

TERN PLC

SOFTWARE AND COMPUTER SERVICES

21 September 2020

TERN.L

8.0p

Market Cap: £24.1m

SHARE PRICE (p)



12m high/low 14.3p/3.8p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£0.8m (at 30/06/20)
Enterprise value	£23.3m
Index/market	AIM
Next news	Finals, May 2021
Shares in Issue (m)	301.0
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

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H1 2020 results point to new opportunities

Portfolio companies making strong progress

Tern reported a stable NAV per share of 7.0p at 30 June 2020, compared with 6.9p a year earlier and 7.0p at the end of 2019. Over the six months to 30 June 2020, an exchange gain on the US dollar-based valuation of Device Authority offset expenses incurred during the period and there were no major liquidity events triggering portfolio valuation uplifts. However, in the half-year, the four principal portfolio companies achieved a 62% increase in aggregate turnover versus H1 2019, demonstrating strong progress despite the economic disruption caused by COVID-19. Employee headcount at portfolio companies – another important indicator of growth – increased by 7% in the half-year, reflecting the focus on cost control during the period. Tern held £0.8m in cash at 30 June 2020, boosted by a £1.5m raising in July, providing scope for new investments to be made in the coming months.

- Portfolio activity** – Tern sold its minority interest in Seal Software for £0.1m in March 2020, realising a 99% return on invested capital. Follow-on convertible loan note investments totalling £0.5m were made in the half-year, using funds from the £0.8m raising in March 2020; £0.3m was provided to Wyld Networks, and £0.2m to Device Authority.
- Operating costs** – Overall operating expenses in H1 2020 were at a similar level to H1 2019, largely due to one-off costs incurred in the comparative period relating to a potential strategic transaction that was not pursued. A rise in share-based payment costs and directors' fees, partly due to the appointment of a new director in March 2020, was also mitigated by a 20% salary reduction taken by all directors in the latter half of the period.
- Outlook** – Having strengthened the investment team in 2019 and raised £1.5m in July 2020, Tern CEO Al Sisto has expressed confidence in concluding at least one new portfolio investment by the year-end, from a strong pipeline of new opportunities. He also anticipates achieving at least one further syndicated investment event by the end of Q1 2021, based on the current level of third-party interest in existing portfolio companies.

Overall, we view the current economic backdrop as favourable for Tern, encouraging an accelerating adoption of Internet of Things (IoT) technology across its portfolio companies' key markets. The range of new partnerships and contracts signed by portfolio companies during 2020, as well as the strength of third-party interest in the portfolio, reinforces this positive view.

