

TERN PLC

SOFTWARE AND COMPUTER SERVICES

17 March 2022

TERN.L

15.5p

Market Cap: £54.6m

SHARE PRICE (p)



12m high/low 30.3p/7.7p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£2.0m (at 31/12/21)
Enterprise value	£52.6m
Index/market	AIM
Next news	AGM 27 April 2022
Shares in Issue (m)	352.1
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.

www.ternplc.com

TERN PLC 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

Strong full-year results

Tern, the AIM-listed specialist in the acquisition and development of Internet of Things (IoT) technology businesses, has delivered a strong set of full-year results. This marks a very successful year across all financial performance metrics but also in terms of attracting additional third-party investment and significantly de-risking the business, with Device Authority now below 50% of the portfolio. Tern reported 35% growth in total net assets to £32.4m (2020: £24.0m), with NAV per share increasing 26% to 9.2p (2020: 7.3p). The main valuation driver was a £4.7m uplift in the value of Tern's investment in Wyld Networks to £8.7m, following the successful IPO. This in essence represents an exit of Wyld Networks, with access to capital in the future. Tern invested £2.5m across its network in the period, to support two value-enhancing syndicated equity raises (plus another post period). The £4m equity raise in July 2021 has significantly strengthened Tern's balance sheet, with £2.0m cash held at the year-end.

- Validation of business model** through a net £6.2m fair value uplift: £4.7m from Wyld Networks, the remainder from Device Authority (DA), Konektio and Talking Medicines. The value of Tern's network has increased by 40% year on year to £30.6m as of 31 December 2021 (from £21.9m), including additional funding of £2.5m alongside new syndicated partners at DA and Konektio. Post period, Talking Medicines announced a £1.59m syndicated fundraise at a significant uplift to Tern's book valuation.
- Strong balance sheet** with additional capital raised in July 2021 of £4m. This has significantly strengthened Tern's negotiating position, to take advantage of value-enhancing opportunities and support network growth. New syndicated partners also reduce the reliance on Tern for capital.
- Significant progress and contract wins** across all of Tern's network, with aggregate turnover up 47% year on year. Tern has created further shareholder value through growth in monthly recurring revenues (MRR), a key metric in valuing software as a service (SaaS) businesses. Employee headcount, another key measure of growth, increased 35%.

2021 marks a year of record performance and growth, and a second year of profitability. This underpins Tern's strategy of developing early-stage technology companies focused on IOT. New independent third-party partners have been secured, de-risking the business, and we expect the continued MRR growth to drive additional strategic interest this year. We look forward to further positive newsflow on the progress of its network of companies during 2022.

TERN'S NETWORK OF COMPANIES



DEVICE
AUTHORITY

FUNDAMENTALVR



Wyld Networks

KONEKTIO



Talking Medicines

Source: Company Information.

This publication should not be seen as an inducement under MiFID II regulations.
Please refer to important disclosures at the end of the document.

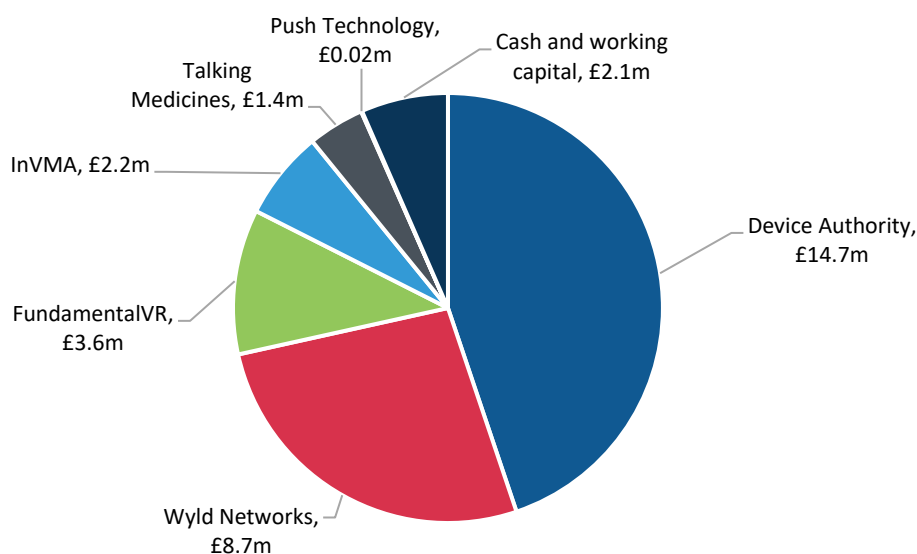
Financial highlights

Tern reported a record year to 31 December 2021, delivering growth across all key performance metrics. The portfolio has been significantly de-risked, with Wyld Networks successfully listed on the Nasdaq First North Growth Market, and Device Authority and InVMA (Konektio) both completing value-enhancing fundraises with well-respected partners. Post period, Talking Medicines has also announced a £1.59m syndicated fundraising at a significant uplift.

