

TERN PLC

SOFTWARE AND COMPUTER SERVICES

2 December 2021

TERN.L

18.8p

Market Cap: £65.9m

SHARE PRICE (p)



12m high/low 30.3p/6.2p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£0.4m (at 30/06/21)
Enterprise value	£65.5m
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.

www.ternplc.com

TERN PLC IS A RESEARCH CLIENT OF PROGRESSIVE

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\$2.9m funding package for Device Authority

Tern's portfolio company Device Authority (DA) has received a US\$1.25m strategic investment from Venafi Inc, a leader in providing machine identities, especially in a data centre setting. This fits well with DA's 'network edge' device management and deployment skills. Major US private equity firm Thoma Bravo recently invested in Venafi, and we assume that it is therefore supportive of Venafi's investment in DA. The Venafi strategic move is part of a US\$2.91m funding package for DA, which includes a US\$1.25m investment from Tern and US\$0.41m from existing DA shareholders Alsop Louie Partners and a Samenuk Family Trust. Whilst the valuation is flat at 47c per share, we believe that this new capital structure validates and updates the Tern in-price. Equally positively, DA's capital structure has been simplified with the conversion of loan notes into equity and a change in rights for certain classes of shares. As a result, Tern's holding in DA equity has decreased from 56.7% to 53.8%, with a book value of US\$19.8m (approximately £14.8m).

- **Strategic investor.** Venafi has secured a 3.4% equity stake in Device Authority to consolidate its existing strategic relationship. Venafi is a well-known industry player, specialising in safeguarding machine-to-machine communications, with knowledge and expertise in different end markets, especially data centre-related.
- **Established partnership.** DA has been working with Venafi since joining its Machine Identity Protection Development Fund in late 2019. The fund was used to provide a new turnkey code signing and update delivery extension to DA's KeyScaler product, powered by Venafi CodeSign Protect. We believe that this demonstrates the value of such partnerships.
- **Warrants issued at a material uplift on valuation.** Investors in Device Authority have been issued with warrants with a hurdle rate above US\$50m. This suggests increased confidence in the valuation of DA and its future growth opportunities.
- **DA is now well funded.** The funding package puts DA in a much better financial position with a range of well-funded external backers.

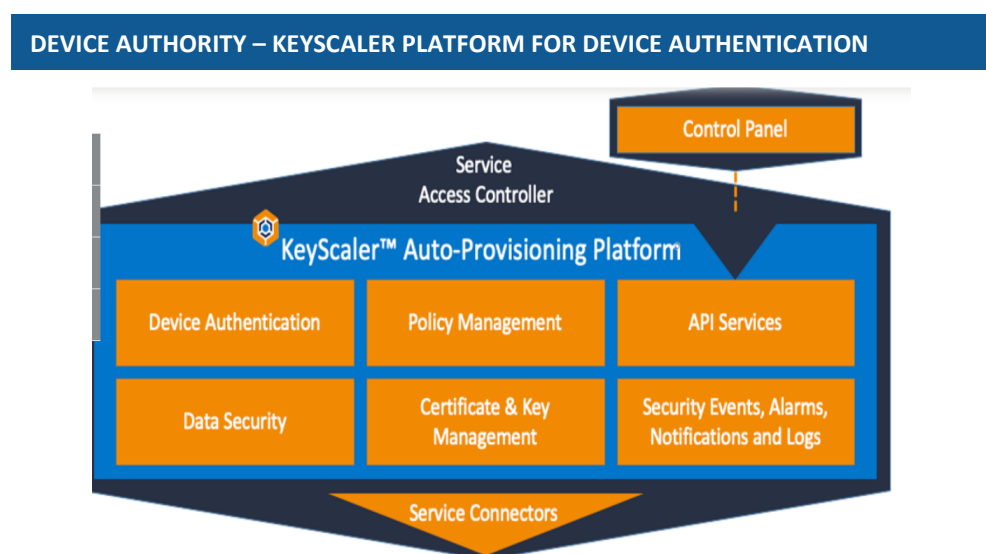
In our view, the strategic investment by Venafi serves as a clear validation of Tern's business model, as well as a positive step forward for Device Authority. We look forward to DA's progress with a strong new partner and a dramatically reinforced balance sheet and market standing. With new external funding, DA is demonstrating value in Tern's platform; seeding companies, growing them and building networks, then letting them forge their own relationships and evolve.