INVESTEE COMPANIES



DEVICE
AUTHORITY

FUNDAMENTALVR

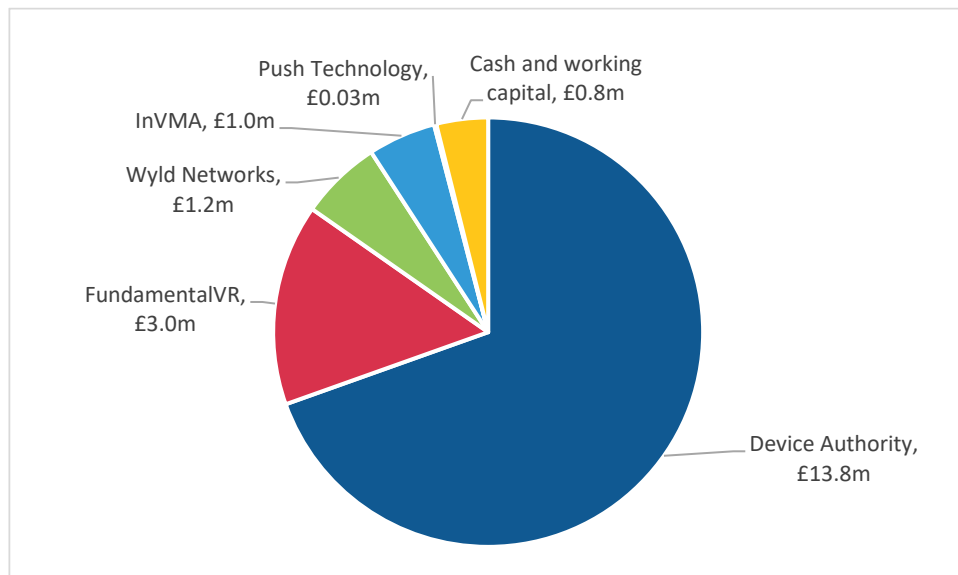


Wyld Networks



NAV analysis as at 30 June 2020

NAV breakdown as at 30 June 2020



Source: Company data, Progressive Equity Research

Principal portfolio company developments in 2020

Tern's portfolio companies are increasingly being recognised as leaders in their target markets and management believes they are capable of being at the forefront of the economic recovery, given their expertise in online security and secure device life cycle management, remote monitoring and services and remote healthcare training and services. All these areas are seeing increasing demand because of recent changes to enterprise, public sector and government work environments around the world.

Device Authority (IoT Identity and Access Management)

Tern invested in Device Authority in September 2014 and holds a 56.8% equity stake. Device Authority's shareholders have provided total funding of US\$5.4m in convertible loan notes since November 2017, with US\$3.6m provided by Tern (US\$0.3m in H1 2020).

Device Authority operates globally in Identity and Access Management (IAM) for the IoT, focused on medical/healthcare, industrial, automotive and smart connected devices. Its KeyScaler platform provides security and privacy solutions for remote IoT devices, such as telemedicine and remote monitoring devices in the healthcare industry.

Developments in 2020 to date

In March 2020, Device Authority launched KeyScaler as a Service (KSaaS) hosted in Microsoft Azure Cloud and four essential connectors to Microsoft Azure's IoT Edge, IoT Central, Azure Key Vault and Active Directory Certificate Services (ADCS) products.

In June 2020, Device Authority announced the availability of KeyScaler in the Microsoft Azure Marketplace, significantly expanding its sales channel, and also secured contract renewals via key channel partners and their customers, including a contract to provide security services to a leading international automotive design and manufacturing company in conjunction with its use of the Azure platform.

Device Authority continues to gain industry recognition, being identified as the 2020 technology leader in the SPARK Matrix analysis of the global IoT Identity and Access Management (IoT IAM) market by Quadrant Knowledge Solutions.

FundamentalVR (Virtual reality for medical devices)

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

FundamentalVR is a dynamic technology and data insight business specialising in the intersection between immersive experiences and haptics, to enhance medical training and outcomes. FundamentalVR works with its customers to complete the simulations needed to deliver medical device and pharma-based products. Its virtual reality-based platform reduces learners' potential exposure to COVID-19, provides an endless supply of virtual patients and measures the performance of healthcare professionals in achieving the necessary operational skill levels, helping to create a more agile healthcare workforce.

FundamentalVR's multiuser support enables its customers to provide virtual master classes to accelerate the adoption of new products and procedures. As a recent example, an online training tool was developed by Imperial College London, Imperial College Healthcare NHS Trust and FundamentalVR, using FundamentalVR's shared virtual setting to teach nurses and doctors how to operate ventilators to treat COVID-19 patients, enabling redeployed clinicians to gain the key knowledge needed for ventilating patients in just 30 minutes.

Developments in 2020 to date

In April 2020, FundamentalVR announced the expansion of the Fundamental Surgery platform, with the addition of a new education modality @HomeVR, which enables healthcare professionals to prepare to use new equipment and undertake new procedures.

In June 2020, FundamentalVR achieved another important milestone when all the orthopaedic education simulations available on the Fundamental Surgery platform were accredited by the American Academy of Orthopaedic Surgeons (AAOS). This was followed in July 2020 by centre accreditation from the Royal College of Surgeons of England.

FundamentalVR continues to gain industry recognition with the award of first place in Hit Consultants Top 18 Healthcare Augmented Reality and Virtual Reality companies to watch in H1 2020. More recently, @HomeVR was selected as a finalist in the VR Awards.

Wyld Networks (Scalable mobile mesh networks)

Tern invested in Wyld Networks in June 2016 and holds a 100% equity stake. In May 2020, Tern provided an additional £0.3m convertible loan, taking Tern's outstanding loan balance to £1.1m. This enabled Wyld Networks to secure a £0.4m convertible loan note external investment to support its growing pipeline of opportunities in mobile mesh networks and wireless IoT connectivity.

