Tern PLC (TERN)

19-March-2019 / 07:00 GMT/BST
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19 March 2019

Tern Plc (the "Company", or the "Group")

Final results for the year ended 31 December 2018

Tern Plc (AIM: TERN), the investment company specialising in the Internet of Things ("IoT"), is pleased to announce its final results for the year ended 31 December 2018.

Operational highlights

- New investment made in IoT business: FVRVS Limited ("FundamentalVR")
- Notable commercial success in portfolio including new customer contracts for Device Authority Limited("DA") and a development agreement signed by FundamentalVR with the Mayo Clinic, USA. DA, FundamentalVR and InVMA Limited all continued to grow their revenues
- Year-on-year turnover of principal portfolio companies from 2017 to 2018 increased by 58% (2016 to 2017: 126%)
- Year-on-year increase in employees within principal portfolio companies from 2017 to 2018 was 52% (2016 to 2017: 55%)
- Placing in July 2018 to raise £2.9 million before expenses, brought total fundraising in 2018 to £6 million before expenses (excluding funds secured through convertible loan note)
- Net asset value increased, overheads kept under control:
    * Total assets 2018: £17,009,220 (2017: £11,069,300)
    * Net assets 2018: £16,751,773 (2017: £10,580,802)
    * Loss 2018: £312,564 (2017: £1,689,555 loss)

Commenting on the results, Tern CEO, Al Sisto said:

"As one of the only dedicated investors in the high-growth IoT sector on AIM, Tern provides investors with an opportunity to capitalise on the rapid growth of the IoT sector. With this in mind, we are pleased to see the NAV of our portfolio increase and our loss for the period decrease. Tern prides itself on its proactive approach to working with its investment companies, and the collaborative environment created through this way of working has delivered benefits for our portfolio during the period and post-period end."

"Turnover and the number of employees across our principal portfolio companies continues to grow, and we have diversified our portfolio through the addition of FundamentalVR. We are very pleased with the commercial successes delivered by this new investment, as well as our other portfolio companies, and look forward to building our portfolio's NAV further in the year ahead. Having strengthened our financial position during the year, we are now well-placed to deliver additional diversification. This will be a priority and, having refined our investment strategy to focus on companies who provide commercial solutions to the healthcare industry and industrial use cases where safety and regulatory compliance are important market requirements, we feel we are well placed to invest in companies who operate in high-growth segments of the IoT market."

"I would like to take this opportunity to thank all of our shareholders for their continued support and enthusiasm, our portfolio employees for their commitment, and our Directors for their dedication to the Company and its ongoing mission."

Shareholder Communication

A shareholder conference call with accompanying presentation slides will be held at 11:00 AM GMT on Wednesday 24 April 2019.

The call will be hosted by the Company's CEO, Al Sisto, who will discuss the 2018 results and answer pre-submitted shareholder questions to the extent that he is able to do so. This will ensure there is an opportunity to ask questions for those shareholders who may be unable to attend the AGM.

Full details of how to join the call will be provided in due course but Tern welcomes shareholder questions ahead of this via tern@newgatecomms.com. The Company will be unable to accept questions submitted after 10:00 AM GMT on 23 April 2019. Al Sisto will aim to answer as many pre-submitted questions as possible during the call.

Tern will also be attending Mello 2019 at The Clayton, 626 Chiswick High Road London, W4 5RY on Thursday 16 May. The directors will be available to meet with new and existing shareholders at this event.

Enquiries

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Chairman's Statement

In my second year as your non-executive Chairman I am pleased to report the continuing progress that we have made in growing our exciting portfolio of companies in the Internet of Things ("IoT") sector.

This year has seen us make a new investment in FundamentalVR (FVRVS Limited), a company which revolutionises surgical training, practice, insight and measurement through its leading global Software as a Service ("SaaS") immersive simulation platform for medical and surgical education. We have also increased our investment in InVMA Limited, which has further diversified our portfolio, and although Device Authority Limited remains our most significant holding, we have reduced its impact compared to 2017 and we expect to do so further in 2019.

Our management team has continued to work closely with our portfolio companies, providing operational support to give our investee companies a head-start in their plans to launch, to scale, to secure further funding and ultimately maximise returns on an eventual realisation.

I would like to thank the Executive team on behalf of our shareholders for their hard work over the year.

I look forward to another year of growth as we continue to build and diversify our portfolio in this exciting and fast growing market.

Ian Ritchie CBE, FREng, FRSE
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CEO's Statement

I am pleased to report a year of substantial progress at Tern plc ("Tern") following the transformation of our investment strategy from taking long term controlling interests in businesses to focusing on an influential role. Tern provides investors with the opportunity to capitalise on the growth of IoT. We are building momentum and experiencing increased deal flow due to our ability to deploy our capital across a wider number of opportunities and reduce the potential reserve capital requirements as the investee company evolves. As a result, Tern is now working to build a broader base of high potential, value-creating portfolio companies with many opportunities being presented to us by other venture and risk capital investors.

Overview

Our investee companies continued to improve their performance with some notable commercial progress within the portfolio, including FVRVS Limited ("FundamentalVR") securing an agreement with the Mayo Clinic in the USA and Device Authority ("DA") securing a contract with 3D Systems to provide robust IoT security for 3D printers. At the corporate level, Tern completed several significant funding transactions which strengthened our balance sheet. During 2018, the company raised approximately £6 million in new capital, in addition to the funds secured through the convertible loan note, each placement progressing with more favourable economics. The last placement in July 2018 raised approximately £2.9 million before expenses. This fund raising demonstrates the benefit of our public listing and the flexibility it gives our balance sheet for funding the development of exciting growth businesses. The funds raised during 2018 enabled the company to expand its portfolio by investing in disruptive high-growth IoT businesses and the gross total invested capital, as at 31 December 2018, stood at £13.4 million. This includes our first investment in an IoT data analytics company, FundamentalVR, combined with several reinvestments into our existing portfolio resulting in a growth in our hard net asset value ("NAV") to £16.8 million, up 58% from £10.6 million in 2017. This fits with our strategy to deliver NAV growth for shareholders.

