

TERN PLC

SOFTWARE AND COMPUTER SERVICES

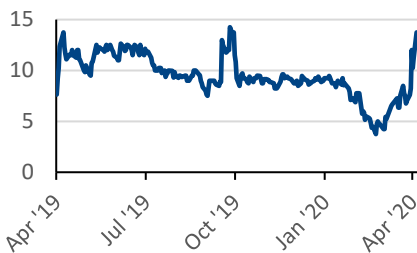
5 May 2020

TERN.L

13.75p

Market Cap: £39.0m

SHARE PRICE (p)



12m high/low 14.3p/3.8p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£1.0m (as at 31/12/19)
Enterprise value	£38.0m
Index/market	AIM
Next news	Interim results
Shares in Issue (m)	283.4
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



Ian Poulter

+44 (0) 20 7781 5307

ipoulter@progressive-research.com



www.progressive-research.com

Vindication and validation

We believe that Tern's results announced this morning both vindicate and validate the group's investment thesis and recent activities. We are impressed at the ability of the group to deliver value to its investee portfolio during these challenging times, and we believe that the current COVID-19 pandemic will see a number of the investees demonstrate their true potential in the respective end markets.

- Portfolio company performance** The overall growth in portfolio companies' revenue during 2019 was some 27%, in line with the trading update published in late January. This growth would have been higher, but was impacted by a number of orders which had been expected to sign during Q4 2019, where completion was delayed until this year. Some of these deals have now been completed in early 2020, providing a strong start to this calendar year. The value of the group's investment holdings rose by some 20%, from £14.9m to £17.9m, and we describe individual newsflow for each investee company in the following pages.
- Tern group financial position** The group ended 2019 with net cash of £1m, down from £1.9m at the end of the prior year. This delta reflects both operational costs (offset by interest income) and a number of fundraisings and additional investments in portfolio companies.
- COVID-19 update** Tern has worked effectively during the COVID-19 pandemic to ensure the well-being of its teams, and to provide additional value to investee companies. The group has implemented regular calls between executive teams at the investees, and is providing support for these businesses as they navigate their own routes through the pandemic. We believe that a number of the investee companies will demonstrate real value in the end markets during these challenging times.
- Outlook for 2020** The group remains well positioned both to invest additional amounts within the existing portfolio, and to make new investments. The small recent additional fundraising helps reduce near term risk and allows additional follow-on funding to the investee base.

Overall, we see today's results as reassuring evidence of the group's position. Tern is providing value to its investees, and the IoT space in which it invests seems well set to continue its growth over the short, medium and long term. We look forward to additional news flow, both from the group and from its investees, during 2020 and beyond.

INVESTEE COMPANIES



DEVICE
AUTHORITY™

FUNDAMENTALVR

Wyld Networks

InVMA

PUSH
TECHNOLOGY

Seal

Tern – group performance and position

Key metrics

The key metric, in our view, relates to the performance of the investee companies. Tern does not disclose performance of the individual operating businesses, but does detail the overall revenue growth of the portfolio as a whole – this was some 27% for 2019, down from 58% in the prior year (and impacted by a number of delayed deal closures late in the year as described above), but still representing a good level of overall expansion in structural growth markets. Tern also discloses the change in employee numbers within the portfolio (a reasonable barometer of the investee companies' future plans) - this figure was up by some 31% year on year, suggesting good levels of confidence within the portfolio, and we note that the growth in employee numbers accelerated strongly from just 9% at H1 2019 to the 31% figure by the year end.

Reported financial performance

The group as a whole reported 2019 income (fees from investees) of £0.1m, increase in fair value of investments of £0.3m and financial income of £0.1m, all partly offsetting administrative and other expenses of £1.3m. These figures were largely in line with the prior year. The exception is the increase in fair values, which had grown by £0.8m during 2018 (buoyed by £0.4m exchange rate gains), whereas the 2019 figure of £0.3m increase was net of £0.6m in exchange rate losses – an overall negative swing between the two years of £1.0m due to exchange rate changes. The constant-currency fair value gain for 2019 would have been £0.9m uplift. The overall value of the Tern holdings in the investees rose from £14.9m to £17.9m across the year – a combination of the cash invested (as described below), and the increase in fair value and exchange rate differences.

