

Stock Data

Share Price:	1.35p
Market Cap:	£7.1m
Shares in issue:	524.9m

Company Profile

Sector:	Medical Equipment
Ticker:	DEMG
Exchange:	AIM

Activities

Deltex Medical ('DEMG', 'Deltex Medical', 'the Group') manufactures and markets haemodynamic monitoring technologies which are primarily used in critical care and general surgical procedures. Deltex Medical's proprietary oesophageal Doppler monitoring ("ODM") (TrueVue Doppler) measures blood flow velocity in the central circulation in real time.

1-year share price performance



Source: [LSE](#)

Past performance is not an indication of future performance.

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Deltex Medical Group plc

Deltex Medical has published its interim results to 30 June 2020. The figures and their accompanying statement, which primarily reflect a revenue hit from reduced UK and US probe sales as a result of the coronavirus Pandemic, remain very much in line with the operational scenario detailed in the Group's [9 July 2020 Trading Update](#). That said, it has becoming increasingly clear that following the [UK's 3-month postponement of non-urgent elective surgery](#) that began in April 2020 and resulted, [according to Birmingham University](#), in June's routine NHS procedures plummeting by as much as 72% year-on-year, the hoped for resumption of normal UK and US operating theatre ('OR') activity remains hindered both by concerns of a second wave of the coronavirus along inability/reluctance of trusts, hospitals, etc. to revert as rapidly as desired. With the UK government expected to shortly commit [several billions pounds](#) of new funding in tandem with US efforts to accelerate the clearance of what has become the [biggest surgical backlog in a generation](#), however, TPI now considers that both 2021 and 2022 will have potential not only to generate stronger revenues growth, but also drive home the significance of improved patient outcomes, limited post-operative complications and alignment with industry payers from adoption of Deltex Medical technology.

Anticipating a strong recovery in 2021 and beyond

While elective surgical procedures have now begun to restart from a low level, recovery is likely to remain only gradual as hospitals reshape their services to withstand the possibility of a second wave of the Pandemic, while at the same time putting measures in place which allow for an increase in normal clinical interventions. TPI accordingly expects the [NHS target of 90%](#) of last year's activity level which was originally set for October 2020, to now only be achieved by around this year end. Based on the reduced operating costs it achieved during its first half Deltex Medical is expected to be broadly cash neutral during this time. Beyond this, however, the availability of additional government funding sufficient to provide hospital staff incentivisation together with block booking of private theatre time could see the number of procedures spike above that achieved in 2019 and be [sustained for 36 months or more](#) in a determined effort to clear the backlog.

Heightened relevance of oesophageal doppler monitoring

Deltex Medical is one of the world's leading suppliers of haemodynamic monitoring solutions. Its core technologies have been proven in a wide range of clinical trials to reduce complications suffered by patients after surgery and consequently can save hospitals money, particularly in anticipation of a more cautionary post-Pandemic environment. Uniquely, Deltex Medical's twenty-two randomised, controlled trials demonstrate the benefit of measuring aortic blood flow to optimise the clinical management of patients. As such, TrueVue Doppler sets the MedTech industry's technological standards and points of reference for such equipment, offering features which do not appear to be matched by any of its peers. While the well-publicised reluctance of hospital trusts/practitioners is presently hindering the anticipated resumption of high-volume elective surgery, the extent of the existing backlog suggests demand for Deltex Medical's products/consumables could rise sharply once hospitals become sufficiently resourced to ensure their focus is no longer exclusively on COVID-19. This point is highly relevant given that the world's eyes are now trained on the very real and ongoing threat of respiratory viruses to the human race's wellbeing. As such, the Pandemic may have served to highlight the relevance and opportunity Deltex Medical's preeminent Doppler technologies presents to a number of larger sector players who may wish to expand their market opportunity into this space.

Elective surgery stalled by the Pandemic

Deltex Medical's first half was affected in different ways by the COVID-19 Pandemic. Probe sales for elective surgery (TrueVue Doppler's principal consumable) stalled shortly after its onset, to only be partially compensated by growth in demand from intensive care units ('ICUs'). Since the use of TrueVue Doppler in the OR is a higher margin business than when used in the ICU and given that the OR also typically represents a larger addressable market, Deltex Medical has tended to focus its sales & marketing activities on promoting use in this setting.