Turning to our trading performance in 2018 we recognised a loss for the year of £0.3 million, compared to a loss of £1.7 million in 2017. As our investment in DA is based upon a US dollar value per share, the weakening of the pound resulted in a £0.4 million exchange rate gain compared to a £0.8 million exchange rate loss in 2017. We maintained the US dollar valuation of DA. Our administrative expenses were comparable to last year, reflecting a decrease in legal fees that was offset by other professional fees as we added new companies to our portfolio. Directors' fees increased as the scope of responsibilities expanded and time commitment to the company increased. Our remaining expenses were broadly flat. The Directors believe that 2019 will provide good opportunities for NAV growth for Tern. We anticipate this to be achieved via the business expansion of our portfolio companies, additional equity investments by third parties into our portfolio companies and one or more investments in new portfolio companies.

Investment Focus and Philosophy

At Tern, we see the size, potential and promise of the Internet of Things ("IoT") market as an opportunity to create shareholder value through investments in early-stage companies, by providing products and services associated with the IoT. Today, businesses are investing in cloud-based services and analytics, to make it easier and simpler to understand the performance of a product or a service offered that is IoT-enabled. Also, it will become increasingly seamless to gather real-time information so new products and services can be created. We believe that there are still challenges for the IoT market. The first is related to interoperability and the lack of a common connection layer. Many devices don't 'speak' using a common protocol to applications that rely on data being gathered, making the application design difficult and the data vulnerable. The second challenge is the inbound and outbound scale issue around device management, data collection, data storage and data analytics. We seek to invest in companies that address these issues.

To solve these challenges requires the development of new commercial ecosystems to create a demand for firms that can manage different aspects of the technologies and capabilities that will be essential to the development of the IoT.

The IoT market is growing rapidly and is maturing and segmenting into specific verticals. Tern has refined its investment philosophy to address this change, with the goal of realising faster revenue growth and market share gains within our portfolio, to ultimately result in increased value. We have expanded our investment criteria beyond companies who are targeting IoT security, IoT enablement, and IoT analytics with a narrower scope, to companies who provide commercial solutions to the healthcare industry and industrial use cases where safety and regulatory compliance are important market requirements.

We believe that this will accelerate our development of a synergistic portfolio in which our companies can work together, learn from each other's market experiences and share industry connections. These market segments are global, speak a common language, have a large installed base of devices and are investing in all areas of IoT to create better products, customer satisfaction and patient outcomes.

Through our network, our website and attendance at IoT events, we saw many interesting companies during 2018 with a variety of business models and innovations focused on the IoT. The UK technology market continues to support our thesis that local UK entrepreneurs can and are creating companies with unique IoT products that satisfy our investment requirements and have global potential. Our approach remains the same; select the most promising companies with strong teams and disruptive ideas targeting large market opportunities. We then use our experience to invest in those companies where we not only deliver funding, but also operational support and access to our network, particularly in the United States. This helps to grow and scale our portfolio and aid our companies achieve their ambitions. In addition, by taking a Board seat, we can apply our expertise beyond the original investment decision, supporting companies into fulfilling their potential for growth and market leadership and driving strong exit multiples. This creates a valuable network for the companies, focused on collaboration and commercial development.

We believe that Tern is well positioned to provide investors access to high-growth private technology companies that they wouldn't otherwise be able to source or invest in directly.

Portfolio Progress

In 2018, the Tern team and our business partners worked extensively with the management of our investee companies as we looked to improve performance and accelerate growth. We supported a refinement of the go-to-market models of our companies to reflect a more narrowed focus on healthcare and specific areas of industrial IoT. We also hosted several CEO round-tables to help leverage synergies to drive business expansion and success.

Device Authority Limited ("DA")

2018 was a transitional year for DA. The company continued to expand its ecosystem of partners, which is a critical component of their go-to-market strategy, although we were disappointed by the delay in generating revenue during the first half of the year. DA did secure additional working capital of $2.9 million between November 2017 and December 2018 from its investor group, Alsop Louie Partners, George Samenuk and the Company, through a convertible loan note facility to execute its business plan, this enabled the development of blockchain support, key Thingworx interfaces and cloud platforms for AWS and Azure. DA also solved several critical product issues and introduced many new product enhancements to improve product market fit, particularly for the Healthcare market segment. As a result, proof of concept ("POC") time frames shortened and the company began securing new contracts in the second half of the year.

We also believe the concentrating of DA's primary market focus to healthcare and high value industrial IoT has and will continue to improve their commercial success. For example, the global IoT medical devices market is projected to reach USD 63.43 billion by 2023 from USD 20.59 billion in 2018, at a CAGR of 25.2% during the forecast period (source: https://www.marketsandmarkets.com/Market-Reports/iot-medical-device-market-15629287.htm). While the healthcare industry can benefit tremendously from the IoT, a number of stringent security, compliance and operational complexities need to be addressed for this market.

Maintaining the privacy of patient records is paramount to healthcare as it is to protecting the intellectual property of products and processes for industry. The first requirement is to have strong mutual authentication between devices, applications and users. The second is to ensure the sensitive information flows all the way from source to destination, encrypted to meet the compliance requirements such as HIPAA and EU GDPR. DA's KeyScaler platform is ideally suited to meet these challenges.

