

TERN PLC

SOFTWARE AND COMPUTER SERVICES

31 March 2021

TERN.L

10p

Market Cap: £33m

SHARE PRICE (p)



12m high/low 13.8p/4.3p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£2.1m (at 31/12/20)
Enterprise value	£30.9m
Index/market	AIM
Next news	AGM, 4 May 2021
Shares in Issue (m)	330.3
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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New investment and fair value uplift in FY20

Portfolio value increased from £17.9m to £21.9m

Tern reported a 27% growth in total net assets during 2020 (from £18.9m to £24.0m), with NAV per share increasing from 7.0p to 7.3p. 2020 presented challenges due to the COVID-19 pandemic, but Tern marked the year with a new portfolio investee and a significant valuation gain. A £0.9m investment was made in Talking Medicines, which joined the portfolio in November 2020, while £1.1m was invested across three existing portfolio companies. This activity was funded by three equity raises for a total of £4.5m, with £2.1m cash held at the year end. The main valuation driver was a £2.6m uplift in the value of Tern's investment in Wyld Networks to £4.0m. This substantial gain was partly offset by £0.6m of other adjustments, primarily driven by forex movements, resulting in a net £2.0m fair value uplift.

- Despite the challenges created by the COVID-19 pandemic during year, Tern maintained its focus on building on the momentum achieved by portfolio companies during 2019. Good progress was made overall, with aggregate portfolio company turnover increasing by 18% y-o-y in 2020, while costs were controlled, and employee headcount was unchanged over the year following a 31% increase in 2019.
- The new investment in Talking Medicines increases Tern's exposure to the Internet of Medical Things (IoMT). This now sits alongside FundamentalVR, which operates in the rapidly growing medical simulation market and experienced strong interest from new customers in 2020, and saw a record fourth quarter, with strong momentum continuing into 2021.
- Wyld Networks' fair value uplift reflected the valuation at which a £0.75m fundraise was completed in January 2021, primarily with a third-party institutional investor. Wyld Networks made important progress during 2020, including development of its Wyld Connect Satellite IoT solution, which is scheduled for deployment in 2021.

We think the outlook for Tern remains promising, with most of its portfolio companies having made strong progress in the fourth quarter of 2020 and newly acquired Talking Medicines having successfully launched its PatientMetRx platform in February 2021. We look forward to further positive news flow on the progress of portfolio companies during 2021, as Tern continues to build its position as a leading investment company in the IoT sector through unlocking disruptive opportunities.

INVESTEE COMPANIES

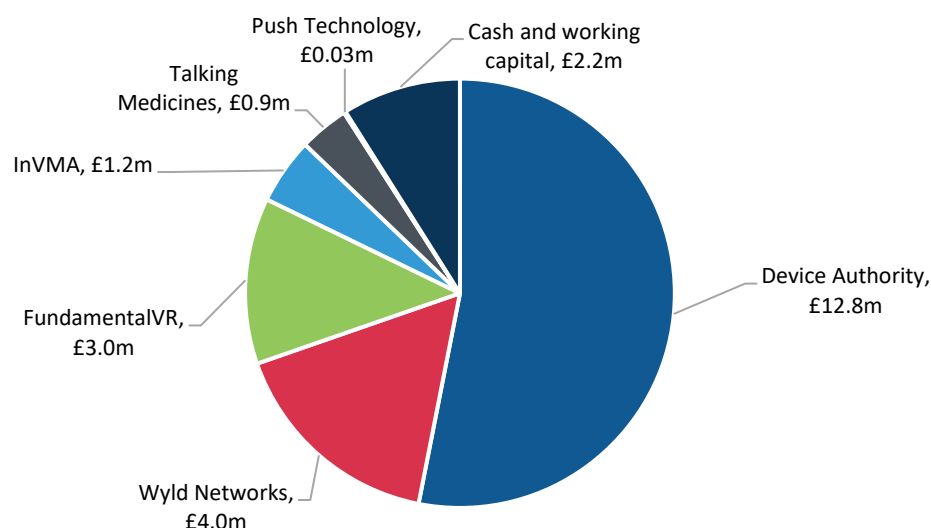


FUNDAMENTALVR



Analysis of NAV growth during FY20

NAV breakdown as at 31 December 2020



Source: Company data, Progressive Equity Research

During 2020, Tern recorded 27% net asset growth, with total net assets growing from £18.9m to £24.0m driven by a combination of equity raisings to fund new investment and fair value uplift of investments within the portfolio, offset by operating costs. The overall portfolio value increased from £17.9m to £21.9m, resulting from £2.0m of investments and a £2.0m net fair value uplift.

