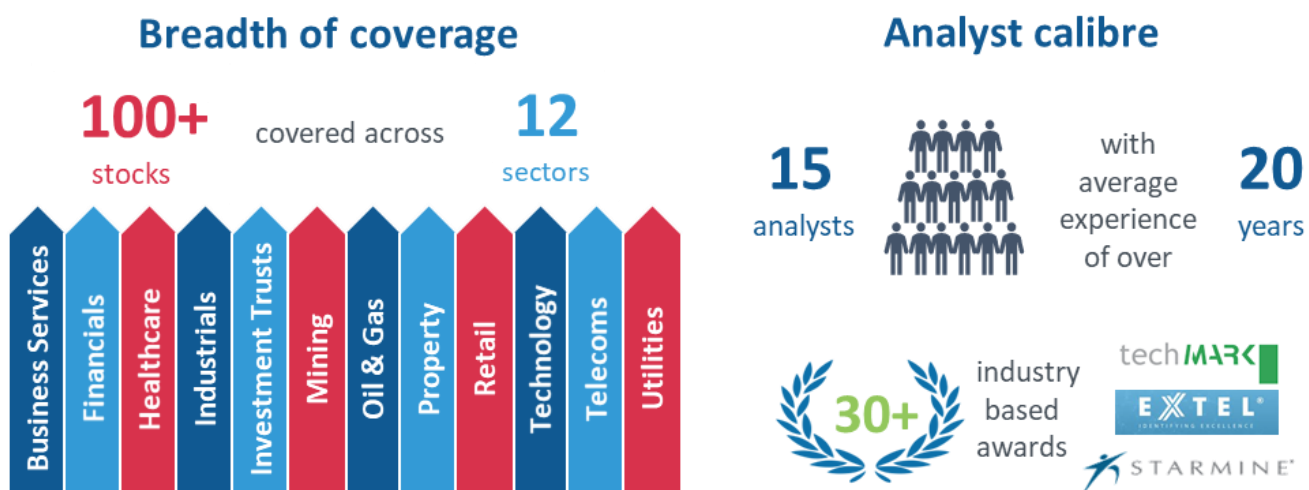
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