Tern, in its role as Board advisor, worked with DA to address the issues under its control and as the company enters 2019, we believe the product and POC issues have been tackled. This has been reflected by the company's commercial traction and announcement in December 2018 that it had secured a five-year contract with a leading medical device manufacturer, which has an anticipated value to DA of in excess of $1 million over the life of the contract.

Sales wins achieved in the fourth quarter will begin shipping in volumes during 2019 and we believe that this will form the corner-stone of sustainable commercial success.

FVRVS Limited ("FundamentalVR")

During 2018, Tern was excited to have the opportunity to invest in FundamentalVR, a leading Virtual Reality ("VR") training and data analysis technology platform. FundamentalVR is led by surgical training experts and leading technologists with a mission to revolutionise surgical training by bringing simulation into the hands of medical professionals around the world, using low cost, easily accessible technology. FundamentalVR's unique software platform takes advantage of readily available VR software and devices, such as the Facebook owned Oculus Rift, and combines it with cutting edge haptics to create a simulation system that can be used on any modern PC set up. Using computer learning, the software platform works together with haptic hardware devices to simulate the physical sensation of operating on human tissue. It also has the capability to provide artificial intelligence ("AI") driven real-time feedback, procedure correction data and best practice insight. The result is a simulation system that provides surgeons with a more hands-on experience to be better prepared professionals, resulting in better patient outcomes.

FundamentalVR's goal is to transform the way surgeons prepare, practice and refine their skills. The company has built an immersive, surgical simulation application platform, Fundamental Surgery, to provide medical professionals with the opportunity to rehearse, practice and test themselves within a safe, controllable space that is as close to real life as possible. Additionally, this same platform enables healthcare companies, to create a new way to develop, train and measure the introduction of new medical devices and drug delivery systems to surgeons in a safe and repeatable way.

The cost of medical care and mistakes continues to grow across the globe, with the industry lacking an effective practice and rehearsal solution and quality data on medical and surgical capability, which Fundamental Surgery can now provide.

During 2018 Tern made two direct investments totalling £1.9 million into FundamentalVR, our second following FundamentalVR's signing of a three year term joint development agreement with the Mayo Foundation for Medical Education and Research ("the Mayo Clinic"), the U.S. leading academic medical centre, which will see the two parties collaborating on a range of simulation and education products with an initial focus on the general surgery area. Additionally, the current release of the Fundamental Surgery platform is now live in the Mayo Clinic's world-renowned simulation centres located in Rochester, Arizona and Florida.

InVMA Limited ("InVMA")

InVMA continued to make progress during the year. Since our initial investment in 2017, we have seen the business grow its revenue year on year in 2018 compared to 2017, with ten new customer engagements including important wins at industrial leaders like ESAB (part of Colefax), Bernard Matthews, GKN and Kohler Mira. Also, their new partnership with DMS, a UK industrial maintenance company, has generated more than a dozen AssetMinder opportunities with important wins at Yorkshire Water and JLR.

AssetMinder is a strategic product for InVMA as it builds on the trend within the Industrial IoT ("IIoT") to use intelligent sensors to connect and collect important data to create a proactive performance and maintenance strategy for assets. AssetMinder allows companies across all industries to monitor and manage critical equipment and resources from the data gathered and to generate alerts to intervene and protect their operations from costly down-time and potential costly catastrophic outcomes. The AssetMinder product is positioned in the Remote Monitoring and Control Market which is estimated to be growing at a CAGR of 4.47% and is expected to be valued at USD 27.11 billion by 2023.

During 2018, InVMA, with the support of the Tern investment director, acquired the intellectual property and other assets from AMIHO Technology of Cambridge. AMIHO Technology was founded in 2009 to solve difficult environmental logistical problems of remote connectivity for smart sensors and data collection gateways, for example, smart meters in the energy industry. Their intellectual property is a series of wireless radio frequency modules, specifically, long range ("LoRa") and meter-bus ("MBus") protocols, stand-alone protocol stacks and evaluation kits. Prior to its acquisition, the product suite achieved commercial success and is currently installed in over 250,000 smart meters in Eastern Europe. We believe these products add to the design service capabilities of InVMA to help customers integrate the technology into their products and to the many facets of our other portfolio companies where robust IoT connectivity is a requirement.

flexiOPS Limited ("flexiOPS")

2018 has proved to be a pivotal year for flexiOPS. We originally believed that the business could have been a source of valuable technology expertise to assist current and future Tern portfolio companies. Unfortunately, the company has been seriously affected by the political situation in Europe and the UK and its ability to participate in European grants and therefore the company decided to exit that part of its business. They are now focusing on the company's IoT mesh networking assets and expanding its mission following the purchase of a controlling interest in Wyld Technologies Limited ("Wyld Technologies"), a mesh networking company in 2017.

During 2018, as part of its expanded role and mission, Wyld began expanding its product platform base by developing the application, thus enabling Wyld Fusion to support the adoption and use of their Wyld Mesh networking product. Wyld Fusion allows devices and people to receive individual or aggregated data from an application, or series of applications, in real time. Wyld Fusion delivers timely, actionable information across the mesh to the right people, things and locations, securely. It enables informed business decisions and reduces operational risk (real time data selection) with a high degree of flexibility and complexity. As an outcome from this expansion of the Wyld Technologies' mission in flexiOPS, we believe Wyld Mesh, with Wyld Fusion, will enable flexiOPS to offer a Content Delivery Network combining real-time data streaming with our powerful device-to-device mesh network.

Their vision is to make Wyld software the platform of choice for large enterprise companies, governments and smart cities to leverage the power of crowds to automate and accelerate their tailored messaging in large retail facilities and large entertainment venues, in response to critical events in what are typically challenging and hostile environments.