INVESTEE COMPANIES



Device Authority (IoT Identity and Access Management)

Tern invested in Device Authority in September 2014, holding a 56.8% equity stake. Device Authority is a leader in the IoT security market, operating globally in Identity and Access Management (IAM), focused on medical/healthcare, industrial, automotive and smart connected devices. Security is becoming an important part of the development of new IoT solutions, as well as a market for those who require a retrofit solution for legacy devices already deployed in the field. The Software Bill of Materials (SBOM) becomes mandatory in the US in 2022, which requires increased transparency of security within IoT products and represents a driver of demand for the DA offering in the medium term. Its KeyScaler platform provides security and privacy solutions for remote IoT devices and supports the new FIDO Device Onboard (FDO) protocol platform.



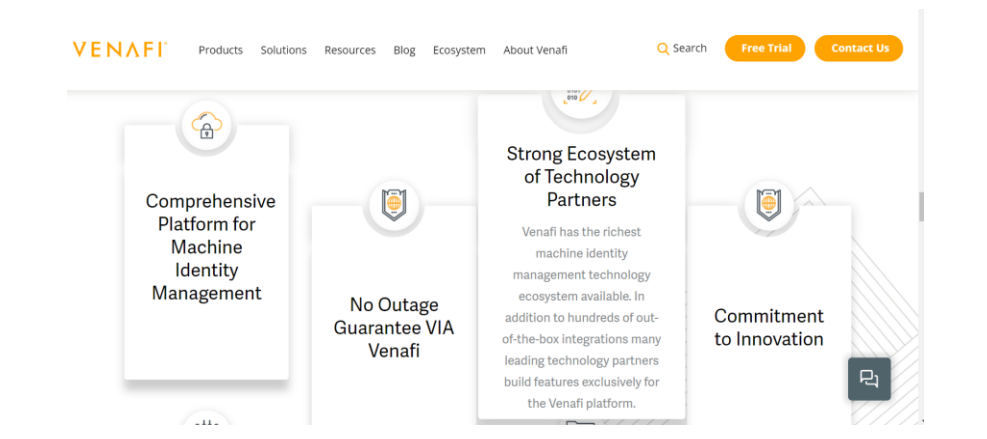
Source: Company information

Venafi (Machine Identity Management)

Venafi is a leading cyber security vendor for ‘machine identity management’, securing machine-to-machine connections and communications. Venafi protects machine identity types via cryptographic keys and digital certificates. Venafi provides global visibility of machine identities and the risks associated with them for the extended enterprise—on premise, mobile, virtual, cloud and IoT assets.

The Venafi offering reduces the security and availability risks connected with weak or compromised machine identities, while safeguarding the flow of information to trusted machines and preventing communication with machines that are not trusted. Venafi has a strong network of technology partners such as Device Authority.

VENAFI PLATFORM AND PARTNER ECOSYSTEM



Source: Company information

Device Authority already a technology partner for Venafi

The combination of Device Authority and Venafi has already delivered significant benefits for both companies. We believe that the strengthening of this relationship will create increased shareholder value over time. DA has been working with Venafi since joining Venafi’s Machine Identity Protection Development Fund in late 2019. The fund was used to provide a new turnkey code signing and update delivery extension to DA’s KeyScaler product, powered by Venafi CodeSign Protect. DA has since created a certificate authority service connector, which will allow KeyScaler customers to use the Venafi platform. Clearly, with the new strategic investment, the relationship between the two companies can continue to evolve materially.

EXISTING PARTNERSHIP



Source: Company information

Strategic investment by Venafi and further Investment by Tern

The Venafi strategic investment is part of a broader US\$2.91m funding package for Device Authority, which includes a follow-on US\$1.25m investment from Tern alongside \$0.41m from existing Device Authority shareholders Alsop Louie Partners and a Samenuk Family Trust.

The implied pre-money valuation for Device Authority is US\$33.9m. While the valuation is flat on Tern's existing investment (at 47c per share), we believe that this both validates and also updates the Tern in-price. The decision by Venafi to invest, plus our assumption that US PE house Thoma Bravo is also comfortable with the deal, suggests that these two major, well-known technology players believe Device Authority has a bright future.