Tern raised a net £4.2m through three equity fundraisings during 2020, with £0.9m invested in Talking Medicines, £1.1m invested in existing portfolio companies and £1.2m used in operations, leaving cash and cash equivalents £1.1m higher at £2.1m.

The other major driver of asset growth was the £2.6m fair value uplift for Tern's investment in Wyld Networks, based on a funding round in January 2021, primarily with a third-party institutional investor. This was partly offset by a non-cash £0.4m foreign exchange loss on the revaluation of Tern's investment in Device Authority (which is held in US dollars) and other minor adjustments, giving the portfolio a net £2.0m fair value uplift.

Operating expenses increased from £1.3m to £1.5m in 2020, but cash operating expenses declined from £1.3m to £1.2m, accounting for the balance of the movement in net assets.

Portfolio company highlights

Given the onset of the COVID-19 pandemic, most portfolio companies devoted considerable time and effort to re-engineering how they operated their businesses during the first half of 2020. However, in the fourth quarter, most portfolio companies exceeded their internal targets, reflecting their accelerating development as well as the resumption of customers' buying activity.

We outline developments at each portfolio company during 2020, commenting in more detail on Tern's IoMT portfolio companies, FundamentalVR and Talking Medicines.

Device Authority

During 2020, Device Authority expanded its relationship with Microsoft. Adding some key integration and complementary value in Azure Marketplace enabled joint customers to be secured. Annual turnover growth was achieved, with key sales wins in healthcare, industrial and automotive markets, working with Microsoft Azure, Wipro and nCipher (now EnTrust) as key technology partners. Device Authority also continued to build its brand and platform recognition, via commentary in a number of important analyst and industry reports from firms such as Forrester and the SPARK matrix report from Quadrant.

In the near-term, Device Authority is expected to continue to accelerate its annual recurring revenue growth with its subscription base and its new modularised license platform, KeyScaler. During 2021, the company plans to expand and grow its resources in North America and the EMEA markets. The primary areas for investment and growth continue to be healthcare and industrial, with a focus on automotive. Device Authority also continues to build and expand its Microsoft Azure partnership and plans to provide additional value to its customers with new KeyScaler Azure innovations during the year.

InVMA

InVMA strengthened its senior management team in mid-2020 with the addition of Peter Stephens as CEO to lead the company's evolution to a product centric business. During the year, InVMA started scaling up its Industrial IoT connected asset SaaS product, AssetMinder, from several pilot customers to create product adoption momentum moving into 2021. With the COVID-19 crisis having accelerated the need for contactless monitoring of factory and remote assets, InVMA is now seeing greater interest from larger industrial customers looking to connect significant numbers of assets to AssetMinder.

InVMA began 2020 selling through one channel partner and expanded during the year to four channel partners across Europe and the USA. Entering 2021, its sales pipeline was an order of magnitude greater than a year earlier, creating the opportunity for revenue growth and global deployment of AssetMinder, through both new and existing users.

Wyld Networks

During 2020, Wyld Networks continued to commercialise Wyld Connect, its terrestrial LPWAN IoT module, securing further commercial deals with existing and new customers. Wyld also signed a contract with a large global satellite operator to jointly develop a hybrid satellite and terrestrial LPWAN IoT Module, aiming to create an affordable, easy to implement, commercial solution for deployment in 2021 connecting IoT devices and sensors directly to a Low Earth Orbiting (LEO) satellite constellation.

Also in 2020, Wyld launched Wyld Mesh and Fusion, a unique solution for delivering location aware, relevant and actionable content over 4G, WiFi and Mesh networks. In light of the COVID-19 pandemic, Wyld adapted Wyld Mesh and Fusion to provide a solution to manage, monitor and alert social distance practices in healthcare and education. The company believes that traditional market application for Wyld Mesh and Fusion will be realised as retail, large venues and hospitality return to business during 2021.