Subsequent to the year end, the AMIHO Technology assets were purchased by flexiOPS from InVMA to form a new compelling proposition in the IoT embedded communications industry and flexiOPS was renamed Wyld Networks Limited.

Summary

The investment portfolio made good progress in 2018, leaving Tern well positioned for 2019 and beyond. I would like to thank our staff, business partners and portfolio companies for their commitment and contribution to this positive performance. As ever, I would also like to extend the Board's thanks to all our stakeholders for their continued support. With a larger and maturing portfolio and an expanded pipeline of opportunities, we look to 2019 with continued confidence.

Albert Sisto
Chief Executive Officer

Strategic Report

Business review

The Company is positioned as a quoted platform to invest in, develop and sell private software companies with proven technology, based in the UK and Europe but with global opportunities and ambitions. These businesses are predominantly in the Internet of Things sector.

The 2018 results have been materially impacted by a fair value uplift of £0.8 million, of which £0.4 million is due to an exchange rate gain on the revaluation of the Device Authority investment at the balance sheet date. Directors fees increased and legal fees were lower but offset by other one-off professional fees. Overall, administrative expenses were comparable to 2017.

Future developments

As explained in the CEO's Statement the Company has undertaken a series of initiatives to position the Company for lasting success in its focused market sector and has continued to build a portfolio of investments and a pipeline of investment opportunities in IoT Security, IoT enablement and IoT analytics.

The Board has given consideration to the impact of Brexit on the investment portfolio and has concluded that it does not envisage a material impact on performance given the majority of opportunities for the portfolio are in the UK and the USA. Brexit impact has also been considered within the principal business risks and uncertainties set out later in this section.

Key performance indicators

The Company's principal activity is that of investing in companies. Accordingly, the Company's financial Key Performance Indicators (KPIs) are focused on return on investment; delivering consistent investee company turnover growth; and focusing on year-on-year net asset growth. These indicators are monitored closely by the Board and the details of performance against these are given below.

The return on investments:

Unrealised

- Device Authority's underlying US dollar value remains unchanged, however the fair value is based on the probability of each of the various conversion options, with the value of each conversion option being weighted based on the probability of its exercise. A pound sterling increase has been reflected due to the weakening currency when revaluing the investment using the 2018 year end exchange rate;
- flexiOPS Limited is valued at fair value which takes into account the cost of investment in Wyld Technologies Limited. InVMA Limited is also valued at fair value and the price of the most recent valuation is taken into account.;
- FVRVS Limited ("FundamentalVR") is held at fair value where the price of the most recent valuation has been taken into account;
- Push Technology Limited has been revalued in line with IFRS to a level consistent with recent fund raisings. Seal Software Group Limited's US dollar fair value remains unchanged, although a weakening of the pound sterling has resulted in a small increase in its pound sterling valuation; and
- These investee companies are early stage businesses in emerging markets where there is a lack of comparative businesses available on which to provide a comparable valuation and therefore value has been based on an assessment of numerous factors: the underlying value of the Device Authority patent portfolio, the multiples achieved in comparable markets on recent transactions, and an assessment by the Board on the strength of the sales pipeline and achievability of the 2019 sales forecast.

The net assets of the Company at 31 December 2018 were £16,751,773 (2017: £10,580,802). The net assets per ordinary share as at 31 December 2018 were 7.1p (2017: 7.38p).
Investee company turnover growth: the year-over-year growth in the aggregate revenue of our principal portfolio companies (excluding Seal and Push) increased by 58% from calendar year 2017 to 2018 (126% from calendar year 2016 to calendar year 2017) which provides an indication of growth in the overall portfolio.

The Company has non-financial KPIs which are also monitored regularly by the Board. These non-financial KPIs are focused around the number and quality of investment opportunities seen, as assessed by reviewing all opportunities at the monthly Board meeting and the investee company employee number growth in our portfolio companies. We believe these factors help serve as leading indicators of the future performance and our impact on our stakeholders.

Investee company employee number growth (excluding Seal and Push) increased by 52% from calendar year 2017 to calendar year 2018 (55% from calendar year 2016 to calendar year 2017), highlighting a continuing growth in the portfolio overall.

Financial risk management objectives and policies

Principal business risks and uncertainties

The management of the business and the nature of the Company's strategy are subject to a number of risks. The directors have set out below the principal risks facing the business. Where possible, processes are in place to monitor and mitigate such risks. The Company operates a system of internal control and risk management in order to provide assurance that the Board is managing risk whilst achieving its business objectives with the assistance of the Audit Committee. The Executive Directors meet at least monthly to review ongoing trading performance for both the Company and the portfolio companies, discuss budgets, forecasts, opportunities and new risks associated with ongoing trading.
The Board regularly reviews operating and strategic risks and the effectiveness of the Company's risk management and related control systems, with the assistance of its committees. No system can fully eliminate risk and therefore, the understanding of operational risk is central to the management process.

Identifying, evaluating and managing the principal risks and uncertainties facing the Company is an integral part of the way the business operates. The Company has policies and procedures in place throughout its operations, embedded within the management structure and as part of the normal operating processes. A formal risk register is maintained and reviewed by the Board at least quarterly, with key risks identified, discussed and mitigation agreed. Market and economic conditions are recognised as one of the principal risks in the current trading environment. This risk is mitigated by the close monitoring of trading conditions and the performance of the Company's investment portfolio. The Company is affected by a number of risks and uncertainties, not all of which are wholly within its control as they relate to the wider macroeconomic and legislative environment within which the Company operates. To enable shareholders to appreciate what the business considers are the main operational risks, they are briefly outlined below:

	Risk	Potential Impact	Strategy
Reliance on key people	The Company is unable to retain key individuals	Disruption for the Company or its investment companies as new individuals take time to gain an understanding of the investment company's strategy and requirements.	The Company offers a remuneration package designed to attract, motivate and retain key individuals Key individuals in the investment companies are offered an attractive remuneration package and either shares or share option incentives
Investment risk	An investment fails to perform as anticipated: - Investee companies may be operating in highly competitive markets with rapid technological change - Investee companies may be companies in early stage of commercial development. Generation of significant revenues is difficult to predict and not guaranteed - Investee company management is performing underpar The Company is unable to maintain its holding when the investee company requires significant additional funding The portfolio is dominated by one or two investments	- Investment may require additional finance - Inability to create maximum value in a timely fashion - Difficulty in realising investment - The Company's influence reduces - The value of the Company's holding falls - If one dominant investment fails it has a disproportionate impact on the Company	The Company actively takes an influential role in the strategic direction of its investments and monitors all investments regularly. A Company director holds a non-executive Board position on all investment company boards where the Company has a significant (>10%) holding. The Company's strategy has been formulated by the management team with a strong track record of generating gains from early stage companies within the technology sector The Company is building a portfolio of investments to insulate itself against poor performance of any single investment
Liquidity	The Company is unable to raise new funds	- May have a detrimental effect on the Company's ability to cover administration and other costs - May adversely affect returns of investee companies if they need to raise further funds	The Company will maintain a sufficient cash balance to finance itself for a prudent period, or ensure that it has access to funds
Legal & regulatory risk	Legal claims and changes to regulation	- Financial and reputational impact - Potentially increase costs of compliance which makes it harder to raise funds - Detrimental impact on performance of investment companies with exposure to the European Union	Maintain strong advisory base. Legal advice taken on all investment and employment issues. The company monitors its working capital to ensure it has sufficient funds to maintain operations during any economic slowdown
Foreign exchange risk	The valuation of investments may be impacted by foreign exchange movements	- The value of the Company's holding falls	The Company actively reviews the value of investments and will consider action on foreign exchange risk where relevant, following advice from advisors

Assessment of business risk

The Board regularly reviews operating and strategic risks, with the assistance of its committees. The Company's operating procedures include a system for reporting financial and non-financial information to the Board including:

- reports from management with a review of the business at each Board meeting, focusing on any new decisions/risks arising;
- reports on the performance of investments;
- reports on selection criteria of new investments;
- discussion with senior personnel; and
- consideration of reports prepared by third parties.

Investing policy (established July 2013)

To invest principally, but not exclusively, in the information technology sector within Europe. The Directors believe that the Company can invest in and acquire information technology businesses, improve them by a combination of new management and investment and realise the value created which will be returned to shareholders. The Company may be either an active investor and acquire control of a single company or it may acquire non-controlling shareholdings. Once a target has been identified, additional funds may need to be raised by the Company to complete a transaction.

The Directors see IT as having considerable growth potential for the foreseeable future and many of the prospects they have identified are in this sector. They believe there are opportunities to invest in and acquire established IT businesses which have good technology, marquee customers and could better exploit their assets with the injection of experienced management and new funds with the intention of creating value for Shareholders.

Although the Company intends the main focus of the investment policy to be on the exploitation of IT businesses; this will not preclude the Company from considering investment in suitable projects in other sectors where the Directors believe that there are high-growth opportunities.

It is anticipated that the main driver of success for the Company will be expertise that can be provided by the Directors to the management involved in the potential investee companies and the value creation that the team of people is capable of realising. The Company intends to be an active investor. Accordingly, it may seek representation on the board of investee companies.

In the first instance, the new capital available to the Company will be used to locate, evaluate and select investment opportunities that offer satisfactory potential capital returns for Shareholders. Once the Directors have identified the most attractive investments, the Company may require further funds in order to take up these opportunities. It is the intention of the Directors to undertake further fundraising, if such an opportunity should arise. The Company's investments may take the form of equity, debt or convertible instruments. Investments may be made in all types of assets falling within the remit of the Investing Policy and there will be no investment restrictions.

The Directors may consider it appropriate to take an equity interest in any proposed investment which may range from a minority position to 100 percent ownership. Proposed investments may be made in either quoted or unquoted companies and structured as a direct acquisition, joint venture or as a direct interest in a project.

The Company will seek investment opportunities which can be developed through the investment of capital or where part of or all of the consideration could be satisfied by the issue of new Ordinary Shares or other securities in the Company. The opportunities would generally have some or all of the following characteristics, namely:

- a majority of their revenue derived from IT or the use of IT, and strongly positioned to benefit from market growth;
- a trading history which reflects past profitability or potential for significant capital growth going forward; and
- where all or part of the consideration could be satisfied by the issue of new Ordinary Shares or other securities in the Company.

The Company will identify and assess potential investment targets and where it believes further investigation is required intends to appoint appropriately qualified advisers to assist.

The Company proposes to carry out a comprehensive and thorough project review process in which all material aspects of any potential investment will be subject to rigorous due diligence, as appropriate. It is likely that the Company's financial resources will be invested in a small number of projects or investments or potentially in just one investment which may be deemed to be a reverse takeover of the Company under the AIM Rules.

Bruce Leith

Director

Investment Report

The Company's current investment portfolio consists of the following investments, all of which are unquoted:

Device Authority Limited

Market segment: Data Security software		
Fair value:	Cost: £5.61 million	Valuation: £11.7 million
Consists of:		
Equity ownership: 56.8% 'A' shares	Cost: £4.34 million	Valuation: £6.2 million
Convertible loan:	Cost: £1.27 million	Valuation: £5.5 million

Valuation is based on a probability analysis of the potential outcomes relating to the conversion or redemption of the convertible loan note, translated at the exchange rate at the balance sheet date. The fair value was supported by an evaluation of a combination of factors, including the price of shares in the most recent fund raise (April 2016), the independent valuation of Device Authority's patent portfolio, a comparison to transaction multiples in comparable market sectors and an evaluation of sales pipeline and 2019 trading forecast.