The balance sheet was strengthened by raising new equity capital of £4m in July 2021. This enabled Tern to support its network to grow monthly recurring revenue (MRR). Net assets increased by 35% to £32.4m (2020: £24.0m) and included a strong cash balance of £2.0m (2020: £2.1m). NAV increased 26% to 9.2p (2020: 7.3p). Earnings per share increased 350% to 1.35p (2020: 0.3p), with positive retained earnings for the first time following two years of profitable growth.

The value of Tern’s network of companies has increased by 40% to £30.6m (2020: £21.9m). The valuation includes additional funding of £2.5m and fair value growth of £6.2m. This primarily comprises a £4.7m fair value gain for Wyld Networks and an aggregated £1.7m gain across Device Authority (now below 50% of the total portfolio), Konektio and Talking Medicines.

NAV breakdown as at 31 December 2021



Source: Company data, Progressive Equity Research

Aggregate revenue increased by 47% (2020: 18%), which provides an indication of growth in the overall portfolio. Tern has created further shareholder value through the growth in MRR. Staff growth, another key measure which also demonstrates investee and group confidence, was up 35%, with an associated increase in revenues per employee of 25%.

Post period, Tern has agreed to participate in a new venture capital fund, the Sure Valley Ventures UK Software Technology Fund (New SVV Fund), which has also recently achieved financial close on its first investment. Over the 10-year life of the New SVV Fund, Tern will invest up to £5m in total, which based on expected total commitments of £85m represents a c.5.9% interest for Tern. We believe that Tern’s participation will achieve attractive financial returns while also expanding its pipeline of technology businesses to add to its network.

Portfolio company highlights

Device Authority (IoT identity and access management)

Tern invested in Device Authority in September 2014 and holds a 53.8% equity stake.

Device Authority is a global leader in Identity and Access Management (IAM), focused on automotive, medical and industrial sectors. Its modularised license platform, KeyScaler, is cloud-agnostic but Microsoft-centric, enabling all customers to leverage FIDO in their IoT projects.

In December 2021, Device Authority entered into a strategic partnership including a US\$1.25m investment from Venafi/ Thoma Bravo, as part of a US\$2.91m syndicate funding package. This included a US\$1.25m investment from Tern. Venafi is an industry leader in providing machine identities with a large presence in the US.

The valuation of Device Authority over the period has therefore increased to £14.7m (2020: £12.8m) due to the additional funding and fair value uplift.

Wyld Networks (Wyld) (IoT and mesh connectivity)

Tern invested in Wyld Networks in June 2016 and holds a 58.7% equity stake.

Wyld Networks is a virtual satellite network operator that develops and delivers innovative wireless technology solutions that enable affordable connectivity for IoT devices and sensors anywhere in the world. Wyld has launched partner agreements with end-users in energy and agriculture, with customers such as Chevron and Bayer. Consortium partners include some of the world's largest terrestrial LoRaWAN® IoT operators such as American Tower and Senet.

Wyld Networks started trading on NASDAQ First North in July 2021 following a successful IPO. The initial offer was oversubscribed, raising SEK 25m, with Tern investing an additional £0.3m and maintaining a majority interest. As well as highlighting significant value for Tern this has improved liquidity and access to finance for Wyld Networks. The IPO represents a phased exit from the business for Tern, with access to capital in the future.

The valuation of Wyld over the period has increased to £8.7m (2020: £4.0m) due to the additional funding and fair value uplift.

FundamentalVR (virtual reality for medical devices)

Tern invested in FundamentalVR in May 2018 and holds a 26.9% equity stake, plus convertible loan of £530k.

FundamentalVR is involved in immersive technology and haptics. It has created a platform *Fundamental Surgery* that is the market-leading medical education and training platform. FundamentalVR has seen increased adoption of its virtual reality simulation solutions as a result of the challenges of social distancing and the reduction in elective surgeries.

In July 2021, Tern invested a further £530,000 in FundamentalVR as part of a £1.16m funding in the form of convertible loan notes from its existing institutional shareholders.

The investment value is now £3.6m, with an unchanged equity valuation of £3.0m plus £0.6m convertible loan notes, with the most recent third-party valuation in October 2019.

InVMA trading as Konektio (IoT industrial real-time analytics)

Tern invested in InVMA in September 2017 and holds a 36.8% equity stake.

InVMA, the market leader in Industrial Internet of Things (IoT) software, was renamed Konektio in December 2021. Konektio's AssetMinder® is a modular, IoT SaaS platform, using a wide range of analytical tools and algorithms to connect up whole factory floors and processes.