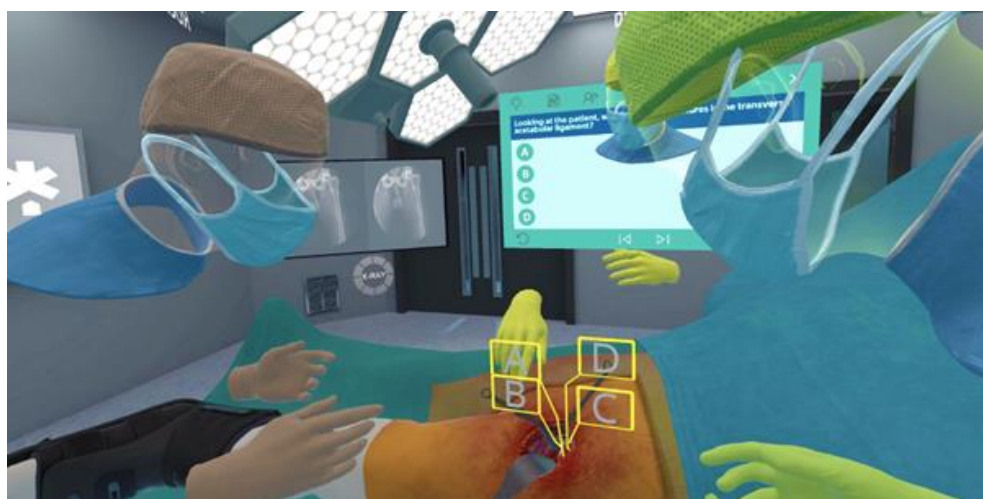
During the second half of 2020, Wyld Networks started to use resellers to help promote and commercialise Wyld solutions, signing agreements with ASCOM, a global ICT solution vendor, Alliance Corporation based in North America and Wezen in LATAM.

FundamentalVR

Within Tern’s portfolio, FundamentalVR witnessed the greatest effect of COVID-19, as the pandemic affected delivery and adoption of new procedures and medical devices. The company believes the crisis has dramatically accelerated existing plans for adoption of digital training and that the pharmaceutical industry now sees digital solutions as critical, given learning curves for surgical training are getting longer and training costs rising significantly as procedures become more complex. The essence of FundamentalVR is to accelerate medical devices and pharmaceutical products into the market, through its ability to deliver precision surgical training at scale.

In the second half of 2020, FundamentalVR received greater interest in its ‘Fundamental Surgery’ platform from new and existing customers. A major use of the platform was to provide pharmaceutical and medical companies’ customers continued, active engagement with their medical user base. In addition, FundamentalVR responded quickly to market conditions and launched its unlimited multi-user remote collaboration capability ‘Multiuser VR’ to train customers’ sales forces and create master class capabilities, both previously delivered face to face. This generated strong interest and adoption of the ‘Fundamental Surgery’ platform, leading to FundamentalVR achieving a record fourth quarter.

FundamentalVR’s collaborative ‘MultiuserVR’ experience



Source: FundamentalVR

During 2020, FundamentalVR entered the ophthalmology marketplace utilising its precision HapticVR capability, showcasing this breakthrough simulation technology with Novartis and Orbis. The company believes this very specialised area of surgery, requiring unique instruments that need a high degree of feel by a surgeon, is an important proof point for the haptics capability that the company has developed, and could potentially revolutionise precision procedure healthcare markets.