Device Authority's additional funding will be used to accelerate the revenue growth of the company through expansion within its core markets, notably the US, while allowing further enhancements to the development of the flagship KeyScaler platform.

Capital restructuring, warrant issue and loan notes converted

Device Authority has also simplified its capital structure, involving the conversion of loan notes into equity, including the US\$4.9m of loan notes (inclusive of interest to date) held by Tern. It has also removed the rights of the "Class B" shares and the "Class C" shares to receive, in aggregate, 25% of the total sale proceeds on a liquidity event. As a result, Tern's holding in Device Authority's equity is 53.8%, with a book value of US\$19.8m (approximately £14.8m), compared to an unaudited book value of £12.9m as at 30 June 2021.

With the completion of this funding round, the investors in Device Authority have been issued with warrants exercisable above a US\$50m valuation, suggesting increased confidence in the valuation of Device Authority in the medium term. Investors would be unlikely to accept warrants at a price materially higher than their view of a likely achievable valuation, so this adds weight to the funding round and its upbeat impact.

Summary

In essence, the deal provides four key positives:

- A better and broader financial footing for DA, arguably demonstrating the key value in the Tern proposition: investing early in exciting IoT businesses, helping them expand their networks and eventually develop their own routes to funding and eventual exit. This has been demonstrated recently by the IPO of Wyld Networks on NASDAQ First North, and today's deal is further evidence of success.
- A strong, useful US partner for DA, with a broad range of reach and relationships, now with a stake in the business and able to directly promote DA on a bigger stage.
- A 'refreshed' valuation confirmation of Tern's in-price for DA, with two major US tech names (Venafi and, implicitly, Thoma Bravo) involved in investment at this price, and warrants attached at a materially higher valuation.
- Demonstration that partnerships can add major value over time. Sometimes not apparent initially, these deals can lead to relationships and conversations that evolve and expand into events such as today's. We believe this demonstrates that partnerships should not be dismissed simply because they lack material and immediate revenue.

We believe the deal to be a significant step for both Tern and DA, and look forward to further positive news from both in coming months.

Disclaimers and Disclosures

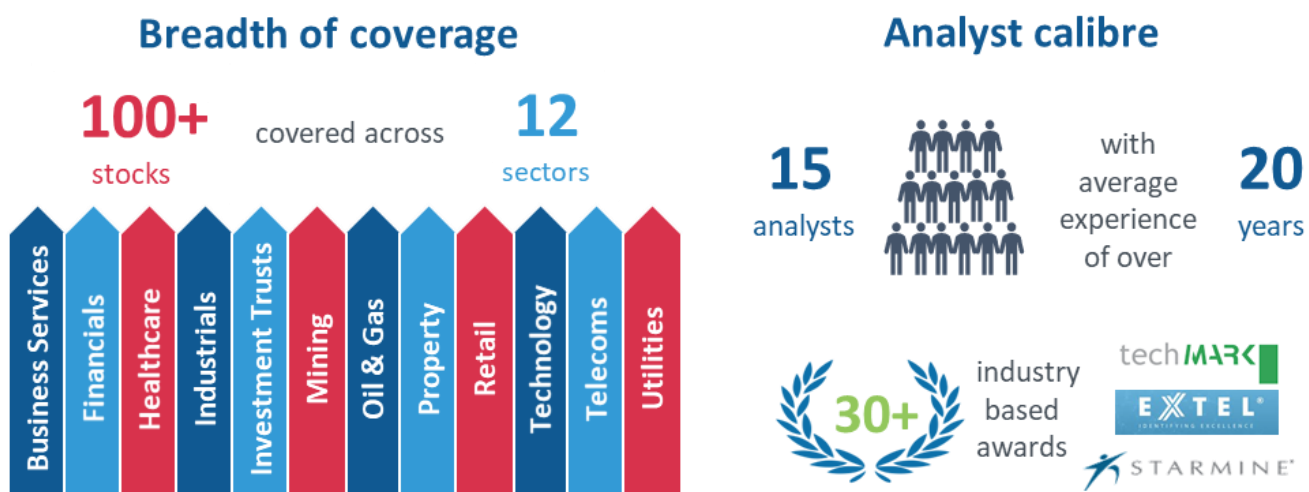
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