Fundraisings and cash position

Tern raised £3.25m during 2019, of which it invested some £2.5m within the four main portfolio businesses. This, in combination with the financial performance as described above, led to a net cash position of £1.0m as at 31 December 2019. A further £0.8m was raised in early 2020, just prior to the onset of the COVID-19 pandemic.

COVID-19 response

The business has reacted swiftly to the crisis, implementing a weekly call for executives within the investee group to allow them to share best practices and liaise with Tern in terms of assistance that the group can offer. The group Board of directors have taken a temporary 20% reduction in pay, and Tern is working with its investees to help ensure that they are making the best use of all available government and other resources.

Outlook for 2020 and beyond

Clearly the near term is dominated by the coronavirus pandemic, but the group appears to be well positioned for the structural growth opportunity represented by the Internet of Things, and as the investments already made within the group portfolio begin to mature. We expect to see follow-on investments within existing investees as the near-term priority, although the group may use the current environment to make one or two new investments if strategic opportunities arise. Overall, Tern has delivered a solid 2019, with its investments performing well and the group itself in a robust financial position despite the COVID-19 pressures. We continue to see significant potential for 2020 and beyond.



What it does

Provides simple, innovative solutions to address the challenges of securing the Internet of Things. Headquartered in the UK and with a technical development centre based in Fremont, CA, Device Authority is one of the global leaders in the provision of IoT security with its KeyScaler platform.

How it delivers

It introduces a 'new paradigm' of IoT Security Automation that accelerates and simplifies the deployment of strong IoT security. It simplifies the process of establishing robust, end-to-end security architecture within the IoT. Enables customers to deliver efficiencies at scale through security automation.

2019 news flow

A significant investment was made by Device Authority to enhance its ability to penetrate the large enterprise markets with its Microsoft Azure IoT central connector – a key enhancement to Device Authority's KeyScaler product.

Expanded and refined its go-to-market partners resulting in a growth in product sales and active customer engagements.

Technology

Device Authority's patented dynamic key technology provides:

- strong, device-based trust anchor for automated, scalable IoT identity authentication
- delivery of data centric encryption services for IoT data in transit and storage

Tern ownership

56.8% 'A' shares
\$3.3m convertible loan notes

Valuation of Tern stake

£12.7m

Example platform and service partners



FUNDAMENTAL VR

What it does

FundamentalVR delivers VR haptic simulators for surgery creating a safe, measurable & repeatable space to refine skills. Its goal is to transform the way surgeons prepare, practice and refine their skills. The Company places training simulation into the hands of medical professionals around the world, using low cost, readily available technology.

How it delivers

Fundamental VR. has built an immersive, surgical simulation application platform, Fundamental Surgery, to provide medical professionals with the opportunity to practice and test themselves within a safe, controllable space that is as close to real life as possible.

2019 news flow

On 30 October 2019, within seventeen months of the initial investment, FundamentalVR secured a £4.3 million Series A fundraise, including a £0.5 million convertible loan note conversion by Tern, at a post-money valuation of £11.3 million – a useful validation of Tern's investment strategy. FundamentalVR's Virtual Reality Haptic Simulation platform technology is now being used by customers including medical device companies, pharmaceutical companies and medical centres.

Technology

FundamentalVR's unique software platform, Fundamental Surgery, takes advantage of readily available VR software and devices, such as the Facebook owned Oculus Rift, and combines these with cutting edge haptics to create a simulation system. It uses computer learning, while the software platform works together with haptic hardware devices to simulate the physical sensation of operating on human tissue.

Tern ownership

26.9% of Fundamental VR

Valuation of Tern stake

£3.0m

Example clients and partners





What it does

Founded in 2010, InVMA combines world-class management consulting expertise with objective technology advisory and implementation services to deliver innovative IoT solutions based on ThingWorx technologies. InVMA is an IoT systems integrator and a ThingWorx gold partner. It was the first ThingWorx European partner.

How it delivers

InVMA designs, develops and deploys applications and hardware that improve or transform the way organisations do business, creating new revenue streams, enhancing customer satisfaction and increasing operational efficiency. InVMA does this by combining consulting expertise with hardware, software, IT and OT technical capabilities.