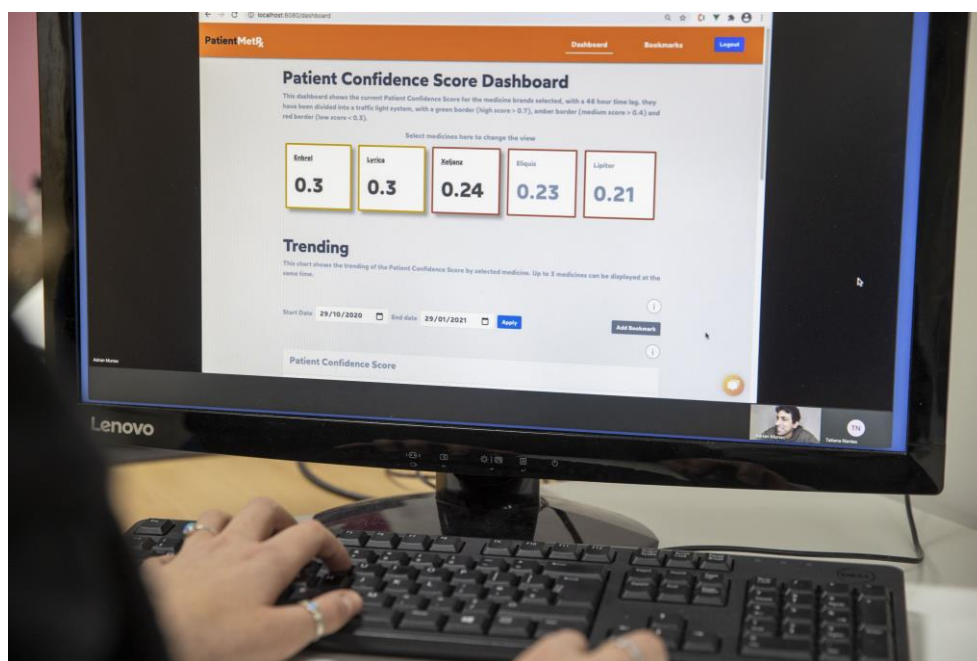
FundamentalVR expects medical simulation market adoption of digital solutions to accelerate in 2021 as its customers and competitors act quickly to replace traditional methods of distribution and training. FundamentalVR’s competitive position has been improved by increasing recognition of its brand and market relevance during 2020, with it becoming the first and only Haptics VR simulation business to achieve full centre accreditation with the Royal College of Surgeons as well as procedure accreditation (for its orthopaedic procedures) from the American Academy of Orthopaedic Surgeons.

Talking Medicines

Initiated in November 2020, Tern’s most recent investment Talking Medicines subsequently undertook the pivotal final developments in creating proprietary Artificial Intelligence (AI), Machine Learning (ML) and Natural Language Processing (NLP) models to capture and translate what people post about their medicines on social media into medical industry recognised terminology. This work has been completed and market tested and has led to a patent being filed for the company’s breakthrough intellectual property (IP). Talking Medicines’ employee base has also been strengthened, with key hires in product management, engineering and data quality.

Based on feedback from the company’s paying pharmaceutical customers in 2020, the data offering from Talking Medicines, including AI capabilities, was launched in February 2021 as the new PatientMetRx service, providing AI-driven social intelligence for individual medicines. Talking Medicines has enhanced its branding and is undertaking a phased global launch to commercial marketeers in pharmaceutical companies.

Talking Medicine’s ‘PatientMetRx’ platform



Source: Talking Medicines

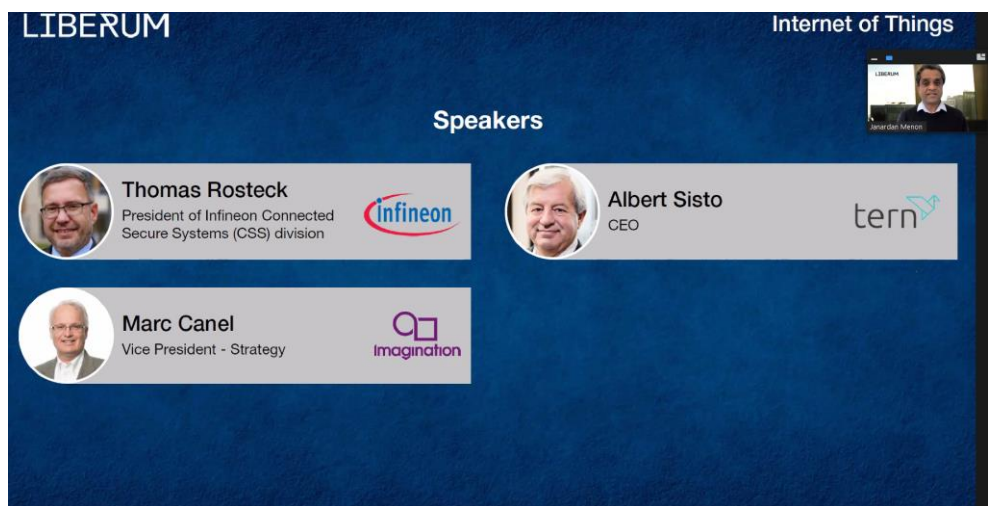
The PatientMetRx platform provides a patient confidence scorecard on individual medicines, enabling users to understand patient confidence in their own and competitors’ medicines. Trends in patient confidence across medicines can also be visualised. The scores are based on a live mathematical model that takes into account the volume, sentiment and context (feelings, symptoms, side effects) of social media commentary on medicines. PatientMetRx is a relatively low-cost service, providing easily understood data that should enable pharmaceutical company marketing teams to make better informed decisions.