Wyld Networks provides secure, intelligent and scalable mobile mesh networks and Low Power Wide Area Network (LPWAN) software and modules connecting both smartphones and IoT devices together without the need for WiFi or cellular networks. Wyld Networks' mesh technology was originally designed to deliver relevant, location-aware information at major sporting events, music festivals, retail centres and transport hubs.

Developments in 2020 to date

In March 2020, Wyld Networks' technology was repurposed to provide social distance monitoring and alerting, enabling it to play a vital role in protecting residents, staff and visitors in care homes and hospitals, as well as helping business and education get back to work safely. In May 2020, Wyld Networks signed an agreement with Highland Health Ventures (HHVL) to test and deploy its technology into certain care homes in Scotland; recently confirmed to be due to commence in a care home in Inverness in October 2020.

In March 2020, Wyld Networks announced an agreement with a global satellite operator to co-develop, test and co-market a LPWAN direct to satellite solution, intended to bring the cost of satellite IoT services in line with terrestrial based IoT solutions. In September 2020, as part of the test phase, an initial £0.1m purchase order was received to develop and deliver a small number of proprietary-designed LPWAN IoT modems to be functionally tested with a pre-commercial Low Earth Orbiting (LEO) satellite.

In July 2020, Wyld Networks launched Wyld Mesh and Fusion, its innovative mobile mesh networking technology, data curation and content delivery platform, providing businesses with an innovative way to generate new revenue streams, operate more efficiently, get back to work safely and monitor social distancing practices.

InVMA (IoT industrial real-time analytics)

Tern invested in InVMA in September 2017 and holds a 50% equity stake. In August 2020, Tern provided an additional £125k convertible loan to InVMA, matching funding secured from the UK Future Fund Scheme. This took Tern's outstanding loan balance to £175k.

InVMA is an Industrial IoT software solutions provider, enabling customers to reduce internal operating costs and downtime risk, while creating new revenue streams, through remote monitoring and management.

Developments in 2020 to date

In January 2020, InVMA announced an initial order commitment worth £817k over two years to provide its AssetMinder SaaS IoT solution to a global, multi-billion Euro revenue supplier to the industrial and construction sectors.

In June 2020, InVMA announced a partnership agreement with Senseye, the Industry 4.0 software company using machine-learning algorithms for predictive maintenance.

In August 2020, InVMA announced the appointment of Peter Stephens as CEO, to help finalise the transformation of the business to a SaaS based software products company.

Disclaimers and Disclosures

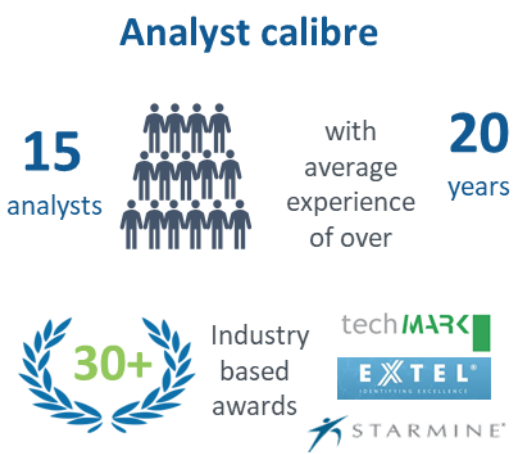
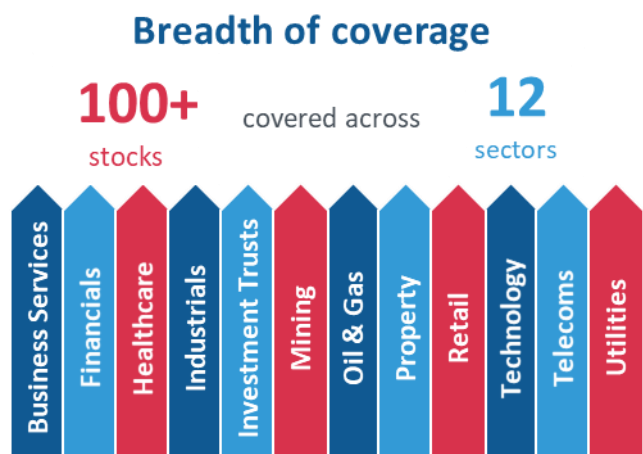
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