2019 news flow

During 2019 the company enhanced its business model from being strictly an engineering design and services company to a product company with a very experienced services component. Post year-end, InVMA announced that it had secured an initial order to provide its AssetMinder solution to a global, multi-billion Euro supplier of products to the global industrial and construction markets.

Technology

InVMA's main product, Assetminder, is based on the industry leading scalable IoT platform, PTC ThingWorx™. The platform's capabilities make it possible for users to correlate data, deriving powerful insights that can be incorporated into applications or displayed to the end user. Repeatable proven solutions include predictive maintenance blueprints to improve asset performance.

Tern ownership

50% ownership
£50k convertible loan

Valuation of Tern stake

£1.0m

Example clients



Wyld Networks

What it does

Wyld Networks is focused on solving connectivity issues in the IoT sector and its product suite includes a LoRaWAN product. It has a majority holding in Wyld Technologies, mobile mesh networking solutions. These devices are finding a strong use case within the structural growth market for Smart Metering.

How it delivers

Wyld Technologies provide unique scalable device-to-device mesh networking. Mesh technologies are low-energy, low-cost solutions for transmitting and collecting information. Data is securely relayed to local devices and can self-heal. Wyld Mesh combines cloud-streaming, device-to-device mesh connectivity, and rich geolocation services.

2019 news flow

During 2019 Tern recruited a seasoned senior executive into the business as CEO. Wyld Networks entered into an agreement with several companies, notably Delta-T Devices in the Agritech vertical and Develco in the smart metering vertical. Importantly, Wyld Networks was awarded a £121,000 grant by Innovate UK to collaborate on a new mass production technology, SmartDrop, for Archipelago Technology Group Ltd.

Technology

Wyld Mesh is a heterogeneous real-time data network, combining all available connectivity and transport protocols. Using RESTful Web Services, a Streaming Data Websocket service, Push Notifications, and its patent-pending Smart Device Mesh solution, Wyld Mesh forms a resilient and efficient network.

Tern ownership

100% ownership
£0.9m loan note

Valuation of Tern stake

£0.9m

Example clients



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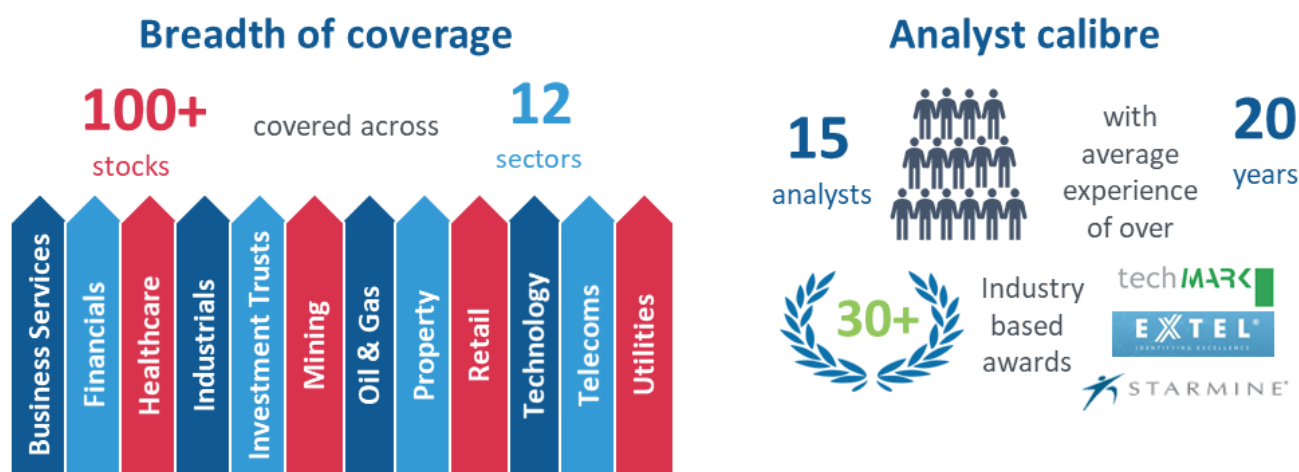
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To arrange a meeting with the management team, or for further information about Progressive, please contact:

Emily Ritchie
+44 (0) 20 7781 5311
eritchie@progressive-research.com