Device Authority Limited ("DA") is an Internet of Things (IoT) security automation company. DA provides simple, innovative solutions to address the challenges of securing applications and their devices while using the Internet with a robust, end-to-end security architecture that delivers efficiencies at scale. DA's KeyScaler™ IoT security platform provides trust for IoT devices and the IoT ecosystem, including key partners such as Certificate Authorities, HSM vendors, IoT platforms, system integrators and cloud platforms. KeyScaler delivers automated device provisioning and registration, token-based authentication, credential management for certificates and passwords, and end-to-end data security. KeyScaler also protects private keys and crypto keys, prevents unauthorised access and delivers end-to-end data security and confidentiality for Enterprise Blockchain.

For example, the healthcare industry is in a state of digital transformation. Drug delivery systems, surgical robots, infusion pumps and medical records are now all connected. Knowing the identity of the user or device and protecting a patient's data are critical items requiring protection under a variety of laws. Also, the need to exchange data between the applications using these devices and systems, including updating the software running these systems, puts them at risk. DA's KeyScaler product is used by medical device manufacturers and the applications which use the devices to protect the data exchanged, by applying policy and encryption techniques to protect the information. DA does this autonomously and at IoT scale providing a clear ROI and a protection against human error.

In 2018, DA continued to build on a strong base of strategic partners, including TeamViewer, SyroCon Consulting and Eonti, Larsen and Toubro Infotech ('LTI') and Gemalto. Furthermore, it announced support for the Microsoft Azure IoT Hub. DA also continued to be recognised as a critical force in the global IoT security market, for example, gaining recognition as a 2018 Emerging Star in the IOT Security Market by Quadrant Knowledge Solutions.

During the year, DA announced the launch of KeyScaler As A Service, providing IoT Security in the Cloud. This service enables IoT service providers and manufacturers to offer their customers the best security for IoT devices without the infrastructure or running costs associated with on-premise environments, expanding its ability to make markets for its platform by simplifying customer deployment options.

Fundraising activities continue with US Capital in search for a key strategic US partner. In addition, the DA Board is considering additional advisors to review DA's strategic opportunities.

Other key announcements in 2018 included:

- Announcing a customer success story, providing robust IoT Security for 3D Systems' cloud-based service for 3D printers;
- Provision of a new solution for securing Enterprise Blockchain infrastructure which is powered by KeyScaler;
- Announcing the launch of their joint blueprint to secure the connected health industry, following the announcement of a strategic partnership with Thales (nCipher). This IoT market is a strategic focus for DA as healthcare forecasts predict growth to reach USD 524 billion by 2025, according to a report by Grand View Research, Inc published in 2018; and
- DA's KeyScaler Platform announced that it now secures InVMA's (another portfolio company) AssetMinder Performance Management Solution for IoT, with the product due to launch in early 2019.

InVMA Limited

Market segment: IOT Systems Integrator		
Equity ownership: 50%	Cost: £1.0 million	Valuation: £1.0 million

Valuation is based on fair value. This was evaluated by a combination of factors including an assessment of sales pipeline and 2019 trading forecast.

InVMA Limited ("InVMA") delivers IoT applications, based on the industry leading PTC/Thingworx development platform that deliver real business value and competitive advantage to its customers.

Since the Company's investment in late 2017, InVMA, as part of its business transformation, has launched AssetMinder, a product which monitors and manages data from all types of sensors and provides alerts when pre-determined thresholds or rules have been met or broken. In 2018, InVMA has focused on generating AssetMinder product sales to drive value creation. InVMA also announced the integration of InVMA's

AssetMinder with Device Authority's KeyScaler which is an important proof point of the Company's influence in integrating the products and technologies of its portfolio companies.

In 2018, InVMA announced it had developed Clarity for GCE Healthcare using PTC's ThingWorx(R) Industrial Innovation Platform. The global market for real time health monitoring devices is expected to reach USD 67,982.2 million by 2022 and is expected to grow at a CAGR of 14.29% during the forecast period 2016-2022 according to Global Real Time Health Monitoring Devices Market Research Report - Forecast to 2022 published in April 2017.

InVMA have secured new strategic partnerships and contract wins in key segments of the Industrial IoT market already, including the announcement of a contract with ESAB, part of the Colfax Group, to support the architecture of a new ESAB WorldCloud platform which will be powered by Microsoft Azure IoT and PTC's ThingWorx platform.

Other key announcements in 2018 include:

- Partnering with ARM to deliver connected IoT. The new partnership will enable enterprise customers to manage, connect, provision and update devices through an end-to-end IoT platform that is easily scalable and flexible;
- New capabilities for AssetMinder(R), its turnkey asset performance management solution which will significantly reduce the cost of maintenance using new high frequency wireless sensors; and
- Acquiring the intellectual property and assets of IoT communications company AMIHO Technology Limited. This software will enable customers to integrate the IP technology into their products to enable them to robustly connect on the LoRA and M-Bus protocols

FVRVS Limited ("FundamentalVR")

Market segment: SAAS immersive platform for medical and surgical education driving data insight

Equity ownership: 34.7% Cost: £1.9 million Valuation: £1.9 million

Valuation is based on fair value. This was evaluated by a combination of factors including an assessment of sales pipeline and 2019 trading forecast.

FundamentalVR provides the Company with exposure to the rapidly growing medical simulation market using low cost open-system IoT devices and provides a basis for developing our IoT analytics pillar of the Tern investment strategy.