In July 2021, Tern provided Konektio with a £100k convertible loan note to support the development and global deployment of AssetMinder. In December 2021, Konektio announced a successful £2.1m fundraising at a significant uplift to Tern's book valuation. This was led by funds managed by Mercia and Foresight. Tern also invested a further £200k. Konektio has also simplified its capital structure, involving the conversion of loan notes into equity at a 20% discount to the fundraising pre-money valuation.

The valuation of Konektio over the period has therefore increased to £2.2m (2020: £1.2m) due to the additional funding and fair value uplift.

Talking Medicines

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

Talking Medicines is a social intelligence company for the pharmaceutical industry. By structuring and translating the patient's voice from social forums and other online chat sites, into actionable intelligence. Its PatientMetRx platform provides a systematic measure of the patient journey and experience with medicines, providing valuable insights into its actual use and results.

The investment value has increased to £1.4m, (2020: £0.9m) and is held at fair value with the most recent syndicated fundraising post period of £1.59m in January 2022 taken into account. The recent additional investment isn't included in the full-year 2021 results.

Disclaimers and Disclosures

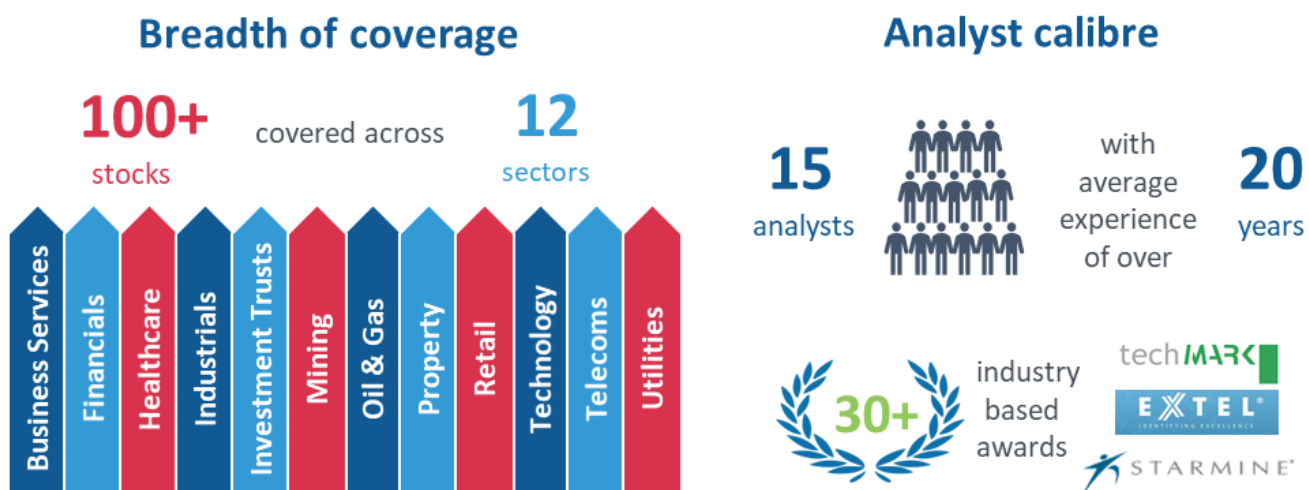
Copyright 2022 Progressive Equity Research Limited (“PERL”). All rights reserved. Progressive’s research is commissioned by the subject company under contract and is freely available to the public and all institutional investors. Progressive does not offer investors the ability to trade securities. Our publications should not, therefore, be considered an inducement under MiFID II regulations. PERL provides professional equity research services, and the companies researched pay a fee in order for this research to be made available. This report has been commissioned by the subject company and prepared and issued by PERL for publication in the United Kingdom only. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however, PERL does not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of PERL at the time of publication, and any estimates are those of PERL and not of the companies concerned unless specifically sourced otherwise. PERL is authorised and regulated by the Financial Conduct Authority (FCA) of the United Kingdom (registration number 697355).

This document is provided for information purposes only, and is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. Investors should seek advice from an Independent Financial Adviser or regulated stockbroker before making any investment decisions. PERL does not make investment recommendations. Any valuation given in a research note is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. PERL does not undertake to provide updates to any opinions or views expressed in this document.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research.

PERL does not hold any positions in the securities mentioned in this report. However, PERL’s directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. PERL or its affiliates may perform services or solicit business from any of the companies mentioned in this report.

The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. It may be difficult to obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.



To arrange a meeting with the management team, or for further information about Progressive, please contact:

Keith Hodgskiss
+44 (0) 20 7781 5300
khodgskiss@progressive-research.com