Talking Medicine’s ambition in 2021 is to establish the PatientMetRx data service as the gold service standard provider of intelligence on patient experience by medicine. Driven by its specialised AI, the company has the goal of driving better patient outcomes and a better understanding of the use of the specific medicines by prescribers and distributors.

Tern raising its profile

In March 2021, Tern participated in an IoT investor event hosted by Liberum, alongside speakers from Infineon and Imagination Technologies, both much larger businesses. We think that Tern’s CEO Al Sisto made a very credible contribution to the event and consequently we believe Tern’s participation will have raised the company’s profile among larger investors, which could help to broaden the company’s investor base over time.

Tern participated in an investor event hosted by Liberum in March 2021



Source: Liberum, Progressive Equity Research.

The event was well received, with Tern’s CEO Al Sisto presenting on the broader IoT market more from an investor’s perspective, while Infineon and Imagination Technologies’ presenters Thomas Rosteck and Marc Canel focused on the IoT market more from the perspective of their own businesses. Tern’s credibility was also boosted by Marc Canel commenting positively on Device Authority, noting that it is a Tern portfolio company.

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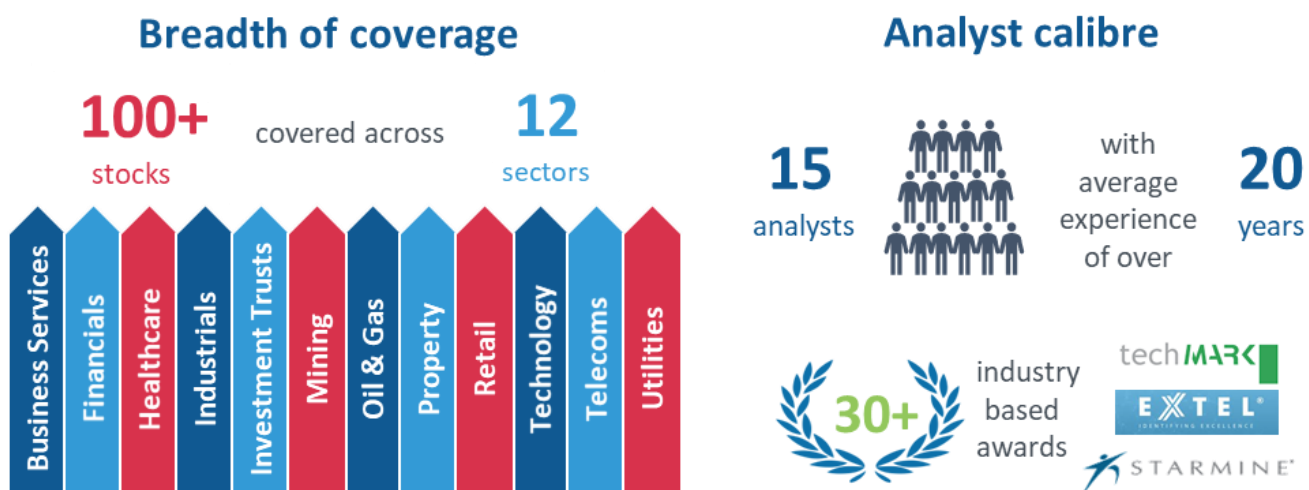
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