Key announcements in 2018 include:

- Since the Company invested in May 2018, FundamentalVR has launched in the USA, Australia and New Zealand and appointed Hybrid Health as its channel partner for Australian and New Zealand markets;
- FundamentalVR has been recognised as having made significant impact on this market. This has been evidenced by winning the prestigious Auggie Award for 'Most Impactful Breakthrough'; being named as one of the best 50 inventions in 2018 by Time magazine and more recently being nominated for the Immersive Healthcare of the Year award;
- FundamentalVR has also celebrated commercial success by launching a strategic collaboration and joint development agreement with the Mayo Clinic, resulting in the Fundamental surgery platform being installed in their US centres; and
- Two ground-breaking surgical simulators have been installed at UCLH's flagship University College Hospital, one of the UK's leading teaching hospitals, as well as the UCLH staff training centre. UCLH are the first in Europe to have adopted the VR and Haptic simulation system for Spine and Orthopaedic training

flexiOPS Limited

Market segment: Project management of research and innovation projects in technology

Equity ownership: 100% Cost: £37,500* Valuation: £78,000

Cost is 50% of the purchase price of two business units flexiOPS and Concerto. Concerto was sold in 2016. Valuation is based on fair value. This was evaluated by a combination of factors including an assessment of sales pipeline and 2019 trading forecast.

flexiOPS completed its portfolio of EU funded research and development cloud projects during 2018 and with the changing political landscape in the UK, securing new EU grants has been very difficult. As a result, the company has now re-focused on supporting the networking element of Tern's IoT enablement strategy by aiding the growth and development of the Wyld Technologies Limited ("Wyld Technologies") ad-hoc mesh networking offering following their acquisition in late 2017.

During 2018, Wyld Technologies focused on building out its development team and product platform, and now has a product roadmap that is in line with current market requirements via its ability to deliver and collect critical data with its ad-hoc mesh networking platform in the all critical "last mile".

Mesh networks enable data to be transmitted from different devices simultaneously. This topology can withstand high traffic and even if one of the components fail, an alternative is always available, ensuring data transfer is not affected. As mesh network topology is self-forming and self-healing it is more efficient at creating robust ad-hoc networks; providing assured quality to ensure continuity of service.

Post year-end, flexiOPS changed its name to Wyld Networks Limited.

Push Technology Limited

Market segment: Data distribution software

Equity ownership: <1% Cost: £120,197 Valuation: £34,205

Valuation is based on the price of shares in the most recent fundraise, which is taken as fair value.

Push Technology Limited ("Push") significantly enhances the ability of organisations to communicate in real-time. This includes direct communication as well as indirect, for example, by refreshing data displayed information in real time rather than when a user explicitly asks for an update. Interactive applications are infinitely more engaging, updating in real-time as new data becomes available.

Key announcements in 2018 included:

- New software release to increase security authentication and authorisation handling.

Seal Software Group Limited

Market segment: Database Analytics and Search software

Equity ownership: <1%	Cost: £50,000	Valuation: £130,377
Valuation is based on the price of shares in the most recent fundraise, which is taken as fair value.		

Seal Software Group Limited ("Seal") specialises in writing software which performs complex analysis of contractual data. Seal is specifically designed to locate and examine contractual documents and extract and present key contractual information related to language, clauses, clause combinations, and the significant contextual metadata held within them.

In 2018 the notable events included:

- Unveiling a global partnership with DocuSign to automate and connect the process of how agreements are prepared, signed, enacted and managed.
- Winning the 2018 Aragon Research Innovation Award for Content Analytic, winning the award for Outstanding Data Analytics Solution at the annual Big Data Excellence awards in May 2018 and being named a 2018 Cool Vendor in Content Services by Gartner.
- Being named within the Deloitte's Technology Fast 500(TM) for a third consecutive year. Seal was named the 64th fastest growing tech company in the San Francisco Bay Area, and 337th overall with 239 percent year-over-year growth. Seal Software was also included by Inc magazine within the 5000 List of America's Fastest-Growing Private Companies for the second consecutive year.

Customers include Dell, PayPal, Salesforce, Bosch, Experian and many other multi-national organisations.

Income Statement and Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 £	2017 £
Turnover	106,117	97,940
Movement in fair value of investments	775,910	(757,705)
Gross profit/(loss)	882,027	(659,765)
Administration costs	(792,534)	(740,923)
Other expenses	(476,716)	(289,680)
Operating loss	(387,223)	(1,690,368)
Finance income	74,659	1,020
Finance costs	-	(207)
Loss before tax	(312,564)	(1,689,555)
Tax	-	-
Loss for the period	(312,564)	(1,689,555)

Since there is no other comprehensive income, the loss for the period is the same as the total comprehensive income for the period

EARNINGS PER SHARE:

Basic and diluted earnings per share	(0.1) pence	(1.4) pence

Statement of Financial Position

As at 31 December 2018

	2018 £	2017 £
ASSETS		
NON-CURRENT ASSETS		
Investments held for trading	14,856,239	10,218,625
	14,856,239	10,218,625
CURRENT ASSETS		
Trade and other receivables	239,180	576,849
Cash and cash equivalents	1,913,801	273,826
	2,152,981	850,675
TOTAL ASSETS	17,009,220	11,069,300
EQUITY AND LIABILITIES		
Share capital	1,348,903	1,330,225
Share premium	19,660,434	13,237,362
Loan note equity reserve	-	123,482
Share option and warrant reserve	-	175,982
Retained deficit	(4,257,564)	(4,286,249)
	16,751,773	10,580,802

CURRENT LIABILITIES		
Trade and other payables	257,447	277,164
TOTAL CURRENT LIABILITIES	257,447	277,164
NON-CURRENT LIABILITIES		
Borrowings	-	211,334
TOTAL NON-CURRENT LIABILITIES	-	211,334
TOTAL LIABILITIES	257,447	488,498
TOTAL EQUITY AND LIABILITIES	17,009,220	11,069,300

Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital £	Share premium £	Loan note equity reserve £	Option and warrant reserve £	Retained deficit £	Total equity £
Balance at 31 December 2016	1,325,270	12,390,310	20,650	1,088,595	(3,637,086)	11,187,739
Total comprehensive income	-	-	-	-	(1,689,555)	(1,689,555)
Transactions with owners						
Issue of share capital	4,955	972,208	-	-	-	977,163
Issue of convertible loan note	-	-	112,563	-	-	112,563
Share issue costs	-	(125,156)	-	-	-	(125,156)
Transfer on conversion of convertible loan notes	-	-	(9,731)	-	9,731	-
Transfer of lapsed and exercised warrants	-	-	-	(713,326)	713,326	-
Transfer of option reserve	-	-	-	(199,287)	199,287	-
Share based payment charge	-	-	-	-	118,048	118,048
Balance at 31 December 2017	1,330,225	13,237,362	123,482	175,982	(4,286,249)	10,580,802
Total comprehensive income	-	-	-	-	(312,564)	(312,564)
Transactions with owners						
Issue of share capital	18,678	6,861,072	-	-	-	6,879,750
Share issue costs	-	(603,000)	-	-	-	(603,000)
Conversion of convertible loan note	-	-	(123,482)	-	-	(123,482)
Transfer of lapsed warrants	-	-	-	(175,982)	175,982	-
Share based payment charge	-	-	-	-	165,267	165,267
Transfer on conversion of loan notes	-	165,000	-	-	-	165,000
Balance at 31 December 2018	1,348,903	19,660,434	-	-	(4,257,564)	16,751,773

Statement of Cash Flows

For the year ended 31 December 2018

	2018 £	2017 £
OPERATING ACTIVITIES		
Net cash used in operations	(752,350)	(783,866)
Purchase of investments	(2,523,309)	(375,000)
Loan to investee companies	(1,033,316)	(402,436)
Net cash used in operating activities	(4,308,975)	(1,561,302)
FINANCING ACTIVITIES		
Proceeds on issues of shares	6,010,000	603,110
Share issue expenses	(603,000)	(125,156)
Proceeds from exercise of warrants	-	34,303
Proceeds from exercise of options	8,500	9,000
Proceeds on issue of loan note	550,000	550,000
Repayment of loan stock	(20,000)	-
Interest received	3,450	1,020
Net cash from financing activities	5,948,950	1,072,277
(Decrease)/increase in cash and cash equivalents	1,639,975	(489,025)

Cash and cash equivalents at beginning of year	273,826	762,851
Cash and cash equivalents at end of year	1,913,801	273,826

Notes

1. BASIS OF PREPARATION

The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 31 December 2018 or 2017. The financial information for the year ended 31 December 2017 is derived from the statutory accounts for that year, which were prepared under IFRSs, and which have been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not contain a statement under either Section 498(2) or Section 498(3) of the Companies Act 2006 and did not include references to any matters to which the auditors drew attention by way of emphasis.

The financial information for the year ended 31 December 2018 is derived from the audited statutory accounts for the year ended 31 December 2018 on which the auditors have given an unqualified report, that did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006 and did not include references to any matters to which the auditors drew attention by way of emphasis. The statutory accounts will be delivered to the Registrar of Companies following the Company's annual general meeting.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union (EU) and therefore the financial statements comply with Article 4 of the EU IAS Regulation.

IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) and there is an ongoing process of review and endorsement by the European Commission. The financial statements have been prepared on the basis of the recognition and measurement principles of the IFRS that were applicable at 31 December 2018.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

The financial statements have been prepared on the historical cost basis except for investments and certain financial instruments which are measured at fair value at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies set out below have been consistently applied to all periods presented, except where stated.

In accordance with IFRS 10, par 4 and following a reassessment of whether the Company is an investment company, the Company has taken the exemption not to present consolidated financial statements or apply IFRS3 when it obtains control of another entity as it is an investing company that measures all of its investments at fair value through the income statement in accordance with IFRS 9.

2. NON-CURRENT ASSETS

INVESTMENTS

	2018 £	2017 £
Cost of investments brought forward	10,218,625	10,601,330
Reclassification of convertible loan note from other debtors	1,270,753	-
Interest accrued on convertible loan note	67,642	-
Additions	2,523,309	375,000
Cost of investments carried forward	14,080,329	10,976,330
Fair value adjustment to investments	775,910	(757,705)
Fair value of investments carried forward	14,856,239	10,218,625
Fair value of equity investments	9,337,041	10,218,625
Fair value of convertible loans	5,519,198	-
Fair value of investments	14,856,239	10,218,625

3. EARNINGS PER SHARE

	2018 £	2017 £
Loss for the purposes of basic and fully diluted earnings per share	(312,564)	(1,689,555)
	2018 Number	**2017 Number**
Weighted average number of ordinary shares:		

For calculation of basic earnings per share	217,221,165	124,586,665
For calculation of fully diluted earnings per share	221,079,230	124,586,665

	2018	2017
Earnings per share:		
Basic and diluted earnings per share	(0.1) pence	(1.4) pence

4. ANNUAL GENERAL MEETING (AGM)

The annual report will be available from the company website from 25 March 2019 and will be posted to shareholders on or before 29 March 2019. The annual report contains a notice of the AGM which will be held at 9.30am on 25 April 2019 at the offices of Reed Smith, The Broadgate Tower, 20 Primrose Street, London, EC2A 2RS.

ISIN: GB00BFPMV798
Category Code: FR
TIDM: TERN
LEI Code: 2138005F87SODHL9CQ36
Sequence No.: 7854
EQS News ID: 788839

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