

# TERN PLC

## SOFTWARE AND COMPUTER SERVICES

28 January 2020

### TERN.L

8.9p

Market Cap: £22.5m

#### SHARE PRICE (p)



12m high/low 14.8p/7.1p

Source: LSE Data

#### KEY DATA

Net (Debt)/Cash	£1.9m (as at 31/12/18)
Enterprise value	£20.6m
Index/market	AIM
Next news	Interim results
Shares in Issue (m)	254.3
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.

[www.ternplc.com](http://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](http://www.progressive-research.com)

## Progress on multiple fronts

Tern's portfolio update for the year to December 2019 confirms the group's strong progress in a number of different ways, across the entire investee portfolio. Growth in the portfolio companies' combined revenues was some 27% year-on-year, held back by some delayed orders which are now expected early this year. The group remains well positioned to capitalise on its competitive advantages, and there appears to be a steady flow of positive validation – we look forward to more during 2020.

- Key points** Today's update provides a summary of investee company developments during 2019, augmented by two specific new pieces of information. Overall revenue of the portfolio grew some 27% - we had been expecting a higher number, but as the group describes, some commercial orders were delayed from late 2019, which impacted overall revenue growth.

We note that employee growth has accelerated rapidly during H2, and presumably post the FundamentalVR (FVR) raise, with employee numbers now up 31% y/y, compared to an increase of just 9% y/y at the end of H1 2019.

- Investee specifics** We go into slightly more detail overleaf, but the RNS describes a number of developments in the portfolio, highlighting in particular the material (£4.3m) fundraise for FVR, and what appears to be a transformational sales order for InVMA (£0.8m revenues, announced in January 2020)...this latter item was clearly too late to include in the sales growth figures quoted above, and would have materially boosted the growth rate across the portfolio.

- Progress overview** Tern has seen multiple different types of progress over the past year – a major “up-round” for FVR, a material contract win at InVMA and improvement of revenue quality within Wyld Networks.

Overall, today's RNS is a useful snapshot of performance and progress; Tern's investee companies remain very well exposed to high-growth end markets, which are themselves attracting genuine cash spend and providing real-world products and services in increasing number, and on multiple fronts. We continue to see the group as well-positioned to invest intelligently in UK and European assets, and leverage these positions with access to USA opportunities both in end markets and investor capital. We await further information at the time of the full year results likely due in March 2020.

#### INVESTEE COMPANIES



FUNDAMENTALVR



## **Investee company updates**

The following represent, in our view, the key update points as highlighted in today's portfolio commentary from Tern, focussing on the more material group investments and also significant recent newsflow :

### **FundamentalVR (FVR) (Virtual Reality solutions for medical applications)**

FVR was the largest individual source of news during 2019 for the group – it won a number of customer and client relationships, and secured a material up-round valuation in October 2019. The raise, some £4.3m, indicated a valuation some 27% ahead of the level at which Tern had invested – in the space of less than eighteen months. This suggests not only that Tern is investing in fast-growth businesses at sensible (or good) valuations, but also that the group and its management teams are capable of delivering follow-on funding rounds, attracting new types of investor and gradually de-risking Tern's positions. FVR also saw material engagement with a number of new customer groups and partners.

### **InVMA (Industrial Internet of Things product provider)**

Slightly post-period end, InVMA announced an extremely material customer win – a £0.82m contract over two years, to deliver AssetMinder (the company's flagship product) to a very large industrial customer. This deal, in our minds, does two things – firstly, it reinforces the transition being achieved within InVMA (away from systems integration and consulting project work, towards sale of pure-play IoT products), and secondly it could help underpin valuation. InVMA is in Tern's books at a total company valuation of £2m, so delivering additional revenue of even £0.4m per annum, in a market which can attract sales multiples of 5-10x, provides a very useful boost to valuation metrics.

### **Wyld Networks (mesh networks)**

Wyld has seen, we understand, a migration of revenue "type" – from reliance on grant funding to fund research and development work, to traditional sales to paying customers for network solutions and products. Wyld specialises in "mesh" networks – clusters of IoT devices that can link and work together, to achieve a common or shared goal. Although small in the scale of the Tern portfolio, the improvement in Wyld's revenue profile is another useful demonstration of the gradual validation of Tern's IoT investments.

### **Device Authority (DA) (IoT device authentication and security at scale)**

The largest of Tern's investments by value (Tern's stake is valued at some £12.3m), DA spent much of 2019 turning development partnerships into customer relationships, evolving the product range, and building deeper integration with a number of key technology partners, including Microsoft (IoT on the Azure platform), Venafi and PTC's Thingworx. The business has also pushed forward on a number of collaborations and industry frameworks, and we expect further developments to be forthcoming during 2020 and beyond.

**Disclaimers and Disclosures**

Copyright 2020 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.

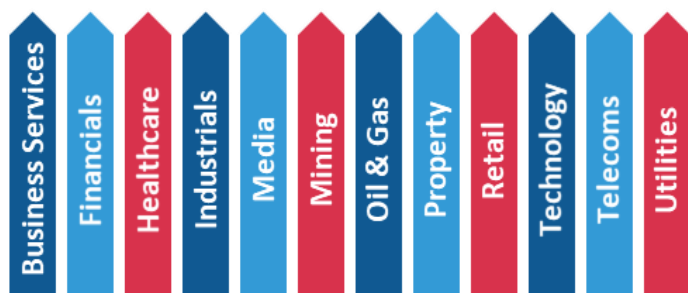
This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom. It has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not subject to any prohibition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

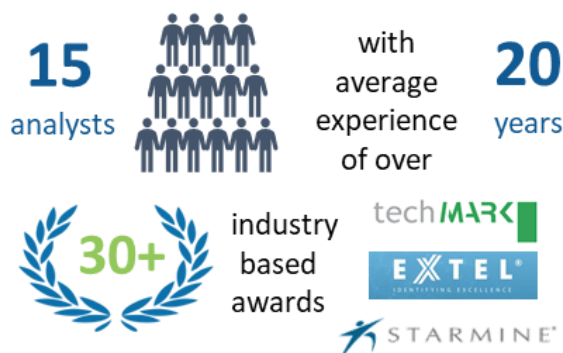
The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of the shares mentioned in this report may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing 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.

**Broad coverage**

across **12** sectors



**Analyst calibre**



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