Peaking in April at around 19,000/day, UK ICU admissions related to COVID-19 subsequently dropped sharply to just a few hundred/day by the end of July. Intensivists familiar with Deltex Medical's technology were prompted to use it for this cohort, which resulted in increased sales during March and April. Tailing off rapidly thereafter, however, caution initially exercised by the NHS along with its trusts inability/reluctance to instantaneously respond has meant routine elective surgery has been slower to restart than was initially anticipated. TPI now considers that the NHS directive sent to its trusts and foundations on [20 August 2020](#), seeking to attain 90% of last year's activity for both overnight electives and for outpatient/day-case procedures during October 2020, to be unrealistic. Assuming instead that it is achieved by December with US hospitals also appearing set to respond slightly faster than the UK, the Group's revenue performance looks capable of improving quite sharply from the beginning of its new financial year. In the meantime, the Board considers Deltex Medical will be able to continue trading at a reduced level compared to 2019, which it believes will be sustainable based on its now lowered cost base. During which time the Group expects to operate on a broadly cash neutral basis.

Higher activity levels now anticipated in effort to clear the surgical backlog

In July 2020, the [National Center for Biotechnology Information](#) ('NCBI') estimated over [40 000 elective operations would be cancelled](#) in the UK per week during the Pandemic's 12-week peak period; based on the average cost of £4000 per operation, it would need more [than £2 billion to clear the backlog](#), not accounting for the charges incurred due to increased morbidity associated with longer waiting times. Extrapolating this cancellation rate out to December, and assuming OR activity levels rises in a straight line from the estimated 28% of 2019's level at end-June 2020 to 90% by December 2020, TPI estimates a total of more than 1.2 million operations will be added to existing demand. With NHS capacity planning company, [Gooroo limited](#), estimating the end-August UK waiting list to already be between 6.2 and 8.4 million, it goes on to suggest that the NHS will take three years or more to recover, assuming it can contract the extra surgery capacity through the private sector. During this extended period, higher sustained demand for Deltex Medical products might be anticipated.

Further to this, both hospitalised patients and staff are also likely to require more rigorous screening/monitoring to reduce the risks of cross-infection and/or operational complications as an effort is made to fully restate OR capacity. Surgical recovery plans could consider that an accelerated return may only be permissible on the basis of additional equipment/technologies being incorporated. This may, for example, include more routine adoption of Deltex Medical's TrueVue Doppler as part of its standard patient monitoring procedures. Together these suggest opportunity for increased sales of both new equipment and consumables next year, which is a more optimistic scenario than that posted by Deltex Medical's Chairman in his half-year statement where he mentioned the Board's expectation seeing "revenue levels in 2021 to recover to previous levels seen in 2019".

Financial results for the six months to end-June 2020

Deltex Medical reported half-year revenues to end-June 2020 of £1.2 million (1H 2019: £2.0 million). Probe sales in both the UK and US declined to £1.044m (1H 2019: £1,709), with gross margins falling back to 69.5% (1H 2019: 82.9%) Having negotiated the termination of a third-party distribution agreement in 2019, this represented a 33% reduction in like-for-like revenues (1H 2019: £1.8 million). The Group achieved a 25% reduction in overhead costs to £1.3 million (1H 2019: £1.7 million) due to its proactive cutting of discretionary expenditure from March and furloughing the majority of its UK employees from May. Adjusted EBITDA moved into the negative at £(0.2) million (1H 2019: £0.2 million), leading to a net loss for the period: £(0.6) million (1H 2019: £(0.3) million). Cash-in-hand at the period end was £0.6 million (30 June 2019: £0.6 million), which has since been supported by the successful application for a cash grant of US\$0.2 million under the US Government's Paycheck Protection Program received in July 2020 along with a further £0.2m [Innovate UK](#) project funding received the same month.

Having more recently taken a number of Deltex Medical employees off furlough to return to work on a part-time basis to help satisfy gradually increasing demand for its TrueVue Doppler probes, the Group's stated focus for the rest of this year will be to ensure that the business is optimally positioned for 2021. This includes maximising cash generation, which should be assisted by high existing stock levels of both probes and monitors, while continuing with its programme of grant-supported development of a proposed new and more advanced monitor system.

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